Rossari Biotech Limited

Q2 FY22 Earnings Conference Call
November 1, 2021

Moderator Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Rossari Biotech Limited. 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 Rossari Biotech Limited Q2 and H1 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 would like to begin the call with brief opening remarks from the management following which will open the forum for a question-and-answer session.

Before we start, I would like to point out that some statements made in today's call will be forward looking in nature. And a disclaimer to this effect has been included in the Earnings Presentation shared with you earlier. I would now like to invite Edward Menezes to make his opening remarks. Over to you sir.

Edward Menezes: Thank you Mr. Anoop. Good evening, everyone and thank you for joining us on our Q2 and H1 FY22 Earnings Call to discuss the operating and financial performance for the quarter. I hope you all had the opportunity to go through our results presentation, which provides details of our operational and financial performance. We have reported a healthy topline performance during the quarter led by increased volume offtake across our businesses. Our HPPC business continued to deliver robust growth supported by traction in the FMCG segment. Additionally, antiviral and hygiene portfolio sales registered solid momentum during the quarter.

In our TSC and AHN businesses, as the country moved to the unlock-down phase, we saw an encouraging pickup in demand with supported volumes. Further, steady growth in the export market aided sales in the TSC division.

On a standalone level, we registered an exceptional organic topline growth of 95% year-on-year in quarter two. This was mainly on account of strong client wins witnessed during the quarter. However, we anticipate the growth rates to normalize in the upcoming quarters. We are pleased to share that our recent acquisitions of

Unitop and Tristar have now been fully integrated and accordingly our Q2 FY22 results include consolidation of Unitop with effect from August 26, 2021, and Tristar with effect from September 1, 2021.

Coming to our profitability during the quarter:

As you are all aware, there is high inflation in input prices across industries. Similarly, in our industry, we are witnessing pricing and availability issues across raw materials. This, in turn has impacted our margin performance during the quarter. However, our earnings per volume ratio continues to remain at healthy levels. So, while the margins have been impacted, our earnings per tonne has been in a healthy range, and we undertook suitable price hikes. In some of our older contracts, we are in the process of renegotiating for new pricing terms. We believe that should come into effect in a few months. This going forward should enable us to deliver healthy growth in total operating profits on the back of solid volumes.

On the whole, we believe we have reported encouraging performance during the quarter. Going forward, we remain positive about the improving demand environment across our product offerings, supported by better macros and festive led buying patterns. With a healthy balance sheet and adequate manufacturing capacities, we are well-poised to capitalize on the upcoming opportunities and deliver strong performance in the future.

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

Sunil Chari: Thank you, Edward ji. Good evening everyone and a warm Namaste from Rossari Biotech Limited. We have delivered a strong volume performance in the first half of the fiscal. Our HPPC business as Edward Ji indicated, continues to record solid sales. During the quarter, our TSC and AHN businesses marked a significant rebound. Overall, we reported improved offtake across segments.

Coming to recent acquisitions:

It is encouraging to note how our teams have executed the integration in an efficient manner and well within our internal targeted schedule. The integrations bring immense synergies and growth dimensions to the table. Furthermore, as a fast-growing Company, we saw addition of new team members from Unitop and Tristar. We all carry the same customer centric approach and inclusive work culture, which is an ethos of Rossari's business model. All of us, as one team, are now working towards the primary shared goal of augmenting quality and accelerating growth of the Company. We have already begun identifying and executing strategic cross-selling opportunities, which will further augment our combined performance going forward.

Additionally, the integration of Romakk Chemicals is also progressing as per plan. In the coming months, we will be working towards seamlessly integrating this into our business model. Overall, with a blend of separate capabilities from all three acquisitions and with our robust organic business, the outlook remains positive in the medium to longer term.

On the organizational front, we continue to add talent to the senior management team and key roles to strengthen the foundation of our Company. We are happy to share that the Board has appointed Mr. Debashish Vanikar as the CEO of new businesses and Mr. Ketan Sablok, as a Group CFO of the Company.

Mr. Vanikar will be resuming role with effect from November 19th, 2021, and Mr. Sablok from November 8th, 2021.

Mr. Vanikar has over 21 years of rich experience in key roles across companies of repute. In this newly appointed role. Mr. Vanikar with his past expertise will steer growth especially in the new lines of businesses of Rossari.

