Rossari Biotech Limited

Q1 FY2021 Earnings Conference Call

August 24, 2020

Moderator: Ladies and gentlemen, good day, and welcome to the Rossari Biotech Q1 FY2021 Results Conference Call hosted by Axis Capital Limited. 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. Ankur Periwal. Thank you, and over to you sir.

Ankur Periwal: Good evening everyone and thanks for joining in for Rossari Biotech Limited's Q1 FY2021 Earnings Conference Call. From the management, we have with us Mr. Edward Menezes, Promoter and Executive Chairman, Mr. Sunil Chari, Promoter & Managing Director and Ms. Manasi Nisal, Chief Financial Officer. We will begin with the call with the opening remarks from the management following up which we will have the forum open for Q&A. Before we start, we would like to point out that some of the statements made in today's call maybe forward looking in nature and a disclaimer to this effect has been included in the earnings presentation, which is being shared with you earlier. I would like to invite Mr. Edward for his opening remarks. Over to you Edward Sir!

Edward Menezes: Good evening everyone, I am Edward Menezes here. I warmly welcome you all to Rossari's maiden earnings conference call to discuss the operating and financial performance for the quarter ended June 30, 2020. I hope you are all doing well and staying safe during these unprecedented times. We too are safe here and amid the lockdown situation.

As you are all aware, we have successfully completed our initial public offering last month, which despite challenging macroeconomic conditions witnessed a strong reception from the investor community. I would like to take this opportunity to thank our shareholders, business partners and employees for their wholehearted support to our IPO. We have utilized the proceeds towards funding our working capital requirements, prepayment of loans and for general corporate purpose. I am happy to share that post our IPO, we are now a debt free Company.

As this is our first time hosting an earnings conference call, I would like to take you through the background of our Company following which, Chari will share his thoughts on the business model and operational highlights for this quarter.

Back in the year 2003, Chari and I, both career technocrats with a then cumulative 30 years of experience in speciality chemicals industry, had started a partnership firm in the name of 'Rossari Labtech'. It was later renamed to Rossari Biotech and was converted into a company in 2009. Right from inception, we have undertaken focused efforts towards developing a strong platform based on application development and formulations. Today, Rossari is one of the leading Speciality Chemicals manufacturers in India providing intelligent and sustainable solutions to our customers across industry such as FMCG, home and personal care, Industrial Cleaning, Textile Speciality Chemicals, Performance Chemicals, Animal Health and Nutrition and Pet Care businesses. Over the years, we have developed a differentiated product portfolio for our three main businesses of Home, Personal care and Performance Chemicals, which we call as HPPC, Textile Speciality Chemicals, which is TSC and Animal Health and Nutrition, which is abbreviated as the AHN. Being solution providers, our offerings contribute significantly to the product experience and enhanced utility for our customers. In addition, most of our products are environmentally friendly that undergo sustainable manufacturing processes. Intelligent chemistry is another strong growth propeller for us and our differentiated solutions are centered on four basic chemistries, which are enzymes, silicones, acrylic chemistry and surfactants.

With deep customer engagements across industries, Rossari is essentially a customer centric Company providing tailor-made solutions backed by the elements of research, agility, sustainability and operational efficiency. As we look ahead, we are very optimistic about our future growth prospects given our diversified product offerings, our fungible & agile manufacturing establishments and our ability to constantly innovate and launch diversified products for our customers. With a healthy balance sheet and adequate manufacturing capacity we believe, we are well poised to deliver a sustainable and healthy growth trajectory going forward and we look forward to the future with even greater enthusiasm.

Post our public listing, we have embarked upon a new phase of our journey and it is our endeavour to always have best t practices in investor interactions at all times. We look forward to building strong communication channels with you and regularly connect through such forums going forward. With this I would like to conclude my address and now hand it over to Chari for his comments.

Sunil Chari: Thank you Edward. Namaste, good evening everyone and thank you again for joining us on the call.

The month of July 2020 was indeed a memorable one with the successful IPO and public listing of our company. We were overwhelmed and humbled and I would just like to take a moment here and thank all of you and our shareholders for putting your trust in us and giving such a strong response to our IPO.

We saw healthy participation coming in from some of the most marquee names in domestic institutional investors, FIIs and MF categories and the way we see it for us, even a shareholder having one share is equally important and we believe all minority shareholders are a big responsibility for all of us. On the whole, Rossari had a stupendous public listing and this has only inspired us to further continue our work with greater zeal.

Just to share an interesting anecdote around our IPO even before 2003 in the initial phase of our journey, our first historical milestone was when we made our first invoice on July 23, 1997. Fast forward 23 years, on July 23, 2020, Rossari was successfully listed on the stock exchanges, both the dates are the same, so we have a birthday, which is the same birthday again. Over our journey of this many years the company has grown exponentially and today we are one of the leading Speciality Chemicals manufacturing companies in India with a very strong and well-entrenched network of customers in the domestic markets.

