Rossari Biotech Limited
Conference Call Transcript
July 19, 2021

Moderator: Ladies and gentlemen, good day and welcome to Rossari Biotech Limited's 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 '*' and 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 today to discuss Rossari Biotech's acquisition of Tristar Intermediates Private Limited. We have with us, Mr. Edward Menezes - Promoter and Executive Chairman; Mr. Sunil Chari - Promoter and Managing Director 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 the question-and-answer session. Before we start, I would like to point out that some statements made in the call today will be forward-looking in nature and a disclaimer to this effect has been included in the invite shared with you earlier.

I would now like to invite Mr. Sunil Chari to make his opening remarks.

Sunil Chari: Good evening and thank you for joining us on the conference call. We are very pleased to announce the acquisition of Tristar Intermediates. The acquisition is an important milestone for Rossari's growth story and brings together two high potential companies within the speciality chemical space. We believe the blend of capabilities will add scale and accelerate growth for us while significantly creating value over the longer term. Through this transaction, we will deepen our presence in the high potential categories of Personal Care and Home Care segment. More so, the addition of newer technologies and expanded footprint in export markets will create strategic cross selling opportunities for us going forward.

Let me now quickly provide a brief introduction on the company. Incorporated in the year 1998, Tristar Intermediate is one of the prominent companies in India in the field of preservatives, aroma chemicals and Home & Personal Care Additives. With the superior presence in Personal Care and Home Care segments, Tristar's expansive product range also has applications across diverse industries such as

Pharmaceuticals, Textile, Paint, Automotive, Agrochemicals and others. It is a preferred supplier to various reputed companies and MNCs across India, Europe, USA and the Far East countries. The company has manufacturing facilities at Sarigam which is at Vapi, Gujarat with the total capacity of 15,000 MTPA.

On the financials, in the fiscal year 2021, Tristar Intermediate's revenues stood at Rs. 110.5 crore with EBITDA at Rs.15.6 crore. EBITDA margins were at 14.1% and PAT at Rs.10.4 crore. In FY2021, the company's Personal Care segment contributed to ~60% of revenues and exports accounted for ~53% of revenues. Through this acquisition, I would also like to welcome on board, Tristar Intermediate's four experienced technocrat promoters with proven entrepreneurial expertise across technical and marketing functions. The promoters of Tristar will continue driving the business for at least the next 3 years. We are confident that this partnership along with the team of Unitop will take Rossari to new business highs and create notable value for all our stakeholders in the times ahead.

Both our recent acquisitions bring immense synergies and growth dimensions to the table. They are complementary to our business and work culture and the primary focus going forward will be towards seamlessly integrating these into Rossari's business model. The combination of Unitop Chemicals and Tristar Intermediate with Rossari will augment the quality and accelerated growth in the future. I would now like to hand over to Ms. Manasi Nisal to share her comments.

Manasi Nisal: Good evening everyone. Hope you all are doing very well. We are pleased to announce the acquisition of Tristar Intermediates which add scale and brings several business synergies to Rossari. It provides us with an enhanced portfolio of products, stronger presence in new and untapped international markets and access to newer technologies, capacity, and talent. The company has a strong track record of serving reputed customer base across India and overseas.

Both Rossari and Tristar share the same customer focused business approach and heritage, which will together strengthen and consolidate our market position as favoured solutions provided in speciality chemical space in India. As per the agreement, Rossari will be acquiring 100% of the equity share capital of Tristar Intermediates. 76% of the equity share capital will be acquired upon closure of the transaction and the balance 24% over the next 3 years. The total enterprise value of the transaction is Rs. 120 crore. We plan to fund the investment through cash on balance sheet and will not be raising any debt for this. The investment of capital to enable this initiative meets all the operational and financial discipline criteria outlined by our board. The acquisition mainly fortifies our presence in the high potential segment of Personal Care and Home Care which we believe will be a key growth vector for us in the coming years.

In another development within this segment, we have executed a share purchase agreement to buy out the remaining 40% stake in our subsidiary, Rossari Personal Care Products Private Limited to make it a wholly owned subsidiary. Through this subsidiary, we will build our presence in the upcoming and promising categories of personal care such as skin care, cosmetics and body care products. We have undertaken many business initiatives in the HPPC segment which we believe will enable us to sustain our high growth rates.

