

August 04, 2023

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Dear Sir/Madam,

Sub.: Transcript of the Earnings Conference Call held on July 31, 2023 for Q1 FY24

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and with reference to our intimation dated July 24, 2023, regarding Earnings Conference call with Analyst(s)/Investor(s) held on Monday, July 31, 2023 we would like to inform that the transcript of the aforesaid conference call is attached herewith and the same is also available on the website of the Company at www.rossari.com/announcement/ under the head ‘Investor Call’

The same may please be taken on record and suitably disseminated to all concerned.

Thanking you,

Yours Sincerely,

For Rossari Biotech Limited

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GUPTA

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PARUL GUPTA
Date: 2023.08.04
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Parul Gupta
Company Secretary & Compliance Officer
Membership No.: A38895

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(An ISO 9001:2015 & 14001:2015 Certified Company), CIN: L24100MH2009PLC194818

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Rossari Biotech Limited

Q1 FY24 Earnings Conference Call Transcript

July 31, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Rossari Biotech Limited - Earnings Conference Call.

As a reminder, all the participants' lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India.

Anoop Poojari: Good afternoon, everyone and thank you for joining us on Rossari Biotech Limited's - Q1 FY24 Earnings Conference Call. We have with us Mr. Edward Menezes – Promoter and Executive Chairman. Mr. Sunil Chari – Promoter and Managing Director, and Mr. Ketan Sablok – Group Chief Financial Officer of the company.

We will begin the call with opening remarks from the management following which we will have the forum open for a question & 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 afternoon, everyone and thank you for joining us on our earnings call.

I hope all of you had the opportunity to go through our Results Presentation which provides details of our operational and financial performance for the first quarter ended 30th June 2023.

We have recorded a steady performance during the quarter demonstrating the resilience and adaptability of our business model amidst a challenging global economic landscape. Our commitment to sustainable and innovative solutions has kept us in a stable position despite the current subdued demand scenario witnessed in the chemical markets.



We are delighted to share that we have acquired the remaining 16% stake in our subsidiary Tristar Intermediates during the quarter and we are now nearing the completion of the acquisition of the remaining stake in Unitop leading to 100% ownership. As we move forward, our strategic intent remains to seamlessly integrate both Unitop and Tristar into our operations. We believe this move will drive growth and enhance our overall competitiveness.

While our recent organic performance has been tempered, our commitment to growth remains intact. Our approach to growth includes both seeding new businesses and strengthening our presence within existing segments. Central to this strategy is our focus on developing innovative, sustainable solutions across all our business verticals. In our HPPC division, our R&D team has made remarkable strides in creating morpholine-based derivatives, serving as integral components for pharma API and a diverse range of other industries. In addition, we have made significant progress in devising innovative solutions tailored to the institutional chemical needs of the Indian Railways. In the AHN division, our R&D team is actively designing smart, sustainable aquaculture solutions that are tailored to meet the specific needs of farmers. These state-of-the-art solutions span a wide spectrum of areas from probiotics, and feed additives, to disinfectants and comprehensive pond management.

Overall, R&D continues to be a cornerstone of our growth strategy and plays an important role in the company's future road map. Our confidence in customized products as a differentiator is backed by our track record in developing unique and innovative solutions for our customers. As the market landscape continues to evolve, we see our emphasis on R&D and customized solutions as an important pillar in maintaining consistent growth in a volatile environment.

To conclude, despite the macroeconomic challenges, we remain optimistic about the remainder of the year. We firmly believe that our strategic initiatives focused on broadening our customer base, prioritizing high-margin segments along with our commitment to R&D position us favorably for delivering healthy operational and financial performance in the coming years.

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

Ketan Sablok:

Good afternoon, everyone. At the outset, I would just like to inform everyone on the call that Mr. Chari, due to some unplanned exigencies, is traveling; he is there on the call with us today and he would interact based on his connectivity. So, my apologies for this.

Let me update you about the two key developments during this quarter. One, of course, as Edward sir said, we acquired a 16% stake in Tristar Intermediates Private Limited for an aggregate consideration of Rs. 16.9 crore from the existing shareholders. Post this, the entire 100% stake has now been acquired.

