Rossari Biotech Limited

Q3 & 9M FY22 Earnings Conference Call Transcript

February 15, 2022

Moderator: Ladies and gentlemen, good day, and welcome to Rossari Biotech's Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen only-mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

And I hand over the conference to Anoop Poojari from CDR India. Thank you.

Anoop Poojari: Good evening, everyone, thank you for joining us on Rossari Biotech Limited Q3 & 9M FY22 earnings conference call. We have with us Mr. Edward Menezes, Promoter and Executive Chairman; Mr. Sunil Chari, Promoter and Managing Director; Mr. Ketan Sablok, Group Chief Financial Officer; and Ms. Manasi Nisal, Chief Financial Officer of the company.

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

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

Edward Menezes: Good evening, everyone, thank you for joining us on our Q3 & 9M 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 delivered a steady performance on a year-on-year basis during the quarter despite a challenging inflationary macro environment. Our HPPC business continues to record healthy performance driven by stable off-take from the FMCG segment. This, in addition to traction in our anti-viral and hygiene portfolio segments, supported volumes in HPPC division. In our TSC and AHN businesses we saw an encouraging pickup in demand. Further, steady growth in export market aided sales in the TSC division. We expect this momentum to strengthen in the quarters ahead.

On a standalone level, we registered an organic top line growth of 31% year-on-year in Q3. We are pleased to share that this is the first full quarter of consolidation of our recent acquisitions of Unitop and Tristar in Rossari's performance. Both these companies delivered growth during the period which assisted our overall performance. The integration is in sync with our internal schedule and the further synergies from these acquisitions will be visible over the next fiscal.

On the profitability front, the raw material situation continues to remain challenging. This impacted our margins during the quarter. We believe these raw material pressures and inflationary trends may continue in the near term as well. In order to offset them, we have been working alongside our customers and have been undertaking suitable price hikes wherever possible.

On the whole, we believe we have reported a stable performance in the current environment. As we look ahead, we will continue to focus towards growing wallet share across our existing customer base, while tapping new customer segments. Our long-term endeavor is to consolidate our market position as a preferred supplier in the Indian industry. From a macro standpoint, we remain positive about the improving demand trends across our product offerings and we look forward to a healthy performance ahead.

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

Sunil Chari: Thank you Edwardji. Namaste and good evening, everyone. We have delivered an encouraging performance in the 9M period supported by strong traction in our HPPC, TSC and AHN businesses. We are also witnessing improved traction in engagement with several new and existing customers across various industries, leading to a healthy volume uptick in all business verticals. On the raw material front, we continue to face challenges. However, our team was able to navigate through the situation well and we were able to seamlessly manage supplies to all our customers on time.

As the raw material situation stabilizes over the course of the next fiscal, we are confident of reporting improved margins going forward. This is our first full quarter of consolidation of recent acquisitions of Unitop and Tristar in Rossari's performance. The integration of these two companies has brought several promising growth prospects. We are actively undertaking strategic cross selling opportunities and continue to strive towards expanding into newer market segments and customer categories.

Additionally, our latest acquisition of Romakk Chemical has now been consolidated with effect from December 1, 2021. The timely integration of Romakk will further strengthen our presence in the Home and Personal Care segments going forward. The blend of capabilities from all these strategic acquisitions enabled us to build our presence and gain scale in our key segments, thus accelerating growth for Rossari over the next few years.

On the operational front, we are developing offerings that are custom-made environmentally friendly and cost- neutral. As a company, we have always advocated towards sustainable processes and green chemistry from the very beginning. Rossari is one of the frontrunners in the domestic market for producing environmentally benign substitutes, across segments. Our green products have been widely appreciated in the markets and we are constantly evaluating opportunities to introduce new business lines with distinguished and sustainable offerings. This will be another strong growth lever for us going forward. We are also happy to share that all our latest product launches across hygiene, laundry and fabric care segments have seen improved acceptance amongst existing and new customers in the domestic market.