Our long-term focus remains on our increasing our wallet share across existing customer base while tapping new customer segment within an aim to consolidate our market position at the preferred supplier of intelligence and sustainable solution. Going forward, we may evaluate small and strategic tuck-in acquisition opportunities. However, currently, we are fully focused on integrating the recent acquisitions of Unitop Chemicals and Tristar Intermediates and have no plans to consider medium or large size acquisitions from a near to medium term basis.

On that note, I come to the end of my 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. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: Sir, I have 2-3 questions. First, wanted to understand more on acquisition in ethoxylation space, so if you can help us understand the thought process behind doing this acquisition?

Sunil Chari: Amarji, the first criteria was that we acquire companies which are good, clean, not overlapping with our present categories in terms of customers, products, or manufacturing capabilities. So, between Unitop and Tristar, the manufacturing capabilities are totally different. Unitop is focused on Agrochemicals and Oil & Gas markets and Tristar is focused on Personal Care additive and other surfactants**.** So, the major market is Personal Care and this product which Tristar makes, neither Unitop or Rossari makes. So, there is clear demarcation of what Tristar, Unitop and Rossari is doing.

Amar Mourya: And sir, now the combined like I believe in this we have the capacity of phenoxyethanol and then you have EO capacity, I believe phenoxyethanol capacity is around 3600 MTPA and EO capacity is around 2400 MTPA, so in terms of the revenue mix, how the revenue mix looks like, of Rs.110 crore?

Sunil Chari: The major is Personal Care additive, we do not have product wise breakup, more than 60% is Personal Care additive

Amar Mourya: So, when you say 60%, is it like 60% is more of a phenoxyethanol or it is more of EO?

Sunil Chari: No, mostly they are Personal Care preservatives, which are 60%.

Amar Mourya: So, is it linked to more of a phenoxyethanol chemistry or EO chemistry because the realization would be different, right?

Sunil Chari: No, it is nearly the same for, even it is a phenoxyethanol or it is the EO surfactants, with the size would be in the range of Rs. 150 today, so there is no much difference on it.

Amar Mourya: So, total capacity would be what today?

Sunil Chari: 15,000 tonnes per annum.

Amar Mourya: And the utilization would be?

Sunil Chari: In the range of over 70%.

Amar Mourya: So, then it will be 7300 metric tonnes, because Rs. 110 crore divided by Rs. 150 then it is something around 7,300 metric tonnes.

Sunil Chari: It has become little less two months ago.

Amar Mourya: Like Rs. 120-100?

Sunil Chari: I do not have exact figures, but it would be definitely less than what it was today.

Amar Mourya: And on that basis, you are saying 7,300 MTPA?

Sunil Chari: And the 15,000 tonnes have come up over a period of time in the last one year because 10,000 tonnes was in the last fiscal year, so the capacity has come up now.

Amar Mourya: And how the scale-up will happen, sir like breakeven payback period would be in how many years?

Sunil Chari: The payback period is less than 5 years. It will be value accretive for all our existing shareholders from day one. It will be EPS accretive and we have insured whatever we invest in, it brings lot of value to our existing shareholders.

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

Naushad Chaudhary: Two-three quick questions I have, first one, just wanted to understand what is the rationale behind old promoter exiting, what is the reason? Secondly, if you can share at the time of acquisition, what are the risks and concerns we would have evaluated before going into this deal? What are the points we might have come across to sit and spend more time on thinking whether we should go for it or not?

Sunil Chari: The existing promoters are four, their names are Mr. Uday Marballi, Mr. Ramakrishna Thite, Mr. Debashis Chakraborthy and Mr. Sanjay Marballi. They are all 60+. They are four friends who started the business. They are four partners and their second succession line is not interested to come into the business. Udhayji is 63 and he has agreed to be there for minimum 3 years, so 66 it will be and they thought that they could encash it out. Tristar has been supplying to Rossari for many years, so we knew them and they were also suppliers to Godrej and that is where we got a good reference from. We made enquiries and we found the product category like Personal Care additives having very good future, it fits into our strategy. It fits into our core chemistry which we understand and the financials were very good. So, we don't have any debt on our books even after the acquisition and the product line seems to have good advantage. They have very high-class distillation facilities and they produce some Personal Care additives, which are like high purity and because Personal Care is a focus growth area for us. The manufacturing facilities do not overlap with us. The customer segments do not overlap with us. There is a big chance to cross sell our products to them and to sell their products to our customers and similarly, Unitop and vice versa. So, we are very excited now. We have connections in the European and the American chemical industries and we made enquiries besides the business due diligence, we did enquiries and we found that the product could have very good market in US and Europe.

