Rossari Biotech Limited

Conference Call Transcript
June 2, 2021

Moderator: Ladies and gentlemen, good day and welcome to Rossari Biotech Limited conference call. As a reminder, all participants' 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. 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 the Conference Call to discuss Rossari Biotech's acquisition of Unitop Chemicals Private Limited.

We have with us Mr. Edward Menezes - Promoter & Executive Chairman; Mr. Sunil Chari - Promoter & Managing Director and Ms. Manasi Nisal - Chief Financial Officer 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 may be forward-looking in nature and a disclaimer to this effect has been included in the invites shared with you earlier. I would now like to invite Mr. Edward Menezes to make his opening remarks.

Edward Menezes: Good evening, everyone. And thank you for joining us on the conference call at such a short notice. We at Rossari are very excited to share that today our Board of Directors approved the acquisition of Unitop Chemicals Private Limited. This is a major milestone and brings further dynamics to Rossari's Group Story. Incorporated in the year 1980, Unitop Chemicals is a leading supplier of Surfactants, Emulsifiers and Speciality chemicals since the last 40 years having a diversified customer base, including large domestic and international companies. We have a strong product portfolio with superior presence in the Agrochemicals, and Oil & Gas segments.

This acquisition will help us expand our operations into these untapped and promising categories within the Speciality Chemicals space. Importantly, Unitop Chemicals' key expertise is centered on surfactants which, as most of you are aware is one of Rossari's four core chemistries. So the acquisition of Unitop Chemicals is a natural fit within our operations and brings with it immense synergies and complementary growth dimensions. In addition, Unitop Chemicals has three manufacturing sites in India, with a total capacity of 86,000 MTPA and its key facility in Dahej is at close proximity to Rossari's existing facility.

Overall, this is a very strategic and value-accretive opportunity for Rossari. The strategies of both our companies is a good fit with respect to custom made formulations, customer centric focus, fungible assets,, etc. I would also like to take this opportunity to thank the entrepreneurs behind Unitop Chemicals who have built a well-established and high-quality business model, which combined with Rossari we believe will create incremental value for all our stakeholders.

On the whole, we are excited to drive faster together with larger revenues, greater technological capabilities, stronger spread of market presence, and a well aligned operating segment. I would now like to hand over to Mr. Sunil Chari to share his comments.

Sunil Chari: Thank you, Edward Ji. Namaste and good evening to everyone. Hope you are all doing well. As mentioned by Edward Ji, this acquisition is strategic and value accretive in nature. Unitop Chemicals has a strong track record of serving a diversified customer base across India and overseas. Their solutions are R&D-driven, customizable, and application-driven in new and exciting categories of Agrochemicals and Oil & Gas segments. Both Rossari and Unitop share the same customer-centric business approach and work culture.

So the acquisition is complementary and mutually synergistic thus fitting in within the ethos Rossari's business model. We are very excited about this inorganic growth opportunity that will accelerate the growth momentum at Rossari.

As per the agreement, our Company will be acquiring 100% of the equity capital of Unitop Chemicals, 65% of the equity share capital will be acquired upon closure of the transaction and the balance 35% over the next two years.

The total consideration for the acquisition of 100% equity stake is Rs. 421 crore. Rossari plans to fund the investment through cash on balance sheet and does not intend to raise any debt for this acquisition. As most of you are aware, in April 2021, we concluded a preferential issue of equity aggregating to Rs. 300 crore in order to augment the strength of our balance sheet.

Now, to brief you on the financials in the fiscal year 2020, Unitop Chemical's revenues stood at Rs. 280 crore with adjusted EBITDA at Rs. 43 crore. FY2021 unaudited estimated revenues are at over Rs. 300 crore. In FY2020, Agrochemicals contributed to 60% and Oil & Gas contribution stood at 10%. The company operates a healthy balance sheet profile with zero net debt. Unitop Chemicals also enjoys a healthy international presence, with its solutions sold across 25 plus countries. Exports accounted for 30% of revenues in FY2020. To sum up, this acquisition is highly synergistic. The acquisition and investment of capital to enable this initiative meet the parameters of operational and financial discipline outlined by our Board.