Mr. Sablok has a rich experience of over 25 years across various functions in the finance domain. In his new role, Mr. Sablok will drive finance and strategic initiatives of the Rossari Group. We are confident that they will both add tremendous value to our Company and we welcome them to the Rossari family.

To conclude:

We are witnessing a strong recovery in consumption patterns, which should support volumes going forward. While inflationary concerns may continue to persist for a few more months, we remain excited about the longer-term structural trends playing out in the specialty chemical space in India. We believe Rossari with its strong business model and a strong platform based on application development and formulation is well-positioned to tap the upcoming growth opportunities.

On that note, I would now request Manasiji to share perspectives on the financial performance of the quarter.

Manasi Nisal: Thank you, Chari sir. Good evening everyone, let me provide you with a brief overview of the financial performance for the quarter.

During the quarter, we have delivered healthy performance driven by improved demand and traction across businesses.

On a consolidated basis revenue came in at Rs. 384.5 crore as against Rs.171.7 crore in Q2 FY21. On standalone basis, we registered an exceptional organic revenue growth of 95% year-on-year basis in Q2 FY22 and 92% in H1 FY22, owing to strong client wins. Going forward, we anticipate these growth rates to normalize in the upcoming quarters. Revenues from HPPC stood at Rs. 236.1 crore contributing to 61.4% of revenues followed by TSC businesses at Rs.109.6 crore contributing 28.5% and AHN at Rs.38.8 crore contributing 10.1% to total revenue.

On the profitability front EBITDA stood at Rs.44 crore as against Rs.30.1 crore in Q2 FY21. EBITDA margin stood at 11.4% as against 17.5% in Q2 FY21. As indicated by Edward sir, our gross and EBITDA margins declined during the period due to raw material challenges. However, we are undertaking price hikes to cover absolute raw material price inflation, this going forward should enable us to deliver a healthy growth in total operating profits on the back of strong volume growth.

Depreciation was higher at Rs.10.2 crore owing to part capitalization of Dahej facility. Interest cost during the quarter stood at Rs.1.9 crore, PAT during the quarter stood at Rs.26.2 crore as against Rs.20.7 crore in Q2 FY21. From a balance sheet perspective, our net cash position was at Rs.35 crore as on September 30th, 2021. Net cash flow from operating activities during the half year ended September 30, 2021 stood at Rs.13.9 crore.

On the whole, the Company's financial position is very strong. Over the long term, we will pursue all of our defined strategic initiatives by always maintaining financial discipline.

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 related 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 Anshul Verdia from Edelweiss Wealth Research. Please go ahead.

Anshul Verdia: On EBITDA, we have seen a steep decline in the margins. But EBITDA per tonne has been steady and healthy as you said. So, could you tell me that is this because of the product mix and what was the driver for keeping this steady and second since we are talking about the price pass through in the upcoming quarters, do you see this metrics further improving going forward?

Sunil Chari: Regarding the performance, we are very happy that the standalone EBITDA has grown from Rs. 30 to Rs. 37 crore and even the consolidated EBITDA has grown from Rs. 37 to Rs. 44 crore. We have always been saying that we are focused on EBITDA as an amount rather than a margin. The business has seen very good performance in the last quarter, the raw material pricing has been at a never anything we have seen in the last 30 years of my professional experience, the supply chain disruptions and prices rising on an every hourly basis sometimes in the past quarter, we have been of course able to pass on some but we have not been able to pass on all and there has been a lag, there is bound to be some pressure in this quarter also, but we are hoping that this normalcy happens sooner than later.

Anshul Verdia: I got it, like we should be looking at the absolute number rather than the margins going forward. So, I see that the subsidiary margins and the gross margins were much better than the standalone entity. So, any comments like are the acquisitions doing much better and secondly, any color on the guidance now since we are in a difficult environment in terms of raw material costs, So, any guidance on the gross margin or on the EBITDA for this year or long-term basis or this remains the same which was earlier communicated?

