Rossari Biotech Limited

Q1 FY22 Earnings Conference Call Transcript
August 2, 2021

Moderator: Ladies and gentlemen, good day and welcome to 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 and operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Aesha Shah from CDR India. Thank you and over to you.

Aesha Shah: Good evening, everyone. And thank you for joining us on Rossari Biotech Q1 FY22 earnings conference call. 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 the opening remarks from the management, following which we will have the forum open for question-and-answer session.

Before we start, I would like to point out that some statement made in today's call, maybe forward looking in nature and disclaimer to this effect have been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Edward Menezes to make his opening remarks. Thank you and over to you, sir.

Edward Menezes: Good evening to everyone. And thank you for joining us on our Q1 FY22 earnings call to discuss the operational and financial performance for the quarter ended June 30th, 2021. I hope you are all keeping safe and healthy and trust you had the opportunity to go through our results presentation for the quarter ended June 30th, 2021.

The quarter gone by was an eventful one in terms of our business milestones. We announced strategic acquisitions of two high potential companies namely Unitop Chemicals and Tristar intermediates. These acquisitions bring in a multitude of synergies for us, such as expanded product portfolio, stronger presence in high potential categories of Personal Care and Homecare segments and access to capacity and talent.

More so, the addition of newer technologies and expanded footprint in newer markets, we create a strategic cross selling opportunity for Rossari. Our near-term goal is to fully focus on integrating the recent acquisitions in the coming quarters. In our last interaction, we had mentioned how if a small and strategic inorganic growth opportunity does present itself Rossari may evaluate the acquisition if it is a value accretive one.

We are pleased to announce that the board has resolved to make a strategic investment by acquiring or subscribing to equity shares equal to 50.10% of the issued and paid-up capital of Romakk Chemicals for an aggregate consideration of Rs.75.1 million. Romakk is primarily engaged in the business of manufacturing silicon oils and has key competencies in an exciting portfolio of products focused on the Home and Personal Care Industry. As you are aware, silicone is one of Rossari's four core chemistries.

However, our know how in silicone chemistry is mostly in the textile segment with limited presence in the HPPC segment. Romakk brings this value capability on board that would have taken us years to develop in house. So, we believe this small and strategic investment will significantly strengthen Rossari's presence in Home and Personal Care segments in the future.

Coming to the quarter's performance, we are happy to share that we have delivered a robust set of results driven by improved demand and traction across all businesses. While the first quarter did begin amidst the tough operating environment, due to the second wave of the Covid-19 pandemic, the demand and offtake across our HPPC, TSC and AHN and divisions broadly remained steady.

Our HPPC business in the quarter demonstrated strong growth led by higher volumes in hygiene products and antiviral portfolio supported by consistent demand in key end user categories. In the TSC business, we saw steady performance and sustained traction from export markets.

This in addition to improved consumption in the AHN segment, assisted our overall performance. During the quarter, our consolidated revenues were higher by 111.12% YoY with EBITDA higher by 56.33% and PAT up by 58.40% YoY. The higher growth rates are on account of a lower base in the corresponding period last year. But even when compared on a Q-o-Q, we have reported healthy growth across parameters.

One of Rossari's key focus areas is towards leveraging its R&D and innovation competencies to seed and introduce new business lines within its four core chemistries. In the last fiscal year, we had discussed how we were focusing towards launching new product categories within paint, water treatment and performance chemicals.

I am happy to share that these new categories are seeing strong demand from customers, and we have recorded a notable contribution from these products, which further helps sustain the growth momentum during the quarter. In sync with our long-term growth strategy, our dedicated R&D team, both at Mumbai and Silvassa are constantly evaluating upon various opportunities to introduce new product niches, with impetus on sustainability and environment friendliness.

Looking ahead, we continue to remain optimistic about our growth prospects given our diversified range of product offerings, fungible and agile manufacturing establishments, strategic inorganic growth drivers and our growing customer base.

From a macro economic standpoint, wider vaccination drives across the country, normal monsoon and normalization of day-to-day activities should drive higher recovery in demand and consumptions going forward. With this, I would like to conclude my address. And now hand it over to Mr. Chari for his comments.