Second, as part of our digitization initiative, we have successfully transitioned to SAP S/4 HANA across the group. We went live across all six group companies and multiple locations. This digital transformation required a planned shutdown for a week in April, followed by, another week set aside for system stabilization. I am happy to inform you that the transition has been executed seamlessly and the new ERP system is operating smoothly. This planned migration led to slightly lower sales in the month of April due to the necessary downtime.



Now let me provide you with a brief overview on the “Financial Performance” for the quarter ended June 30th, 2023:

Despite the challenging global environment, the quarter's performance remained steady. The company achieved a revenue of Rs. 410.6 crore for the quarter compared to Rs. 406.5 crore in Q4 FY23 and Rs. 434.7 crore in Q1 FY23.

EBITDA stood at Rs. 57.7 crore as against Rs. 54.6 crore in Q4 FY23 and Rs. 57.8 crore in Q1 FY23. PAT during the quarter stood at Rs. 29.2 crore as against Rs. 29 crore in Q4 FY23 and Rs. 28.7 crore in Q1 FY23. Despite the challenges and the difficult conditions, we were able to improve our EBITDA margins to 14.1%, up by 70 bps Q-o-Q and about 80 bps up Y-on-Y. Our focus on prioritizing products with higher margins and our tight control on costs have contributed to enhancing our margin performance during the quarter.

In the HPPC segment, performance was stable even amidst softer demand from key domestic industries. The introduction and contribution of new products supported the performance.

Meanwhile, the TSC segment was steady, though growth was muted due to significant inventory destocking witnessed in the global markets. In the AHN segment, we exhibited a decrease quarter on quarter, but Y-on-Y there was growth. Given that the first 4 to 5 months are typically softer for the poultry industry, we have seen this trend quarter on quarter. However, we are confident that revenues will pick up through the year, and we expect this segment to show good growth during the current year.

We are also happy to share that ICRA has assigned us AA- stable on the fund-based term loan and fund-based working capital facilities A1+ on the short-term non-fund-based limits. These ratings are a testament to our robust financial position and strategic growth initiatives.

In closing, I would like to state that we remain dedicated to our strategic growth initiatives, consistently driving innovation and improving operational efficiency. We are confident that these initiatives, coupled with our disciplined financial management and investment in our people, will enable us to deliver sustainable growth in the coming years.

On that note, I would like to end my opening remarks and would request the moderator to open the forum for any questions that you may have.

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

Sanjesh Jain: Thanks for taking my question, I got a few of them. First, on this pharma API which we mentioned in the opening remark that one of the chemical lines we are entering will also allow us to get into pharma API. Can you elaborate slightly more deeply in terms of how you want to look at the pharma API, what are the products we are looking at, and where it fits in the value chain for us?

Edward Menezes: What we have done is, we had an opportunity in viscose manufacturing. You know that we are also dealing in spin finishes for viscose and there is a product-modified cellulose which is called lyocell and a solvent that is used there which is NMMO (N-Methylmorpholine N-oxide). In the last year, we started to develop this product and since this morpholine chemistry had other opportunities, we also developed other chemicals like HEM, i.e., hydroxyethyl morpholine or N-formyl morpholine, or N-methyl morpholine. These are the 3-4 products that we have been targeting out of



which NMMO is a big product that goes into lyocell worldwide the potential for this product is large and there are not very many players whose products are approved here. We have got approvals for this product from some major multinational manufacturers as well as from the local manufacturer of lyocell in India. And therefore, as an extension to the NMMO, we also ventured into the same chemistry with HEM, NMM as well as NFM; out of which HEM is a molecule that is used in the manufacture of drugs for kidney transplants and heart diseases; that is how this new chemistry was added to our portfolio.

Sanjesh Jain: When we say API, this is just 1 molecule, right? We are getting into an intermediate or we are getting into an API.

Edward Menezes: It will be an intermediate, it must be a misnomer there. It's an intermediate for the drugs.

Sanjesh Jain: Who else produces this product today in India?

Edward Menezes: My pharma technical team will be able to tell, but I can share that information with you another time.

Sanjesh Jain: Second, on the HPPC consumer side of the business which is the anti-depository and other white-label manufacturing we do. How has been the consumer trend? Because, if you look at the FMCG companies, volume growth remains steady while for us if you look at the performance, it is still not catching up. What is the expectation for this year in the HPPC category?