Sunil Chari: So, regarding acquisitions, we are very, very proud to say that we have done very well, in integration of the acquisition, we raised the money in the month of April and from April we did the finalization of acquisitions in the months of July and August and by September, we had done the closing and now integration, we have been able to close the accounts in record time. Our accounts and finance team worked very well to reshape the accounts as per IndAS, and then also the human aspect of the integration, we have taken very, very good care. As we have told in the past that we have taken lessons on how to integrate acquisitions culturally, and I'm very happy to say that as the Rossari teams, especially the HR team has done very well in ensuring that all employees do not feel insecure and the performance is not impacted. So, in terms of the month of September, Unitop did Rs. 27 crore and Tristar is also on track, we had a big EO shortage, EO ethylene oxide, which is a basic raw material in Unitop and Tristar, we had a big shortage from Reliance, otherwise the sales would have been still better. So, on year-on-year basis, the September sales of Tristar and Unitop are better than last year, but we could have done still much better. We have still a lot of backlog of orders and capacity, which is pending. So, in Tristar we had done expansion of our capacities and this we have not been able to use at all in this line and we have orders in hand.

Similarly, in Unitop we have a lot of orders in, the demand is robust, but ethylene oxide shortage is not allowing us to catch all the opportunities. On a standalone basis also, the Rossari business has performed very well as I said earlier from Rs. 30 to Rs.37 crore already we have done in this quarter. For the upcoming quarters, what we feel is, we need to focus on the amounts. So, as you said that we had a Rs. 44 crore EBITDA amount which is the highest ever in Rossari history, even at Rs. 37 crore in Rossari standalone, it is the highest ever in quarterly EBITDA profits in Rossari history. We would definitely say that we would maintain this kind of trend or increase, we are now able to understand the supply chain logistics, we are able to now ensure that our raw materials are there in the factory and our customers would get orders in time . You would also appreciate that if we see, we have a price of Rs.50 per product and a Rs.50 product does 15% margin then it becomes Rs.7.50 and then if you have price of Rs.100 per product, you cannot increase the margin from Rs.7.5 to Rs.15, the margin as a percentage would not go up in the same level, but we would expect better margins, sales on a consolidated basis also we feel would remain in this similar manner. We are confident of maintaining this on a consolidated basis.

Anshul Verdia: On the textile specialty chemical, we have seen a very good traction. So, do you see this demand to be continuing because we are seeing the PLI scheme and other government support coming to the end consumer of this particular segment, so, any thoughts on that, that's all from my side.

Sunil Chari: Anshulji, in textile again from April to June there was a lot of pipeline which became empty. So, like other businesses in the last quarter we had the benefit in the standalone business of the pipeline which was empty which got filled up in the last quarter and that is why we had bumper and very, very big sales, which was more than normal in the last quarter. The textile business across India is doing very well, I have been saying this in the last three, four earnings call, you can see the results of even the textile companies, they are doing extremely well. The China plus one, which is a strategy being used by retailers in Europe and U.S.A is giving us a lot of good benefits in terms of exports of textiles. Of course the textile industry is facing wherever there is, coal as a medium of generating energy they are facing a lot of trouble, but overall the order position is full, the machinery orders from the textile companies to the machinery manufacturers is in some cases two and half years waiting period, So, if you give a particular spinning machinery that we order today, if you give advance today, you will get delivery after two, two and half, three years. So, you can understand the buoyancy in the textile business in this quarter.

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

Ankur Periwal: So, we have seen on a consolidated or on a standalone basis, sharp reduction in the gross margin. And if I heard you partially, you mentioned that there will be an initiative to pass through the raw material hike, which should sort of bring the margins back to a similar level what we were working on earlier. So, if on a standalone basis, maybe 35%, 37% average gross margin, or what are your thoughts there?

Sunil Chari: As we said that we are looking at protecting the amount of money we earn, so, the EBITDA amount not as a percentage, but as an amount we want to keep increasing on a quarter-to-quarter basis. And that is more important than percentage. So, this, we need to see on a yearly basis, which is there, this quarter also we see the trend becoming better, but definitely margins will be under pressure in this quarter as well. But in terms of consolidated EBITDA, at the Rs. 44-crore level, we are going to maintain or do better, definitely.

Ankur Periwal: Sure, sir and if I look at from a standalone perspective, So, we have roughly doubled our revenue, but the EBITDA growth is only 24%, 25%. Will it be right to say that going ahead, this gap between revenue and profit growth will contract, even if we leave the percentage margin aside, but absolute growth in revenue and EBITDA should be largely in sync will that be a right statement, which may not be immediate since you mentioned next quarter may also be slightly weak, but let's say over two, three, four quarter window?