The specialty chemicals industry in India is fast progressing with multiple strong growth prospects ahead. Rossari is well poised to capitalize on the significant growth opportunities given its diversified range of green and sustainable product offerings, fungible and agile manufacturing establishments and the ability to constantly innovate and launch diversified products for its growing customer base. To conclude, we are witnessing a strong recovery in consumption patterns that should further support volumes going forward.

On that note, I would now request Manasi ji to share perspectives on the financial performance for 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 a steady performance on a Y-o-Y basis driven by improved demand and traction across businesses. On a consolidated basis, revenues came in at Rs. 428.4 crore against as against Rs. 210.0 crore in Q3 FY21. On a standalone basis, we registered an exceptional organic revenue growth of 31% Y-o-Y in Q3 FY22 and 66% in 9M FY22 owing to strong client wins.

Revenue from HPPC stood at Rs. 305.2 crore, contributing to 71% of revenues, followed by TSC business at Rs. 102.8 crore, contributing 24%, and AHN at Rs. 20.4 crore, contributing 5% to total revenues.

On the profitability front, EBITDA stood at Rs. 46.7 crore against Rs. 34 crore in Q3 FY21. EBITDA margin stood at 10.9% as against 16.2% in quarter Q3 FY21. As indicated by Edward ji, gross profit and margin during the quarter were impacted on account of raw material challenges.

Depreciation was higher at Rs. 17.8 crore owing to amortization of fair valuation on account of consolidation of subsidiaries. Interest costs during the quarter stood at Rs. 3.5 crore. PAT during the quarter stood at Rs. 22.6 crore as against Rs. 21.6 crore in Q3 FY21.

Overall, the company's financial position remains strong. This is even after concluding our strategic acquisitions and undertaking several growth initiatives. As we derived synergies from these acquisitions and with optimal utilization from our existing manufacturing capacity, we look forward to delivering strong and sustainable growth in the medium to long term.

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: The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: The first one on the segment, I wanted to understand any thought process on including the Unitop revenue in the HPPC segments because we understood during the acquisition call that it predominantly caters to Agro chemical and Oil & Gas segment, so any particular reasons for including that in a Home and Personal Care segment?

Sunil Chari: Unitop and Tristar both are in surfactants, as a category surfactants we have classified under the HPPC segment. Anything which is not textile and animals and nutrition we have classified in the home personal care and performance chemicals. Agro chemical surfactants and surfactant for oil and gas and specialty product for additives for personal care will come under performance chemicals and home and personal care. And hence we have classified under HPPC.

Sanjesh Jain: I think now HPPC has become quite big. It would be relatively easier for us if you can segregate that also. That would probably be easier for us to track. That's a small suggestion from my side. The second question is on the standalone revenue. Any reason why it has dipped by Rs. 700 million quarter-on-quarter and it looks like predominantly has come from the erstwhile HPPC segment, can you help us understand where is this decline coming in and what has been the reason for such a steep decline on a quarter-on-quarter basis despite tariff hikes?

Ketan Sablok: So, in Q2 there was a lot of pent-up demand, which flowed in from Q1 to some extent because of the COVID issues in the beginning of the year, that's why the revenue for Q2 was significantly high. We had also indicated that going forward probably we'll be able to get it more regularized on a quarter-on-quarter basis. So, currently, the way we see the business on a quarter basis, we are targeting about Rs. 270-odd crore of turnover per quarter. I think that's the run rate currently we are looking at. Probably we'll end the year also at this run rate. Maybe next year we'll see some jump on an annualized basis over the turnover maybe about 15% to 20% is something which we are targeting for next year and on a standalone basis. So, I think currently we can take Rs. 270 crore as a run rate on a quarter-on-quarter basis.

Sunil Chari: Sanjesh ji I would like to add here, our first quarter sales was around Rs. 204 crore and the second quarter sales which was abnormal and we had announced that it was abnormal it was Rs. 339 crore. So, as Ketan sir added we were at Rs. 540 crore in H1 FY22. So, Rs. 270 crore was our average and we are at average, because the second quarter was pent up demand and we got very good sales. I think we should not take away the good performance in this quarter too.

