Rossari Biotech Limited

Q4 & FY21 Earnings Conference Call

May 17, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Rossari Biotech Limited Earnings Conference Call. 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 over call to Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good evening, everyone and thank you for joining us on Rossari Biotech Limited Q4 & FY21 Earnings Conference Call. We have with us Mr. Edward Menezes – Promoter and Executive Chairman; Mr. Sunil Chari – Promoter and Managing Director; Mr. Manikantan Viswanathan – Group CFO and Ms. Manasi Nisal – CFO of the company.

We will begin the call with opening remarks from the management, following which we will have the forum open for a question-and-answer session. Before we start, I would like to point out that some statements made in today's call maybe forward-looking in nature and a disclaimer to this effect has been included in the "Earnings Presentation" shared with you earlier.

I would now like to invite Mr. Edward Menezes to make his opening remarks.

Edward Menezes: Thank you, Anoop. Good evening to everyone and thank you for joining us on our Q4 & FY21 Earnings Call to discuss the operating and financial performance for the quarter and year ended 31st March 2021.

I hope you and your families are all doing well and staying safe during these unprecedented times. We trust you had the opportunity to go through our Results Presentation, which provides details of our operational and financial performance for the fourth quarter and year-ended 31st March 2021.

We are pleased to share that we have reported a strong operational and financial performance during the quarter with revenues higher by 36.8% Y-o-Y and PAT up by 47.1% Y-o-Y. Growth was primarily driven by a robust and continued uptick in sales in the HPPC segment led by higher offtake in hygiene products and anti-viral portfolio sales.

While we have marked a healthy Y-o-Y growth, on a quarter-on-quarter basis volume offtake in the HPPC segment has moderated. The global supply chain issues highlighted in the previous earnings call unfortunately persisted this quarter as well. This led to a delay in procurement of raw materials in the HPPC segment impacting our performance. We believe these issues have been broadly resolved now.

In the TSC and AHN business lines, normalization in demand and improved consumption assisted overall performance. In the TSC division, results were further supported by revival in the export markets. In the AHN segment, we witnessed notable growth primarily on account of lower base as performance in Q3 FY21 and Q4 FY20 was affected owing to subdued demand. Even on a full year basis, despite the unprecedented environment, our performance has been resilient, and we have ended the year on a strong note with revenues and PAT higher by 18.2% and 22.7% Y-o-Y, respectively.

From an operational standpoint I am happy to share that all phases of our Dahej Greenfield facility are now fully commissioned. This facility is a state-of-the-art automated unit bringing in economies of scale and improved efficiencies. The plant has a total installed capacity of 132,500 MTPA enhancing our total capacity by 2.1x to 252,500 MTPA. We are seeing a strong ramp up in utilization levels from this facility in recent months leading to healthy volumes, particularly in the HPPC segment. Going forward, a strong upcoming pipeline of new product launches should enable us to substantially ramp up utilization levels at this unit over the next three to four years.

I would also like to share that our second R&D laboratory, Rossari Center of Excellence, which was fully operationalized last quarter is tracking a healthy progress in line with internal expectations. We are seeing improved traction here and are working on several projects to introduce niche offerings with unique product value.

On the whole, we have closed the year on a positive note. While we saw normalization in demand and consumption sentiments across all the three business segments, the environment has evolved now with the second wave of COVID-19 infections. As per the stipulated state guidelines, we are undertaking all necessary measures to ensure and maintain the highest standards of hygiene and social distancing norms at our plants and corporate office. Looking forward, we believe improving vaccination drives and limited lockdowns should restore normalcy sooner than later. Overall, we are confident that the stabilization of demand environment and improved consumption will lead to stronger and sustainable growth in the quarters ahead.

To conclude, all our three businesses are strong growth drivers for us and the outlook for each business remains positive in the medium to longer term.

With this, I would like to conclude my address and I now hand it over to Mr. Chari for his comments.