Sunil Chari: Ankurji the top line on a consolidated level in the next quarter would be similar or a little more also, but in terms of the margins as percentage, it all depends on the RM prices, raw material prices.

Ankur Periwal: Sorry, I'll probably rephrase, So, not on percentage margin. So, as I understand initially we did comment that rupees per kg margin is more or less stable and if we are thinking of passing through the raw material inflation further to the clients, will that rupees per kg margin increase. So, in absolute basis, let's say if I look at only standalone, 95% revenue growth and EBITDA growth only 25%, will this number largely be similar let's say three, four quarters out?

Sunil Chari: In terms of the consolidated basis yes, the revenue would remain the same or even a little higher as I said. In terms of amount of money, I would again reiterate that we have Rs. 44 crore of EBITDA, we will try our best to increase that Rs. 44 crore of EBITDA so, what you said is the per kilo realization remains intact or becomes better that has been our focus.

Ankur Periwal: On the working capital side now with this consolidation there is a sharp jump in receivables while payables also have increased, but net- net our working capital has increased significantly. So, any specific reason for this quarter or should be a normalized run rate on a console basis?

Sunil Chari: So, Ankurji in the month of March in the standalone sale of the month of September was really Rs. 139 crore. So, our average sales is Rs. 139 crore and if we take it for two months, then it will be Rs. 270 crore but our gross levels are there. Manasi can add here?

Manasi Nisal: Ankurji on a standalone level, if we see there is not much of a difference. In the month of March, the working capital cycle was approximately 54 days now, it is 57 Days. Of course, there is a sharp increase in receivables because what has happened is, on a standalone level, debtors are Rs. 238 crore, but out of that as Chari sir said more than Rs. 130 crore is our revenue for the month of September only. So, that has increased the absolute number of debtor and of course, in number of days, per se there is not much of an increase, the increase is almost maybe four to five days on a standalone basis. On a consolidated basis, yes there is a difference because, as of now our newly acquired companies have a little higher working capital cycle, of course, that we will be regularizing going forward. So, that on a consolidated basis, it is because of the acquired Companies.

Sunil Chari: Ankurji when we went for the IPO last year, when we sat with you all at the working of our IPO, we had Rs. 150 crore average quarterly sale, we said that we will do double in four years, if in a year we have doubled it to Rs. 386 crore, I hope you are happy about it.

Ankur Periwal: Yes, definitely there's just a disconnect between the EBITDA and the revenue front. But nevertheless.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from HDFC AMC. Please go ahead.

Dhruv Muchhal: Sir, would it be possible to share the average utilization for the standalone business for Q2. I believe the two capacities, Silvassa 120,000 and Dahej 132,000 tonnes. So, together what would be the utilization?

Sunil Chari: In the month of July, we had 100% capacity which was up and coming. So, we have 252,500 as our capacity. Now, in the last quarter, we have had a substantial capacity utilization. So, it is within 50% to 60% in Silvassa and Dahej. We still have a lot to go before incurring any new CAPEX, so, we still have capacity balance.

Dhruv Muchhal: Got it. But Silvassa was anyways operating at almost I believe 90%, 100%?

Sunil Chari: No, what we did is, we shifted some production from Silvassa to Dahej to take care of the modern infrastructure we have at Dahej, we have a lot of automation at Dahej So, to reduce the load and then we also did debottlenecking at Silvassa, we did the Rossari personal care improvements at Silvassa and also the homecare, few lines we added at Silvassa. So, we have shifted some parts So, that the load decreases from Silvassa. We also have based now on the raw materials, so, if there is acrylic acid then all the production happens at Dahej and if it is a personal care, all the production happens at Silvassa. Similarly, animal health and nutrition happens at Silvassa So, we have done reorganizations based on raw materials and end customers.

Dhruv Muchhal: What I was trying to understand is, the 90%, 100% growth in sales in the standalone entity, how much of that will be volume growth and how much will be pricing because I believe there is a lot of RM cost pass through which has happened and hence the pricing benefit, is the relation benefit that we see in the revenue number. So, just wanted to understand the split between volume and value?

Sunil Chari: So, as we explained, the volume growth has been also substantial partly because also there was a lot of debottlenecking happening in the supply chain pipeline in terms of per kilo margins, it is an impact or it is definitely better. That is what I can convey to you from the figures I have.