Coming to our business, in the HPPC business, our solutions are used across soaps and detergents, paints, inks, coatings, ceramics and tiles, water treatment chemicals, and pulp and paper industries. We also manufacture institutional cleaning chemical formulations and now are in advanced stages of expanding our product portfolio to water treatment formulations, speciality formulations for breweries as well as dairies. In our TSC business, we provide speciality chemicals for the entire value chain of the textile industries starting from fiber, yarn to fabric, wet processing, and garment processing. As you all know textile industry is one of the largest contributors to water, air as well as solid waste pollution. Accordingly our focus is on providing eco-friendly sustainable chemical solutions to our customers, which either replaces the highly polluting chemicals being used by our customers or reduces the impact of environmental pollution by suitably modifying the overall industrial process.

We have also diversified into the Animal Health and Nutrition business and currently supply poultry feed supplements and additives, pet grooming and pet treats to customers. Overall all these three businesses are strong growth drivers for us and the outlook for each business remains positive in the medium to long-term.

Over the last many years we have invested in creating a fungible & agile manufacturing infrastructure. Our Silvassa manufacturing facility with an installed capacity of 120,000 MTPA, is a highly automated unit with flexible and interchangeable capacities across our three businesses. This enables us to manufacture any of our products at any point of time. With this capability, we were able to showcase a higher degree of agility during a challenging quarter. Even though the Textile Speciality Chemicals business was notably impacted during the last quarter, the company was able to manage the situation well by being able to adequately address the sharp increase in demand witnessed in the HPPC business. This was primarily owing to the flexibility we have in our operating model.

I am also happy to share that in the month of July 2020, we have successfully commissioned the first phase of our Greenfield manufacturing facility at Dahej in Gujarat. This facility with a proposed installed capacity of 132,500 MTPA, is a state-of-art automated unit, bringing higher cost-efficiencies and economies of scale. The plant also enjoys proximity to multi-cargo port of Dahej, which provides a cost and logistical advantage for us. It is further encouraging that despite facing challenges owing to COVID-19, our teams were able to make healthy progress by launching the first phase of this facility and we remain on track to operationalize the plant by March 2021.

A combination of intelligent chemistry and R&D continues to be an important growth lever for us. Our R&D capabilities integrate all the three aspects of our products, synthesis research, formulation & development and technical service to provide customizable, intelligent and cost-efficient solutions to our customers in a shorter time frame. We have a dedicated experienced R&D team operating in our facilities in Silvassa and in Mumbai. Strategically located on the IIT campus in Mumbai, our Rossari Center of Excellence is a new state-of-the-art certified R&D laboratory, which is fully equipped with advanced testing and research equipment. Our R&D facilities are core to our operations and enable us to keep pace with upcoming opportunities. Our focus remains towards identifying and developing new niches in our product portfolio by leveraging our R&D capabilities and as we move forward, we are also evaluating opportunities to introduce new business lines with distinguished offerings and unique product value.

Coming to our customers, we believe one of the key strengths is our direct engagement and touch points with the customer base. Our customer base currently comprises of a host of multinational, regional and local companies and we have long-term and deep engagements with several of these customers spanning over 15 years. While Rossari teams focus towards demand generation and demand creation across domestic markets, demand servicing is primarily undertaken by a wide and extensive distributor network spread across India. In the longer-term, our aim is towards increasing wallet share across existing customer base while also tapping new customer segments in the domestic markets. From a raw material standpoint, our dependence on imports, from China particularly, is less than 10% of our sales so we believe we are well insulated from any supply side disruptions in the future. I would also like to highlight that our raw material pricing is not so much dependent on crude oil pricing and going forward we expect gross margins to remain stable.

Coming to the quarter's performance, Q1 was one of the most challenging quarters we have ever witnessed. Despite unprecedented operating constraints, it is encouraging how we as an organization, adapted and efficiently continued operations in the most uncertain of times even with the added workload of launching our IPO, our teams have done a fantastic job in managing the situation.

During the quarter, as a responsible corporate citizen, Rossari undertook the decisive action to provide orphanages and others by distributing hygiene product kits, which includes hand sanitizers, disinfectants and other anti-viral products. As we look ahead, we are hopeful that the demand scenario across the country will gradually improve, in the month of June and July, we have seen a healthy uptick in demand across our three businesses. Our customer engagement continued to be solid and our wallet share across accounts has remained stable. On the whole, we are confident of our future growth potential and opportunities across the domestic market over the medium to longer-term and we look forward to your continuing support in our journey, which will create long-term sustainable value for all our stakeholders. This brings me to the end of my discussion. On the eve of various festivities like Ganesh Chaturthi, Paryushan, and Eid, we at Rossari wish you all season's greetings. Thank you all for your time and I would now request Manasi, our CFO to share perspectives on the financial performance for the quarter.

Manasi Nisal: Good evening everyone, this is Manasi here, CFO of the company. A warm welcome to everyone present for participating on Rossari's first earnings conference call. I hope you have had the time to go through our results presentation. Let me provide you a brief overview of the financial performance for the quarter.