Sunil Chari: Thank you, Edward ji. Namaste and very good evening to everyone. We have delivered resilient performance for the FY2021 despite unprecedented operating challenges due to the COVID-19 pandemic. On a full year basis, our HPPC segment delivered excellent performance led by accelerated momentum in hygiene products and antiviral portfolio sales. TSC and AHN segments were affected in the first half of 2021, saw gradual normalization in demand in volumes for the latter half of fiscal. In Q4 FY21, all our three business lines have reported improved performance on a Y-o-Y basis. We are also witnessing healthy traction in engagements with several customers from the FMCG, textile and AHN space.

On the operational front globally, our industry witnessed pricing and availability issues in key raw materials during the second half of the fiscal. This did impact our gross margins to a certain extent; however, given our raw material sourcing framework and cost management, we were able to manage the situation and deliver healthy EBITDA margins of 16.1% and 17.4% in Q4 and FY21, respectively. Going forward, we anticipate our EBITDA margins to remain within this range of 16% to 18%.

Coming to some key developments in March 2021, our Board of Directors approved the allotment of 30.12 lakh equity shares on a preferential basis with the floor price of Rs.996 per share. This aggregated to total funds of Rs.300 crore. The funds from this issue have strengthened our balance sheet profile and augmented the financial flexibility to address medium to long-term growth prospects. In the coming months, we propose to utilize the net proceeds to evaluate and invest in inorganic growth opportunities, which are within our core chemistries. For us, good corporate governance practices are one of the pillars of long-term value creation. In sync with this approach, in March 2021, our Board approved the Company's dividend distribution policy. In line with this stated guidelines, I am happy to share that the Board has recommended a dividend of Rs.0.50 per share.

On the whole, we have reported healthy performance in FY21. As we look ahead in a stabilized macro environment, we foresee an array of growth opportunities across all our three segments. We believe we are well poised to capitalize on these prospects given our diversified range of product offerings, fungible and agile manufacturing establishments and the ability to constantly innovate and launch diversified products for growing customer base. We will continue to focus towards growing wallet share across the existing customer base while tapping new customer segments with an aim to consolidate our market position as a preferred supplier.

Before we close, I would like to cover an important development on the management team side. The Board has accepted the resignation tendered by Mr. Manikantan Viswanathan, Group CFO on account of personal reasons. Accordingly, this will come into effect from close of business hours on May 25, 2021. The Board would like to thank him for his contribution to the Company during his tenure and we wish him well in his future endeavors.

On that note, I would now request Manikantan ji to share a few words, following which Manasi ji will share perspectives of the financial performance for the quarter and year-ended 31st March 2021.

M Viswanathan: Thank you, Chari sir. Good evening to everyone. I just like to take the moment to share that I had a wonderful time, experience, working with entire team of Rossari, specially with Edward sir, Chari sir and the management team. I wish them continued success in all their future endeavors. I would also like to express my appreciation to all the Board members of Rossari, our shareholders and entire analyst and investor community for their support and hope to stay in touch with you all.

I would now like to handover to Manasi, who will share the financial performance of the company.

Manasi Nisal: Thank you, Mani sir. Good evening, everyone. Let me provide you a brief overview of the financial performance for the quarter and year-ended March 31st, 2021. During the quarter, we have delivered a healthy performance driven by improved demand and traction across the HPPC business and normalization in demand from the TSC and AHN businesses. On a consolidated basis, revenues came in at Rs.218.2 crore as against Rs.159.5 crore in Q4 FY20. Revenues from HPPC stood at Rs.108.5 crore contributing to 49.7% of total revenue, followed by TSC business at Rs.87.9 crore contributing 40.3% and AHN at Rs.21.8 crore, contributing 10% of total revenue. On the profitability front, EBITDA stood at Rs.35.2 crore as against Rs.24 crore in Q4 FY20. EBITDA margin stood at healthy levels at 16.1% in Q4 FY21. PAT during the quarter stood at Rs.22.4 crore as against Rs.15.1 crore in Q4 FY20.