Dhruv Muchhal: Got it, sure sir. And the second thing was on the growth, in the presentation you have mentioned that the growth momentum will not be as high as Q2 I believe. Sir, by that are you meaning from a Q-o-Q basis the growth momentum will be low or from a Y-o-Y basis, because I was trying to understand that, will you continue with the existing run rate of grown in revenues or from a Y-o-Y also the growth rate will drop significantly?

Sunil Chari: No, the growth rate compared to Y-o-Y will continue to grow very well. And even quarter-on-quarter we will see some growth definitely.

Dhruv Muchhal: Okay, got it I was also a bit confused there. And sir last thing is, again you mentioned that this Rs. 44 crore of EBITDA that you have done. This can probably continue at the levels in the next quarter also. Sir but what I was wondering is the current quarter has only one month and probably almost 45 days of consolidation of the two subsidiaries. So, in the next quarter onwards, you will have full consolidation benefits. So, shouldn't there be a decent jump even on a Q-o-Q basis, or are you a bit conservative in guiding for the EBITDA. I understand these are extremely near term but just to get a sense.

Sunil Chari: Yes. See what has happened is, the last quarter was abnormally high for Rossari and this is going to normalize and this normalizing with the addition of the two months in Unitop and Tristar and that is why we are saying that we will do better than Rs. 44 crore.

Dhruv Muchhal: I understand there is a decent RM cost increase across your products, then that probably is the reason also we are seeing such a high revenue growth. So, how is the market absorbing this price increase, is there any demand pressure that you see, any demand concern that you see from your customers?

Sunil Chari: At this moment, the demand concern, demand pressure is not there especially if you see the home and personal care and even animal health and nutrition and the textile specialty chemicals. The demand remains in the textile specialty chemicals in the corporate sector, which focuses on the export market. So, for the export market, the demand is robust, except where there is coal, which is a big problem and this is especially with a smaller processing units. In the home and personal care, the bigger companies are absorbing the cost at this moment. And they will have some pressures in this quarter, but I don't see any slowdown in demand in the coming quarter.

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

Sanjesh Jain: Couple of questions from my side. First, can you just give us the number what was the volume growth for this quarter it looks like a phenomenal growth and what does it mean in terms of our capacity utilization and how soon should we require the capacity that would be my first question. Second, on the demand side, the FMCG companies in our HPPC category and many FMCG companies are commenting on the slowdown in the rural demand. Just wanted to understand what is your discussion with your customer talking about the demand outlook side on the HPPC category, particularly. Third question on the growth within the HPPC category, we were talking of acrylic polymer being supplied to non HPPC customers like paints and ceramic and paper and pulp, how is that picking up and is that the seeding helped us to ramp up the capacity so fast and again within the HPPC apart from acrylic polymer, we were into the HPPC category both in terms of supplying the ingredients as well as the private label, how is that growth panning out if you can give a complete outlook on HPPC for us to understand how the business is shaping up. So, these are my three questions, thank you.

Sunil Chari: You would also be happy to know as you have also done our IPO and you would have seen the growth which we have done and, in terms of the volume we have more than 25% growth in volume, in terms of HPPC, as you said we have seen per kilo realization increase compared to the second quarter of the last financial year. Even in the textile, we have had improvement in the per kilo sales value realization. So, the margins definitely are affected because of the raw material price increase from China. And there's a lag because if you do pricing for a month and if the price increases in the middle, we cannot go to customer again and again whenever the price increases. Like in acetic acid it was Rs.105 last week and it dropped by Rs.12 and it’s Rs.93 and within three days it increased by Rs.2 every day and it’s at Rs.99 now. So, I am talking about last 10 days from Rs.105 to Rs.93 and from Rs.93 to Rs.99. So, this is a free fall, which is happening and we cannot go to customer every day. So, there is a lag definitely on passing on and that is why we also believe that this quarter also there would be some pressure on margins and we just pray that the raw material situation and the supply chain normalizes from Japan. And if that happens, then of course our margins would improve, but as we have said in the past and always now that the amount of money we earn is the focus area for us not the percentage and if we are able to increase the amount of money which we earn at Rs.44 crore consolidated, we are at the highest ever in Rossari history. And this is something which we are proud of, in spite of these things and as we said, that we have effortlessly executed acquisitions. So, execution has been a hallmark for Rossari. So, for all the acquisition companies, we have done the acquisition, we have done the closing, we have done the integration and even accountings, we have closed before the 30th of the month following the quarter. In terms of different verticals in the performance chemicals which was paper, ceramic, paint, the paint inks and coatings as we said in the last quarter is strong, the Home personal care is strong, but the other vertical still have not picked up because we still have not been able to go and meet the customers, personally anywhere in India, because July and August, again there was some uptick in the number of COVID patients across India, luckily the third wave has not happened. In terms of sanitizers, the sales is steady, we have launched new products, which is based on a nanotechnology for coating of surfaces like the handles, which we use in the offices and we just have a first Rs. 20 lakh order from a big reputed hospital chain and this opens, a new vista for us for the future, this sort of technology where the antimicrobial effect remain for 30 days, so this is something you have to apply sanitizer on your hand and when you open the door and admit the patient and all, then also the antimicrobial effect remains there. So, these are things which are there at the Dahej plant, we are working on new technologies, Edwardji can add here.