Sunil Chari: Thank you, Edward Ji. Good evening, and warm Namaste to everyone. I hope and wish that you and all and your families are keeping safe and healthy. We are pleased to share that we have delivered a strong performance and achieved improved growth in the first quarter. Our HPPC business and AHN business, as Edward Ji indicated recorded robust growth, both on a Y-o-Y and on a Q-o-Q basis. While broader operating constraints, due to the lockdown restrictions moderated performance of our TSC business sequentially. We are now seeing a healthy uptick in sales in the segment from June onwards.

We also recorded healthy traction in client engagement especially from diverse FMCG, Textile and AHN customers during the quarter. On the raw materials front, we continue to witness pricing pressures across key raw materials. However, we have been able to manage the situation efficiently and have delivered profitability margins broadly as per our internal targets.

Coming to key business developments, as covered by Edward Ji, we have announced two very strategic acquisitions of high quality and high potential companies in the speciality chemical space. These acquisitions bring immense synergies and growth dimension for Rossari and are complementary to our business and work culture. We have also announced the strategic investment in Romakk Chemicals. Now our primary focus will be towards seamlessly integrating these three inorganic growth drivers into our business model, which will enable us to accelerate our growth momentum in the medium to longer term.

Going ahead, we have no plans to consider medium or large sized acquisitions from a near to medium term basis. In another development, 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 the promising categories of personal care, such as skincare, cosmetics, and body care products.

Our constant endeavor is to drive operational excellence across our businesses at all times. In the last few years, we have undertaken several growth initiatives, which we believe will lead to stronger and sustainable growth in the quarters ahead. From a demand perspective, improved recovery in the domestic economy and sustained traction in the export market should further support momentum. Overall, with a blend of capabilities from recent acquisitions, and with our robust and resilient organic business, the outlook remains positive in the medium to longer term.

An important focus for us in challenging times is the health and safety of our employees, business partners and communities. In May and June, we started organizing vaccination camp for our employees and their families as per the guidelines set by the government. Subsequent vaccination drives are in process and will be rolled out in due course.

On the operational front, our corporate office, plants, and R&D centers continue to operate at normalized levels. And we are all following strict adherence to social distancing, hygiene protocols and safety. On that note, I would now request Ms. Mansi to share perspectives on the financial performance for the quarter.

Manasi Nisal: Thank you, Chari sir. Good evening, everyone. Let me provide you a brief overview of the financial performance for the quarter ended June 30, 2021. During the quarter we have delivered a strong 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. 231.11 crore as against Rs. 109.47 crore in Q1 FY21.

Revenues from HPPC stood at Rs. 132.34 crore for contributing to 57.3% of revenues, followed by TSC businesses at Rs. 74.67 crore contributing 32.3% and AHN at Rs. 24.10 crore contributing 10.4% to total revenues. On the profitability front EBITDA stood at Rs. 37.12 crore as against Rs. 23.74 crore in Q1 FY21. EBITDA margin stood at a steady level of 16.06% in Q1 FY22.

PAT during the quarter stood at Rs. 24.55 crore as against Rs. 15.49 crore in Q1 FY21. Depreciation was higher at Rs. 6.32 crore on Y-o-Y owing to capitalization of the Greenfield facility at Dahej.

We anticipate additional charges to be absorbed efficiently as the new facility starts contributing to performance going forward. The interest costs during the Q1 FY22 stood at Rs. 0.63 crore. From a balance sheet perspective cash and cash equivalents and investments which also includes fixed deposits and mutual fund investments stood at Rs. 414 crore as on June 30, 2021. In April 2021, we had concluded a preferential issue of equity aggregating to Rs. 300 crore, which further augmented the strength of our balance sheet.

Both the discussed acquisition will be funded through cash on balance sheet, and we do not intend to raise any debt. On the whole, the company's financial position is very strong. We are also happy to share that the rating agency ICRA Limited has assigned its ratings of Rossari as AA- stable on the long-term fund base, working capital facilities and on unallocated limit at A1+ on short term non-fund-based limits.

On that note, I come to the end of our opening remarks and would request the moderator to open the forum for any operational and strategic led questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: Sir, the first question is on the Textile Speciality Chemical segment. In the last couple of quarters, we have seen that domestic textile companies have performed very well. However, our segment has not performed that well.

