May 06, 2024

The Manager (CRD) **The BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai- 400001	The Manager – Listing Department **National Stock Exchange of India Ltd** Exchange Plaza, Plot no. C/1, G Block, Bandra-Kurla Complex, Bandra (East) Mumbai - 400 051
Scrip Code: 530117	**Symbol: PRIVISCL**

Dear Sir / Madam,

Ref: Letter dated May 03, 2024, providing Audio link of the Analyst / Investors Meet

Sub: Transcript of Analyst/ Investors Meet held on Friday, May 03, 2024

In addition to Audio Link shared via letter dated May 03, 2024, please also find enclosed the transcript of the Analysts/Investors Call on the Un-audited Standalone and Consolidated Financial Results of Privi Speciality Chemicals Limited for the quarter and year ended March 31, 2024, held on May 03, 2024.

You are requested to kindly take the same on record.

Thanking you.

Yours Sincerely,
For **Privi Speciality Chemicals Limited**

ASHWINI SAUMIL SHAH
Digitally signed by ASHWINI SAUMIL SHAH
Date: 2024.05.06 12:00:21 +05'30'

PRIVI SPECIALITY CHEMICALS LTD. REGD. OFFICE Navi Mumbai - 400 710.

Ashwini Saumil Shah
Company Secretary

Encl: As above

"Privi Speciality Chemicals Limited Q4 FY-24 Earnings Conference Call"

May 03, 2024

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MANAGEMENT: **MR. R.S. RAJAN – PRESIDENT, PRIVI SPECIALITY CHEMICALS LIMITED**
MR. NARAYAN S. IYER – CFO, PRIVI SPECIALITY CHEMICALS LIMITED
MS. ASHWINI SHAH – COMPANY SECRETARY, PRIVI SPECIALITY CHEMICALS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Privi Speciality Chemicals Limited Q4 FY24 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. R.S. Rajan – President of Privi Speciality Chemicals Limited. Thank you and over to you sir.

R.S. Rajan: Thank you Michelle and a very good afternoon to everyone and thank you very much for joining us on this call.

On this call I also have with me my colleague, CFO – Narayan as well as my colleague Company Secretary; Ms. Ashwini and of course we are being ably facilitated by SGA's Shrikant, our Investor Relation Advisor.

I hope that everyone was able to review our Financial Results and Investor Presentation which were uploaded to the Stock Exchange and on our Company Website to give a comprehensive view of where we are and what is that we have been doing. After providing a quick "Overview" of the Company and recent developments, my colleagues will take the baton forward.

So, let me start with the "Industry Overview":

The Chemical Industry continues to witness multiple challenges as demands across the board has been slower than expected. On the other hand, rising freight cost due to geopolitical unrest and slow demand from China has further impacted the overall supply chain. However, despite this the demand for aroma chemicals has remained robust as prominent FMCG and fragrance brands continue to enjoy robust demand from their end customers. The demand has been further propelled by the ongoing premiumization trend in the cosmetics and personal care industry. In the midst of this high cost of living era, consumers continue to seek out products with added value regardless of their current market position of mass, mid-range or premium categories. So, we've always been saying our business is very resilient and the past year has also proven likewise.

On the "Company Overview":

Privi Speciality Chemicals is India's largest and one of the leading manufacturers of aroma and fragrance chemicals in the world. We are a trusted partner and prime supplier of bulk aroma chemicals across the globe. We produce nearly 70+ aroma chemicals which are blended into fragrance which are used in daily products like soaps, detergents, shampoos, hand washes and fine fragrance perfumes. The Company also develops and produces custom made aroma chemicals as per the specific requirement of the customers and caters to the world's 15+ largest fragrance house and FMCG companies.

The Company has seven state of the art integrated manufacturing units situated at Mahad in Maharashtra and one facility in Jhagadia in Gujarat. With current production overall capacity of over 48,000 metric tons per annum. Privi has backward integration to use waste generated from pulp mills, the crude sulfate turpentine, the CST as it is called with a capacity of over 36,000 metric tons per annum. It is the only Company in the developing world and one of the four companies globally to have the technology and the logistics ability to procure these waste products from across the globe, process it and is the largest single CST processing site in the world. In our values we call it the 5S, we have safety, sustainability, sense of urgency, super transparency and sincere respect and care.

So, on “Sustainability”:

The pursuit of sustainability is no longer a choice but a necessity for the chemical industry. Extreme climate conditions have amplified the urgency for environmental responsibility. Our chairman always had a vision on sustainability and we had a position focused on sustainability a decade back. The transition towards a sustainable practice is not just a global to regulatory pressure but also an opportunity for innovation and growth because we must give back what we take. So, we have an ideology of re-earth which we practice diligently and sincerely.

We are extremely pleased to announce that your Company has been recognized and conferred with EcoVadis Gold rating. The factory was rated advanced across the four EcoVadis themes, namely environment, labor and human rights, ethics and sustainable procurement. It's a moment of great pride for all Privi stakeholders as your Company is amongst the top five percentile companies in the world to have got this gold rating. On this occasion I would like to compliment the vision of our chairman and to thank all our employees for having been supporting us through the teamwork on this mission of sustainability to achieve this rare feat. We continue to have across all function strong human assets. It's governed by professionals who are having more than an average of 20 years of experience each with requisite qualification and their domain expertise. The entire team continues to work on creating additional growth opportunities on the waste to value journey.

The ethos of this organization revolves around the key core values which has been embedded over the years. And our chairman often says HR is heart response. Just to give you some statistics out of the 1,000 employees, more than 45% of them are over 5 years and out of the 45% more than 15% are associated for more than 10 years and more than 17% are associated over 15 years, so that should give you an idea of how dear Privi is to them and how dear they are to us.