It brings in multitude of synergies and complementary dimensions, such as expanded product portfolio in adjoining areas of speciality chemical segments, pooling together of related technologies, larger international exposure, better domestic market reach, and increased end-user industry applications. The company is professionally managed and we look forward to working together with Unitop Chemical's well experience and competent talent pool in a progressive future. On the whole, the combination of Unitop Chemicals with Rossari will augment the quality and acceleration of our growth going forward.

On that note, I come to the end of the opening remarks and would request the moderator to open the forum for any operational and strategic lead 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 Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: I wanted to understand on the product profile. The press release talks that they have superior presence in Agrochemicals and Oil & Gas segments. I missed the number that you quoted for Agrochemical contribution. Over here I wanted to understand what kind of products we are talking for both these divisions?

Edward Menezes: If you want to look at the product portfolio, their basic product chemistry is about surfactants and their product portfolio can go across a multitude of industries. However, the focus of Unitop Chemicals is basically on agri-business as well as Oil & Gas.

Other than that, they also have some businesses in textiles, paints & pigments, leather and pulp & paper etc. but that is minuscule . At present they do not have the focus on that. As I mentioned in the narrative that 60% of their business comes from Agri, 10% from Oil & Gas and the rest would be all these other industries.

Nitin Gosar: And these products are more like, how should we see it from the outside more like intermediates?

Edward Menezes: So the product range of Unitop Chemicals is again, based on intelligent chemistry, where they use a formulation of various surfactants to emulsify active matter in Agro-chemicals. And in the oil field chemicals for emulsification and detergency kind of effect in the extraction of oil from the mines or from the drilling areas.

Nitin Gosar: And the second question is pertaining to the total capacity, which is around 86,000 metric tons. If you could share some further details like what is the utilization level and what is the kind of additional land parcels which is available for us to take any kind of Brownfield expansion?

Edward Menezes: Out of the 86,000 MTPA about 65% to 70% capacity is utilized at the present moment. And the company sits on a total land parcel of about 10 acres. Out of which, around 3 acres plus is a new acquisition, which has been recently amalgamated into the old plot.

Nitin Gosar: Okay, so 10 acres is the plot and 3 acres have got added up recently?

Edward Menezes: No, the total is about 10 acres, out of which 3 acres have been added recently.

Nitin Gosar: Okay, and are we utilizing ballpark 6 to 7 acres of land over here is that the way?

Edward Menezes: At the moment 6 to 7 acres of land has been completely utilized. And they are in the process of expansion into warehouse etc.

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

Rohit Ohri: This is very good value addition. My questions are more related to the kind of expansion which they have actually filed for, which is for the synthetic organic chemicals. So, can you please elaborate a bit on that?

Sunil Chari : It is a part of the performance chemicals portfolio. We would be looking at it in this way and we are very excited about it as it would help accelerate the growth momentum.

Rohit Ohri: The environment clearance expansion plan which they have filed for the Dahej property. So, if you can elaborate a bit on that aspect of the expansions that they are doing?

Sunil Chari: Yes, as Edward Ji mentioned to you that they have acquired 3 acres land recently and they are adding up some capacity addition there for de-bottlenecking the plant so that we are ready for higher capacity utilizations.

Rohit Ohri: So, with this acquisition, you already mentioned that you will get a capacity of around 86,000 MTPA. The company also has certain wings, which are there in the international frontiers, that is a joint venture plant in Malaysia. So are they manufacturing anything or is it just a sales and marketing unit over there?

Sunil Chari: For the Malaysian operations, the concentrates are made at the India manufacturing site and formulations are done at the Malaysian site. So, there is a MOU between Hextar and Unitop, which takes care of the Malaysian local market for Agrochemical formulations.

Rohit Ohri: So, is it more of the R&D Center over there?

Sunil Chari: No, it is a production site, which is Hextar. It is a very big Malaysian Chemical Company.

Rohit Ohri: Okay, so knowing that they are quite big in size and they have a lot of divisions, five or six of those and they have around 600 plus registrations. So, if we look at the speciality chemical aspect, how many such registrations will we have access to?

Edward Menezes: Registrations are required in the Agri-business and Oil & Gas business, and that is why their products are registered there. But in the businesses that Rossari Biotech is in, at present do not require registrations in our HPPC segment or in our Animal Health and Nutrition segment or in Textile Speciality Chemicals Segment. We just need validation of our products in these industries. So it is a requirement of the agro business and oil and gas business.

Rohit Ohri: Okay, and these guys are backward integrated?