So, what is the reason and how do we look at this segment from a growth perspective? Because if we look at last three years, more or less the performance has been flattish, and the HPPC segment has driven the overall performance. So how do we look at the TSC segment?

Sunil Chari: Normally the first quarter of every year, the textile is always lower than the last quarter of the end of the financial year. Because the teams push material in the last quarter always and the March quarter is the highest always ever at Rs. 78 crore of textile if you multiplied by four it goes to more than Rs. 310 crore just by this ratio when we had a Rs. 250 crore in the last quarter last year.

So, in May the textile industry was closed. There were no workers because of the lockdown and the panic of Corona in April, which happened, and that is why sales were low. But again, from June onwards we see very good growth momentum in the textile segment.

Rohit Nagraj: So, effectively if we just multiply by four, at least we should be able to get to that revenue profile at the end of the year. Is that assessment, right?

Sunil Chari: Yes, perfectly right. So, last quarter was highest, and then, but this quarter is also very good. If things were open in May, then this also would have been a record quarter for us.

Rohit Nagraj: Sir, the second question is, again on the strategy acquisitions. So, if you could just give us some idea about each of these acquisitions, how much of the revenues would be for the captive consumption from Rossari's perspective, and how much of it would be on an external sales perspective? Just to understand that whether there is a significant benefit from the captive consumption perspective where we will have some kind of an integration synergies and that will lead to margin expansion or is it completely to cater to a new business segment which currently, we are not into?

Edward Menezes: So, Rohit Ji, , I will go one-by-one. The Unitop acquisition their business is more than 60% in the Agro segment, and around 10% to 15% of their business is in the Oil & Gas. So, basically more than 75% of their business is in these two segments. And therefore, for captive consumption, there will be no raw material really available unless we expand our capacity, which we have not looking at in the near future.

So, most of it has to be value addition. So, they manufacture certain ingredients and just like Rossari, Unitop also produces formulations and custom-made products for the Agro and Oil & Gas divisions. In the case of Tristar Intermediates where they make Personal Care additives, these additives are completely sold as it is to their customers.

And therefore, there is no captive consumption that is seen for Rossari here and more than 80% to 85% of that business is in Personal Care additives. The surfactants and certain fragrance chemicals that they make, they again will go directly to the customer where they do some amount of contract manufacturing and job works. So, finally, if you see nothing much will remain for Rossari for captive consumption.

Rohit Nagraj: Okay and the recent one in terms of silicone oils?

Edward Menezes: Okay, silicone oil, which is Romakk Chemicals, this company is a strategic buyout actually, because silicone chemistry is something which is very special in the sense manufacture of silicone oils from the basic raw materials, the D4, the D5 from the linears etc. is very closely guarded technology.

And this technology is ruled by a very few companies in the world, most of them are MNCs like Momentive, Wacker Chemie, and Dow; these are the main multinationals which manufactures silicone oil from the basic raw material.

And there are one or two smaller companies, domestically grown companies which makes small quantities of the silicone oils. And therefore, Romakk Chemicals acquisition is a very strategic one because they have technology to manufacture the silicone oil. Also have the technology to manufacture the newer block silicones and the Amido silicone oils, the silicone blends, silicone emulsions for Personal Care.

So, since Rossari was very strong in silicones in Textile, now we have the opportunity of entering other markets like rubber chemicals, like Personal Care additives, metal cutting, and deformers in various industries etc. So, this technology has great potential in the future and therefore it is a strategic buyout.

Rohit Nagraj: Got it. And just one last question on the exports front. Now given that these acquisitions have exports market as well. How are we going to capitalize on this opportunity given that currently our share of exports is relatively lower?

Edward Menezes: So, at the present moment, we are not looking at capitalizing anything from any of these acquisitions. All these acquisitions are standalone companies basically. And all promoters and the key management personnel of the respective companies have committed to be with us for the next three years, at least minimum. So, two to three years, these promoters and KMPs that the key management personnel are going to be with us.

So, our job for the near short term is to integrate these companies with Rossari. Since they are standalone companies, they will be still managed by the promoters there will be control from Rossari. We are also in the process of hiring a CEO and a Group CFO to manage the finances as well as the day-to-day operations of these companies. So, largely we are trying to professionalize the acquisitions with control from Rossari Biotech.