The quarter gone by started amidst a tough operating environment with the spread of the COVID-19 pandemic leading to multiple lockdowns across domestic markets. While we delivered strong performance in our HPPC business led by accelerated momentum in hygiene products and anti-viral portfolio sales, broader operating constraints and slowdown in demand in the months of April and May impacted performance of our textile and AHN businesses during the quarter. However as the country moved to unlock phase, we started seeing a healthy uptick in the consumption and demand, which further continued in June. Overall, we reported a resilient performance in Q1 FY2021 with revenues coming in at Rs.109.5 Crore as against 127.8 Crore in Q1 FY2020. Revenues from HPPC stood at Rs. 83.5 Crore, followed by textile business at Rs. 17.3 Crore and AHN at Rs. 8.7 Crore. On the profitability front, EBITDA stood at Rs.23.7 Crore as against 22.3 Crore in Q1 FY2020. I would like to highlight here that there was a notable improvement in our EBITDA margin during the quarter, this was primarily on account of higher realizations witnessed in certain product categories and is transitory in nature so going forward we expect to report normalized margins on an annual basis. Depreciation during the quarter stood at Rs. 3.8 Crore, as we capitalized the Dahej facility, the depreciation charge should increase in the upcoming quarters and this additional charge will be absorbed efficiently as we start seeing Dahej contributing to performance going forward. PAT stood at Rs. 15.5 Crore as against Rs. 14.2 Crore in Q1 FY2020. On the whole, the Company's financial position is stable. Over the longer-term, we will pursue all our defined strategic initiatives while always maintaining a strong financial discipline. On that note, I come to the end of our opening remarks and would request the moderator to open the forum for any operational and strategic-led questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kiran Naik from Mody Fincap. Please go ahead.

Kiran Naik: Who is our close competitor in India?

Sunil Chari: We have a multiple number of competitors across various businesses, so we have always taken a stance that we will not go headlong with any competitor, and will focus on the niches in our businesses.

Moderator: Thank you. The next question is from the line of Swarnabha Mukherjee from Edelweiss. Please go ahead.

Swarnabha Mukherjee: Couple of questions from my side, first of all it would be great if you could give some colour on the outlook on the textile speciality chemicals and animal and health nutrition segments because if I look at the segmental breakup this quarter, the contribution was significantly high from the HPPC segment, the other two probably have been impacted by lockdown and demand contraction, so if you could throw light on how you see the textile end-user industry panning out and the development that you expect over FY2021 and similarly, for animal health and nutrition. Second question is on the gross margin side, so as mentioned earlier, the gross margins have improved significantly this quarter and so the normalization of EBITDA margin is expected to be driven mostly by gross margin, would my understanding be correct?

Sunil Chari: I will take your first question first and regarding the textile speciality chemical and AHN business, they have done well in the month of June and even in the month of July and we expect this businesses to improve as a percentage of our sales compared to the last quarter. So we see HPPC business to grow faster compared to the other businesses, but these two businesses also seem to come online already. The TSC business in July was very good so we are very positive and confident in all our three segments growing as per our internal projections. Coming to gross margins, the first quarter was an exceptional quarter and because the focus on health and hygiene was highest, our sanitizers and disinfectants sold at a very good price and in the month of March, April and May, there were very few producers and we were able to get higher market pricing and now going further, there are a lot of new competitors who would be coming in and we are very happy and hopeful that we will maintain the margins at normalized levels as like last year.

Swarnabha Mukherjee: So just two follow-ups on both these answers, so for the whole year of FY2020, would we expect the gross margin to be more or less similar to normalized levels that we have experienced earlier?

Sunil Chari: Yes, we will be in the same range, we are confident of maintaining the gross margins.

Swarnabha Mukherjee: If you can give some quantitative idea on how you expect to do in TSC and AHN whether it would be similar to what we have done last year or better than that, so any quantitative idea would be very much appreciated?

Sunil Chari: HPPC business would be a little higher than as a percentage of sales. Last year, we did about 47% of HPPC business so this year we would believe that the HPPC business would grow faster.

Edward Menezes: Actually we lost two months of sales for TSC as well as AHN because of the complete lockdown, whereas HPPC is now ahead by two months, so of course, we believe that the HPPC share in the business will grow as compared to the other two businesses; however, the TSC business seems to be normalizing, we have already reached almost 70% of what we have done last year so we feel that in the coming few months this will completely normalize, similar is the situation with AHN, but because these two are lagging behind in terms of two months sales, we find that HPPC will have a higher share.

Swarnabha Mukherjee: You mentioned 70%, so 70% of pre-COVID levels, is that the correct understanding?

Edward Menezes: Yes.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Can you give us some sense on what really led to the kind of massive growth in HPPC segment and whereas TSC segment has grown at a kind of a moderated growth rate. But the massive growth rate what we have seen over last four-year period in case of HPPC side, so what has led to that kind of jump in the business and if you can provide some insight about what is the kind of key raw material component for these two businesses separately. Since you mentioned that your raw materials are not largely crude based so hence may not have major impact with the crude fluctuation, so just wanted to understand bit more on those aspects?