Performance for the year Financial Year '24 has been healthy with improved pricing and market conditions. Despite this, freight costs have been increasing significantly due to the impact of the Red Sea crisis and obviously there's been an escalation in the shipping cost which has compressed our margins otherwise the results could have read better.

On the way forward we have slated multiple strategies for future growth and are confident to implement the same in the coming years. Production ramp up of newly installed capacity, improving product mix, operational efficiencies and product development with fast commercialization will further gear us to capture upcoming opportunities. We are progressing well towards our sustainable growth, and it has taken various initiatives over the last 5 to 6 years to create a better ecosystem which not only on value add in consumer lives but also are long lasting.

Now with these words I would like to hand over the baton to my colleague, our CFO – Narayan. Over to you.

Narayan S. Iyer: Thank you, Rajan. Good to hear from you and good evening to every one of you for joining us on this call.

And of course, I am elated and very very happy to address this call backed by some strong performance and good results which was what was promised by us at Privi in the last few investor calls and we at Privi are thankful to each one of you for having faith and having believed us that the turnaround was just around the corner.

I will give a quick overview of the performance for the year and the quarter that has gone by before we shall probably have the Q&A session going forward. Now giving a broad synopsis of the Q4 numbers for Financial Year '23-24; the growth momentum has continued on the back of robust demand across end user markets, so definitely there has been a good improvement on the volume. We also have a record performance as far as the revenue wise sales is concerned. We happen to do a total consolidated turnover of about Rs 492 crores which is a phenomenal achievement by Privi and the best that it has ever achieved in a particular quarter which indicates a growth of about 22.4% on a year-on-year basis. The EBITDA for the said quarter was close to about Rs 99 crores which compared to the previous year is almost about 180% rise on the previous year numbers, overall EBITDA margins for the quarter was about 20% or so. Profit after tax for the quarter came in at around about Rs 32 crores as against previous year's loss of about Rs 15 crores in Q4 of Financial Year '23 and exports contribute basically 70% of the overall revenue which is how Privi generally performs infact.

Now coming to the specifics of the entire year highlights:

If I have to talk about from the quarter and move to the year end which will give a complete more clearer picture as to where Privi is. Privi has achieved a total income of about Rs 1,779 crores which indicates a growth of about 9.2% on value wise as compared to previous year. Broad breakup on the sales front is pine continues to lead at around 62%, Citral based products contribute about 11%, Musk and Speciality have moved up because of the launch of GalaxMusk and its various variants and broadly it was at around 16% of the total turnover, phenol based contributed about 7% and the other value-added base products about 3%. So, that's how the five segments that we have broken up our total revenue contributed overall 100%.

Export to domestic throughout the year maintained its balance of 70:30. For the Year '23-24 the Company has registered a production of total production and sale of close to about 36,021 metric tons per annum. The annual EBITDA numbers for the Year '23-24 is a smart good healthy Rs 355 crores which shows a growth of about 71.1% over previous year's numbers and EBITDA margins on an average stood at around 20.03% for the year in totality.

Profit after tax or PAT for Financial Year '23-24 was at about Rs 95 crores which once again if you compared to previous years is about 350% times. But last year was definitely of course a year where there were certain reasons for the lower-than-normal performance estimated. But we are back on track and which is what we were trying to always ensure to all our shareholders that one-off quarter does not really showcase the size and the stature of our Company.

A few important parameters with regard to the balance sheet item:

The overall debt on our books as on 31st March of '24 is about close to Rs 901 crores on a consolidated level as against Rs 1,098 crores of the previous year. Our net working capital days has also shown a smart improvement to 151 days as against 182 days in the Financial Year '23. This indicates that better working capital management, churning of the funds, inventory levels have come down, debtor days has been smartly managed and creditors are also being managed overall. So, in all what we wanted to go about achieving, we are working on that lines.

Definitely as was mentioned by Rajan and even we had mentioned in the past that going forward the new products prima facie where a huge amount of capex was spent in the last couple of years. These products have started contributing to the overall top line in the Year '23- 24, almost about close to 50% of the overall capacity have got utilized and sales have started coming in from all the new products which are successfully launched. Prima facie, the Camphor, the Galaxmusk and its variance, the Prionyl, Indomerane, Florovane and also certain value-added products like Terpinen-4-ol, 1/8 Cineol, etc.

To indicate complete about 50% capacity utilization in the first year that too without much of contract orders on huge capacities built up is a good remarkable achievement, I have to say from our sales team and entire Privi team and definitely the orders per se for these products for the calendar year has been very healthy and very very successful. We feel that the order basis this year is going to be a resounding success for all these products.

Talking something about the new products:

Galaxmusk and its variants are sold to all our existing customers and this is prima facie used in perfumery blends, in soaps, detergents perfumes and other personal care products. Camphor is predominantly sold in the Indian market used in religious and industrial use applications. As mentioned by us and by the Company, we have already obtained the Indian FDA for camphor, and we have started the process of also obtaining an US FDA and we expect that in the year '24-25 we should be in a position to get US FDA approval for our camphor which indicates that we will be in a position to start selling it to the pharmaceutical companies for their applications also.

Prionyl, the first solid product of aroma chemicals which is manufactured by the Company, are used in very high ended brands and Privi is only the third manufacturer in the world to manufacture such powder based or solid based aroma chemical. This is sold to all of our existing fragrance houses, the top blenders of the world and the value-added products of 1/8 Cineol, Terpinen-4-ol and all have also shown healthy growth which has ensured we get better margins from the byproducts of the CST as well as the GTO processing and pine oil manufacturing process. So, this adds more margins to our product.