So, the long-term goal or near short term goal will be to look at synergies, to look at cross selling, but first is to take control of these acquisitions, and not to take advantage and look at, speeding up sales, speeding up operations and things like that.

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

Sanjesh Jain: A couple of questions from my side. First on the raw material front. Has the situation normalized for us in the gross margin pressure has come off, are we able to pass on some of the RM pressure to the customer? How should we look at the margins going forward? Are the Q1 margins going to be the bottom margins and from here should we only see improvement for the gross profit margin?

Edward Menezes: Thank you Sanjesh Ji. Actually, if you have been following the raw material situation globally, the volatility is unprecedented in all commodities, basically in surfactants, silicone because of the silicone metal shortage, acrylics because of force majeure by large companies, and then a fire at LG Chemicals. In China, there has been a large-scale flooding, because of which, again supply chain disruption has taken place.

So, what we have done, since the third quarter of last year, when the Hurricane Laura hit Texas, there we had a lot of supply chain disruption and during the Trump regime, we found that there is an economic war between China and the US because of which huge supply chain difficulties were seen. We thought that yes, the situation will improve from the third quarter to the fourth quarter, but unfortunately did not normalize and it worsened in the first quarter of 2021.

Now, we believe that this situation cannot last, because it is very artificial, and it is very a virtual kind of situation, it is not a real situation, because the demand is not so great that the prices have to go up. So, we are sure that going forward from here, we will be able to manage the situation with respect to RM. To take care of this situation what we have done is, since we have a very formidable formulation expertise as well as application knowledge, we are able to use alternate raw materials for our formulations without an impact on quality and the final application, which is one thing that we have done.

The other thing we have done is we have got into maintaining or managing our inventory in such a way that we have covered raw material a little more, if you look at our numbers, the inventory figures are little bit higher than what they were in the last quarter. And these are the two major actions that we have taken.

And one of the key raw materials that is acrylic acid, which was supposed to be started by BPCL last month has been delayed further. So, I think by the end of August, acrylic acid also will become locally available and the pressure on the pricing will go down especially because everybody thought that BPCL would produce and supply domestically. So, the import pipeline got dry and therefore again, there was a kind of artificial shortage in the in the marketplace.

So, if you see all in all, the situation is actually now much in control. But because of our expertise in formulation, and application, we have been able to do this. Apart from that since third quarter of last year, we have been passing on the price increases to the customer as and where possible, especially in our OEMs, contract manufacturing, and as well as with customers, which we have long term relationships we have been able to pass on but repeated passing on is really becoming difficult. We are sure that in the near future, this situation will improve.

Sanjesh Jain: So basically, on the gross profit side, the margins were at 42% last year same quarter. We are at a 31%. So, by what timeframe do you see reaching back to that 35% to 38% kind of a gross profit margin which we have guided for?

Edward Menezes: Sir, this is unfair to compare the same quarter of last year, with current quarter's gross profit. We have been continuously mentioning that it was an unprecedented time, where more than 75% of our business was from HPPC.

The TSC as well as the AHN businesses were completely closed and there was a real opportunistic sale in the marketplace because of hand sanitizers, sanitization as well as the disinfectants. So, it is completely unfair to compare the first quarter of last year with this quarter.

Sanjesh Jain: Edward sir, I got that. I am asking more from the guidance perspective that we have maintained that we will do a gross profit margin of 35% to 38%. So, we are at 31%. My question is in next, how many quarter do we see ourselves reaching gross profit margin of our guidance, in the range of our guidance, I was not comparing with the margins of the Q1 FY21?

Edward Menezes: Mr. Sanjesh, you will appreciate the situation in the marketplace. Based on the raw material scenario, the volatility in the raw material, the artificial supply chain disruptions, the artificial shortages created in the market. But I do not think this upward spiral from the raw materials can be sustained.

And coming quarters, we are very positive, that the raw metal pricing situation will normalize. And once it is normalized, our gross profit will go up. Another aspect to this is, actually in the past, we have been focusing more on EBITDA margins. But internally, now, we find that we must focus more on the asset turns. So, we are focusing now on the asset turn rather than EBITDA margin percentage per se, which makes more sense.