Sunil Chari: Regarding this, we have a strategy of seeding into new businesses, so the institutional cleaning chemicals and health and hygiene chemicals that we had seeded six years ago and during this COVID times, the health and hygiene became a big focus area. Sanitizers and disinfectants, which we were selling for six, seven years suddenly took off and because our facilities are fungible, we were able to encash on this trend and this gave us a very good profitability and similarly we are seeding into future businesses like water treatment chemicals and others, which we already mentioned and we have started to work on this businesses. Regarding the gross margins and the crude what we said is the crude oil pricing does not impact us much because our raw materials are based on demand and supply position of each product raw material category. So at this moment if you see the crude has gone from up to 130 and come down to 35, but our margins are very steady, so going forward, we are also hopeful of maintaining this kind of gross margins.

Surya Patra: In fact, in HPPC segment, I was trying to understand the annual progress what we have seen over last four years say for example like in FY2018, it was Rs. 55 Crores and in the subsequent year, it became Rs. 195 crore, in FY2020 at Rs. 280 odd Crores, so what is really driving this? Possibly, first quarter could have been because of the kind of a COVID opportunity, but otherwise in the previous 4-years, what really led to such a 94% kind of a CAGR growth?

Sunil Chari: As we said, seeding has been done in the past six years and we have lot of good customers which we have already explained to you such as Unilever and lot of other customers, which have come in and these have all grown very well and that is why the home, personal care and performance chemical market is much bigger than our existing segments of textile speciality chemicals and animal health and nutrition. And because it is a big market even if we get a small share in that market, for us the incremental growth is very big and that is why you see good growth and going forward also, it is the major driver of our growth.

Surya Patra: The revenue mix has changed from TSC, which was like 80% plus and HPPC was 16%, now it is almost equal to 44% so let us say with the full capacity what you are targeting for FY2021, after that, what is the kind of revenue mix that you can see whether HPPC will be say 60%-70% like that in terms of revenue mix?

Sunil Chari: We cannot time the market, but we are sure that the HPPC business will be better than other businesses.

Surya Patra: Just last one question if you will allow me, is it possible to understand your key four chemistries of Silicone chemistry, acrylic and surfactants, enzymes, so what is the annual revenue mix for last year among these chemistries?

Edward Menezes: This revenue mix, we do not calculate. What we do is, we do not digress from these four chemistries so the platform is of these four chemistries because earlier when we started our Textile Speciality Chemical business, the four chemistries were used and when we decided to diversify in 2008-2009, we as a strategy limited our businesses with these four chemistries. So the next business that we went into was animal health and nutrition, this business had a lot of enzymes and we used to do a lot of enzyme business in TSC, so both the businesses were similar, the raw materials were similar so we ventured into the animal health and nutrition and our basic idea was, just like Mr. Chari said in the beginning, that we do not go head on with ingredient suppliers. Although we may manufacture our own ingredients, we do not sell ingredients as ingredients we sell them as formulations, we formulate them, we add some value to the ingredients and then we sell them, so what happened is in the animal health and nutrition business we went in with enzymes and then we diversified into other formulations. Similarly when we started the industrial cleaning and home and personal care, again surfactant was our major strength and silicones were our major strength in textiles, so these are actually very related to home and personal care. The detergents that go into cleaning, the type of chemicals going to surface cleaning and into industrial cleaning, they are all based on surfactants and many of them also require silicones in the formulations. So the idea was to say that these four chemistries are the platform on which we work, but there is no calculation in terms of separation of the businesses, with respect to our chemistries.

Surya Patra: Since most of our businesses are application development and you do not generally prefer selling the ingredients, are you really integrated if yes, then what percentage of your business would be integrated?

Edward Menezes: Like I explained that we manufacture a whole lot of ingredients that go into our formulations; however, as I said we do not sell our ingredients per se because the textile speciality chemicals business as well as the home and personal care business are all dependent on applications, even the animal health and nutrition is dependent on the growth, weight and on the life span of the poultry or of the cattle, so all the businesses that we are in at the present moment, you take water treatment, you take pulp and paper, you take paints and coating, all of them are application based, it is not a pharmacopeia kind of a business.

Moderator: Thank you. The next question is from the line of Ankit Gor from Systematix Shares & Stockbrokers. Please go ahead.

Ankit Gor: What is the current mix within HPPC, if you can elaborate that and after Dahej ramp up, what would be mix, will it be skewed towards detergent and if yes then what sort of application we are actually looking at Dahej? My second question is that we have also created a subsidiary if you can give us some update on what sort of capacity you will have in that subsidiary and what is the status now?

Sunil Chari: HPPC business, we do not look at each segment separately in terms of disclosure to the market, so we have no broad bifurcation in terms of different businesses within that business. Broadly, we calculate it as a single business. The Dahej capacity is 132,500 MTPA, Rossari personal care capacity would be part of the HPPC business and there is no separate bifurcation of this capacity in the business because it is fungible, we cannot have only one, the same lines which will be used for HPPC, can be used for TSC business.

Ankit Gor: For P&L purpose, we would have demarcated certain plant or something in that perspective?

Edward Menezes: The manufacturing will be done in Rossari Biotech Limited and then Rossari personal care would be a subsidiary, which is just like a marketing organization, so the manufacturing continues to remain in Rossari Biotech Limited.

Ankit Gor: Coming to first question, I respect that you do not want to give a breakup or you consider them as one basket but broad application base will be helpful.