Sanjesh Jain: So, I was thinking that there was a steep increase in the raw material. We would have taken up even more price hike across the category because I was looking at the raw material prices across the four key raw material we use and there has been an inflation in Q1 to Q2, Q2 to Q3 and now Q3 to Q4 also that inflation continues. On the back of that so what how to look at the volume growth? What has been the volume for us in the 9M FY22 and what is the utilization level for us in our new Dahej plant as we speak now?

Sunil Chari: At Dahej we have 132,500 tons capacity, at Silvassa we have 120,000 capacity and at Unitop we have 86,000 tons capacity. On an average we are looking at about 60% capacity utilization across the company. Also I wanted to add here in 12 months now we are expecting our Rossari sales to be Rs.1,075 crore and consolidated numbers at Rs. 1,500 crore. So, if you see last year, we were at Rs.700 crore and now we are nearly doubled in this year. We had told that we will do double in four years and we are doing double revenues in this year itself.

Due to abnormal raw material volatility, during this month it is like last month acrylic acid price was $2,000 and we were expecting it to come down and then suddenly this month it has gone to $2700. We were expecting it to go down by 10%-20% instead now it is at $2,700. So, you can see a 50% up and down volatility in raw material price which is unimaginable. The volatility has continued in the last six months. We thought it will stabilize, but it looks like the volatility will continue for next at least two quarters. What is happening is we have earned good amount of money as a company, our sales have been robust and we have ensured that the volume is there, and also our customers which we catered to and our supply chain has been intact. We are happy with the performance we've done till now.

Sanjesh Jain: I am not doubting the effort you have put in doubling the revenue, but we also appreciate that there is a huge amount of revenue benefit coming from the inflation, right, and there is no additional profit we can earn on the information that was the point. But can you just help us with the number what is the utilization level today at the Dahej.

Sunil Chari: The utilization levels would be in range of 50% - 60% across different sites. I would also like to add we don't need any big capex in the next financial year. We have adequate capex, so only maintenance capex would be required.

Sanjesh Jain: What is the revenue and EBITDA for Unitop and Tristar for this quarter? And I cannot see a minority interest number. We haven't acquired the 100% in Unitop and Tristar. Just wanted to understand why there is a nil minority interest in the consolidated level.

Manasi Nisal: We are considering Unitop as a subsidiary because even if we have acquired 65% share, it is 100% control. As per the agreement, we have 100% control that is why we have not accounted for minority interest.

Sanjesh Jain: Fair enough. And can you provide the revenue and EBITDA for Unitop and Tristar?

Manasi Nisal: The revenue for three months, which we have consolidated for Unitop is Rs. 118 crore and for Tristar is Rs. 43 crore and EBITDA for Unitop around Rs. 16 crore and Tristar Rs. 4 crore.

Sunil Chari: Unitop & Tristar nine-months FY22 sales is about Rs.330 crore and Rs.115 crore respectively, this nine months sales have already crossed the last full year sales. So the performance in our subsidiaries has been heartening.

Sanjesh Jain: I was just looking the performance of one of your listed peer and their performance in textiles look like they're gaining market share. We are not being growing equally to our competition in the textile chemical segment and their margins also look pretty healthy. Any comparison or any thought you want to share on that.

Sunil Chari: Our TSC business has done quite well. Even if you compare to the last quarter, from Rs.109 crore, we have still touched Rs. 102 crore this quarter, if you multiply by 4 which is Rs. 400, which is nearly 50% higher than last year. The TSC business is doing very well, our exports have also picked up across the segment, across the textile business, and we see a good traction for the textile business in the coming years too.

Sanjesh Jain: No, no, I was looking at their numbers. They have grown faster than us. They were probably at 50%- 60% of the revenue what we were and now they're doing the same revenue as Rossari. Last quarter revenue for them was Rs. 105 crore, they have now hit the revenue of our run rate. So, that was the thought process I was trying to understand.

Sunil Chari: We are seeing a very good traction with the new launches and softeners and pre-treatment and now with Unitop and Tristar, the surfactant category should increase.