Naushad Chaudhary: I just wanted to understand sir, is there anything we disliked in the business or we see any scope for improvement in the overall business in terms of the way of mixing the product or anything?

Sunil Chari: The Board has set up, they had given us about 10 points, it ticked all the boxes.

Naushad Chaudhary: Secondly sir, in terms of the total number of employees, how many we have in this company plus Unitop plus Rossari, I was just wondering because now within 2 months, we have 2 more companies, obviously every company, though there would be some similarity, but in terms of work culture, there would be a different set, I was just wondering how are we going to combine the culture of Rossari in all these two and what are the challenges we might face in terms of getting everybody on the same line of Rossari? So, we have been very optimistic in terms of the way we used to function at Rossari and that was something was a major point we had in terms of our competitive edge, so I was just wondering whether these two companies would bring the similar kind of culture to us or whether there would be any differences? How are we going to tackle that?

Edward Menezes: Naushadji, at the present moment, since we will be acquiring only 76% of the shares and the rest of the acquisition will happen over the next 3 years, essentially the company will work as a standalone company, so there is no merger happening at the present moment. So, at the present moment, we don't have a challenge for Rossari culture, but what we have a challenge is to merge the two companies' possibilities, the cross-selling possibilities and the opportunities that are there with our connect, with the Rossari connect. So, that is what is going to be a challenge rather than the cross culture and the people integration, etc. Of course, the people integration and the culture we will take care of as the time goes by and we feel that in the next couple of years, we will plan that in the micromanagement way.

Naushad Chaudhary: Lastly, in terms of if you can name some of the client you have highlighted, Godrej and you also used to buy it apart from this, any other names if you can share with us plus how much we used to buy from this company as of FY21?

Sunil Chari: The quantity we are buying were very small and normally we avoid giving customer names now in the calls for competitive reasons, but they have marquee names, very good names of customers in Europe who are buying from them.

Naushad Chaudhary: And what is the key raw material for this company, sir?

Sunil Chari: Ethylene oxide and Phenol would be one of the key raw materials.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Two questions to start with, so given this company will, you mentioned there is no product overlap, no customer overlap, we will get a geographical extension as well, so two parts there, so one is, how is this acquisition as well as going back to the older, the Unitop acquisition as well, from a capability perspective, while from the product portfolio perspective, obviously there is an expansion, but from manpower team leadership perspective, do we have sufficient people in place to ramp up this across geographies, across different product segments or do you believe that we will have to scale up entry on that side and on the R&D side? What is your thought there if we need to ramp up from bit of investments on that side as well?

Edward Menezes: So, actually, yes, you are right because of the new acquisitions, we are in the process of hiring a new CEO to look after the acquisitions as well as the new group CFO, so these two positions are open, and we are on the verge of closing these two positions. As I said that these two companies are going to work standalone, so the promoters of Tristar as well as the senior management of Unitop, both are going to stay with us for 3 and 4 years, so therefore the transition is going to happen in a slow manner, so initially we do not see a problem of management bandwidth. We will be inducting one or two key personnel in operations. Apart from that, we will have a CEO to oversee the operations of two companies as well as the group CFO to have financial control.

Ankur Periwal: And given that incrementally both these acquisitions will help us sort of be much stronger on the backend side in terms of manufacturing capability, any thoughts on the R&D side?

Edward Menezes: Yes, on the R&D side, both these companies are strong in manufacturing, of course Unitop also has the formulation part of it and they are quite strong there, however, we won't require CAPEX in R&D, but we will require cross pollination, so our R&D team will kind of train the R&D team at Unitop to take care of formulations in textiles as well as the other HPPC segments. Similarly, in Tristar, their R&D is strong in the manufacturing of the various molecules and the expertise of Rossari to get into multiple end user segments across these clients to be tapped into the future with offerings other than formulations based on the chemistry that Tristar makes, that will be a cross pollination that we will do in the future.