Sunil Chari: We go into soaps and detergents, we go into big categories like personal care, paint, ceramic, paper, water treatment, so these are six, seven sub-divisions within the business.

Ankit Gor: The major would be how much?

Sunil Chari: We do not have a breakup and we would like to keep it confidential. We have formulations or ingredients which are equally poised in our sales.

Ankit Gor: Considering Dahej will have a larger application base and that would certainly improve our overall EBITDA per kg, or the gross margin per kg, would it be fair to assume that way?

Sunil Chari: Eventually after a couple of years, but at this moment, we are hopeful of maintaining 16% to 18% EBITDA level margins shown in the past year.

Ankit Gor: Q1 FY21 was pretty robust and the demand came from the sanitizers and cleaning so how is Q2 FY21 looking like till now? Was demand from sanitizer equally robust or was there any deferment or any pickup in other applications if you can give us a brief demand scenario outlook?

Sunil Chari: As a broad level, we are normalizing now. We are normalizing as per the trend over the last year, I do not have specific figure because we have just started Q2 FY2021.

Ankit Gor: When we say normalization, so is it normalization of overall demand as well as the margins?

Sunil Chari: The first quarter was exceptional because we had higher sales of higher margin products, now we are normalizing and as we have given in the presentation, we are hopeful of achieving a positive growth over last year.

Ankit Gor: Last question from my side, any outlook or probably how was the performance of Rossari Buzil?

Sunil Chari: Our subsidiary did amazingly well in the first quarter, and we see a positive tempo in that business also.

Ankit Gor: On a six-monthly basis, will we have the balance sheet of subsidiaries as well or we are yet to decide that?

Sunil Chari: Yes.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Systematix Shares and Stockbrokers. Please go ahead.

Naushad Chaudhary: Congrats on a decent set of numbers. Follow-up on the previous question on the HPPC segment, this quarter we have clocked around Rs.84 crores of revenue and as you mentioned some portion of the revenue would be from the product, which we might see fade once this pandemic goes off so if you can highlight what portion of Rs.84 Crores of revenues you might not see in the coming quarters, once things normalize?

Sunil Chari: This is a new normal, if you go out now, you can see sanitizers outside every door, so you go anywhere. I have gone in the morning outside and everywhere you touch, you use sanitizer, so this is something, which is going to be there always. It will stay forever.

Edward Menezes: What I believe is that the demand has been built up now, so the demand might taper a bit, but the margins will normalize, the demand I would not say will not be there, but since we got the first mover advantage because of our fungible manufacturing capability, we were able to supply in the first two-three months, a good quantity of products; however, now once the demand has been built up a lot of manufacturers will enter the market and therefore the share of the market that we got in the first three months, we may see tapering of that share of the market and the margin will stabilize that is how we look at it for the future.

Naushad Chaudhary: How much of revenue you would have generated from these segments in this quarter?

Edward Menezes: Cleaning has increased in every home now, everybody wants clean hands. So, Cleaning chemicals, disinfectants, sanitizers are a part of the HPPC business. So, in cleaning chemicals, across cleaning products demand has improved, hand wash has improved, dishwash has improved, so really speaking the demand has built up. However, as I said, now number of suppliers will also increase and therefore the share that we got in the first three months is going to taper a bit and the margins also will stabilize. That is how we look at it, but since you are asking for breakup of disinfectant, sanitizer and cleaning chemicals that seem to be a little bit difficult to answer.

Naushad Chaudhary: You mentioned in HPPC, there were some benefits of the prices because of the demand supply scenario, but as I believe it is our specialized business and we cater to large brands and institutions so I was just wondering do we get the benefit of this kind of situation from these high brand quality customers?

Sunil Chari: All our customers are big FMCG players and we have a vast distribution network and a loyal set of customers, so this kind of businesses will continue, and we believe the consumption of sanitizers and disinfectants is here to stay.

Naushad Chaudhary: I am talking about in terms of getting the price benefit because of the demand supply scenario, which has helped us to get the margin so we are working with very large brands in our HPPC segment and does these kind of scenarios also give us an opportunity to get a benefit of price and get good margin?

Sunil Chari: As we said, we are hopeful of maintaining the EBITDA margins of 16% to 18% so this will normalize or stabilize over a period of time.

Moderator: Thank you. The next question is from the line of Sameer Narayan from Invesco. Please go ahead.

Sameer Narayan: SunilJi, could you just give us some understanding as to we are going to increase the capacity to almost double by next year correct?

Sunil Chari: Yes.

Sameer Narayan: Since you said things are fungible so is there any rollover cost or delay in terms of, for example if suddenly there is a demand spot for something through the HPPC or TSC or AHN, will it require time or is there any cost or time delay?

Sunil Chari: Totally fungible. No extra cost, no extra time.

Sameer Narayan: How should we look at it, for example, right now, we are saying that Rs. 120 Crore kind of a topline so if the capacity was available next year, so do you think that this should probably be looking at 20%-25% kind of a revenue growth?

Sunil Chari: At this moment, it all depends on different circumstances so we are not able to predict exact amount of growth, but we are positive that we will grow well in the coming quarters and coming years.