Edward Menezes: As Mr. Chari mentioned, we have also lined up a lot of products for the textiles and the synergies that will emanate from Unitop as well as Tristar because of the surfactants they manufacture have not yet percolated down to Rossari. So, that is yet to happen. If you look at the various products that we are introducing in this year, we've added two new green chemicals - one is green urea and the other is green silicate. So, these two products we have introduced. We have also introduced a stable flowing substitute as well as an enzymatic chlorine bleach, we have introduced lycra protectors and we are doing a lot of work in the continuous bleaching range too, because now that Unitop will manufacture own surfactants we will become very competitive. Another very important point to note here is the acquisition of Romakk. Now, with Romakk we have already started manufacturing the silicone polymers for textile finish at Dahej that is the block silicon which is a technology which very few companies in the world had. So our offering in the marketplace is going to increase. Our share in the export market also has increased considerably. We've also introduced a new technology that is polyester resins for sizing as well as polyester polyols for the various anti-soiling, anti-static and anti-back staining products which are manufactured now at Dahej. So, all these developments are going to take some time. The focus in the last quarter was not on sales, but was on basically trying to protect our margin and trying to have alternate raw materials and pressure on customers to build on pricing. Because what happened is, in the last quarter the prices started stabilizing and started softening and suddenly the prices started going up. And that created a little bit havoc because of which our focus was mainly on supply chain as well as on the margin side.

Moderator: Thank you. The next question is from the line of Aashish Upganlawar from InvesQ Investment Advisors. Please go ahead.

Aashish Upganlawar: Gentlemen, wanted to understand, I mean, we have seen a huge movement in the margins since you have listed. I understand that this raw material issues across industries have been the troubling issue. But is it because of this timing difference in terms of raw material price and quotation to customers causing this or certain element of no pricing power beyond the point to charge to the customer? So I'm trying to understand on ongoing basis what would be your gross and EBITDA margins if I have to take a view for say three years on an average basis?

Ketan Sablok: As raw material prices are currently behaving; it is becoming little difficult for us to actuate prices. As Edward ji mentioned we started the quarter thinking that prices are going to be coming down, softening, stabilizing, and then again, we saw the prices suddenly moving up. So, for us to now critically analyze or get into some sort of long-term contract or even a short-term contract, it's really a call we are taking on a daily basis as to how we deal with the raw material prices. In fact, the prices today and probably what the prices will be tomorrow, will be different, it's very difficult for us to guess. Our current plan is that we are looking at a fairly short-term spot kind of purchases. Wherever we are seeing that we are getting good rates, we are going ahead and booking orders. We are ensuring that we are able to serve all our customers. For us keeping our customer base strong and ensuring servicing all the customers during this difficult time is important, that's the key what Rossari is focusing at. I think this will pay off in the long run.

The customers are also understanding this philosophy that we are working on. So I think we'll have to take it month-on-month or probably currently it's week-on-week on how we strategize the plans. As Chari sir also indicated, we are really not sure how long this is going to last, but we expect at least for the next two quarters things to be very volatile and the way the oil prices also now moving up given a situation in Ukraine we really don't know how some of the products or the inflationary trends are going to behave. So we'll take this call slow and steady, how best we can serve. I think our only hope is that things improve now, at least from Q1 things should improve both on the supply side and on the pricing side. And once raw material prices come to their normal levels, I think we are very well poised to get back to our original margin levels and see substantial growth in the top line also.

Aashish Upganlawar: So, just trying to understand, I mean, is there room to basically put a lot of thought and try to improve on the pricing model for products. I mean, trying to understand is cost plus pricing model possible in your kind of industry or is it going to be, I mean, you have to take a call on procurement that way.

Ketan Sablok: Internally, we have discussed a lot of models. The way the situation is I don't think any model is going to work presently, at least not for the next couple of quarters. Cost plus model definitely we have analyzed, but I don't think it's going to work because we don't even know what the prices are going to be tomorrow. So, in case the prices fall down, the cost-plus model is going to hit us on our faces. As I said, taking things one at a time, doing a lot of short-term buys and short-term calls, sometimes we are gaining in that and sometimes we are losing also. So, hopefully, as I said earlier, if things improve, I think Rossari is completely poised to get back to and probably exceed the levels at which it was performing last year.