Ankur Periwal: Sir, just one addition, a follow-up to that, we have been maintaining our target revenue ramp up with a new capacity coming in, with this acquisition in place, obviously there will be top-up revenue contribution from these two acquisitions, but will it also accelerate the ramp up of our existing facilities? Or that run rate will maintain it?

Sunil Chari: Their facility will continue to grow with our present run rate, so the organic part of our business will grow as what has been promised earlier and guided earlier. These two companies had 15% growth over the past few years and we hope to accelerate this also.

Ankur Periwal: And just one question if I may add, the 40% share that we have now acquired in Rossari Personal Care, so if you can put some light there because the earlier thought was to incentivise the senior management there, Mr. Agarwal there, so how does the revised structure looks like?

Sunil Chari: We saw personal care as a very good opportunity and we see a very good future for personal care. We thought that at this moment, if we get 100% ownership it would be much cheaper than if we do it 3, 4, 5 years later, so the Board collectively took a decision looking at the increased focus of personal care and also Tristar adds to this.

Ankur Periwal: And how do you incentivise Mr. Agarwal now?

Sunil Chari: He continues to lead the Purplle business which he was leading. He will continue to focus on the Purplle business even after selling his shares to Rossari.

Ankur Periwal: So, from a management responsibility perspective, just the change in the shareholding side, will that be right way to read it?

Sunil Chari: The right way would be that he would not be working full time, he would be working part of his time, but our anchor customer anyway was Purplle, which we had mentioned earlier and so his focus would be to continue looking at the customer and we will have more teams to grow this business further in a strategic way. We see a good future for this part of our business because it has a biggest market segment. As of now we have Agrochemicals and Oil & Gas in Unitop and Personal Care additives in Tristar, so within our core chemistries we add new set of customers totally.

Moderator: Thank you. The next question is from the line of Mitesh Shah from ICICI Direct. Please go ahead.

Mitesh Shah: Sir, I just have one question regarding the acquisition, apart from the succession plan you said that, I think most of the point you said about the financials and the capability and the growth of around 15%, so I just have a question about your valuation, means I think comparing with any of the listed good companies, I can see that the valuation looks so low, so what is the motivation for these companies to exit in such a low valuation, is there any particular reason or the concern that the company has and then you will see better prospect for this company?

Sunil Chari: In this case, we could drive a good deal and this is something which is a hallmark for Rossari, which we have understood that we could execute well. Unitop also the business is fantastic and similarly Tristar business is fantastic. We had Unitop business, which we could drive at nearly 8x of the EBITDA as a multiple, so we had a base on which we could negotiate with Tristar promoters also and the markets look expensive with speciality chemical stock, but we are able to explain to the promoters on the valuation we got in Unitop and this was the basis on which this is there and together now, our internal team, management teams have been able to deliver the Dahej facility well on time or even the first phase was before time and the second phase also was by March 31st 2021. So, now the key part is that we make this acquisition successful.

Mitesh Shah: And about the second question, we can expect these two acquisitions margins would be coming to our company's level going in the next 3 to 5 years?

Sunil Chari: We have a different view on margins, traditionally speciality chemical companies have asset turn of 1x. Rossari traditionally has more than 3 to 4x asset turn, so we would not be happy with 20% EBITDA margin and 1x of asset turn. We are happy with lower say, 15% or 16% EBITDA margins and 3x of asset turn and I think you would agree that this makes more financial and commercial sense.

Mitesh Shah: Absolutely sir, so you are expecting that assets turnover would be the major focus for you than the margins, going forward?

Sunil Chari: This is in our DNA and that is where our intelligent chemistry approach comes into play where we always say that we do not want to be chemical manufacturer, we want to be a knowledge science value-added customised formulation manufacturer, who could deliver value to the customer in terms of sustainability, in terms of reducing its overheads like fuel, labour, and power consumption. Our expertise and motive to reduce the environmental load, and that is what has made us successful so fast in the past.

Moderator: Thank you. We will move onto the next question that is from the line of Swarnabha Mukherjee from Edelweiss. Please go ahead.

Swarnabha Mukherjee: Margins of Tristar of course are a little bit dilutive to the standalone margins of Rossari Biotech, I understand that you were looking primarily more from the asset turn and an overall ROCE side, but wanted to know your thoughts on whether there can be in future any operational synergy between Tristar and Rossari's existing facilities, which could help drive up the margin profile of Tristar, similar for Unitop also?