Edward Menezes: We have actually planned for capacity utilization in the next three to four years. That is the way we have planned the new facility at Dahej.

Sameer Narayan: How much do you see that the exact utilization of Dahej is likely to be say by FY2022 or FY2023?

Edward Menezes: You can divide it by four years, and you can have a look at it. So approximately, we think that within three-four years or a little bit more probably, we will be able to utilize that capacity; that is the idea. In Silvassa, we had really very high capacity utilization and it was untenable for the time being and we are at the right time with our expansion in capacity, some amount of capacity will have to be taken to Dahej from Silvassa to debottleneck Silvassa and reduce the strain on that manufacturing unit, so if you add that rollover, probably three to four years is a time in which we should be able to utilize that capacity.

Sameer Narayan: Since you mentioned water treatment chemicals, so by when do you think will we be able to see some build up in that in terms of a revenue stream, like how right now, we have HPPC, TSC and AHN, so water treatment, when would it be reasonable?

Edward Menezes: Actually in the water treatment chemicals, we have already seeded this business in the last year and the sales and marketing team is now on the field. Unfortunately because of this unprecedented situation, it was not able to kick start this year. Now that things are opening up, we believe that this year's budget that we had taken, we will be able to do that. We already began sales small amount of sales and this year, we should see that.

Moderator: Thank you. The next question is from the line of Udit Jain from Karvy Research. Please go ahead.

Udit Jain: Many congratulations on your listing. I just wanted to understand the segment level EBITDA margins, I have seen you have not disclosed it in your presentation, so would it be possible for you to disclose your segment level EBITDA margins.

Sunil Chari: We do not share businesses-wise margins because the facilities are fungible, raw materials are common, personnel is common, infrastructure is common, invoicing is common, so it is not possible for us to give businesses wise margins.

Udit Jain: When we look at your three-to four-year margin improvement and then kind of overlay with the increase in HPPC segment contribution to the revenues, does not that imply that your HPPC segment margins are slightly superior versus other segments?

Sunil Chari: The highest margin we have is in the animal health and nutrition business, HPPC also has good margins and better than the textile speciality chemicals margins and that is why we have seen margin improvements in the past years, but going forward, it will depend on our business mix.

Udit Jain: One last question on the raw material side, I was trying to understand which are the key raw materials that have a significant portion under your COGS?

Sunil Chari: As a group, surfactants is the biggest one and as a single raw material, acrylic acid is one which we use in very big quantities. Acetic acid also we use in very good quantity; acrylic acid is imported now from LG, from BASF, from many, many other suppliers, but now also BPCL is starting production in India hopefully in the next quarter, so we will have local availability of raw materials, our imports which is already very less, it will reduce further.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Congratulations on good numbers in trying times. Sir my question relates to more of capacity utilization in Q1 or maybe June month if you can share?

Edward Menezes: In Q1, our capacity utilization was lower than 50%; in Q2, it is picking up and we believe that like I said, the textile business has already reached about 70% of last year's business so we feel that in Q2, the capacity utilization will go above 65% that is how we look at it.

Sunil Jain: So Q2 we may not be able to see full recovery?

Edward Menezes: No, it depends, it depends on how the textile units open up and how the animal health and nutrition business goes, we are confident that the textile business will pick up because all the three have shown very good traction, although HPPC has shown more traction, but animal health and textile has shown excellent traction, so in a couple of months both these businesses also will normalize.

Sunil Jain: This capacity which you had started already you said that it will come in full stream by year end so in the current year, how much capacity will be available for production and how much will be available in the next year?

Edward Menezes: We are looking at 30,000 tonnes additional capacity in this year from the Dahej project and in the next year, another similar amount, because our final project will be completed in March 2021, so therefore we think, as I said, the capacity utilization will take three to four years to be completed.

Sunil Jain: So the depreciation and all related to this capacity will start from Q2FY21 or it will again be in the next year only?

Manasi Nisal: We have already started capitalizing, so depreciation will start from Q2, it will be in a phased manner of course as and when it is ready, we will start capitalizing it.

Moderator: Thank you. The next question is from the line of Aditya Khetan from East India Securities. Please go ahead.

Aditya Khetan: What is the capitalized amount of depreciation in Q1 and on QoQ basis, the employee cost has fallen by 22%, have we capitalized some amount here also?

Edward Menezes: As a company, we have been always forward looking in terms of giving good incentives to our sales team and in this quarter the sales were less and the incentives were less but as a percentage of sales, the amount is the same as the last quarter.

Aditya Khetan: What is the capitalized amount of depreciation in Q1?

Manasi Nisal: We have started capitalizing Dahej in phased manner so some maybe around 15% of total cost, we have already capitalized so some amount of depreciation has already come in the last year that is March 2020 and now it will start coming again from Q2 onwards.

Aditya Khetan: Can I get how much percentage of revenues your sanitizers would be of HPPC business?

Sunil Chari: As a policy and as a competitive strategy, we will not able to share the exact percentage.

Aditya Khetan: Post IPO, we have seen a stellar run in the stock price, so I would like to know what is so different in Rossari Biotech as compared to the big speciality players like Aarti and SRF, why should Rossari Biotech command such higher valuation as compared to the other Speciality companies?