Of course, we will try and maintain the 16% to 18% guidance, as far as possible, like we have maintained in the last quarter. However, more because of the newer acquisitions, and the Dahej facility which has come up, our focus will be on asset turn and ROCE rather than looking at EBITDA %.

Sanjesh Jain: No, I was just asking that question because at a 31% gross profit margin, we are already hitting an EBITDA margin of 16%. Assuming that we pull it back to 33%, 34% and we are looking at an EBITDA margin, which is much better than our guidance of 16% to 18%.

So, my question was that, assuming that we are able to pull back over say next three or four quarter when the things normalize, that also means that at a normalized rate, we should be doing a much better EBITDA margin. Is that understanding, right or?

Edward Menezes: Yes, of course, once the raw material prices normalize, we will maintain our 16% to 18% EBITDA margins very, very easily.

Sanjesh Jain: No, I am telling there is an upside risk to that 18% margin, because at a 31% kind of gross profit margin, we are already doing a 16% EBITDA margin, right?

Edward Menezes: But sir, in the near future, when everything opens up, then the costs also will go up, the travel costs and the sales costs, all those costs will go up so the exhibition costs. So therefore, the EBITDA margin will still remain at 16% to 18%. That is, I mean, our endeavor will be to get better ones, but our guidance is between 16% to 18%.

Sanjesh Jain: So, I was talking that if I do a consolidated financial minus standalone financial, so, I should get the subsidiaries number. We got two subsidiaries, one is Buzil Rossari, the other one is Personal Care. I think personal care should be very small for us. A significant part of this different should be coming from the Buzil.

And if I look at the EBITDA margin for this particular financials, which is consolidated minus standalone, I get an EBITDA margin of 24%. Now, this number used to be quite low the last quarter, it was only Rs. 8 million of EBITDA on a revenue of Rs. 167 million, and this quarter, we have gone to Rs. 272 million of revenue and we have an EBITDA of Rs. 68 million, which is ballpark 24% EBITDA margin. I was just trying to understand, what is driving such a healthy growth, one in revenue and the second in the EBITDA margin and EBITDA itself?

Manasi Nisal: Yes, basically, what happens is Rossari is selling to BRPL on a transfer pricing basis. So, the manufacturing profit is also getting booked in Rossari only and some sale obviously in case of subsidiary since Rossari is also selling to BRRPL. Some sales revenue figures also get eliminated.

So, that is why maybe you getting 25% EBITDA when you minus, but actually, it is in line with Rossari EBITDA margins only. While making consolidated balance sheet elimination also comes as part of it.

Sunil Chari : Due to second wave of Corona, the sale of sanitizers and disinfectant was again very, very high in April and we had fantastic tender orders also. That is why the sales of BRPL looks very high.

Sanjesh Jain: What was the revenue for BRPL in Q1?

Manasi Nisal: Rs. 33 – 34 crore approx.

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

Ankur Periwal: So, continuing with that discussion on the raw material side, if I look at our numbers on a sequential basis, while there may be some sort of seasonality factor there, but broadly speaking, growth margins are maintained, while at the same time, as you rightly mentioned the raw material inflation still continue.

So, two parts of the question. One, what is resulting in this stability? Is it largely because of the product mix or there is sort of, some further pass-through benefits, which we are seeing there? And secondly, what is the typical time lag across the segment HPPC, TSC as well as the AHN in terms of the pass-through mechanism for the raw material inflation?

Edward Menezes: If you look at the quarter-on-quarter growth is almost 6%. So, out of this, there is a judicious mix of volume growth as well as pricing growth. So, we have been able to pass on more than 50% of the growth which comes from pricing and there is a combination of various things because the HPCC segment did very well.

The performance chemicals, like chemicals in the paint industry, in the water treatment industry as well as the performance industry, that which we had seeded last year and the year before, has picked up after our Dahej plant has commissioned, so that has given a change in product mix.

Basically, Textile was down, but HPPC was high and therefore, because of this product mix also, there is a both volume as well as pricing growth. In the last quarter some new products also have been developed and launched in the marketplace in the HPPC segment, these have also contributed nicely to our growth.

Ankur Periwal: And on the pricing pass through front, how much time lag does it typically take to pass through the raw material inflation across the segment?