Aashish Upganlawar: By coming back you mean margins of upwards of 15% in terms of EBITDA margins.

Ketan Sablok: Yes

Aashish Upganlawar: Trying to understand the like-to-like growth of all the acquired plus your standalone entity generally. Can you elaborate?

Ketan Sablok: I think there is a mix of both volume as well as value and pricing growth. On a quarter-on-quarter basis our volumes are lower and, on a Y-o-Y basis, I think, the volumes are slightly higher, but the major growth is coming from the pricing.

Moderator: The next question is from the line of Anshul Verdia from Edelweiss Wealth Research. Please go ahead.

Anshul Verdia: First one, as asked by earlier participants that one of our competitor in the textile specialty chemical is growing. So, I just want to understand what is our right to win, I remember as per our earlier discussions that we were talking about the anti-viral and anti-microbial technology. So does that business have any moat as compared to other players in the market?

Edward Menezes: So, the anti-viral and the anti-microbial business is also dependent on the pull from the market. It's not, generally, not a push technology. The push came only during the COVID time. For textiles it is basically pull market, so if a brand indicates that they want an anti-microbial finish, only then our processors will ask for the product. Otherwise, the product is not asked so this is a kind of hand holding with larger brands especially, in the towel industry. Even within that industry hardly 5% of the total volume goes into anti-microbial finish. So the anti-viral and anti-microbial products that have gone in is basically in hand wash as well as in surface disinfection.

Anshul Verdia: Okay. And sir on other expenses, this has steeply increased in this quarter. So I assume that is the lastly the fuel cost and how it is trending into the Q4? And could you provide some color on the EBITDA per ton as compared to the last quarter?

Ketan Sablok: Other expenses have slightly gone up due to increase in the freight and transport costs and on Y-o-Y basis because of better utilization our utility costs are higher than what it was last year. We really don’t track or talk about our EBITDA per ton numbers. So, we generally go by our absolute EBITDA and EBITDA percentages. We would like to keep it that to at least for the current period.

Moderator: Thank you. The next question is from the line of Pavas Pethia from Enam AMC. Please go ahead.

Pavas Pethia: Thanks for the opportunity. So when you earlier stated that Rs. 2,500 crore is a potential sales from the current capacity. I'm also looking at what kind of margins you can generate to these sales?

Ketan Sablok: See, as we've already talked about this, Pavas, that currently to give any guidance on margins is going to be very difficult for us. And as I said earlier, if the macroeconomic situation stabilizes, raw material prices stabilize then I think on a consolidated basis, top line of Rs. 2,000 crore to 2,500 crore is the target we are looking at.

Pavas Pethia: When we look at your guidance of INR 2,000 crore to 2,500 crore there's a lot of raw material information or product price inflation which is built in, so it's very difficult to gauze the profitability trajectory. So, you might have some internal numbers about EBITDA per kg which could be steady as on that basis any range for EBITDA which you can achieve once the steady state is achieved. And the second part is, this INR 2,000 crore, INR 2,500 crore by how much time you think maybe you could be able to achieve?

Ketan Sablok: So for EBITDA percentage, I said that once things get back to normal we'll be back to our normal 15%, 16% of EBITDA. Currently, we don't see that happening at least for the next two quarters. So probably once things stabilize, then we should be back to our 15%, 16%, maybe even higher. We are internally already started working on a lot of new products, new formulations. Even in the current formulations we are also trying to rework them to achieve lower cost of production. So, margin improvement will be seen on that front also. So, I think now on a steady state affair and things normalizing, we should hit back to 15%, 16% of EBITDA margins. That's the guidance we can give as of now.