Sunil Chari: We are technocrats with an engineering background. Market pricing or market valuation is something, which you should be able to guide us. We would be at a loss to guide you on market pricing and valuation.

Moderator: Thank you. The next question is from the line of Gaurav Hinduja from GEPL Capital. Please go ahead.

Gaurav Hinduja: Congratulations. My question was broadly on the export part of your business, so what percentage of revenues are we at for exports and structurally are we seeing a tailwind for India being the supplier for speciality chemicals, especially in the personal care category so what are your views on that front?

Sunil Chari: About 10% to 11% is our exports business and going forward we are hopeful of maintaining it. We have good inquiries for HPPC, AHN and also TSC for exports, we are looking at various markets so we believe exports will continue to keep pace with the domestic market in terms of growth.

Gaurav Hinduja: Do you think this would be sustainable from a long-term five year horizon?

Sunil Chari: Yes, we expect in future also, 10% to 11% of revenues should be exports, but we are focusing on the domestic market because the domestic market size is huge, and we have lot of miles to cover still.

Gaurav Hinduja: When we are looking at incremental capex for further capacity addition? Is there any planned roadmap for that, the fact that Dahej capex has already planned?

Sunil Chari: We have nothing big planned for the next financial year; it will all depend on how the growth happens in the next few quarters.

Moderator: Thank you. The next question is from the line of Amol Kotak from Max Life Insurance. Please go ahead.

Amol Kotak: On this JV, you plan to buy the balance percentage of stake, could you spell out how much could be the outflow?

Sunil Chari: The Buzil Rossari JV?

Amol Kotak: Yes.

Sunil Chari: It will not be a very substantial amount.

Amol Kotak: You mentioned that it did very well in Q1, so could you spell out some numbers on that?

Sunil Chari: Buzil Rossari is part of the competitive information. We will not be able to divulge exact figures of each business segment, but it has done much better than last year and the institutional cleaning chemicals has a big future in India and the last few years we have seeded in that business and we hope to reap the profits in the coming quarters.

Amol Kotak: One question is on the capacity utilization so in FY2020, what was the capacity utilization for the Company as a whole?

Sunil Chari: 83% was the capacity utilization in FY2020.

Amol Kotak: And for Q1?

Sunil Chari: 51% capacity utilization in Q1.

Amol Kotak: Given that sequentially things are picking up, your utilization level should be almost similar compared to last year?

Sunil Chari: Because we have added very big capacity in Silvassa also and Dahej also, so we expect there will be growth over the last year, but the capacity utilization will depend on how much growth we actually do.

Amol Kotak: I was talking net of addition you should surpass the capacity utilization of last year?

Sunil Chari: Last year, we had 100,000 tonnes as our capacity and this year we have added 20,000 tonnes at Silvassa and we added about

30,000 tonnes at Dahej, so there is 50% added capacity already in place as compared to last year. So, it will not be at 83% but it will be substantially more in terms of tonnages, which will be more than last year.

Amol Kotak: On the margin front, while you guided that sanitizer business should continue to do well and at the same time you are guiding for like 18%, would you spell out the disconnect because you have done reasonably well in the first quarter so is it being conservative or what is driving these margins now?

Sunil Chari: Our first quarter was an exceptional quarter because there were not many suppliers in the market, so the market pricing was high. Now, we expect the margins to normalize and that is why we gave a broad confidence in maintaining 16% to 18% EBITDA margins.

Moderator: Thank you. The next question is from the line of Anupam Agarwal from Lucky Investment. Please go ahead.

Anupam Agarwal: Given the challenges we have seen from the textile businesses and animal health and nutrition sector in the first two months of the quarter, are we seeing any challenges in collections or receivables from those companies?

Manasi Nisal: We were able to collect, in fact, a very good amount during the first quarter also and during this period also, so the debtor levels are almost similar to what we had in the past.

Anupam Agarwal: For FY2021, we would be able to sustain the working capital we have enjoyed in the last year as well?

Manasi Nisal: Yes.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment. Please go ahead.

Aman Vij: My first question is on the HPPC business could you tell us a little bit about the client concentration there like top 10 customers contribute how much to our business?

Sunil Chari: 55% is the contribution of the top 10 customers.

Aman Vij: That is for overall company or on the HPPC business?

Sunil Chari: Overall, we do not have for each business.

Aman Vij: Are there any big players in HPPC business or is it fairly diversified for us?

Sunil Chari: It is fairly diversified.

Aman Vij: Second question is on the AHN business. Could you tell us about the capacity additions we are planning over next two, three years and where do you see this business?

Sunil Chari: As we have already said that the businesses are fungible, so the capacity is fungible and this we are able to prove in the last quarter when the HPPC business was practically 80% of our total production. So we have not specifically chosen any particular business for capacity addition.

Aman Vij: But I am talking about in terms of last two years we have done Rs. 50-55 Crore of sales but next two, three years where do you see this business becoming?

Sunil Chari: We see a healthy growth because the poultry industry and the pet industry, where we are present, are both good industries and growing well. The market is doing well and even in the aqua industry which we plan to enter in this year is a good industry and is doing very well. So we expect to grow in animal health and nutrition also.