The Company definitely in its growth path going forward will love to keep growing on its key existing products, maybe grow some capacities as and when we feel that the capex has to be put in and yes, definitely it has in its mind, the new products under development like Menthol, Peppermint oil, Helvotalite all of which have been successfully done at the pilot scale, at the lab scale. These could be products which could propel future growth of the Company going forward as and when we go about setting up the thing. So, all in all I have to say that it's been a good recovery, smart growth for the Company, a great year for us and for the Company per se which will take your Company Privi to more greater heights. We feel that going forward also in the year coming we should have a healthy growth, both in terms of value and volume close to about 10%-12% on the value basis as well as 15% to 18% on the volume basis.

So, on that note I would like to prima facie rest myself and leave the floor to any questions that you people would have. I also hope that most of the data have been uploaded onto the website with a complete presentation, a very detailed presentation.

I would also here like to before I open it up for question and answer, I would like to thank the entire SGA team for putting up a great teamwork. We've been associated for the last couple of months and to ensure that the IR services which was lacking and many of you say that we normally require for the size and stature of our Company a good IR services. So, thanks Samir Shah and team, the entire SGA headed by Shrikant, Shogun, Shaily all of you for helping us around put up a good presentation and definitely ensuring that this call today is hosted through you.

Thank you all of you and open to question and answer.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question-and-answer session. The first question is from the line of Deepan Sankara Narayanan from Trustline PMS.

Deepan Narayanan: Firstly, from my side, so most of our sales growth has been offset by this price increase in RM and other expenses. So, this increase in RM price is it a reflection of a lower supply of materials or increased demand for our end product itself? How do we see the outlook for pricing in future?

Narayan S. Iyer: Well, it is not the increase in RM prices that has led the roll. We were holding certain high value raw materials of the previous year which was consumed during the year in the very first quarter or very first 4 or 5 months and then thereafter the fall in the RM prices started bringing in better margins even though there was a fall in the selling prices. So, we have witnessed 2 years continuously the Calendar Year ‘23, even now the current Calendar Year ‘24, it also started in Calendar Year ‘22 that prices of the selling products all FG products are both pine as well as Citral, they have witnessed a very steep fall. So, if I have to get back into exact numbers or so, the last 3 years the prices what was commanded by each of these products, way back in January ‘21 and if I have to compare that in January ‘24, on an average that would have been a dip in the selling prices by close to 40%-45% or so. Yet your Company has managed and maintained a decent value-wise growth and volume-wise growth. You will definitely see that we have moved up by about close to 20% odd over the previous year with good sales of about 36,000+ tons or so.

Deepan Narayanan: Outlook on this realization or pricing for final product.

Narayan S. Iyer: As I have mentioned to you almost about 60%-65% of our revenue comes from contract business. These contract businesses are from the FMCG houses of the globe and these contracts are normally frozen just before the year starts. These people believe in the calendar year Jan to December. 65% of my sales the prices have already frozen. As far as outlook is concerned, we see slowly the spot markets the prices rising. We have been hearing about some scarcity of pine-based ingredients from China as well as from Latin America. So, if that happens, we definitely will be at an advantage that going forward in the balance period that it is, the spot market prices can show an increase. However, we will not be able to do much on the contract prices because these are frozen for the periods respectively. It could either be 6-month contracts or most of them are annual contracts.

Deepan Narayanan: So, from the presentation we will be able to see this Pine-oil and Citral, volumes have been at a low single digit level for past 5 years. This is mainly due to increased competition in this space, so that's why we are moving more in towards value added products?

Narayan Iyer: No Sir, the question of going towards value added products is been a philosophy of churning waste to wealth. And Privi has a great in-house R&D facility with almost close to about 89-90 research scientists working day in day out to create value out of all the side streams of the CST processing and the GTO processing that we have. So, these products otherwise which would have been sold at Rs. 25-30 or Rs. 70 or Rs. 90 or Rs. 110, our R&D is in the process of creating and churning value-added products in various forms whether it could be the 1/4 Cineol, 1/8 Cineol, the Terpinen-4-ol, the Terpinolene and now going forward maybe something like Menthol and Peppermint oil and all. So, these products are getting value added because we feel that by creating a value to a waste product or a side stream definitely will give us more margins. However, the core competency of us is manufacturing the main five products in the pine space, which is Dihydromyrcenol, Amber Fleur, Pine-oil, Terpineol and now Camphor and the Galaxmusk have range of products which has a capacity of 5,400 tonnes. So, along with that we have started now also creating value added products from the side streams of Galaxmusk in the form of Indomerane, Florovane and Amber Xtreme. So, we feel with the technology and with the great research that we are having around, we can create more and more value-added products. And that's what we are trying to say that though the prices are falling down on various finished goods because there is also a parallel fall in the raw material prices, the Privi is still able to get a better EBITDA margin or work towards achieving better EBITDA margin by adding more wealth to the side streams. So, that's the philosophy going forward.

Moderator: The next question is from the line of Chintan Modi from Haitong Securities India Private Limited.

Chintan Modi: First question is with respect to the realizations. If I work out based on the data that has been shared, our average realization for the full year has been about Rs. 500 per kg. Can you throw some light like the contracts that would have been done in the 4th Quarter and starting January? What kind of incremental growth that we would have seen on this average realization?

Narayan S. Iyer: Chintan on the 4th Quarter which means January to March of ‘24, is that what you are saying?

Chintan Modi: Yes because that's when we start the contracts.

Narayan S. Iyer: So, actually, the prices have come down on most of the products and which was also addressed by me in my earlier call that the annual contract prices for the Calendar Year ‘24 is down by about close to 8% to 10%.

Chintan Modi: So, basically, for full year FY25, we should largely not expect any growth in terms of realization at least, is that the correct understanding?

Narayan S. Iyer: Possibly yes.