Edward Menezes: One of the strengths of Rossari is basically formulation, the expertise that we have in formulation, and therefore, our R&D is working feverishly in the last couple of quarters to use alternate raw materials and reformulate our products so that the margins improve. For example, we've launched a product recently called Dr. Nanoxa. This product is for surface disinfection, and it keeps the surface disinfected for about 30 days. So that's the test report that we have with us and this is a big example.

Other than that, what we are doing is we are trying to put in a small amount of the maintenance capex so we want to produce values for certain offerings in the market with our enzymes and with the animal health and nutrition products. We are also looking at tablet coating in pharma with our acrylic based chemistries. So, yes, in the background, we are working feverishly to reformulate and improve our margins, which we've been able to do in this quarter, and I think the product will roll out, have already been rolled out in this quarter. So, you must be able to see some improvement in the margins, but all depends on the pricing. Basically everything depends on the pricing. As Mr. Ketan has indicated that we are not taking any position in the market. So, therefore, all purchasing is spot purchasing. Sometimes you are able to participate in a particular business and sometimes you're not able to participate because of this strategy that we have adopted for the time being.

Sunil Chari: On a consolidated level, we have done Rs. 47 crore in this quarter, this is highest ever EBITDA in Rossari history. Standalone may have seen some margin pressure, but as a company we have earned very good EBITDA of Rs. 47 crore in absolute terms. If you see at just Rs. 47 crore for this quarter and if there is a slight improvement, as Ketan sir said, we are looking at Rs. 250 crore kind of EBITDA for the next year if the things stabilize. So, even with a dip in the margins, we have been able to retain customers, we've been able to add new customers, we are adding new products. So we see a very good healthy next financial year.

Pavas Pethia: You're talking about INR 2,500 crore as potential sales you can generate based on current capacity?

Ketan Sablok: On a consolidated basis we should hit Rs. 2000 crore in FY23. That's what our internal target is.

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

Dhruv Muchhal: So, the first question is to understand the business a bit better, now let us assume that scenario that the raw metal prices remain at the current level and stabilize at the current level, which is approximately 40%- 50% above what you were probably doing last year, which effectively gets realized in revenues. Sir, so, how does the business work? I mean, at the higher realization, which includes the benefit of inflation, do you still get to keep the margins at the same level? Say for example, if you were doing 15% last year, because of the RM inflation, your realization has increased and your revenues have increased, do you get to keep 15% or the margins will become low, which numerically seems obvious, but on per kg basis you still on the same amount. So, for example, if 100 has moved to 150 and 15% was your margin will your per kg improve from Rs. 15 to say Rs. 21 – 22 or the percentage or the per kg EBITDA will remain the same? I understand this differs from product to product, but from a holistic basis, how does it happen? How does it flow for a business?

Sunil Chari: Dhruv ji we have gained lot of goodwill being ethical and a supplier which works like a partner. So, as you said, for Rs. 100 if we have 15% margin and the inflation makes it Rs.150 we cannot increase it to 22.5% this becomes unfair to the customer. So, we are partnering with the customer and we are trying to take it within 15% to 22.5% wherever it works well with the customer, taking a partner-like approach. The second problem is not only margins we have done a deal for a product and because we are buying week to week suddenly the raw material prices shoot up in the market and then even if we have taken 15% at margins instead of Rs. 15 as a number or Rs.22.5 as a number, the calculations are not fitting in, because raw material position is like speculation

As I explained, acrylic acid $2,000 to $2700 in the space of 15 to 20 days. So, we have a product called butyl acrylate monomer, 10 days ago it was Rs.135 and today is Rs. 200 - 225 within 10 days. So, these are very volatile times consequently, for example, acetic acid if you take, it was Rs. 80 a couple of months ago or Rs. 90 it has come down to Rs. 60-61, now. So, these are very volatile, uncertain, unprecedented times.

And for us, we are trying to preserve the amount of money we earn on a consolidated basis. So, Rs. 47-50 crore, in a quarter is something we are happy if we are even able to achieve in this unprecedented times. We have ensured that our working capital is maintained in terms of inventory, debtors and creditors. This has been our hallmark, we have a zero-debt business, we do not have even CC and term loan in spite of all these acquisitions and all this growth. We are in a financially sound position and as soon as we stabilize, it will look like a very good takeoff stage for us.