On a full year basis, our total revenue from operations in FY21 stood at Rs.709.3 crore, up by 18.2% on Y-o-Y basis. Revenue from HPPC stood at Rs.399.3 crore contributing to 56.3% of revenue, followed by TSC business at Rs.251.6 crore, contributing to 35.5% and AHN at Rs.58.3 crore contributing 8.2% of total revenue. On the profitability front, EBITDA stood at Rs.123 crore as against Rs.104.8 crore in FY20. EBITDA margins were healthy at 17.4%. Depreciation was higher at Rs.22.8 crore owing to capitalization of the Greenfield facility at Dahej. We anticipate additional charge to be absorbed efficiently as the new facility starts contributing to performance going forward. Interest cost during the year stood at Rs.3 crore. PAT during the year stood at Rs.80 crore as against Rs.65.2 crore in FY20. The FY21 PAT figure includes a gain of Rs.2.3 crore on account of fair valuation of previously held equity interest in a joint venture in accordance with applicable accounting standard. Excluding this figure, normalized PAT stood at Rs.77.7 crore in FY21. From a balance sheet perspective, cash and cash equivalents during the fiscal stood at Rs.107.8 crore. Net cash flows from operating activities during the year stood healthy at Rs.47.8 crore.

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.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ritesh Gupta from Kotak Securities. Please go ahead.

Ritesh Gupta: For the allotment of equity share on preferential basis that you did, what is the inorganic opportunity you are looking at, if you could just highlight that would be helpful? Secondly, on the Dahej bit, now that you have doubled the capacity, any new product lines that you are looking at, you have said that you expect to utilize the entire volumes in three to four years' time, is there some capacity already tied up which can actually lead to this utilization getting preponed?

Sunil Chari: Namaste. In line with what we have mentioned earlier, we are looking at inorganic growth opportunities closely and which are within our core chemistries and the Board has mandated a very tight boundary. So, we are still evaluating and would like to do it as soon as possible and this entails the process and as soon as the process is complete, we would come to the exchanges and to our investors and shareholders in sharing the good news. Regarding Dahej plant, as we have told in the past, we will use the complete capacity in the next three to four years and we see a good traction of demand in the products which we have focused in the past few quarters.

Ritesh Gupta: Are you nearing any inorganic opportunity or this is just a capital raise which creates a war chest for future acquisitions or is it that you are already evaluating a few opportunities and are probably in final stages of that acquisition?

Sunil Chari: We are closely evaluating various inorganic growth opportunities. Because nothing is finalized, we cannot share any names, or at which stage it is. As soon as we are able to finalize this, we will come and share with all the shareholders and investors.

Ritesh Gupta: Just on the Dahej bit, when you look at three to four years, is it more of a preemptive CAPEX or is it more of a defined CAPEX where you already have demand tied-up?

Edward Menezes: Mr. Gupta, at Silvassa in the last year there was really a huge capacity constraint. So, what we have done is we debottlenecked some product lines from Silvassa and that has been taken to Dahej and therefore Silvassa is able to prevail now. Apart from that, our strategy at Rossari is to seed new businesses. So, if you see we have already seeded, in the HPPC segment, businesses like paints, paper, water treatment, ceramics, etc., So, these businesses which were seeded, now we may go aggressively to convert them into proper sales and that's where we see an uptick in our capacity utilization at Dahej.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Just wanted to get understanding on the decline of other expenses on a Q-o-Q basis and both Y-o-Y basis given that our revenues have grown really strong and that we have started the new facility, I thought the cost should have gone up, but the cost decline is quite steep, that is one. Number two, again on the numbers on the gross margin side, completely appreciated the fact that the RMs are currently all over the places and difficult to credit. How are the trends as we speak now, have they stabilized, have they started coming down and what is the availability situation and what raw material really impacted on the availability side which hurt the growth for us on the HPPC side where we have seen a decline on a Q-o-Q basis?