Chintan Modi: Second, with respect to the margins. When we look at the gross margins we have seen for the full year, we have seen a good amount of growth when compared to the previous year. And while for the 4th Quarter on a sequential basis, there has been a drop in the gross margins. I would like to understand that these kind of gross margins you believe are sustainable going ahead or you think that it was more of a low-cost inventory advantage in the last year?

Narayan S. Iyer: Chintan to answer you very very clearly, we never had an advantage throughout the year of low-cost raw material. So, let me be very clear about that. We had high value inventory of the year' 22 which because of the war like situation and inventory getting piled up because we bought additional raw materials at high prices to withstand the war like situation created by Ukraine and Russia. Due to which the Scandinavian ports from where we import CST got stuck up and the ports were not available for sea voyages for almost about four months. In that period, we had gone ahead and acquired a lot of other raw material from Latin American countries and Southeast Asia. So, that's how there was an excess inventory at high cost. All this material could be consumed by us only by about July '23. However, the prices on the finished goods as well as the raw material prices they fell for the Calendar Year '23 also. Privi could not get that advantage because we had stocked up certain high value inventory. But we were able to rationalize and use and obtain and that's what our margins came back to normalcy for the period of July to September as well as October to December. In my previous investor call also I happened to mention that because of the fall in the contract prices starting from January itself, there could be a small marginal dip of 1% or 2% on the margins at the gross margin level I'm talking about, not even considering the Red Sea effect. Because of the fall in the average realization of the selling product where raw material per se the fall we will prima facie be in a position to see more impact of it from maybe April or May 2024 onwards.

Chintan Modi: Secondly with respect to the volume growth that we have seen, quite a robust volume growth. How should one see this especially, is it from the perspective that some of the competition in Europe or some other regions have scaled down on their capacities or is it that we have significantly gained market share based on our strength?

R.S. Rajan: So, essentially, it's not about the European supplier slowing down it's about the adaptive performance and the capabilities that Privi has built up over the decades in a competitive space. Case in point being Galaxmusk where we were late entrants and now we are heading towards optimizing our capacities which was a judgment call taken by the visionary Chairman – Mr. Mahesh Babani and at this point of time given the parallel streams where we continue our waste to value story, it is evident that Privi is not only an important supplier, a preferred supplier to the Fortune 500 companies, in the value chain it has also proven its capabilities beyond question to compete in a crowded space and yet emerge in the top because of the credibility and reliability that it brings to the table. So, that is to be seen in that light. And of course, our endeavors of the sustainability and the efforts that we are making with the rating improvement year-on-year is also making us a preferred supplier with most of our Company who are regulating everything on a very stringent basis with regular audits also at our factories. I hope that gives you a picture that we are competing our way to gain market share. So, not only do we have the ability to feed ourselves, we also have the ability to sometimes snatch a sandwich here and there in a growing market.

Chintan Modi: And just one last question is with respect to what would be our capex plan for next year in terms of cash spent and how much debt we intend to repay next year?

Narayan S. Iyer: We are formulating a plan Chintan, because there are various plans of going ahead future growth. We are contemplating possibly some fundraising for some of our very high value dream project of menthol and peppermint oil and a few other CAPEX, possibly some expansion on our very important products like Dihydromyrcenol, Amber Fleur. Maybe there could be a capacity expansion of CST. So, we are working up, we are contemplating the entire scenario and that's the reason that possibly we could come up with a fundraise in the very near future as we are talking about. So, broadly we are working on all those fronts as and when we are very very crystal clear how much, what and all the blueprints are being prepared. We shall come back and give a better reply exactly as to what could be the quantum, what could be the amount, how we are going to do about it, what could be the overall debt. But debt per se barring maybe that last one year where we had given enough of reasons as to why it went up. Debt has always been in the range of less than 1x or 1x. So, even going forward we never want our debt to go beyond 1x. 1:1 on the equity as well as the debt. But sometimes it went up in the previous year only on account of the fresh capex not starting on time and leading to a result that we were high on debt as compared to a debt EBITDA or a debt equity per se. We will ensure that the financial parameters are very much kept in order and you will see that Privi maintaining most of the financial parameters in order when we go for our next set of growth plans also.

Chintan Modi: And any guidance that you would like to share?

Narayan S. Iyer: As I said the guidance for equity could be 1x-1.05x max. If I'm talking about debt and equity prima facie at least for the next 3 to 5 years or so. And a debt EBITDA should be less than 3x most of the time. It will not be beyond that and broad capex, I said we are still working about. Current ratio should be a good 1.20x-1.25x. That's what we are striving to achieve.

Chintan Modi: I was talking about the financial guidance, the revenue and EBITDA margins if you could.

Narayan S. Iyer: In my initial it is itself I mentioned that you can expect a volume growth of about 15% to 18% on what we have achieved for the year ‘24-25. Probably 10% to 12% with regard to value, broad guidelines with regard to the margins per se, yes, you can expect anywhere between 18% and 20% to sustain. And if the Red Sea gets disseminated possibly you could add something more. My last quarter, had it not been for the Red Sea effect you would have seen another Rs 20 crores of profit on my bottom line. So, that was the impact of Red Sea on my last quarter financial that is Q4, both in terms of inward as well as outward shipment charges. So, if that comes down, we should possibly see another 0.5 basis improvement with regard to the overall EBITDA and PAT numbers.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First just getting some clarification here. For Q4 specifically, as you mentioned the freight costs were one which impacted our profitability. You also mentioned that the prices, the revised contracts have been lower that you have been signed for almost two thirds of the revenues. Is it both impacting our margin, or is it largely freight cost?

Narayan S. Iyer: Largely freight cost because I knew my margins very well when I entered into those contracts keeping the raw material prices which was already there.