Edward Menezes: So, as I have already explained that it is almost three or four times, we have been able to pass on the pricings, but this time because of the second wave and because of the impact of that on the industry, the pass through is a little bit delayed. Otherwise, generally by end of month, we come to know whether the pricing situation is going to improve or not improve, and then we take a decision to improve or increase the prices.

Now, there are various segments here like AHN, HPPC, as well as TSC. So, the HPPC segment the pass through is quicker that means within 15 days, we try and pass through the pricing to them, or at least within by the first of every month, there is a new price which goes on because it requires a lot of commodity chemicals. Whereas for the TSC and AHN, the pass through is little bit slower.

Ankur Periwal: In your earlier answer you did mention that we are trying to focus more on ROCEs, asset turns here. So, any thoughts there, you can help? What exactly are we thinking across the erstwhile business as well as the newer acquisition, how we are trying to ramp that up?

Edward Menezes: So, Ankur Ji, as I said, the newer acquisitions, we are not going to shake the boat too much, basically, because we have standalone running, going concerns. They have a set of people, they have their key management personnel who will continue to look after the business, there will be only guidance from the Rossari management to them. And we are getting in more management specialists there to look at that business.

So, at the present moment, from a business angle, we believe that at least for the next six months, we will allow these businesses to run the way they were running. After studying these businesses for the next three months or one or two quarters, then our inputs will go into these companies. That is how we look at running these businesses, because we do not want to disturb the board very quickly. We will get in slowly and steadily focusing more on, integrating the culture, focusing more on leveraging the operational efficiencies, focusing on a more on synergies in product line, as well as our own chemistries.

So that is the plan. So, we will more look at synergies and cultural behaviors, etc. rather than really forcing or being very aggressive on business, which we could look after two or three quarters.

Ankur Periwal: And from a company's specific point in time, since if I go by with the historical numbers 2020 we have added speed we were at around six, six and a half times asset turn. Is that the number you would guide us or going ahead as well or there could be some changes there?

Manasi Nisal: Ankur Ji, we expect asset turn of four to five times because of Dahej facility.

Ankur Periwal: Because of Dahej facility?

Manasi Nisal: Yes, because that will take time, I mean the Dahej facility investment will take time to generate the revenue. So, for the next year, it will be around four to five times.

Ankur Periwal: No, my question is more from a three-year out. Let us say by that time Dahej would have started ramping up well as well?

Manasi Nisal: Three years would be a little bit more than five. We aim to have it at around five to six.

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

Archit Ganeriwal: Just a couple of operational questions. Is there any change in the client concentration mix post the acquisitions that the company has? If I am not wrong pre-acquisition, the top five customers contributed 44% of the company's revenue, so just wanted to get a sense of is three a change in that number?

Edward Menezes: So, the spread will be higher, because we will have larger number of customers from our acquisitions. So, in the acquisition also the customer spread is pretty good. Unitop has a pretty good customer spread, Tristar also has a pretty good customer spread. So, that I would believe that the customer spread will be larger post acquisition.

Archit Ganeriwal: No sir, I meant the customer concentration was my question?

Edward Menezes: Yes, so customer concentration will come down when the customer spreads increases.

Archit Ganeriwal: My next question is the company has a dedicated Center of Excellence at IIT, Powai. Will the subsidiary companies which are going to be operating at standalone will have access through these research facilities or will it just be for Rossari?

Edward Menezes: Yes of course, once they are acquired and then we start integrating these companies, then the facility at IIT Powai will be available to all the three companies that we have. Having said that, all the three companies have their own R&D basically. So, there is our R&D Center at Unitop in Dahej, there is a R&D facility at Tristar as well as at Romakk.

So, all the three companies they have their own individual R&Ds but as the kind of equipment available at IIT Powai is much superior, they will have access to all those equipments.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: So, Mr. Edward, one question to you. And since you have alluded about the three acquisitions, which we have made over the last, like two acquisition and one strategic investment, which you have made over the past three months, if you look at all these three acquisitions are more like in downstream. And where probably we are getting into newer areas, which we were not addressing earlier, like about Agrochemical, Oil & Gas, and surfactant, and so on, so forth.

So, while maybe the underlying basic chemistry with all these two or three companies to be more or less same, but if we have to look through maybe over the next two to three years, how do we see the synergistic benefit of this acquisition and how the consolidated entity will help us to cross leverage the capabilities, which we have in Rossari Biotech?