Sunil Chari: I will answer the gross margin question first. Every year along the Chinese New Year, raw material prices go up and this has been the situation for the past many years but we saw more than higher inflation in many raw material prices in the last quarter, but now in this quarter we have seen for some products, raw material prices going down, some are still holding strong, but we expect the normalization to happen sooner than later. Regarding expenses, our transport expenses have gone down substantially. Now there were many customers where we were supplying to them on delivered basis and now, we have shifted to actual basis so that is the major reduction which you have seen in other expenses. Further if you go into detail, you will see that expenses like factory expenses, contract labor cost, sanitizing expenses have gone up and expenses like traveling, seminar, conferences have gone down. So, some of them have gone up and some of them have gone down. But the major impact is because of the reduction in freight expenses which does not affect the profitability because earlier it was part of the sales, and then we were booking the freight expenses down. And now the expenses are not seen and the value of revenues is also lowered by that value.

Sanjesh Jain: Q-o-Q 20% decline in expenses is because of the freight cost?

Sunil Chari: Yes, freight cost has been the major cost followed by distribution cost, execution, and similar costs, so the freight expense itself is a major cost for decline.

Sanjesh Jain: I think the exhibition, and all were given in the last quarter. So, I am looking at more Q-o-Q basis rather than on a normalized basis because the only cost you can see for your transportation cost which you are saying there is a change in the contract terms where it is more of a factory delivery rather than a delivery at customer place, is that understanding right?

Sunil Chari: Yes, and also what has happened is in line with the reduction in the gross margins wherever the commissions would go down because margins are lower. So, selling and distribution cost also would go lower. We have controlled the traveling cost. You could see that business is happening without increasing seminars and this. So, that also has helped us in lowering the cost.

Sanjesh Jain: On the gross margin side, can we expect it from Q1 onwards that things should look only better, I can understand you would have inventory, maybe for one or two quarters, but we should see the trajectory should be going back to again 36% - 37% of normalized margin, that would be a fair assumption?

Sunil Chari: We have always been giving broad gross margin levels of 32-38% which is historically what we have seen differ on quarter-to-quarter basis. We look at gross margins from annualized basis. So, you should be looking at the gross margins on annual basis and we expect to be in this range. Definitely, we see softening of prices in many raw materials.

Sanjesh Jain: Just one strategic question on high level basis. What will drive us for an acquisition or what is one thing we want to look at when we are considering an acquisition, is it a product gap, technology gap or an entry into entirely new category within the four chemistries? Number two is more on the ROCE side. Given the kind of benchmark valuation in chemicals, which are hovering today anywhere between 30 to 50 PE multiples, what drives us for an inorganic growth opportunity because we haven't seen any large inorganic acquisition in chemicals space for last three-four years. Valuations being or compatibility or many other factors, so what is the philosophy for us, when you have such a large canvas to grow organically to also look at inorganic growth as an opportunity?

Edward Menezes: Our Board has given us very broad boundaries between which we can do acquisitions. Of course, the financial boundaries are well-known, all our ratios have to be in order, it has to be a debt-free company, then ROCE should be between 20% to 25%, etc., So, these are financial boundaries which are well-known and that is our philosophy within Rossari. Coming from the business point of view, what we are looking at is not to acquire any company, which is in the same product line as ours. So, we would like to look at newer product lines, newer customer base, we do not want the same customer base, so we would be looking at the newer customer base. Of course, again, within the four chemistries that we are working, so newer areas of operation also is something that we are looking at. When I say newer areas of operations, I mean, geographical area. So, a company which has a footprint in countries other than India are also interesting for us. And finally, what we are looking at is if we get newer technology. So, whatever technology comes in, it could be used for augmenting our own formulation technology, etc., One other factor that we have been looking at is if any of these acquisition targets can have products that we can use as backward integration. So, backward integration product also is something that give us an opportunity to improve margins.

Sanjesh Jain: Given the way valuations are there for chemicals, does it really make sense for us to go say backward integration? I can understand new product line, new customer base where you can drive the synergy benefit within the own businesses, but backward integration let us say buying at 25-30 PE multiple, does it really boost the benefit from overall merged entity ROCE basis, is it really a sound financial decision do you think?

Edward Menezes: Backward integration is not a priority. If that happens, it is an additional advantage to us, that is all. The focus would be the broad boundaries that we say technology, new product lines, new business, new customers, and improved geographical footprint.