Edward Menezes: Tristar is currently supplying Personal Care additives and in the previous question, I mentioned that Rossari would like to definitely leverage this relationship and start offering other formulations based on its core chemistries. So, at Tristar, they make a lot of personal care additives, but they sell them as additives, as pure ingredients whereas Rossari has the expertise in formulation chemistry and therefore we plan to leverage this relationship and start offering value added formulations with the sustainable chemistry because Tristar chemistry is also sustainable, and it is a non-toxic alternate to the various preservatives that are used in the industry today.

Sunil Chari: To add here, ROCE, return on capital employed for Tristar standalone for FY21 is estimated to be 30% plus, so the Return on Equity also is higher than 30%, so we are looking at, as a business which is very attractive in terms of financials. I think EBITDA margin percentage as I explained is not a barometer. The amount of money we earn is more important at the end of the year than the percentage.

Swarnabha Mukherjee: Nevertheless, is it possible to share like FY19 and FY20 EBITDA and PAT numbers for Tristar?

Sunil Chari: I do not have FY19 numbers, but FY20 numbers, the PAT numbers and EBITDA margins were in line like this year.

Swarnabha Mukherjee: Also, in terms of the topline in your deals with the exchanges, it looks that over the last 3 years, the revenue was in and around Rs.100 crore, so any reason for this stagnancy and how do you see growth panning out in Tristar going forward?

Sunil Chari: They have increased the capacity in the past 2 years now, especially in the last year now and this would entail higher revenues in this year and the current year. They were already at very good capacity utilizations in 2019 and 2020.

Swarnabha Mukherjee: And capacity utilization as you said was around 70% at exit of FY21?

Sunil Chari: Yes and that 5000 tonnes have come in the last year itself from 15,000 MTPA

Swarnabha Mukherjee: And in terms of basically the personal care subsidiary, so Mr. Rupesh Agarwal now cashing out on his stake, what is the incentive structure in place for him right now?

Sunil Chari: His incentive structure is linked to the Purplle performance, and he is fully committed to the business. Right now, Mr. Mikhail Menezes is already working with Rupesh Ji, he is now giving more time to the Rossari Personal Care business to grow and our existing R&D team and the management team remains the same at Rossari Personal Care and the newer products like from Tristar and also from the Unitop would help us in pitching goals as ingredients to our existing customers and also the knowledge science if you gather in Rossari Personal Care in the last few quarters, it helps us in growing the businesses.

Swarnabha Mukherjee: Last couple of questions sir, first one, is Tristar a debt-free company?

Sunil Chari: We are not taking any debt, so it is the debt-free company. They have some small debts which they have to repay.

Swarnabha Mukherjee: And in terms of acquisition as a growth strategy in future, do we expect any further bolt-on kind of acquisition because I guess, I mean some indication of that was there in Manasi's comment, but also some media article I was seeing that you may not look for any acquisitions like you could clarify that stand?

Sunil Chari: We have no plan for any big acquisitions. We have used up the cash which we had on our books, so we will be paying about Rs.275 crore to Unitop and about Rs.90 crore to Tristar, so at this moment, even after this acquisition, we will be a debt-free company, we will have healthy cash flows definitely, but there is no plan for any big acquisitions till we digest these acquisitions.

Swarnabha Mukherjee: So, we are not seeing anything in FY22, but post that again you will be generating healthy cash, right sir?

Sunil Chari: Right.

Swarnabha Mukherjee: So, something again then inorganic can come in the way by which you can use that cash?

Sunil Chari: Yes, we have seen some very good companies in Europe growing with the combination of organic and inorganic growth and Rossari would also like to pursue the same, so this is a way of life, but we would take one step at a time, like we have said in the past. Like in mountaineering, we will not take off the back leg before firming the front leg. So, we will ensure and of course the Board is very strong and knowledgeable, they will not allow us to make mistakes.

Swarnabha Mukherjee: Last one, in terms of the export market, Tristar is primarily selling ingredients, do we see a market for our formulation kind of business with the same set of customers that give us cost saving opportunities?