Sunil Chari: No, we are not looking at the backward integration aspect in a big way. So it is not very big. Unitop of course is a supplier, but not a very big supplier. So, we would look at synergizing basically within our customers and cross selling their products to our customers and our product to their customers.

Moderator: Thank you. The next question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Two questions from my side. First is what would a typical customer be in the Agrochemical business, which forms around 60%? Would it be Agro-Chem manufacturer or would it be Agro-Chem intermediary manufacturer?

Sunil Chari: They would be both kind of customers. So, they have a marquee list of customers. So, some would be ingredient manufacturers and some would be formulation manufacturers.

Nikhil Rungta: Okay, so basically means like Rallis, Dhanuka, we are supplying to these types of customers as well?

Sunil Chari: Yes, similar kind of Agrochemical customers.

Nikhil Rungta: What is a typical EBITDA margin for this company? You have already indicated for FY20 it is at Rs. 43 crore. So what is the average range and what changes would you like to make in this EBITDA margin over next few years?

Sunil Chari: At this moment we have just started looking at it, the margins are in the range of 15%. So, we will be happy to continue 15% plus, minus to kind of range.

Nikhil Rungta: So, it merging with Rossari would maintain our Rossari margins in the range of 16% to 18%, which you have last time indicated in the call?

Sunil Chari: The Rossari range is different, and that is at 16% to 18%. This is a different range, which is around 15%.

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

Sanjesh Jain: On the management side, you said it is professionally managed. So that professional managers will continue? How will be the structure in terms of managing Unitop?

Edward Menezes: Yes, you are right. The company is professionally managed, and entire professional team will remain with us in the near foreseeable future. So we do not intend to make any change at the present moment.

Sanjesh Jain: So the operations will not be merged so they will run as a different entity and we will run a different entity, is that the right way to think about it?

Edward Menezes: Yes, you are right.

Sanjesh Jain: Barring some on the top head office side, barring that the entire operations will be completely different, right?

Edward Menezes: Absolutely right.

Sanjesh Jain: The surfactant manufactured by Unitop, so is it Oleo base or petrochemical base? I mean we use LA or LABSA?

Edward Menezes: It is a combination. Not LABSA. LABSA is used here, but in a different product line completely. What they manufacture is basically from Oleo as well as petrochemical, where we have synthetic alcohols. So, it will be from fatty acids and alcohols, both synthetic as well as natural.

Sanjesh Jain: And what will be the combination, natural versus synthetic?

Edward Menezes: I would not be able to tell you at the present moment. I do not have those numbers in front of me.

Sanjesh Jain: One follow up question on the CAPEX plan. You said that you are looking at expanding or that Unitop had a plan to expand their facility. Two questions here. The existing utilization is close to 65% to 70%. So, what prompts us for the expansion and are we intending to continue that expansion plan which earlier promoter intended and if yes, what is the kind of CAPEX we are looking at there?

Edward Menezes: So, actually, there is no expansion of capacity in that sense. Due to congestion in the current plot that they had, they got the opportunity to have an adjacent plot which they amalgamated into the existing plot area. So therefore, what they have already done now is that they have shifted warehousing and storage facilities to the newer plot and the expansion that was to be done is already almost complete. So, there is not going to be any additional CAPEX other than maintenance CAPEX there.

Sanjesh Jain: Just one last bit from my side. If I take 65% of the capacity utilization and Rs. 300 crore of revenue, the average realization works to like Rs. 54. It looks significantly lower than the per kg price what we look at Galaxy Surfactants, which works out to close to Rs. 115, I am taking only the performance part of it. Why there is more than 2x of a difference in the realization?

Edward Menezes: So here the type of material is multifold. You first manufacture the surfactants and then you manufacture the formulations and the dispersants and other adjuvants basically that is what we are doing. So therefore the final production, the sale price of the product will be in the range of Rs. 100 to Rs. 150 and not Rs. 54 or Rs. 40.

Sanjesh Jain: If I do a simple math of dividing the turnover by the capacity the average unit price works out to Rs. 54 whereas they sell only plain surfactant, which costs Rs. 117. So how should we see this Rs. 54 because we are talking of adding more value over it right so, we are talking about formulation, we are talking about emulsification and lot many intermediate process and then the final product.

That means it should be more than Rs. 117. Now what I am missing here?