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

Swarnabha Mukherjee: First of all, wanted to understand the impact of this raw materials price inflation that has happened. Which of the three segments have been impacted the most because of this?

Sunil Chari: All the three segments have been affected by the impact of RM price inflation.

Swarnabha Mukherjee: So, is it fair to understand that there has been uniform inflation impact across segments?

Sunil Chari: We see inflation across different businesses and sub-businesses and sub-divisions.

Swarnabha Mukherjee: In such a scenario and given that there is a fungibility in your plant as well as from the raw material side across your three segments, given that the price impact was uniform across the segments, what led to a relatively higher margin business of HPPC seeing a volume impact as compared to the textile segment, which actually grew on a sequential basis as well?

Sunil Chari: As stated earlier, we had supply chain issues with certain raw materials for the HPPC division. Because the plant is fungible, we were able to use capacities to make products for other division. The raw material inflation you have seen in various industries other than Speciality chemicals. But this is the norm in every last quarter of the year. So, we believe that this would soften, and it will normalize in the coming months. And we are looking at a facility which is fungible, and this is the biggest advantage we have at this moment.

Swarnabha Mukherjee: I just wanted to understand a little bit closely on your ability to pass on this raw materials price. I think last quarter on a similar question the response was that it happens in different sets of customers like the ODM customers, contract manufacturers, you have a formula-based pricing for certain other products which is done through mutual understanding. So, first of all, the contractual products that are there where there is a formula, any ballpark idea you can share on what proportion of it would be your sales coming through this?

Sunil Chari: As a practice we are not able to give you granular details on sub-divisions in each division, but what you say is perfectly right. In ODM and formula-based pricing, everything is passed on a day-to-day basis, so if the raw material prices increase today, it will be passed on today itself. Regarding the RM prices increase in which we can pass, I will give you an example of a product called acetic acid. Acetic acid average price range in the last 10-years has been between Rs.25 to Rs.60, it went up to Rs.130. So, definitely we do not have 400% gross margins. So, wherever it is, we have been able to pass it on, sometimes there is a small lag, but definitely we pass it on, with certain customers we have long-term, so if it goes up and down, we manage. So, it is a balance which is honed over last many, many years keeping in mind customer relationships but also keeping in line that our EBITDA margins stand within the guidance.

Swarnabha Mukherjee: Just to ensure that I understand the dynamics fully, so on a sequential basis, your revenues for HPPC were down by around 9%. Now, is it fair to assume that maybe across all products basket, whether fully or maybe a little bit you have been able to increase the prices, does that mean your volume in this segment went down by more than 9% and increase in prices because of procuring raw materials?

Sunil Chari: Mainly, we have some loss in the products which were based on acetic acid. So, our volumes have been in line with the last financial year. So, when you see volumes Y-o-Y, it has definitely increased because there has been increase in sales but per kilo realization is something which is in line with the previous years.

Swarnabha Mukherjee: Is it possible to share even at a blended basis, what has been the volume growth this year even a rough number would do sir?

Sunil Chari: As a practice, we have not been giving volume details in any earning call.

Swarnabha Mukherjee: I also just wanted your comments on the performance of your two subsidiaries because I see that the number is growing really well this quarter, I think the income in the statements have come to be around Rs.17 crore from two subsidiaries. So, if you can throw some light on how both Buzil and Personal Care are performing?

Sunil Chari: Buzil business has done well; we have sales of about Rs.53 crore in the last financial year, there is a substantial increase primarily because home, health and hygiene portfolio did very well, and we see good traction in our industry also for this financial year. The Rossari Personal Care business also overachieved its budget. So, we are very happy with the performance of both the subsidiaries.

Swarnabha Mukherjee: Just one last book-keeping question to Manasi ji. Madam, now everything has been fully commissioned. What would be the depreciation run rate going forward?

Manasi Nisal: Depreciation for this year was Rs.22-odd crore, we have capitalized Rs.107 crore in the current year for Dahej. So, we expect the same rate of depreciation to be continued.

Swarnabha Mukherjee: So, the depreciation quarterly run rate that we have seen of Rs.7.4 crore so, that will be the run rate that is going to continue?