Edward Menezes: Like we said, although Tristar is currently supplying only Personal Care additives, Rossari will definitely work towards leveraging this relationship and start offering formulations which are based on the core chemistries of Tristar. So, this is something that we have already planned into the future and we see this multiple end user segments across these clients, which can be tapped in the future by Rossari. So, the intelligent chemistry that we have and the formulation knowledge that we have, we are going to leverage on that and use these ingredients that Tristar manufactures and convert them into value added formulations as these products are non-toxic and they are a good replacement for parabens and I think newer formulations will definitely help us add value to the Tristar business.

Swarnabha Mukherjee: So, with these acquisitions now in place, for standalone Rossari business do you see any expansion in the growth budget that you had vis-a-vis what you were factoring in 6-8 months back when we were talking to investors for the first time?

Edward Menezes: But it is too early to comment on the cross selling that will happen, but technically speaking or logically speaking the cross selling is definitely going to happen because Unitop sells 30% of its products abroad and Tristar sells more than 50% of its products abroad, so their export, in a percentage wise, it is bigger than what Rossari does and therefore we have already seen some opportunities in cross selling, but it is too early to say whether it will expand the Rossari Biotech standalone topline, however, we are on target for the Rossari Biotech standalone topline as indicated in the past.

Moderator: Thank you. We will move onto the next question that is from the line of Bharat Shah from ASK Investment Managers Limited. Please go ahead.

Bharat Shah: Now Rossari has shown good appetite even though it relatively moderates current scale of operation that we have, we have shown nimble-footedness and made two acquisitions, so that is something which is definitely very creditable and praiseworthy, but my point was good acquisitions are the one where not only we acquire what is already good and nice, but it must aid to know what we already have which is at Rossari and it should be something where we can aid to what we have acquired, therefore there is a triple effect, not only what we acquired is healthy, but we aid a value to what we acquire and therefore it does better and what we have acquired is value to what we have and therefore that also includes, so from that standpoint, how do you make meaning of both these acquisitions, not immediately but over 3 to 5-year time?

Sunil Chari : The Board also tells us that when you take the acquisition and the acquisition is 100, it should not be 200, it should be definitely 300 and more, so we agree totally with your statement and first is something where we integrate this acquisitions, we make the acquisition successful, the Board also tells us that many acquisitions fail and this is because of the cultural fit, sometimes it is not within the core chemistries or core competence and sometimes it is very highly paid or we have paid a high price for acquisition. We have taken care of all these three. Now, the first part for us would be successfully integrating it and culturally integrating where we don't hurt the sensibilities of employees in the company which we have acquired. So, for both Unitop and Tristar, we see that there is a successful model, and we do not want to tinker by putting too many people from our side or making people sit on their heads. We have ensured that we retain existing management for the next 2 to 3 years at least in both Unitop and Tristar and then come to the point where we can increase or catalyse the growth, the cross-selling opportunities and synergies. As a company sir, we have been banking with HDFC Bank for the last 22 years. We have had given guidance and achieved also and Bharat sir, even in the last 15 months we have been in the public market, we have achieved whatever we have guided on. So, as a company, we would like to be conservative in promising you and over delivering to our shareholders and to our investors, definitely on our table, we want to make this 1+1=3, that is on plan, sir.

Bharat Shah: Further if we assume, on top of what already our plans for Rossari have been independent of these acquisitions, but acquisitions will aid a verticality to what we do and may not be immediately, cross selling takes some time, building synergy takes some time, but on top of our growth plan, it should aid a little bit further due to the two acquisitions plus we have been growing at about 12% to 15%. Hopefully, under our belt that growth rate and the character of the growth rate, both are at some stage when the integration is complete, it would improve, will that be fair assumption?

Sunil Chari: Yes sir, we agree with you on this point sir.

Moderator: Thank you. The next question is from the line of Abhishek Navalgund from Nirmal Bang. Please go ahead.

Abhishek Navalgund: Actually, most of my questions have been answered, just I have one more, so again on the margins of Tristar, so sir, actually if we look at the historical financials till FY19, this company was in the margin brand of 6 to 8% on EBITDA level and suddenly from FY20 onwards we have seen this jump, so basically from 6% to 12% and now we are at 14%, in last quarter this is actually driven by the gross margin expansion, so just wanted to understand because as far as exports are concerned, phenoxyethanol is what we are selling to a large extent, so which product is actually driving this margin if you could answer that question?