Edward Menezes: So actually what you are missing is that it is a multi-step production basically therefore the production seems to be 86,000 tons, but for a pure product it is not 86,000 tons. They may be producing 40,000 tons, 50,000 tons and the rest or maybe even 30,000 tons and then the rest of that is converted into formulations.

Sanjesh Jain: Okay, 86,000 tons is a completely integrated plan where some of the plant is actually a feedstock to a next step so that 86,000 tons capacity is not the right way to look at. So what is the saleable capacity in it?

Edward Menezes: The saleable capacity would be just like I said, if 30,000 tons, 40,000 tons is the first base material production, then the saleable capacity will be between 30,000 tons and 40,000 tons.

Sanjesh Jain: Okay, so 86,000 tons is not the right way to look at from the unit pricing perspective, right?

Edward Menezes: Yes, right.

Moderator: Thank you. Mr. Swarnabha Mukherjee from Edelweiss. Please go ahead.

Swarnabha Mukherjee: Just wanted more color on the growth that we can see post the amalgamation from this business in terms of should we expect steady state kind of growth and if there is any captive consumption of Unitop products, where the Rs. 300 crore kind of top line that we saw in FY21 is actually going to partly fructify when we do a consolidation? So, that is the first question.

And the second question is basically the timeline for completion of the acquisition. So, I wanted to understand the thought process behind a 65% acquisition initially and not the full acquisition, because I think we have sufficient cash on liquid investments in our book and we have a timeline for that?

Sunil Chari: In terms of growth the Company grew in around 15% from last year . As we are not allowed to make forward looking statements, we are happy to work hard on making this acquisition, value accretive for all our shareholders. In terms of closing timelines, our plan is to close in less than two months. Thirdly, the amount of money, we could pay 100%, but if we could get 100% control by paying 65% and we are growing, we will be earning money from the acquisition and paying in the subsequent two years.

Swarnabha Mukherjee: So just to clarify on the growth aspect is like the FY21 versus FY20 performance are steady state or was there an impact of COVID because that was a little bit flattish? And the fact that related to the acquisition, what I guess is that you want to conserve some cash right now, and then later on go and finish it. So, are these understanding, correct?

Sunil Chari: In spite of COVID they have done well in last year. And for current year we are waiting for audited figures.

Swarnabha Mukherjee: I mean just the qualitative way. I do not want a number but just wanted to understand because we are in oil and gas. So, there would have been some impact of COVID, at least in the earlier part of FY21, right sir?

Sunil Chari: They are into Agrochemicals which is a good industry to be in. And that is why they had a good year in FY21.

Moderator: Thank you. The next question is from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker: I just had one question. Just wanted to get a sense on how does this acquisition help in the chemistry gap that you wanted to fill in? Has it accelerated what you wanted to do, and if yes, what was the gap and how does this acceleration happen with this acquisition?

Edward Menezes: So, as you know that Unitop Chemicals is into the same chemistry as we are dealing with, and that is the surfactant chemistry. So, having the same ingredients, now we are able to cook a new or different menu. So, the different menu is in the agrochemicals, oil fields, leather industry, pulp & paper and construction industry, all these surfactants would go in there and the application knowledge as well as the formulation knowledge, which in turn becomes a newer technology for us is what we will gain from.

Chetan Thacker: And in terms of synergies, so right to assume that the first phase you are essentially looking at cross selling?

Edward Menezes: No, we will build on the strength of both the companies basically. So we will focus on the Agri-business and drive the Oil & Gas business upward. That is what our focus will be mainly because both these businesses have long gestation time for approval, almost between one and three years for approval of a particular formulation. So we will focus on driving sales in these segments for them. That is how our formulation expertise or our formulation knowledge and their formulation knowledge will form synergies, and will help them to grow that business. And also look at the operating leverage and synergies so that we can improve margins.

Chetan Thacker: And in terms of growth, if I look at their historical numbers, 14% kind of CAGR on revenue in the last three years. So fair to assume the aim will be to accelerate this and take it more to 20%, 22% over a period of time? And that kind of abilities available with the basket and the clientele that we are looking at?

Edward Menezes: Unfortunately, I will not be able to give you a number on what would be the growth in the future. But yes, of course, that is the plan. That is the potential we have seen with their range of products and their expertise, so we find that if we put in our synergies with them our expertise and experience in sales and marketing, etc. We are sure that we will get growth in both these areas.