Ankur Periwal: So, incrementally let's say starting this quarter this decline in realization with the clients will largely be in sync with the RM price decline that you would have seen.

Narayan S. Iyer: That's right.

Ankur Periwal: Incrementally is there any further price action movement across either finished products or on raw material side in the spot market?

Narayan S. Iyer: We are not seeing any further reduction in the selling prices per se. More or less as I started my address also that spot markets are slowly started moving up on account of various shortages sort of situation created from Latin America and China. So, this could possibly improve the spot market prices of most pine-based material. I'm talking about pine-based segment which is where your Company is having its forte and strength. So, that should be a positive for us because if pine-based products start moving up, definitely the spot market we can expect better realizations going forward. Raw material for us having contracted ourselves on a back-to-back arrangement CST we feel that we could be in a better position than compared to most other competitors outside Europe. So, when I say some of the Indian competition and Chinese people where they manufacture pine-based material using the GTO and GTO products.

Ankur Periwal: In the presentation on slide #23 wherein we highlight the product mix and how we are moving up the value chain. Musk and Speciality has significantly is one which will be significantly margin accretive to us. But in case of realization, any specific trends that you are seeing there? And part of that question, the second part there being the value-added part of product segment, any timelines that you can share.

Narayan S. Iyer: So, what do you want to know Ankur on that specifically on the value chain?

Ankur Periwal: I want to know prices specifically for Musk because if I look at the numbers there has been sharp correction in Musk and Speciality pricing in the last financial year versus what it was prior to that. And it has been a high margin product. Is this pricing decline largely in sync with the RM decline? That is one. And within Musk you had mentioned ramping up the premium end of the product, so any timelines you can share?

Narayan S. Iyer: What we are trying to showcase in this is, that we have been moving up on the value chain. So, when we talk about musk and Speciality also, quite a few of the musk and musk variants are being used using the Galaxmusk byproduct streams which we just started and launching in this particular year apart from of course creating a Galaxmusk facility whose sales started coming here in this particular year itself. So, that's one thing that is there. Value adds what we talk about on the front above musk we are also trying to showcase that what was Speciality and musk maybe a few years ago, post Covid all this had come down. We are trying to showcase and say that even Speciality is started moving up, musk definitely has moved up in this year. So, there could be a big spike you are saying 6% to 15.9% or so. But even per se Speciality what was almost zero practically post Covid and then slowly limping around, that's shown a remarkable improvement and close to about 45%-50% of the overall capacities that we have, we find ourselves in a sold-out position and that's improving and increasing. And when we talk about value add, these are basically as I was trying to mention, the value-added products from the side streams of pine as well as some musk range of products where the margins are high, where it is moving, up both in terms of volume. Value here not much of change happens around because these are all high ended Speciality chemicals. So, the value guys more or less it remains maybe just about 3% to 4% variation could be there over a couple of year period. But the margin per se in these products are high because very few manufacturers of course, it requires a huge amount of technology and infrastructure to manufacture such products also. And Privi has been in a position to do that and that's what makes us much ahead in the curve but different than most of the other competitors who are in India and also prima facie over the globe.

Ankur Periwal: Just last question from my side on the working capital. We have seen a decline there versus last year and as you mentioned last part of the high-cost inventory has been used. Where do you see this number stabilizing?

Narayan S. Iyer: Our ideal could be somewhere between 120 and 125 days. We are budgeting somewhere around 135 days for this year.

Moderator: The next question is from the line of Dhavan Shah from Alfaccurate Advisors.

Dhavan Shah: My question is on the musk-based products. You already mentioned that we have increased capacity last year and that is the fuel, the volume growth for this FY24. So, you mentioned the Galaxmusk capacity is roughly 5,400 tons. What is the overall capacity of this musk-based product, the entire category, volume number?

Narayan S. Iyer: The overall capacity of various musk-based products is 5,400 metric tons. And we've been able to do achievement or close to about 50% of volume in the first year itself. That is the year I'm talking about '23-24.

Dhavan Shah: And what could be the industry size because this is mainly the export business, right?

Narayan S. Iyer: Export as well as domestic. In domestic also many blenders use Galaxmusk. So, if what I have heard from my marketing head as well as my chairman Mahesh bhai, broadly various types of musk and musk variants, the industry per se could be anywhere between 22,000 and 24,000 metric tons or so. So, we are close to about once again since we wanted to be a major player on this we have set up a complete set of close to 25% of the overall global demand, which is what Privi normally tries to enter in such products where it feels its technology is much superior and it has all the ingredients to manufacture a quality-based product

Dhavan Shah: But in FY24 itself I think the volumes are roughly 4,200 tons. You are saying that this plant is running at 50%. But if I calculate it roughly the utilization comes to around 78%, capacity utilization.

Narayan S. Iyer: Which product you are talking?

Dhavan Shah: Musk based product. You mentioned that the overall capacity is roughly 5,400 ton. But that category has given a sales volume of roughly 4,200 tons in FY24. So, that's been running at 78%.

Narayan S. Iyer: It is not just Musk. It also has various other Speciality chemicals also in that if you see that. That belt is musk and Speciality.

Dhavan Shah: My question is on the gross margins for the musk and Speciality category. Despite the revenue contribution of this category increased by roughly 10% odd over the period of FY20 to '24, our gross margins have been improved by roughly 150 basis points. So, just wanted to understand what is the gross margin differentiation between musk and the other base business?

Narayan S. Iyer: It all differs from product to product and you are talking about something from 2020 up to 2024 which is a 5-year period. In this 5-year period we have seen a steep fall in overall pricing about close to 45% to 50%. I am talking about just from 2021 the numbers what it was and '24 what the numbers were, not just for us but overall, for various people who are in the product mix that we are in. I will not be in a position to exactly showcase over a call today what it was margin of X product and what it is today on a Y product. But broadly I can say that my margins with regard to very high ended Speciality chemicals will be upwards of 50%. Good Speciality chemicals will be 40% and in general normal Speciality products on musk and everything could be about 25% to 30%. So, this could be the broad framework.