Dhruv Muchhal: Perfect, sir. No, sir, we completely understand the RM situation. Whatever I was trying to finish was because our business seems to be a mix of margin basis and per kg basis. So, it would be very easier for us to understand the business also if you start sharing the per kg number. One of the chemical players in the industry shares volume number so it becomes easier so the percentage number is extremely volatile, but the per kg number is what is consistent and moves in broadly in line because that is how the business works. So, if you can think of sharing the per kg number that would help us better analyze.

Sunil Chari: On an absolute basis we have more than 1500 products being produced on a monthly basis. If you see our range, it will be 3000 products. There are different chemistries, different end-user industries, so to give a guidance on a per kilo or a per ton basis is impossible for us.

Dhruv Muchhal: The depreciation about Rs. 17-18crore, is this normal standard going ahead or was there some abnormal here?

Manasi Nisal: We have done the fair valuation of assets of our consolidated companies. We have accounted for fair valuation of tangible and intangible assets , so on that depreciation is increased. The run rate will be the same as we have seen in the current quarter.

Dhruv Muchhal: The idea was to understand what is the cash profit factor there. I see the interest cost was also increased from Rs. 3 crore to Rs. 4 crore. I see no debt largely. So what's driving this interest cost?

Manasi Nisal: The interest cost, because in our acquired companies, there is a deferred consideration. So we have to do the accounting of NPV of the future consideration, which is 35% for Unitop and 24% for Tristar and on that we have to account for interest liability.

Dhruv Muchhal: Got it. So, instead of minority this is effectively coming here, but as part of the loan repayment, and this will continue for the next two years, at least FY22 & FY23

Manasi Nisal: Yes, till the time the entire consideration is paid

Moderator: Thank you. The next question is from the line of Siddharth Purohit from InvesQ Invest Advisors. Please go ahead.

Siddharth Purohit: As you still have a sizable capacity left to be utilized. You are thinking of increasing customer wallet share, so, how that utilization level will go up or will you be undertaking capex to service new client wins?

Edward Menezes: So, Siddharth ji, thank you for that question. Like we said that we have close to 50% capacity at our Dahej plant. In the past, we have also maintained that Rossari does a lot of seeding new business like in the last few quarters, we have been seeding various industries, like water treatment, industries like paper, ceramic, and cement. So these are the four or five industries where we've been seeding. And there are some new ideas which have come up in the last two years. One of them is polyester resin, the other is because of the acquisition of Romakk is silicone polymers for textile as well as for personal care. So, and the plant is very well geared up for all these product lines. And therefore, I think there's not going to be a very big capex requirement. The capex requirement as we have indicated will be in the region of Rs. 4-5 crore which is the maintenance capex. The only capex that we may require that we look going forward is for granulation and a premix plant, so that also is a very, very small capex. So, therefore, the plant capacities are there in place and the seeding has already been done. Once the industry really opens up and the product prices or the raw materials stabilize, then we will be able to utilize this capacity and go all out for these products that we have already introduced. The only other big spend that we've already committed to is SAP. So, we are going in for SAP for the entire organization that is for all the five entities that are under the Rossari roof today and that will be a sizeable cost maybe between Rs. 3.5 - 5 crore. So, apart from that we don't see any big capex which is required to fulfill all the technologies that we already introduced in the marketplace, we have seeded the market, it has been tested. We are just waiting to go out for sales with these products. Most of them are polymers and these polymers are based on acrylic chemistry, acrylates as well as polyester and silicones. All these four, five raw materials are highly volatile today and these can give us big volumes. Polyester resins can give us big volume, the acrylate chemistry can give us very big volumes. We have also introduced a certain product which is a solvent which is used in viscose manufacturing, which will go to large companies in big quantities. So that is also something that is planned for the future. But the plant at Dahej is well equipped for manufacturing all these products. It's only a matter of time. Once the raw material position stabilizes and the people are able to move to customers face to face, I believe that we will be able to quickly utilize this capacity. We had to give an indication that we utilize the capacity in three to four years. In one year we have reached 50%. And I think if the polymer monomer market stabilizes, we should be able to do that capacity within three to four years.