Chetan Thacker: And the balance payments is based on any milestone, or it is the way you wanted to spread the outflow of the acquisition money?

Edward Menezes: We were interested to spread the outflow, not any milestone.

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

Rohit Nagraj: As we look at Unitop, it is also indicated that we have some R&D collaboration with some of the MNCs. So will it have any complimentary impact on our R&D?

Edward Menezes: The customers with which they have ties for R&D development, they are completely different from our customers, and therefore, there would not be any synergy there.

Rohit Nagraj: They are predominantly into Ethoxylates and Propoxylates. So, how much of their revenue form part of the Ethoxylates and Propoxylates, are there any other chemistries that they also have?

Edward Menezes: No, they predominantly manufacture Ethoxylates and Propoxylates and certain other surfactants based on LABSA and things like that and a combination, but the expertise and the synergy that we see or the good fit that we see is they are into value added formulations, value accretive formulations in agro and oil and gas similar to what we are doing in TSC, AHN and HPPC.

Rohit Nagraj: Right so the second question is in terms of the promoters selling out the company, so any particular reason for them to sell out the company and completely going out of the business probably not having a JV or something of that sort?

Sunil Chari: They had succession issues and that was a reason why they wanted to hand over to some good company, who they thought could carry the legacy forward and make a good success out of it.

Moderator: Thank you. The next question is from the line of Ashish Aggarwal from Principle India. Please go ahead.

Ashish Aggarwal: So the rest of one-third payment is not linked to the performance of this acquired entity, going forward and there is a specific valuation irrespective of the performance of the acquired entity over the two years, so you have to pay the rest Rs. 120 crore, Rs. 130 crore. Am I right?

Sunil Chari: Yes, there is no linkage to future EBITDA. It is a fixed valuation which we have decided and fix installments to be paid in two tranches.

Ashish Aggarwal: What could be the gross block and what is the CAPEX plan for next two years?

Sunil Chari: The gross block would about Rs. 135 crore and net block is around Rs.69 crore. There is not a very big CAPEX planning.

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

Ankit Gor: Sir, if I really see ROCE number; ROCE is roughly 18% for Unitop while our ROCE is about 25%. So, any plan to make this acquisition ROCE accretive? Asset turn looks pretty lower than our basic business, which is at 5x, 6x while this is at like 3x to 4x. So any low hanging fruit we see in terms of clientele, in terms of revenue or also any low hanging fruit with regards to the operating benefits?

Sunil Chari: The ROCE will improve automatically with good growth. The ROCE is at 20% for Unitop and for the combined entity, in spite of raising Rs. 300 crore in preferential and we being a debt free company, the ROCE will be very attractive in FY22 and with growth it will definitely improve.

Ankit Gor: You mean to say that we will reach to our company level?

Sunil Chari: 100% it will be value accretive for Rossari. Over a period of time you could see good growth in the ROCE as such.

Moderator: Thank you. The next question is from the line of Mr. Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: Number one question is like in terms of the current top line in terms of the fixed asset turnover ratio at the overall company level, like what would be our timeframe within two, three years can we make this fixed asset turnover ratio reach the Rossari's turnover ratio?

Second thing is like in terms of the chemistry, both from the raw material handling perspective as well as from the customer synergy perspective, if you can explain us more like how the synergies are built, because I believe Ethoxylation is a very high-pressure chemistry and we have never dealt with EO earlier, right? So, if you can add these two perspectives?

Sunil Chari: We are using at the moment 60% to 65% of the capacity. So, as growth comes in definitely the yields and margins would be better in terms of ROCE. The asset turnover also would definitely increase in the future as we have higher capacity utilizations.

Edward Menezes: So Ethoxylation is not really a high-pressure reaction. It is just that we have to have the right safety norms in place. And we are pretty used to this kind of polymerization in the past, we do polymerization of styrene and acrylates which are runaway reactions like polymerization of acrylic acids. So, we are very well versed with the chemistries which require a high amount of safety.

So Unitop being a 40 year old company they have all the safety precautions, they have very strong EHS team, the safety team is in place. And I think that since we are going to maintain the same team that is there, the entire professional senior management team will be with us for the next two to three years for sure. So, we do not see any problem in handling Ethoxylation.

Amar Mourya: What would be the IRR you would have since you will pay Rs. 410 crore?