Manasi Nisal: Next year it will be full year depreciation on the entire plant.

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

Nitin Gosar: On inorganic opportunity, could you just allude further to it at which stage of evaluation we are, or have you done any kind of due diligence for certain candidates which have been already as a part of our radar list?

Edward Menezes: We were all very sure that these questions would come for inorganic opportunities. Unfortunately, we will not be able to share a lot more details, but I could give you an idea that it is not one or two companies that we are evaluating, there are more than one or two companies that we are evaluating. And definitely, as soon as something is finalized, we will get back to you.

Nitin Gosar: Have you called out any kind of outer limit if at all for this inorganic opportunity to be concluded like one year, two years, any roadmap?

Edward Menezes: For sure, it is not going to be one and two years, it will be much earlier than that. However, from case-to-case basis, we have no bounds on what could be the opportunity that we look at.

Nitin Gosar: Sir, second question is pertaining to the EBITDA margin guidance. You called out 17-18% kind of EBITDA margins going forward from mid-term. But if I were to connect this with the commentary that you alluded earlier with regards to the R&D pipeline which is looking rich when it comes to niche products, how should we corroborate this commentary versus EBITDA margin guidance, are we underplaying or is it that this 17%, 18% still the better way of looking at the EBITDA margin guidance despite the niche product pipeline that we may be looking at?

Sunil Chari: The EBITDA guidance we have given is 16-18% for our existing businesses which we are very-very happy and sure about it. Regarding the niche products which the R&D is developing, we will continue to launch as in the previous years but the R&D expenses going to increase, for example, our rent has increased over the past year for R&D labs and also we now have about 40 scientists working there and previously it was nearly half. So, the expenses will increase in R&D also and we also have some development expenses going for first trial for our products, it is the need in our businesses and these are part of the business expenses. So, we are happy to guide 16-18% in spite of a lot of new products coming up.

Nitin Gosar: In a normal scenario, if there is a CFO resignation, we would have not gone ahead and asked this question but keeping in mind the tenor or the lifespan that the person would have spent with your organization, it is lesser than one year, so we are forced to ask this question. The next CFO that we may be evaluating, is it going to be internal person or is it going to be an external hiring?

Sunil Chari: Manasi ji is the CFO of Rossari Biotech Limited. She continues here, she is doing very well. And Manikantan ji, we had requested to join based on the acquisition opportunities which are coming up and Manikantan ji has some own personal reasons, where he wanted to do some business and he has some opportunities so it's a yes from both sides.

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

Rohit Nagraj: Sir, first question is on our R&D initiative. What are the projects we are working on probably what is the gestation period you are looking at and when those projects will be fructified and pilot trials and when that will be commercialized because now we also have the capacity at hand? So, just a matter of time these projects become successful in pilot phases, then we can commercialize.

Edward Menezes: As I mentioned previously in the call that Rossari has a strategy of seeding different industries. So, in this strategy, we have seeded paints, paper, water treatment, ceramic tiles as well as we have seeded chemicals for cement business. These are the four to five industries in which we have targeted new products and products where to make them more efficient or more effective. This is one part of the R&D objective. The other two areas that we are looking at, one is the silicone areas, because silicones are gaining both in HPPC as well as in the textile area. So, we have focused on doing some kind of a backward integration in silicone area as well as there is one new product range that we are looking at in the textile business, which is the sizing area, which is the polyester resins. So, these are some of the specifics that I can give you, but the five industries that I mentioned, a lot of work is going on in R&D.

Rohit Nagraj: This is we are talking from the near R&D center, which is set up at IIT, Mumbai?

Edward Menezes: Yes, everything is now focused at IIT, Mumbai. Our Silvassa facility also does some amount of formulations for home and personal care. Since HPPC is more of a formulation, there more application-oriented things are being done; however, a lot of R&D is being done in the other five seeded industries that we have talked about.

Rohit Nagraj: Second question is in terms of exports market. How is it now shaping up? Probably if things are more or less stabilizing across the board, so what is our strategy on this front maybe for the next two to three years?