Edward Menezes: So that is a very good question, actually. And we have given a lot of thought, when we did this acquisition, to look at how to utilize the downstream chemistries that these companies have. So, I will go one by one. Like I have mentioned on a number of occasions, that Unitop manufactures a range of surfactants basically the ethylene oxide and propylene oxide condense, and they also make certain other precursors that are required for the condenses, like the trizoryl, phenol etcetera.

So, the basic reason for selecting these companies was Unitop Chemicals makes the ingredients similar to what ingredients we make for Textiles as well as for HPPC in Rossari. However, on a number of occasions, we have mentioned that we do not want to sell the surfactants or these ingredients as ingredients.

And therefore, Unitop also does not sell more than 10% of its ingredients as ingredients. All the ingredients that they make, they add value to it, they make formulations for the Agro active so that it can emulsify the agro actives. This process is almost a two-year process for approvals and for certifications from their customers.

So, there is in addition to what we do, there is additional barrier, which Unitop has for other people to enter their very quickly. So, their entire focus is on value addition using their formulation knowledge and they have a formulation knowledge more than around 40 years more than what Rossari has.

So therefore, their Agro formulations and Oil & Gas formulations have really an entry barrier and add value to their ingredient. So actually, they will not sell ingredients and reduce the value of the product. Tristar is another acquisition where they do the Personal Care additives. There Rossari would have synergies coming in. Rossari has very strong formulation expertise and application knowledge.

So, with these additives, we would now try and formulate products from these Personal Care additives and add value to Tristar. Similarly, in the case of Romakk, the Romakk although will manufacture the silicone oil as well as certain block silicones and amino silicones. However, their main technology that they have in addition to manufacturing of these oils in the emulsion technology which goes into rubber, which will go into paint, which will go into the release coatings, and it will also go into Personal Care.

So, in Personal Care, silicone oil, they are blend, they are emulsion, these are all high-tech after manufacture of the silicone oil. So, therefore, if you see in all these acquisitions, in two acquisitions we are already into value add after they manufacturing their ingredients. With Tristar we will try to gain synergy with our formulation expertise and application knowledge.

Manoj Garg: So, is it fair to understand, like at some point of time, even we also had, or we were looking into entering into water chemicals and some of the other segments. And now with this acquisition, since we have access to the customers, we probably would be able to sell the Rossari products to these customers in other areas of expertise which we have, or there is no such cross-selling opportunity to each other segment?

Edward Menezes: So, we have already started doing there. We had a small business transfer agreement with a company called Trio Chemicals, which used to make deformers etcetera. We have integrated that, and we have started the cross selling between the two companies. Similarly, with Unitop, we have already met all our distribution partners all over the world as well as in India, and all of them have some connection to Textile.

And therefore, we will definitely do cross selling that is the idea. The synergy in customers, the synergy in product profiles, as well as the synergy in the chemistries of all the three companies.

Manoj Garg: So that clearly means that there are cross selling and cross leveraging opportunities across the companies?

Edward Menezes: Yes sure.

Manoj Garg: So that is very heartening to know, sir. The second thing is like since you spoke about surfactants, and you talk about Unitop, and I think historically what we have always said that whenever we talk about surfactants our focus will be more towards green chemistry.

And that said like we will probably add value in the overall chemistry chain. So, it is like Unitop products are also more towards green chemistry or they are like largely coming from the crude oil derivatives?

Edward Menezes: So, the Unitop Chemicals basically are I will not say they are green, but they are ecofriendly chemicals. So, we do not use the alkyl phenol or the non-alkyl phenol kinds of products that we avoid in Textiles as well as in Home and Personal Care. In the future, we plan to introduce certain more biodegradable chemistry is there at Unitop.

Manoj Garg: And just the last question from my side sir. With now we are acquiring 40% stake in that personal care subsidiary and if I understand correctly that there used to be Mr. Agarwal who were I think owning at that point of time the balance of the shares. So, what is Mr. Agarwal's plans? Is he is going to drive this company or there are different plans for Mr. Agarwal?