Sunil Chari: We see a very healthy IRR in line with Rossari IRR.

Amar Mourya: Okay, so meaning about 25%?

Sunil Chari: 20% reaching to higher figures, going up to 25%.

Moderator: Thank you. The next question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: . As you mentioned that the margins would be in the similar range so, what it would be required for us to improve the margin in future, whether it would be the changing product mix or industry mix or improvement in the utilization or any other factor? If you can highlight? That is it from my side.

Edward Menezes: I have mentioned in our narrative. I would like to say that we see benefits of synergy and operating leverage, because of which we think that the margins will improve in the future.

Rohit Sinha: I mean would there be any change in the industry exposure going forward or it would be in the similar range?

Sunil Chari: It expands, our performance chemical, which is part of the HPPC portfolio so the focus on the performance chemicals grows now and we have new customers to add into this areas where we were not present. So, we are very excited with this possibility.

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

Naushad Chaudhary: So a couple of clarification, I wanted. First wanted to understand how old the Unitop plant is and will there be any initial CAPEX required to bring the products of Unitop to the desired quality and yield of Rossari? Will there be any CAPEX required or are we good to go with the existing structure?

Sunil Chari: Dahej facility is about 8 to 10 years old now. And we will not require too much of CAPEX in the future.

Naushad Chaudhary: Any overlap between these two businesses; our business and Unitop any percentage of business which is overlapping between these two and any kind of backward and forward integration synergy, which we will derive from this acquisition if you can talk?

Sunil Chari: Practically there is no overlap there is some sales from Unitop to textile and animal health, but it is negligible. They have a solid Agro and Oil & Gas as a major businesses. . So, there is no overlap and that is why we are very excited on getting into new areas where we can do cross selling, both to our customers and to their customers.

Naushad Chaudhary: And on synergy parts sir any backward or forward integration benefit with this acquisition?

Sunil Chari: Not very big part of synergy.

Naushad Chaudhary: Lastly, if I can squeeze in, what is the key raw material for this business? Will there be any sourcing advantage post acquiring this business?

Edward Menezes: The key raw materials are common basically, if you look at the alcohols and the EO. EO is coming from a single source Reliance, but all kinds of hydrophobes that is alcohols, fatty acids, or vegetable oil, all these things are almost common to both the industries or all these industries that we are in.

Moderator: Thank you. The next question is from the line of Pranit Agarwal, Individual investor. Please go ahead.

Pranit Agarwal: I have a couple of questions. If you could throw some light on the payback period which you have calculated, assuming the transaction is completed by FY24?

Sunil Chari: The payback period is around five years and we would try to make it faster. Definitely, we will put all over efforts to it.

Pranit Agarwal: Yes, it would be nice if you could throw some light on the synergy gains which would be arising out of the transaction?

Sunil Chari: The synergy gains, we said would be, cross selling, we are getting new customers where we sell our existing product range and the Unitop Chemicals products selling to our customers.

Pranit Agarwal: I was hoping if you could give some quantitative figure on that?

Sunil Chari: That is unfortunately too early to comment on all this.

Pranit Agarwal: Okay, and also if you could throw some light on the impact on EPS of the transaction, ballpark figure?

Sunil Chari: This will be EPS accretive definitely for Rossari.

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

Swarnabha Mukherjee: I just wanted to understand on the Malaysian JV Unitop has. So, what kind of growth expectations do you have from this JV and any color on what kind of profits it will be making because I think in the financial statements it would be consolidated as a JV and directly the bottom line will be provided? That will a correct assumption?

Sunil Chari: The Malaysian association is very, small. The sales is less than 5%. So, it is not very big. But our endeavor would be to grow this because they are a good partner and the market is good. And there is a formulation setup, which we could use. So in that aspect we do not see very big gains immediately, but in the future we would work on it.

Swarnabha Mukherjee: And another thing was that this company has collaborations with quite a lot of big Agrochemical Companies like Dow, etc. From Rossari's current product size point of view, any advantage new things you will gain from these collaborations that Unitop has?

Sunil Chari: Acrylic chemistry is something which could be very, very useful. The defoamer range would be very, very useful. So, these are all chemistries which can go into the Agrochemical industry from Rossari product baskets.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: What kind of free cash like we are saying that Rs. 84 crore kind of operating cash flow we will be generating every year. So, practically what we are talking is doubling the margin?