Dhavan Shah: So, 2 years down the line what kind of gross margins do you look at based on the capacity utilization you are envisaging for musk and the other Speciality-based products?

Narayan S. Iyer: We should be maintaining our overall EBITDA margins of about 18% to 20%, +/ - 0.5% or 1%. It should be more I feel so because the prices that are there of most of the products are at the lowest. And I feel going forward we see such cycles happening in every 4 or 5 years that prices fall to such an extent that it becomes very difficult for the small players to survive. And then you see a bounce back. I feel the bounce back is just around the corner and you will see that prices going up. If that happens your margins definitely will go up further to whatever we are committing today and achieving it also.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: First question is to Rajan, in terms of geography how are we seeing the demand across our export's geography? And the second thing is that in terms of our product categories where we have broken up into Prionyl, Citral, Musk etc. Which in all are the categories which are seeing more traction among the geographies?

R.S. Rajan: So, as far as the geographical span is concerned, Europe continues to be our biggest market followed by the US. We are geographically located at a very strategic location in India where we are right in the middle of the developing economies all around us which is where the fastest growth is envisaged. Going forward into the distant future also the next continent where the demographics and psychographics work in our population which is today young in India, it could be even more younger in Africa and if you go back to the consumer pathway, the path to purchase where there were basic three cosmetics maybe an eyeliner, a lipstick and a powder. Now each shelf is filled with at least five or six options even in a developing country. So, everybody wants everything to smell good. So, as far as the geographical locations are concerned, I see the developed economies as well as the developing economies both being our playfield in the coming as well as in the distant future, so it augurs well. And for the aroma chemical space, I think it's going to be a great journey for the next decade. As far as the geographical shifts are concerned it all depends on the generation of consumers and the TGs that are blending houses as well as the FMCG companies are addressing. So, from the millennials to the Gen Z, the olfactiveness and the fragrance's taste also keep evolving. And it's very interesting to see that one of the biggest developing markets is also right in the Middle east. So, all these influence the type of fragrance that play out. So, as far as we are concerned since we have a basket which is right now dominated by the Pinene chemistry, followed by other Speciality chemicals. We seem to be in the right space and obviously we will encash whatever opportunities come our way. As far as the future is concerned as our chairman puts it, is there for the impact chemicals also, where using less of our ingredients with a higher stronger fragrance or aroma would pave the way for the future. Because it also is directly connected with the greenhouse gas emissions, the carbon footprint as well as the sustainability practices which are getting more and more stringent. The consumers also will be looking at labels before they buy their personal beauty care products. And the digital space, societal education also will play a big role in creating consumer groups on what to say yes and what to say no. So, overall, the future is very bright for the aroma industry.

Rohit Nagraj: Second question is in terms of the current capacity across our different product or segments. How much of and based on the visibility that we have next year FY25, we have said that it will be double digit volume growth, when do we have to go in for the next leg of Capex? And how much time will it take from conceiving the Capex to putting it on the ground and commercializing?

R.S. Rajan: An average Capex turnaround in our Company would be, I would say anywhere between 14 to 16 months. That's what we gun for. So, that will be the turnaround period. As far as the capacity announcement is concerned, that's already a plan which is on way in some of our key products. As far as new products are concerned, we always would confer with our valuable customers. And based on their line of interest we would be looking at the capacity announcement investment and the Capex investment. And since our Company has a growth mindset, we do very responsible Capex investments. And sometimes when we are investing there are some question marks. But our chairman's vision over the last 10 years if you have seen, any Capex that we have put into place including the 15 years back a very radical revolutionary decision of putting a CST refinery. Everything is sweating for us. It is adding to our strategic backward integrated vision and whatever our chairman has said so far, we've always delivered.

Moderator: The next question is from the line of Sajal Kapoor, an individual investor.

Sajal Kapoor: You have spoken about sustainability and green chemistry. So, in that context need an update on your biotech innovation in terms of the scale up at the main pilot plant, is it in hundreds of kilos or more? What kind of yields are you getting there? Are you satisfied with the progress and what commercialization timelines do you foresee, the Capex plan ahead for biotech both in terms of cost and timeline? Finally, do you need any sort of customer approvals and the likely timeline for those? So, that's my first question on biotech. As much as you could share because it's a public call. I appreciate that. And then on your financials; slide #41 is what I'm looking at. It's just a suggestion that going forward instead of showing a debt-to-equity ratio, it would better if you could just highlight the net debt to EBITDA because you won't be able to repay your debt using equity unless you dilute equity. So, unless there is a plan to dilute equity and pay off debt and, in that context, yes, debt to equity makes sense. But EBITDA, I think is a more reliable indicator assuming that we can convert a healthy part of EBITDA into operating cash flows. And our current average 5 year run rate for EBITDA is about Rs. 200 to Rs. 225 crores kind of thing. So, in that context I think our debt is slightly on the higher side. But I would love to hear your thoughts. So, those are my two questions. I'm not sure at what point I lost you. And so I will repeat both questions again.

Narayan S. Iyer: You can go to the second part of the question. Rajan, are you going to address the first part? Because I heard the first question.

R.S. Rajan: I will address the first part.

Narayan S. Iyer: And then after Rajan finishes this thing, I think you can ask the second question which you were trying to possibly talk about some slide and I can answer that as well.

Sajal Kapoor: Slide #41 the financials. I have got questions.

Narayan S. Iyer: So, Rajan yours and then I will add to it and then take it forward.