Moderator: Thank you. The next question is from the line of Ayush Agarwal from Mittal Investments.

Ayush Agarwal: First question is picking up on our previous participants' question on our listed peer, they are talking about growth in the textile segment, where they are taking away market share from European MNC. So, what is our view on this and what are we proactively doing to grow aggressively in this segment?

Sunil Chari: Ayush ji, if you see our sales, it has grown phenomenally. Rs 700 crore last year and now we are talking about Rs. 1500 crore sales. So, we have grown across customers, across segments, and we have not lost any customer or market share compared to last year. So, we are sure about our numbers that we have gained share across customers in all our customers in segments.

Ayush Agarwal: So, what kind of growth are we seeing in this textile segment and what are our steps that we are taking to gain more market share given that we are leaders and pioneers in this industry.

Sunil Chari: See, as I said, we are now crossing more than Rs. 100 crore per quarter in textile, whereas last year I think we were in the range of about Rs.50 crore. So, we are seeing a 50% or more growth in the textile business and the textile business looks strong even with exports from other countries. Bangladesh is our top most export market. So, even in the domestic and the export market, we are strong with all our customers and the top line growth still proves we have done fantastically well across different segments.

Ayush Agarwal: All right. And sir if you can share some insights on the kind of customization, I mean, I have read through your previous transcripts and your DRHP as well. So, we do a lot of customization for our customers in the textile segment. So, when we say customization and green products, so what would be the kind of revenue that comes from these customization and green products in the textile segment?

Edward Menezes: There are no numbers that we have put to them. But as an internal target for Rossari more than 10% of revenues every year, we target to come from new products and new areas of operations. So, if you look at the textile industry, I already explained to you that we have introduced polyester resin for sizing which is a market which can go up to 500 to 1000 tons if we go for export new products. We have introduced two new green chemicals, green urea and green silicate that have gone into the marketplace. We have introduced substitutes for chlorine, bleaching, we have introduced an enzymatic substitute for bleach, we have introduced lycra protector, we have introduced water repellents, we have introduced the zero-water repellent in the marketplace, we have introduced also some acrylic polymers in the textile industry for washing off. So, if you look at the entire basket of products, like I said in the silicone polymer industry, Rossari is the largest seller of block silicones. So, we manufacture our own block silicones in house both at Romakk as well as at Rossari Dahej. So, we are the largest here. These products they go into fabric which requires hydrophilicity, which requires water absorption, so like towels, undergarments and things like that. So, of course, Rossari is a leader in this market. And like Mr. Chari has explained, we've already grown by 30%, 40% in this year. Top line has already grown from Rs. 260 crore to touch Rs.400 crore this year.

Ayush Agarwal: Yes. So, I wasn't saying that Rossari hasn't grown. My primary question was that understanding the landscape of where this growth is coming from and what is Rossari doing to capture more market share, which partly got answered when you shared said that we are growing at 40%.

Edward Menezes: And I forgot to mention that we've also entered the spin finish market. So, we've already entered the spin finish market with a range of secondary spin finishes that also is a large part of the marketplace where we were not present in. And we partnered with some overseas companies for the spin finish technology also on our range. And we've introduced also a lot of processes for economic dying in the textile, that is especially dying the blacks and the blues economically, which almost 30% of the shade that goes into the marketplace. So that is also going to be a big chunk of our business in the future.

Ayush Agarwal: Right. And my sir last question is, if it's possible for the management to bifurcate the margin between HPPC & TSC.

Sunil Chari: Sir as we have been telling in the previous calls, our facilities are fungible and common. So, it is very difficult for us to bifurcate cost and margin. So we have never done in the past and there are no plans to do in the future.

Moderator: As there are no further questions, I now hand the conference over to the management for their closing comments.

Edward Menezes: Thank you all of you for giving your valuable time to us. 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 all on this call.