Sunil Chari: The exports market in the first two quarters of FY2021 was very slow and now in the last two quarters they have picked up and we see normalizing of the export demand and this year also the exports should do very well. In spite of lag in the first two quarters in exports, we were able to reach nearly the previous year's levels with a very small drop. This year, we definitely see exports to do better.

Rohit Nagraj: Sir, on the raw materials front, I understand that BPCL Kochi facility has started working on acrylic acid. So, now how is our dependency from the domestic source and export? And will it give any material benefit in terms of our gross margins over the next few quarters?

Sunil Chari: I am very-very glad and delighted to share that the first invoice from the BPCL Kochi refinery for acrylic acid was made in the name of Rossari Biotech Limited. We had signed an MoU with them for acrylic acid and they honored their promise that the first invoice will be made in the name of Rossari Biotech. Their plant is still in teething trials now and still not stabilized. But going forward, we definitely foresee that that will be more competitive and our dependence on imports would reduce further. So, this is a good opportunity for us.

Rohit Nagraj: Again, on the inorganic initiative, from day one, this particular acquisition will be EPS-accretive. Is that understanding correct?

Sunil Chari: Yes.

Moderator: Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Under this new initiative of Ross-Era 2.0, and the new businesses that you have already touched upon that you will be seeding with the existing assets, are you looking at any soft diversification or are you looking at adding a core segment to the business?

Sunil Chari: We are looking at adding backward integration into some raw materials like silicone, adding more products in the textile, home and personal care, performance chemicals and even animals and nutrition. So, there are a lot of areas which we are working on together in the Performance Chemicals area.

Rohit Ohri: Sir, when you speak of niche products that are already in the pipeline of R&D, are you trying to rollout some products which will be under the name of Rossari as a proprietary molecule as such?

Sunil Chari: Definitely, we focus on products with the Rossari brand name and with the Rossari proprietary technology to launch in the market.

Rohit Ohri: The proprietary molecules which the R&D team is working on, how many such molecules will be there over the next three or four years if you can share that?

Sunil Chari: As we have seen in the past calls, we focus on the intelligent chemistry platform and these are mostly value-added formulations, either making the products sustainable for the customer, processing for the customer, reduce the sustainable load, reduce the costing, or makes process efficient, for example, there is a process which we are doing for 18-hours, if we can do in 16-hours, then the mix will be better and better. So, even though we make ingredients, we want to make it intelligent ingredients, where we value add to the customers what he is buying from the competition.

Moderator: Thank you. The next question is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.

Nav Bhardwaj: Sir, a quick question on views on inorganic opportunity. Most of the points have been touched upon. Is it fair to assume that the acquisition that we will be doing we are looking at some kind of similar gross asset turnovers as we have been enjoying in our current capacity or should we expect this on a lower side?

Sunil Chari: Broadly, it should be in the similar ranges, our focus is on high asset turnovers always.

Nav Bhardwaj: The working capital receivables, they have markedly gone up and even inventory days are up 32% and payables if we adjust for the other financial liabilities, is up more than 30% to 35%. Could you shed some light as well?

Sunil Chari: On the working capital side, if you see our March sales, it was nearing Rs.80 crore basic and including GST it was Rs.92 to 93 crore. So, we had about Rs.137 crore of debtors, which is translating to 45-days. But because we did it on an annualized basis, it was many high days but broadly it is in line and similarly purchases are higher in the month of March, so the creditors would be high. So, we are comfortable if you see our past 23-years we have practically zero bad debt record. So, we will always be focused. Because of the problems in supply chain, we kept little higher inventory. Now we have Dahej plant, so we have two plants where we needed to keep inventory. But we are focused on a prudent working capital management and that is the hallmark of Rossari's way of doing business.

Nav Bhardwaj: So, is it fair to assume that this should this normalize in the coming year?

Sunil Chari: We are comfortable with anything up to 60-days of debtors with the previous months sales or previous quarter average sales and this is something which will always be there.

Nav Bhardwaj: On the payables front if you could share some light?