Edward Menezes: Yes, So, you are saying that whether the new businesses like paint, ceramic, the printing ink and water treatment, all these have picked up. Now, even in these industries, the major raw materials is based on acrylic. So, they were butyl acrylic and styrene. And the story remains the same butyl acrylic prices also have jumped from say around Rs.100 to Rs.225. So, therefore, there has been a seesaw in the production at Dahej for these products also and the margins in this case, because they are more flexible here, in that case, we are able to pass on the margin easily in the case of paints and painting ink as well as in the ceramic industry. What happened here is, in the paints and in the painting ink industry, there is a competition between acrylic and styrene butadiene rubber latex. So, whenever the price of styrene butadiene rubber latex is lower people shift to styrene butadiene otherwise acrylics are preferred, because acrylics are always lower than these products. What we've focused on in these few months is to improve our own products. So, in the paint industry, as well as in the water treatment and waterproofing industry also we've been able to add some products, which have picked up sales for us pretty good. We've also done very well in the anti-microbial part of the business actually. So, the anti-microbial business has increased. We have introduced some nanotechnology based on silver and hydrogen peroxide where the sales for these also have picked up. We've introduced polyester resin from the Dahej plant in the last few months. So, that's a new technology that we have introduced there at Dahej where these polyester resins are used in sizing operations,etc. With respect to Unitop, polyethylene glycol has improved, polypropylene glycol have improved. We have introduced certain polyols, we have introduced esters, and we are in the process of developing phenoxy propanol at Tristar. So, all these new developments will also fill up capacities whenever the capacities are unfilled, basically. So, that's the way we have done for the new businesses. However, as you said very new businesses like cement or ceramic we've not been able to visit and therefore we are not able to take advantage of the seeding that we've done in the last year. But very quickly, our Dahej capacity is being shifted between Acrylics to textile chemicals to polyester resin or water treatment chemicals. So, the Dahej facility being flexible is also helping us and now that Unitop facility has come very close there and Dahej facility we are able to do some cross selling between these two companies also.

Sanjesh Jain: Got it. Just one clarification, is the 25% volume growth standalone we were speaking off.

Sunil Chari: Yes, standalone.

Sanjesh Jain: Okay. The second question which I asked was the demand outlook now that people are talking of slower HPPC growth, particularly, demand slowdown in rural areas, are we seeing an impact of that on our growth rate, that is one of the reason why we have cautioned out on the growth rate for coming quarters?

Sunil Chari: We have not seen any slowdown Sanjeshji in the demand. In fact, we have a huge backlog of orders in Unitop and Tristar. Yesterday the export head was saying we have two months backlog. So, we are seeing good traction of demand and even in the textile specialty chemicals and animal health and nutrition, the demand is intact we have not seen any destruction of demand.

Sanjesh Jain: Can you give us what was the full quarter revenue and EBITDA for Unitop and Tristar?

Sunil Chari: For Unitop, we have the monthly revenue figures, Rs. 27 crore was the revenue for the month of September. For, Tristar, we had a revenue of Rs. 12 crore.

Sanjesh Jain: Okay. And EBITDA or EBITDA margins?

Manasi Nisal: In Tristar, the EBITDA is approximately Rs. 1-1.5 crore and Unitop, it is around Rs. 4 to 4.25 crore EBITDA

Moderator: Thank you. The next question is from the line of Aman Batra from Goldman Sachs Asset Management. Please go ahead.