Sunil Chari: No, margin cannot double. The growth will come in the future.

Amar Mourya: I did not get the payback period of five years? Right now the EBITDA is only Rs. 40 crore?

Sunil Chari: Our investment is only 65% so the future growth and coupled with phase wise payments that is why the payback looks like 5 years.

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

Sanjesh Jain: Just a question on the formulation and selling the Ethoxylates independently. So, what is the mix for us? How much of the sales in Unitop is as a formulation sale and how much of it is sale of just an intermediate product?

Sunil Chari: The more is formulations. We do not have an exact breakup at this moment.

Sanjesh Jain: So when we say formulation what exactly you mean by formulation?

Edward Menezes: So formulations means when there are active ingredients in agro these needs to be emulsified and made as stable dispersions. For that there is a particular technology involved where a combination of surfactants and additives and adjuvants are used. That formulation is something that is developed jointly with most of the Agrochemical companies. And this formulation and the approval and validation of these formulations itself take years together.

So it is not only our formulations, but also the formulations of the final product manufacturer. So for example, if it is a UPL or if it is a Bio Crop Science, it is a very, very tricky matter for them. And therefore it takes years to approve a particular formulation from our side or from the Unitop side as well as the final formulation which the companies sell into the marketplace.

It is a pretty complicated issue, where product stability and the delivery of the ingredients on to the crops is very, very important and takes quite some time to standardize.

Sanjesh Jain: Basically formulation means we are selling a blend of surfactant or an emulsifier which goes into making the final formulation which will be done by the customer and not by us?

Edward Menezes: Yes, correct, but it is jointly done. It is not that we just give our formulation to the manufacturer and then he does his own R&D. It is a joint effort.

Sanjesh Jain: So basically it is a blend of surfactant and emulsifier which goes in the formulation of the final product?

Edward Menezes: Absolutely we sell not only the blend, but the process of formulation also the process for emulsification also is something that we do along with the customer.

Sanjesh Jain: What does that mean exactly? Sorry, to ask you again?

Edward Menezes: If you want to make tea, first take water then boil the water then put tea powder, then add sugar, then add milk. It is that kind of a thing. It is like a process.

Sanjesh Jain: We give the process to them and the blend and they can make the formulation at their end?

Edward Menezes: No, we work jointly with them with the process, but the blend is ours, we do not give them our formulations, we give them our blend. So, what Unitop generally does is they will get an active ingredient and that active ingredient will be worked upon by us that will again go back to the customer, the customer will do it in his own premises, then he will do a pilot he will do a bigger batch and a bigger batch and then he will do stability studies. All this takes about two to three years basically to finalize. Once it is finalized, it is very difficult for another supplier to get in. It is similar to what we do in TSC and in home and personal care.

Sanjesh Jain: So they are forward integrated as well as backward integrated, they manufacturer Ethoxylates, they do the blend and sell to the formulators?

Edward Menezes: Similar to Rossari, we manufacture many ingredients but we do not sell the ingredients in the marketplace, we sell the formulations. Similarly Unitop is a great fit for us because they manufacture some of the ingredients and produce the value added formulation to sell into the marketplace. They could also sell their ingredients by themselves but they do not do it as that is not their strategy.

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

Aman Vij: I have two questions. First is on the product as well as customer concentration. So, if you can talk about top five products contribution as well as top five customer concentrations?

Sunil Chari: In terms of customer concentration, the top 10 constitute 20%. So, it is very well disbursed, very well diversified customer base. In terms of product segment, it is all surfactant. So, there will be 1,000 formulations and more.

Aman Vij: So, there are no particular surfactants which have higher contribution to the sales?

Sunil Chari: It is a wide range of surfactants and blends and lot of formulations.

Aman Vij: And my second and final question is on the working capital days, if you can talk about? It seems to be on the higher side?

Sunil Chari: It is average for the industry which happens and we do not see any alarming bells with the kind of reputation they have in the customer base. Rossari has a history of having a prudent working capital and we will put our efforts to reducing it.

Aman Vij: Current working capital days is five months to six months?

Sunil Chari: They are in the range of 90 days to 100 days.

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

Edward Menezes: Thank you everyone. I hope we have been able to answer all your questions satisfactorily. Should 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 out the time on this call and stay safe.

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

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy. During the call, the gross block was inadvertently mentioned, which has been corrected in the transcript.