Sunil Chari: Due to competitive reason, we do not give product wise breakup, but if you see over a period of time, the focus on Personal Care business has gone up, so prior to FY19, the personal care focus was not too much, but now the personal care has gone up and the export also has increased, so in FY18, the export was only 16% and now it is more than 50%, so the change in strategy of focusing on Personal Care and focusing on export market has led to the growth.

Abhishek Navalgund: Yes, because this is the sharp jump that we have seen actually over the last 2 years and I think I am not very sure whether the other players who are selling phenoxyethanol would be making this kind of margins actually?

Sunil Chari: No, they have a special grade of products because Mr. Uday Marballi has been a technocrat with experience in ethoxylation and propoxylation chemistry for the last 35 years., He used to head a company where we were buying material from, so he is a very knowledgeable man and the purity levels they are able to get with their products is very good. So, these are two things we liked in Unitop and Tristar, theirs are high quality products and have high respect in the market for their products.

Abhishek Navalgund: Again, basically from the existing capacity of 15,000 tonnes, basically what would be the peak revenue potential for this, basically for Tristar over the next 2 to 3 years?

Sunil Chari: Simple calculation, 15,000 tonnes into Rs. 150 is Rs. 225 crore, so it will be above Rs. 200 crore if we catch 90%.

Abhishek Navalgund: So, basically, I am saying in next 1 or 2 years, are there any major CAPEX plan in Tristar?

Sunil Chari: No, the major CAPEX plans are done, the capacity expansion has been done, so in all the three companies, Rossari, Unitop and Tristar, there is no major CAPEX plan except for debottlenecking.

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

Rohit Nagraj: Sir, the first question is in terms of integration benefit, now both these companies are going to work as independent units, how do we get the integration benefit and we have also indicated we will be inducting the new CEO as well as CFO which signifies that our cost structure in terms of employee benefits will go up, so will it transfer our margins in the next couple of years if the integration benefits actually don't accrue because both the units and all the three units will be operated separately?

Edward Menezes: Yes, as we already mentioned all the three units will be operated separately and the cost of the CEO and the CFO is not going to be substantial when you look at the turnover of both Unitop and Tristar put together, that will be in excess of Rs. 500 crore, so I think that cost as the percentage of the revenue is not going to be substantial, absolutely would not affect. Apart from that, over the next couple of years, 2 to 3 years, the original promoters will also move out and therefore this cost also will be offset basically. As far as integration goes, we have already mentioned that in the first 6 months we do not want to make too many changes. We would like to inject some energy into the company. We would like to inject some aggression into the company for higher growth as per the Rossari way. That is our main intention of motivating the existing people and therefore we have HR consultancy from that we have hired which will help us to integrate the culture of the two companies as well as to normalize the policies as well as the organization structure.

Rohit Nagraj: Sir, the second question is in terms of Tristar asset base, so currently what is the gross asset that they are working with and how much scope for expansion do we have from the Tristar asset base?

Manasi Nisal: At present asset gross block is around Rs.30 crore and net block is around Rs. 25 crore, so currently also the asset turnover is around 4.5 times and the expenses whichever that is there, they are already done with the expansion of the assets in the last one or two financial years.

Rohit Nagraj: I wanted to understand in terms of Brownfield expansion further from say 15,000 tonnes, what is the scope, maybe we can add another 10,000-15,000 tonnes or lesser than that?

Edward Menezes: At the present moment, we have no plans for expansion because Tristar has just done the CAPEX expansion and almost added 600 tonnes per month of capacity, so in the next two years, our focus will be mainly to add to the revenues with the help of this expansion, however, the matter is still open because in the expansion mode, Tristar has acquired another sites, that is now they have three sites instead of two and the third site there has ample space for expansion.

Rohit Nagraj: And sir, just one last question, so in terms of operations of all the three businesses, will there be any kind of synergies that we will be looking at may be shifting certain products to relevant facilities where it can be optimally produced and that could accrue to margins?

Edward Menezes: That is a very good question, yes, because the ethoxylation facility at Unitop and Tristar are common, although the products that they manufacture are different, but we have certain ideas in mind, as to how to leverage the operational efficiency and surely in the future, once we study the products and once, we see what can be done in which facility, then we will surely consider. Similarly, in the case of Unitop because Unitop manufactures both ingredients and formulations, we could in the future look at shifting some formulations or adding whatever formulation capacity needs to be added that could be done at Rossari.