R.S. Rajan: So, on your question of biotechnology, I think on the tail end of the question you summarize that we are on a public call and these involve IPs and patents. I can tell you with extreme enthusiasm that it is heading in the right direction. Our challenge is not to get the biotechnology piece right but it is also important to get the costing right because we want to ensure that in the ecosystem in which we operate, even if there is a new technology which is breakthrough and a game changer, it is either affordable, on par or at best an affordable premium. So, to get that part right we have to go through many cycles of research and our scientists are up to speed and they are committed and we can see progress. As far as our potential customers are concerned, in some of the research that we are doing, we do share the results and the trials on a proprietary based basis on those who have given us letter of interest. Since most of that information is proprietary in nature, I can only tell you it's all heading in the right direction. Hopefully in the coming future, we will have some breakthroughs which we will be able to share openly with all the stakeholders' nods in place.

Sajal Kapoor: That's a very thoughtful response and I appreciate that we could only share so much on a public call. Thank you for that response. My questions related to the financials is related to slide #41. So, it's just a suggestion, it's just an observation, you mentioned debt to equity and the only way to repay debt using equity is if we dilute equity. I'm not sure whether that's the plan or not. My sense is better to report net debt to EBITDA and going forward and in that context if I look at our EBITDA trend over the last 4-5 years, it's been hovering in the range of Rs. 225 crores. And this year has been super very positive. So, our operating cash flows are actually higher than EBITDA but I think that's just an exception. So, just wanted to know your thoughts around what's your current net debt to EBITDA is and whether you think that's sustainable because ideally it should be a ratio of about 2x. So, your net debt should be no more than 2x of EBITDA on a sustainable basis. So, just wanted to understand your thoughts.

Narayan S. Iyer: Being in a growth path and it's been that we have been growing at 19% CAGR for the last continuously 20 odd years. The field that we have chosen the bulk aroma chemicals, growth can only come with volume. And for setting up volume you require capex, you require build up inside. So, with such growth plans going forward, on one question we need to balance all the financial parameters, on second we need to ensure that we keep growing so that our investors and all our stakeholders are happy. We keep balancing that happening around. And in the year that when we are actually putting up a capex of 100-200-300 crores and possibly, we are borrowing money or so, your debt is bound to go up and maybe initial holding of inventory till the time the plan stabilizes, you require more inventory so, more borrowings happening around per se. Getting it less than 2x which is what you are trying to talk about, may or may not be possible. Ideally speaking yes, internally we have a roadmap that we have our debt to an EBITDA at a much comfortable level of about less than 2.5x or so. And we have most of the time barring maybe starting from '21-22 onwards or the post the covid year when some of the capex did not start giving us the yield or the capex went extending. Finally, the results started coming from the Year '23-24. So, those 2 years and more so for the year '22-23 was the only aberration year where the financial parameters set internally by us most financial gurus and as well as my bankers from whom we borrow money for long term capex and all. The only year that we were possibly not able to meet most or all of the so-called financial parameters was in the year '22-23. Barring that year, in its history of about 25+ years since the time it started borrowing and 16+ years that I am in this Company, the Company has never faulted on any of its financial parameters as set about as well. So, we are as such conservative though we have continuous growth path and growth plan. We will ensure the right balance of equity and debt going forward also for establishing our next set of CAPEX plans.

Moderator: The next question is from the line of Amar Maurya from Lucky Investments.

Amar Maurya: Just one clarification. You indicated that for next year, the volume growth would be in the range of 15% to 18% and a pricing growth can be something around 12%. Is that a correct understanding?

Narayan S. Iyer: That's correct. 10% to 12% of pricing, yes.

Amar Maurya: So, basically, we are talking for 27% to 30% growth for next year.

Narayan S. Iyer: No, I'm talking Amar, that even with the fall in the prices, you will see a volume growth what you have achieved in this year by about 15% to 18%. As far as the revenue growth is concerned from the Rs 1,772 that we have achieved in this year, you will possibly only see a `10% to 12% which means adding on Rs 1,772 this is what I try to mean about that.

Amar Maurya: So, basically, value growth of 12% because you are saying the prices are going to correct or correcting whatever?

Narayan S. Iyer: Prices have already come down Amar.

Amar Maurya: And in terms of the margin now we are guiding for 18% to 20% range. So, basically, this volatility is largely because your contracts are fixed and there might be some uneven volatility into the RM prices. Is that a reason or this is largely to do with the product mix changes which happens to you?

Narayan S. Iyer: I am not as such talking about anything which has come down. I'm still maintaining and managing our overall annual basis. We are talking about an annual basis where we are living in a VUCA world. Yet we are talking about a strong good EBITDA margin level of maintaining about 18% to 20%. So, that's what we have achieved in the previous year also of about 20%. So, I'm not able to follow your concerns on that.

Amar Maurya: No I was saying the range of 18% to 20% is largely because of the product mix changes which happen at internal level, that is you are not sure about. So, it can range from 18% to 20% or this is largely to do with the volatility in the RM because your contracts are already fixed. So, you may have to bear the cost if the RM goes up.

Narayan S. Iyer: Amar, I may not be able to give you exact two digit or two digit plus minus point two digit to what could be the EBITDA margin. That is the reason of giving a range of 18% to 20%. We are living in a volatile world. There could be fluctuations up and down on raw material. There could be fluctuations at the spot market business. It is not that I have every raw material covered for the year. It is also not that I have every finished goods revenue covered on contracts. So, what is left to the spot market is that's the reason that we are talking about range-based EBITDA margins on that. And we feel that we should be somewhere around this range going forward.

Moderator: Ladies and gentlemen this will be the last question for today which is from the line of Nikhil Porwal from Perpetual Capital.