Sunil Chari: Payables should be always in line with the receivables.

Moderator: Thank you. The next question is from the line of Siddharth Mohta from Principal India. Please go ahead.

Siddharth Mohta: Sir, in terms of raw materials, you have explained regarding the inflation and the pricing issue. Does the supply continue to be a constraint because in Q3 we had some constraint as far as import of raw materials was concerned?

Sunil Chari: The supply constraints are reducing compared to the previous quarter.

Siddharth Mohta: Second, what are the steps being taken to increase the EBITDA margin range, is the new segment like paints, ceramic, water treatment will be one of the drivers? And in coming three years, what percentage of revenue will be coming from this new segment?

Sunil Chari: EBITDA margin guidance is in range of 16% to 18%. We are focusing on the theory of seeding new businesses, working on good margin products, the focus on HPPC continues. So, we will have more than 50% of HPPC business but the Animal Health and Nutrition also is an area which we think could grow very well in this year and the Textile is the cash-cow for the company, does not require too much investments, working capital in control, margin are in control. So, all in all, all the three drivers are doing well, and we expect the 16-18% EBITDA margins definitely to be achievable.

Siddharth Mohta: Sir, what percentage of revenue will be coming from this new segment of paints, ceramics and others in FY23?

Sunil Chari: More than half would be HPPC and the rest would be divided between both of them.

Siddharth Mohta: So, one can say 25% in that sense?

Sunil Chari: No, AHN is less than 10% in the last year, this year it may go up a little.

Siddharth Mohta: So, the new segments which you have spoken about, which is paints, ceramic and all?

Sunil Chari: That comes under the HPPC segment and that is one focus area for us always.

Siddharth Mohta: What percentage will that be in FY23 in terms of overall revenue contribution?

Sunil Chari: As I said, HPPC segment will be in the range of about 50%, the Performance Chemicals is part of the HPPC segment. We do not have breakup which we give for confidentiality reasons for sub-divisions within the division.

Siddharth Mohta: What can be the capacity utilization of this new Dahej facility in this FY22?

Sunil Chari: We have more than doubled the capacity which we did in the last year. So, the capacity utilization would be definitely higher than in this year.

Siddharth Mohta: What would be that number if it is possible?

Sunil Chari: It will be in the range of 40% and higher. We will have adequate capacity for a spike in orders ready for which we have made the plant already.

Siddharth Mohta: So, what you are saying is that the 40% on the overall volume of 252,000 minimum?

Sunil Chari : So, what we are seeing is Dahej is more efficient because there is more automation, and the cost looks very controllable in Dahej compared to Silvassa because manpower requirement is less in Dahej. So, we have shifted a lot of products from Silvassa to Dahej because of our capacity constraint in Silvassa. So, some part of Silvassa portion has been shifted already in there and the new business which we get in the HPPC would be there but the contract manufacturing business, the animal and nutrition business and some part of the other HPPC and textile would continue in Silvassa.

Siddharth Mohta: Just again clarifying myself, on the two capacities or aggregate capacity of 2,52,000 you are saying around 40% would be the capacity utilization?

Sunil Chari: Dahej capacity is 1,32,500 tons. And, yes on an overall basis, our capacity utilization is over 40% and we would like to exceed this with growth coming from Dahej facility. But it depends on the products which come in because it is fungible capacity but we would prefer to use Dahej facility more as an option for any products.

Siddharth Mohta: In case of Silvassa, whatever capacity that we have, so that will be like operating at around 70%?

Sunil Chari: No, it will go lower because a lot of products have been shifted to the Dahej facility.

Siddharth Mohta: Sir, can you also speak something on this Animal Health and Nutrition which has done very well in Q4, how is the momentum looking like?

Sunil Chari: Animal Health and Nutrition, there is very good traction. In the last quarter, as we had informed earlier, it has performed very well and we are looking at good traction in this year also.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Edward Menezes: Thanks all of you. I hope we have been able to answer all your questions satisfactorily. If you need any further clarifications or 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 us on this call and have a good day. Bye.

Moderator: Thank you. On behalf of Rossari Biotech Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