Aman Batra: One question, this EBITDA per tonne which you are saying that you kind of maintained, when do we go back to EBITDA, focusing on EBITDA margins or now going forward, is EBITDA per tonne the metric we should look at?

Sunil Chari: That's a forward-looking question actually. So, what we see from the market, that margin pressure will continue at least in this quarter, So, at least for this quarter. We will focus on volume of EBITDA that we are on and then once that normalizes then we will focus on the percentage of EBITDA margin. So, we have visibility for this quarter and in this quarter, definitely there is pressure on margins. In the coming quarter, there is a case for reduction in the raw material prices where it will then directly hit the EBITDA. Now what has happened is the revenue has grown and the fixed cost has remained the same and therefore, still our EBITDAs, we are able to manage, but this will change in the next quarter for sure.

Aman Batra: Volume growth you mentioned was 25% for the standalone for this quarter, what would be volume growth for the first half?

Sunil Chari: We do not have figures from the volume specifically but we can share later, but it has been substantial growth in volumes, both on standalone and in the consolidated figure, the Unitop and Tristar we have the problem of ethylene oxide shortage and hence the volume growth in Unitop and Tristar is not very high. But in Rossari, it has definitely been very, very high. And that is because of the pipeline being vacant, pipeline being empty.

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

Rohan Gupta: Sir, a couple of questions first is that such a strong volume growth for the quarter roughly 25%. Despite that, we are seeing that such a sharp price increase is definitely affecting the HPPC industry. So, where this volume growth is coming from, just wanted to understand that whether it's the premiumization in the economy, which is helping you in gaining market from the high end product categories, where probably we had earlier low presence or we are gaining market share across the board, or we are replacing imports. So, if you just can give some sense on the 25% growth, how it has come and also some sense on the industry growth on the similar product category.

Sunil Chari: Rohanji, thank you for the good words, you said one thing, which is the hallmark for Rossari is execution as we said, and the supply chain execution has helped us a lot in this quarter. One thing also was our financial strength, we still continue to remain a debt free Company, both in terms of CC Limits and term loan, because of our financial strength we could get a lot of excess raw material ordered, so that we don't face any trouble in supply chain shortages, and we are able to feed the customers, but many of the suppliers were not able to do it, and this gave us an opportunity to replace them in many of these customers. Of course, we had new introductions, especially in the homecare segment, we did very well, in the personal care, which also we had a lot of new introduction of products, which did very well. As you said the textile specialty chemicals, the market is booming and in animal health and nutrition also, the demand position was good, and we had the raw material in place, and this has helped us definitely, you can see the amount of volume growth and the amount of sales growth. We were able to feed the customers because we have the raw materials.

Rohan Gupta: Got it sir. And sir, in our business generally we see that the EBITDA growth will be a function of volume growth and the product mix change, which we can introduce in our Company. So, you mentioned that you have definitely improved that average realization and product mix change has helped you from Rs.50 per kg product has gone to Rs.100 per kg. So, definitely your margin if it was 7.5 it will definitely now be Rs.15 more than that. So, I understand that probably EBITDA margins on per kg basis have improved because of that. So, how do you see going forward definitely in the current volatile scenario, we are seeing some delays in passing on the input cost, but how much of scope you see for the volume growth on a sustainable basis for next one to two years. And how much scope you see that there is there for the product mix change in terms of margin, absolute level if not can give in a percentage, but in terms of absolute levels that can give us some sense that how much EBITDA growth will be driven by volume, and how much EBITDA growth can come from the improvement in the product basket and improvement in EBITDA per kg over the next two to three years?

Sunil Chari: Rohanji, this kind of price inflation in the specialty or the raw material is not going to sustain but we do not know when this will end. So, at this moment our customers when we discuss informally with them, we meet them, we talk to them on the phone, they are also all in pressure, which you can see many listed companies in all the verticals we operate in, they have come under pressure on account of margins. So, they tell us keep your per kilo margin same or increase a bit but you don't' increase the same and as a format we need to work with our customers like partners, we cannot try to increase our profits substantially and put them into trouble. So, this is a partnership in which Rossari has very good grade, goodwill in terms of customers mindset. And this what we did is at this moment, we say that in last quarter we made Rs. 37 crore, in this quarter, we made Rs. 44 crore, so if we are able to maintain this Rs. 44 cores over Rs. 37 crore, which is 20% EBITDA improvement quarter-on-quarter and if we are able to do this being a debt free Company and we are able to supply to the customer and collect money in time, this is a phenomenally good performance from our Company.