Nikhil Porwal: I had one question regarding this JV with Givaudan. So, is this the only extent to which this goes or will there be subsequent expansion announced and what will be the margin profile for this business.

R.S. Rajan: So, can you please repeat your question? Because in between there was a bit of a signal weakness. If I understood you were asking about the Givaudan JV, right?

Nikhil Porwal: I mean is this the only phase of capex or will this expand further going forward? And what would be the margin profile of this business since the molecules will be higher in value?

R.S. Rajan: Yes, in the first phase the capex that we have indicated is the first phase capex. And once the first phase capex rolls out then in the second phase which is still work in progress, there will be opportunities and scope to explore for further capex. And there will be a change in the margins in the new products that may come in the second phase. But in the first phase the margins are what they are which have been indicated in terms of the top line revenues which we have spoken about and it's more on a customized and exclusive basis. That's the first phase of the JV. But in the second phase of the JV as the JV moves ahead the possibilities are being explored. At this point in time, it is premature to talk about the margins in the second phase or the capex investment because that's still a work-in-progress. But definitely there's going to be a scope for expansion as we go along.

Nikhil Porwal: And for the current year how did you all manage to bring such efficiency in the employee cost for the year? They've been down close to 9% versus the previous year while the volumes have moved up 28%.

R.S. Rajan: We have a younger team and the succession planning in the layers of the management that we have right from N1 to N3, it's not happened overnight. It's our chairman's vision for the past 10 years to have homegrown talent takeover responsibilities. So, we have put them through many MDP programs. Some of our leaders who were harnessing the positions earlier they have achieved superannuation status. I think it's time that the young blood takes over and takes the Company to greater heights as the journey from good to great goes. So, it's a part of succession planning and it's been happening for the past 10 years. It's something where you see the fruits of that which we've been watering for the past 10 years.

Nikhil Porwal: And one last question from me is, while the volumes have moved up and the contribution of value-added products and musks and Speciality has moved up, the EBITDA per ton is more or less in the range of where it was in FY21 or FY20. While it had moved up in Q2 and Q3, how are we supposed to look at this going forward?

R.S. Rajan: Very positively because you see the resilience is not stated in figures, it's only the outcome. So, if you see the curveballs which have been hitting the industry at large and also your Company in specific I don't think that you should miss the woods for the tree. Despite all the curveballs that have been thrown to us the customers have stood by us, you have stood by us and our performance continues to bounce back.

Narayan S. Iyer: To add more granularly, we keep forgetting that the last 3-4 years we have seen a lot of uncertainties happening in the world and it started with the war. The coal prices went up, the power prices went up. There was a huge fluctuation with regard to the raw material pricing that we have witnessed, and which of course is there on record in various of the investor calls that we had done about. And suddenly now in this quarter when we thought that everything was getting back to normalcy and all, we suddenly had the Red Sea effect which is coming in. I believe a lot of export oriented as well as input-oriented companies have suffered because of the Red Sea effect which has led to escalation in the freight costs and so on. In between we had the covid effect due to which globally the freight costs went up because very less ships plying around, prices going up. So, this has been the turnaround that's been happening in the last 3-4 years or so. And also, the year that you talked about in ‘20 and ‘21, definitely my margins were very good I would say. But a part of it was also contributed on account of some insurance claim that we happened to receive. It's something which is good. We lost on a year before that when there was a fire and all we were not able to perform two our exigencies. But that insurance claim was settled maybe 1-2 years from the time that it was actually there. So, since we have covered for most of the exigencies available under insurance including the loss of profit, reinstatement of certain capex and all that. So, those money were taken as per Ind-AS standards as a revenue and as a part of the profit and which is also paid tax to the government as and when the same was accounted. So, this is something that you need to go about. On a hindsight and giving a very futuristic sort of a thing, you can expect our Company Privi prima facie to keep growing per se. There are various growth opportunities that we are looking around for and for which certain capex will be built up and those capex will be built up with a combination of equity as well as debt. As Rajan stated this takes a minimum period of about 14-15 months to an 18 month for any new capex and that to a huge capex that we are talking about to be established, set right and commercialized. This will keep going around, you will keep hearing such more news from us with regard to the future expansion that's going about. If I have to talk purely for the year ‘24-25, yes, you can expect your Company to showcase a 10% to 12% growth on the overall revenue, value wise about 15% odd of volume. You can expect your Company to have good, steady margins of about 18% to 20% and see those gross margins remain more or less what we have done or possibly improve by about 0.5 basis percent further to what we have achieved in the Year ‘23-24. So, on that count any question Michelle or anyone else is there.

Moderator: Thank you, sir. That was the last question for today. Thank you. I would now hand the conference over to the management for closing comments. Over to you sir.

R.S. Rajan: All I can say is, we remain grateful to all our stakeholders. We remain inspired by our chairman Mr. Babani. We have great teamwork amidst all of us. We remain obligated and reverend to our valuable customers and we are in an aroma chemical business which has infinite possibilities and perennial opportunities. Thank you everybody.

Ashwini Shah: Good evening all of you. I would like to take this opportunity to mention that as we walk and leave to each day aromas from Privi touch your life with fragrances that create memories and bring back nostalgia. We maintain our pace without compromising on our values and constantly challenge ourselves to serve our partners and customers. With this our distinguished participants, on behalf of Privi, I thank you everyone for joining us in this earnings call. We appreciate your time and showing interest in our Company. We assure you that the Company shall continue to perform well going forward too and achieve many new milestones. In case of any queries, you can get in touch with us or SGA, our investor relation advisors. We look forward to meeting all of you over the next call. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Privi Speciality Chemicals Limited, that concludes this conference. Once again, we thank you for joining us and you may now disconnect your lines. Thank you.