Sunil Chari : No, he continues to be there not on a full-time basis, but on part time basis. Even today, he is in Sitapur on his hometown, and he was working towards making some presentations for key customers. He continues to be there for three years that is what we have a signed agreement with him, and his commitment definitely will be more than even what he has put in on a signed sheet.

Manoj Garg: Then Chari Ji, any reason that why he has probably diluted his stake, or he has sold out the entire stake given the fact that I think probably when we have formed this company, we were hoping that Mr. Agarwal will bring a lot of expertise in his experience which he spends with HUL. And we were very, very optimistic about that. So, any specific reason that why he has decided to dilute his stay?

Sunil Chari: The business of Rossari Personal Care was on our radar, even before we met Mr. Rupesh Agarwal and formally thought that we will take him on board. It is a division or a business focus for us. The board feels that Rossari Personal Care has a very, very big future and we offered Rupesh Ji exit at this moment and he took an exit he wanted to do a personal brand of his own and we said it is good you do a personal brand of his own and devote part time to us. So, the business will grow very big in the future. And we think, we have got shares at the right time at a very good price.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: My question is very simple. With these all acquisitions that we have got what will be ultimately return on capital and return on equity as on 31st, March 2022 and 23? I do not expect a precise percentage but approximately?

Manasi Nisal: Sir, we expect return on capital employed maybe around 22% plus and return on equity would be approximately 25% plus

Shanti Patel: That is on 31st, March 22?

Manasi Nisal: It will be yes after 2022. As of now, yes, for 22 if you are asking it will be 18% to 20% ROC and 20% of ROE. This 22% plus I mean the increase will be up to two years.

Shanti Patel: So, impliedly it is on 31st March 22 it will be 22% for both of them approximately, right?

Manasi Nisal: Yes, sir.

Shanti Patel: And after one year that is 31st March 2023, it will be return on equity 25% and return on capital?

Manasi Nisal: Yes, it will be 23% to 24% may be even 24% we aim to higher ROC is 22%.

Shanti Patel: So, it will increase, correct? It will go up as compared to 22 correct?

Manasi Nisal: Correct sir.

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

Abhishek Bhat: Being an end user investor, my question is that we have been done recent acquisitions and strategic partnership with firms. So, can you please tell me what would be the gain in the company's balance sheet and after this, Dahej plant expansion, and after this Unitop expansion. So when can we see gain in our balance sheet?

Manasi Nisal: Actually sir, we expect that our acquisitions will get complete after the completion of CPs ,we expect that it will get complete in the current quarter. So, we will start consolidating and the gain on the balance sheets will be from , quarter two of the current year .

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Abhishek Bhat: And what about the operating profit margin of these three acquisitions? So, at what stage these three companies are here? As we are having something 16% or 18% or 22% operating profit margin, what about this acquisitions we have? And do we have any plans to improve their profit margin with synergy?

Manasi Nisal: Currently their margins are in the range of 15% but we definitely have aim to improve these margins and bring it at our Rossari levels with the synergies.

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

Rohit Nagraj: Sir, on the Romakk Chemicals, could you give us what is the size of revenues? What is the size of asset that they have? And will it be predominantly from a sourcing perspective that we are looking at and then getting into that chemistry further in terms of Dimethicone or Simethicone?

Edward Menezes: Rohit Ji, as I stated in my opening remarks, that Romakk is more of a strategic buy, rather than looking from the revenue point of view. Since the lockdown times year's revenue for this company was around Rs. 11 -12 crore, but we have a good business plan in place for the next three to five years.

Mainly because it is a company which will be driven by five promoters, which have cumulative 60, 70 years of experience in the silicon field, not only in textiles, but also in Personal Care, in rubber chemicals, in release compounds, as well as deformers and in paper and paint.

So, therefore, being a strategic buy the synergies that can come from this acquisitions are going to be multifold basically. There will be a lot of synergies here a lot of state-of-the-art technology is available in this company with respect to the recent block silicones or the random block silicones, the amido silicon as well as manufacture of various emulsions, internal emulsions, with very high internal viscosities for Personal Care, as well as a lot of emulsions in the beauty sector as well as the hair care sector.

So, the potential with Romakk Chemicals are really very high. And we hope that this will be one of the big growth drivers in the future.

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 for taking out your time and coming on our earnings call. 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 this call.