Rohan Gupta: Okay. And sir just last from my side, sir we have seen two successful integration of the inorganic growth in a very short period of time. So, you definitely have created a formula for success through inorganic growth. Just wanted to understand how do you see that the growth opportunity going forward and how you would like to replicate this, whether the focus over next couple of years will be more on driving the growth through inorganic route or you see that this is a time for consolidation take back and first focus more on consolidating these two entities over next two to three years and then only take any further decision over the inorganic growth?

Sunil Chari: Right, this is a time Rohanji for consolidation. We have done Rs. 550 crore of acquisitions, we need to digest these acquisitions well, create synergies within the Company, improve the performance metrics and efficiencies of each parameter of finance, of profitability, of production, of per product cost and this will be the focus and now, as you see for the new businesses, we have taken two good senior people. Mr. Debashish Vanikar who comes from Pidilite and he has a marquee experience with Aditya Birla Group and Asian Paints and Procter and Gamble in the past. So, Debashish would be leading the new businesses and he would be focusing on making this consolidation, very beneficial for Rossari. So, similarly Mr. Ketan Sablok comes from a very good experience in Navin Fluorine and he is going to lead the financial integration and consolidation so for the next few quarters we have no plans for any new inorganic acquisitions, we need to consolidate this and make this very successful. From April, we see availability of EO and then the performance of these two companies could improve, once we have availability of ethylene oxide in the market.

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

Rohit Nagraj: So, the first question is just now you talked again, about ethylene oxide availability. So, how is the availability currently and what was the reason that availability got impacted during the last quarter?

Sunil Chari: The ethylene oxide there was outages in various different plants of Reliance and that was the reason it was across the country for all ethylene oxide consumers. And that is why we have shortages of this, Reliance has assured that it will improve from April.

Rohit Nagraj: Okay, So, another six months you'll have issues in terms of normalized availability, it will be more or less like rationing of the ethylene oxide?

Sunil Chari: No, Reliance has been normally very, very good in ensuring that we get at least 90% of whatever we looked at in the last year. So, we haven't been able to get 100% of what was the consumption, but we had done an expansion at Tristar and that is where we require higher amount of ethylene oxide and we are not getting it. So, we are not able to utilize the new capacity at Tristar but, also we have some vacant capacity at Unitop which we propose to do it in the next year.

Rohit Nagraj: Sir on the integration part, as I understand that in Tristar the earlier management had a certain amount of fixed remuneration for every single year. So, now, since we have Mr. Debashish handling the entire integration and CEO of the business, will it be going off eventually in the next few quarters as the integration proceeds and that benefit probably will start accruing to us?

Edward Menezes: So, Mr. Debashish will take some time to get a grip of the business and to do the acquisition part basically how to merge it with Rossari business. And therefore we are looking at a six months to one year timeline, before the other proprietors who are running the other companies can move on.

Rohit Nagraj: Right, got it. And Edward sir just one bit of question on the R&D front currently how things are looking at based on our collaboration with the IIT lab as well. So, how are the things in terms of new product pipeline and what are the product introductions that we have planned for the next couple of years or so, thank you.

Edward Menezes: So, our R&D is in full swing. However, because of the firefighting that is happening in the marketplace, our sales teams are really busy with maintaining sales and getting more sales from existing customers because of supply gaps by other suppliers. But in the R&D segment, we have many concepts in the textile field, we have a green salt which is ready. We have a green hydro which has already been introduced in the market. We have green silicate that goes into the industry. We have nano anti-microbial products that we have ready for launch. We have some products, even in the silicone area where we have the silicone wetting agents, as well as the silicone hydrophilic that are ready as we said recently, at the beginning of our talk, that polyester resin has been made ready now for sizing. So, a large number of products and ideas are already ready with us. And the pipeline is for the next two years is in place. However, in the next one quarter, we will focus more on maintaining sales and growing sales because of short supply by other suppliers because of a very strong position in RM as well as in the production.

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

Edward Menezes: Thank you everyone for your time. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarification or would like to know more about the Company, please feel free to contact our team or CDR India. Thank you once again for taking the time to join us on this call and wishing you all a very Happy Diwali and Happy and Prosperous New Year. Thank you very much.

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