Aman Vij: Okay Sir, thank you.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Congrats for good numbers with challenging environment. Sir one question is just bookkeeping question so at the end of the quarter what has been the cash on the books or rather probably post our IPO and repayment of debt what would be the cash on the books?

Manasi Nisal: Now we have repaid all our debts and post IPO it is around Rs. 85 Crore cash on the books.

Rohit Nagraj: In terms of strategy from maybe three-to five-year perspective what is the kind of growth that we are envisaging and which are the focus areas because textiles it seems that we are the largest player so the growth would be relatively at a moderate pace; however, on the other two segments there can be good growth opportunities so what is your strategy from the management over a three-to five-year perspective?

Sunil Chari: As a company we are optimistic on our future growth prospects and this is why we have put nearly 150% of new capacity in this year and in the next few years we are hopeful of filling this entire capacity.

Rohit Nagraj: I am talking on a broader basis so which are the segments wherein we are looking at in terms of growth so is it primarily on HPPC or it will be animal health nutrition and maybe textiles will be moderate?

Edward Menezes: RohitJi actually we are focusing to grow all the three businesses and there is very good traction in animal health and HPPC, textile business because we are already the dominant player, we are the number one player in India and our aim is to be the dominant player in India and therefore we do not see 50% or 100% growth in this industry; however, in the other two industries that we are in, there is good traction and we think that they will drive growth in the future.

Rohit Nagraj: Just last one clarification on the raw materials so you said that acrylic acid probably will be available from BPCL from next quarter so what kind of benefit we will be expecting due to domestic sourcing instead of import?

Sunil Chari: The pricing is in the hands of BPCL so we are not able to gauge or estimate the amount of savings which can be there, but we hope it will be more competitive than the imports.

Rohit Nagraj: Thanks a lot and best of luck Sir.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: My first question was both our facilities today at peak how much sales we generate?

Sunil Chari: For us it is 6x asset turns. So all put together, it should be in the range of Rs. 1300 Crore or higher.

Anirudh Shetty: Do you have ability to expand further in Dahej beyond what we have already?

Edward Menezes: Yes AnirudhJi. Dahej is a 14 plus acre plot, which we have completely developed and since all utilities and other amenities have already in place with a very small investment, we will be able to almost double capacity whenever required.

Anirudh Shetty: Just wanted some sense of, indicatively, what could the market size be for all the products that are in, the products that you all are doing today that you all have in R&D would you have delivered sense of what could the market opportunity be?

Sunil Chari: From the HPPC business, the market size is in excess of Rs. 1 lakh Crore, the textile speciality chemicals the market size is in excess of Rs. 5000-6000 Crore in India itself, animal health nutrition the market size is in the excess of Rs. 10000 Crore, so we are focused on these businesses and we are trying to target niches, which are profitable.

Anirudh Shetty: We are targeting niches that our larger competitors are probably not doing today so at what point at what scale would be we have that headroom to go before we start competing with them directly?

Sunil Chari: We will keep seeding into new niches. So water treatment, ceramic, paper, the potential to seed within our four core chemistries and adjacent chemistries of these four chemistries is very, very large.

Anirudh Shetty: So you see the opportunity to keep finding niches that will allow you all to keep growing beyond what you all are doing currently?

Sunil Chari: Yes.

Anirudh Shetty: Final question is we also have a B2C segment in our animal segment. So just wanted to understand what is the market opportunity there and how much will we be looking to spend to grow that business?

Sunil Chari: We are primarily a B2B company, which we can say we say we are 0.5 away from B2C. So the board has not sanctioned a big amount to us for promotions in retail. We will continue to grow more in the B2B segment, but pet is again a very good opportunity. The market is more than Rs. 1,000 Crore and growing 25% year-on-year.

Anirudh Shetty: Okay so if the board currently has not sanctioned a big amount, but if we are investing in this business, do we see this becoming a big segment at some point in time we feel we are doing well there?

Sunil Chari: Yes, it will be. It will grow, because the base is small, it will grow at very good percentage. But total sales will be smaller than our other businesses.

Anirudh Shetty: Okay thank you that is it from my side.

Moderator: Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.

Runjhun Jain: Congratulations to the management for good set of numbers. Most of my questions have been answered, Sir just in the start of the concall you have said that these EBITDA margins for the quarter are not on the higher side and yet to normalize so your normalized guidance for the year is around 16% to 18% is it right?

Sunil Chari: Yes.

Runjhun Jain: Can you give any guidance about the animal health businesses the status of that like you said for the textile it is already 70% of last year level so any colour on the animal health business also?

Sunil Chari: Yes. The animal health and nutrition is even more back on track than textile business, so it has even crossed the 70% mark.

Runjhun Jain: Okay thank you Sir.

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

Edward Menezes: We are thankful to all of you for taking out your time I hope we have to been able to answer all your questions satisfactorily so if you need any further clarifications and would like to know more about the company please feel free to contact our team or CDR India. Thank you once again for taking the time to join up on this call.

Moderator: Thank you. On behalf of Axis Capital that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.