Moderator: Thank you. The next question is from the line of Prafulla, an Individual Investor. Please go ahead.

Prafulla: My question was, is there any specific advantage of having both the acquisitions on cash basis, 100% cash instead of combination of cash plus share swap?

Sunil Chari: In the past some chemical listed companies have acquired and the share prices have fallen, so the general worry in the share market, in the chemical industry is not to take share swap. In both the companies, the owners have no interest in pending with the business or second succession, they would like to encash, and they did not want to take shares and also for both the acquisitions, money was in our bank. So, we believe, we already raised equity by way of a preferential equity raise just two months ago. So, in effect, you can say for Rossari, it is a share swap only, we have not taken any debt and neither we will require any debt in the next couple of years.

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

Amar Mourya: Sir, I have a small question. The scale-up opportunity into the Tristar plant, as you indicated that 15,000 metric tonnes capacity can reach to something around Rs.200 to 250 crore kind of a turnover, so I was wondering like how the scale-up will happen into this particular facility or when you guide for this 5 years kind of a payback, are you considering something else which is beyond this calculation?

Manasi Nisal: Actually, what we are considering is, as of now the revenue of this company is Rs.110 crore, but considering the demand for the phenoxyethanol product, we expect that to go up and so with the increase in the revenue will bring us increased EBITDA margin and other margin, so that will have our payback as 5 years.

Amar Mourya: So, meaning either the revenue has to go higher, or you are saying the profitability has to improve, so what is going to happen in this? Is the profitability going to work?

Manasi Nisal: Basically, revenues will be little higher, considering I mean, as of now it is in the range of Rs.100-110 crore, so we expect that to be higher in the next years also and then of course with our expertise, the profitability margins even if those remain at the similar level, then we will try to bring it at our margins, so that will definitely improve and the increase in the revenue will improve the margins also.

Amar Mourya: Ma'am, just wanted to understand like, even if I consider Rs. 90 crore, the amount which you are going to pay initially and when you say payback period you are considering EBITDA right or profit before tax?

Manasi Nisal: EBITDA.

Amar Mourya: So, basically, when you say EBITDA, what I want to understand is that even if considering the 15% margin which you talk that, so that means Rs. 600 crore kind of a revenue scale up that requires?

Manasi Nisal: No, it will not be Rs. 600 kind of a revenue, see basically the revenue growth will be in the range of around 10% to 15%, but when the profitability margin improves, so even if the EBITDA margins go up to in rupee terms like if it goes up to say Rs 25 or 30 crore like that, so considering all that we will have the payback period of 5 years.

Amar Mourya: Okay.

Manasi Nisal: So, revenue growth also will be there, we expect good revenue growth.

Amar Mourya: So, basically, you are saying the peak EBITDA which can happen to this is what, like ultimately what we are targeting is something around Rs.250 to 300 crore kind of a revenue, right?

Manasi Nisal: Rs.300 crore would be little higher, but definitely we can have those.

Amar Mourya: 15% margin, so Rs. 33 crore kind of a peak EBITDA, right

Manasi Nisal: The EBITDA is around 15%, but with our expertise, our target is definitely to increase the EBITDA margin, say may be even if it increases by 1 or 1.5%, we will have good payback.

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

Naushad Chaudhary: Just one question I wanted to clarify, how Tristar sells its product, do we sell directly to the client or do we go through distributor or there is a mix of these two?

Sunil Chari: Mostly, it is to direct customers.

Naushad Chaudhary: And broadly what number of customers we would be having in Tristar as of now?

Sunil Chari: We do not have exact count on the number of customers, but they are not like in 1000s, they are smaller and more concentrated.

Naushad Chaudhary: In export market also, we will sell directly to the clients?

Sunil Chari: Yes, they would be aggregators in the chemical industry who would be buying and they would be selling to end customers.

Naushad Chaudhary: And typically, how much time it takes for any new clients to get on board in terms of product approval, pitching to them, getting product approval and sending final product to them, how much time it takes?

Edward Menezes: Actually, not more than 6 months.

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

Sunil Chari: Thank you all participants. 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 the time to join us on the call. Have a very good evening.

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