Edward Menezes: The HPPC category has done very well for us in the last year. Unfortunately, because of the softening of the raw material prices, the selling prices have come down, and therefore, you see a dip in the HPPC revenues. But if you see the HPPC volumes, we have almost a 19% increase in volumes year on year, which overall is a very healthy trend for us. In the ARD also, we have a very healthy volume increase. It was only because of the price correction that happened that you see a small decrease in the HPPC sales.

Sanjesh Jain: But again, that volume growth is not showing in the gross profit growth as well. Because, if I look at the gross profit for the standalone business, it has grown by 11% while there is a tailwind of lower raw material prices in the margin. Is that the new business that we are doing a margin dilutive versus what we were doing last year?

Edward Menezes: You will see a gross profit increase of only 11%, but if you see the EBITDA margin, because of the volumes that we have incorporated and the fixed cost coming down, the EBITDA margins have grown dramatically in the standalone, say from Rs. 27 crore to Rs. 35 crore.

Sanjesh Jain: I was just looking at the prices and the volume that this EBITDA captures a lot of operating leverage.

Edward Menezes: The volumes have gone up; therefore, we are able to reduce the costs for these products.

Sanjesh Jain: I was just going through your annual report. It appears that Buzil Rossari Private Limited's revenue in FY23 has declined from Rs. 85 crore to Rs. 79 crore while we were anticipating a very strong growth in Buzil Rossari Private Limited. What is transpiring there? Why there has been a revenue, EBITDA, and PAT decline last year in the Buzil Rossari?

Ketan Sablok: On the BRPL front, last year we started off with a new line of business which was into the government tender business, where we supply cleaning products to large government schools and government contracts. These tenders, we realized, that we were unable to do it through Buzil Rossari because of certain conditions in the tender documents with respect to the net worth and minimum sales and things like that. All that part of the sales and the business were routed through Rossari. That's why you will see that the growth which we were expecting or planned in BRPL, part of that is not visible in the BRPL numbers because they have come in the Rossari number. But generally, for our internal MIS, we always show that as BRPL sales because it was generated by the BRPL team.

Sanjesh Jain: How much crores was it last year compared to Rs. 85 crore FY22?

Ketan Sablok: Last year, this was, I think, about Rs. 20 crore to Rs. 25 crore of sales which was done through Rossari.

Sanjesh Jain: So, we have done almost Rs. 100 crore versus Rs. 85 crore in FY22.

Ketan Sablok: Rs. 100 crore is what we talk about as last year's sales of Buzil.

Sanjesh Jain: The last two questions on the Tristar, how has been the trend? Have we seen any slowdown? Because I think the Europe market generally is very weak and Tristar had a larger presence there. Second a bookkeeping question on the depreciation quarter on quarter has declined from Rs. 16 crore to Rs. 14 crore. Anything there? Why has it changed?

Ketan Sablok: Tristar, yes, you are right. We are seeing some pressure from the European market, but I think this quarter should be a better quarter for us. In fact, June was also good for us in Tristar. We are not much worried about the Tristar front because despite April-May being a little soft, we are seeing good traction in Tristar. Overall, on an annualized basis, we are quite good on the Tristar front. We should see good numbers coming in through the year.

Your second was on depreciation. Last year, Q4 being the last quarter, some of the asset adjustments in terms of accelerated depreciation, etc., we took on some of our older assets at Silvassa and I think some also in the facility in Dahej. Those accelerated depreciation impacts came in Q4. That's what resulted in a higher depreciation rate last year. And of course, since we follow the WDV method of depreciation, the rates will be lower quarter on quarter. But now I think the current rate of about Rs. 14 crore is a more consistent rate that will be there on a quarterly basis.

Sanjesh Jain: Just one last question. Any update on the FY24 guidance? Anything which we think is doable in terms of top line EBITDA and PAT?

Ketan Sablok: Topline, I think we should be at about a low double-digit, 12% to 14% is what we still think we will be able to achieve at least post the Q1 performance.

Sanjesh Jain: And EBITDA margin?

Ketan Sablok: It will be on similar lines.

Sanjesh Jain: 14% to 15%.

Ketan Sablok: Yes, we would be happy if we can do around 14%, it would be a good target for us.

- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** First question on the segmental growth for the quarter. If you can help us break it up into volumes and realize. You mentioned on a standalone basis, we are seeing double-digit growth, but is there a significant slowdown on the subsidiary side? Because EBITDA and revenue both de-growth on a year-on-year basis.
- Ketan Sablok:** I will talk more from the consolidated basis because as we indicated that it's better to look at the numbers on a consol basis because now a lot of the sales happen on an intercompany basis where all the new businesses that are coming in into Unitop and Tristar are being done through Rossari. So, if you see on an overall consolidated basis, I think we have seen good volume traction and that's quite heartening for us, even though a similar kind of growth is not being seen on the top line because of the RM price softening, resulting in some price corrections at our end. But if you see it year on year, I think we have done about 20% kind of volume growth and I think that's what is important for us. Our top line is down by 6% on a consolidated basis and I think that's more to do with the pricing part.
- Ankur Periwal:** 20% volume growth year on year across all the segments?
- Ketan Sablok:** I am giving an overall number.
- Ankur Periwal:** If you can broadly highlight which are the leading ones here? How was the growth in HPPC, for example?
- Ketan Sablok:** And textile was almost stagnant in terms of volumes, very small.
- Ankur Periwal:** Given the share, I believe HPPC would have grown much faster there.
- Ketan Sablok:** Yes.
- Ankur Periwal:** Referring to the earlier discussion on the operating leverage side, if I look at the consol side, the EBITDA, or the gross profit is largely flattish despite the volumetric increase. Is there some RM inflation that is yet to be passed on? Or how's the margin situation there?
- Edward Menezes:** The RM prices in the last 2 weeks have started to uptick again. So, we are not really sure how we will be passing on the price or whether there will be an increase in price. Most commodities have started going upwards. If you look at styrene, if you look at butyl acrylate, or if you look at formic acid, or acetic acid, all of them are showing an upward trend in the last 2 weeks. So, we'll really not be able to give you a guidance on whether more price correction will come or there will be a price increase, more so because the HPPC price correction or increase comes quickly because it is passed on immediately to the customer.
- Ankur Periwal:** Just presuming the same, which is RM inflationary scenario is what it is at today's prices, are we expecting our margins to be largely stable? Or probably some pass-through is happening there and so should things improve there since volumetric growth has started coming back?
- Edward Menezes:** Our strategy is to fill our capacity; therefore, we are not looking at very high growth in margins. But we would like to keep the margins stable but fill capacity and therefore cost will come down and help us boost our EBITDA margins.

- Ankur Periwal:** Lastly, on the new product launches which you highlighted and pretty healthy growth in AHN this quarter, how should one look at the product launches and the margin profile here? Will the focus still be on volumetric capacity utilization and volume growth here? And probably the margins may take a beating in the near term.
- Edward Menezes:** Sir, for the new products, there will always be a higher-margin idea. So, there is not going to be volume growth. I mean, we are not going to run after volumes over there. So, all the new products based on morpholine or the new products introduced in Aqua, they will have healthy margins for us and then we will build the brand and the business there; whereas the HPPC business is the biggest engine, I would say the fastest engine for us to fill in capacities. So, that is where we will focus to fill capacities with HPPC products whereas, with the new products that come in, we are not using the strategy of low prices. It will be always at a healthy margin.
- Moderator:** The next question is from the line of Aditya Chheda from InCred Asset Management. Please go ahead.
- Aditya Chheda:** My question was again related to the raw materials versus the previous long-term trends. Do you feel that those have normalized more or less, or if you could sort of guide us from a more medium- to long-term perspective as to how much realization degrowth is possible if we compare some long-term trends? And, if you could help us understand the quarterly run rate of these subsidiaries, and you can quantify the intercompany sales which we are doing right now? If you can quantify them so that we can understand the performance better?
- Ketan Sablok:** RM prices currently are steady, but as Edward sir said sometime back, in the last 2-3 weeks, we are again seeing some hardening in the prices. So, we will have to take this as it comes because it is a little difficult for us to currently understand how the prices are going to pan out. But we are generally not taking very long-term positions on the raw materials. So, I think we will be in a much better position to handle the pricing whichever side it moves out.
- Your second question was on intercompany sales. As I said, it is better to look at the numbers on a completely consolidated basis because now a lot of the sales are happening across companies depending on the want of the customers and the development of products and certain parts of the products which are happening in different plant locations of various group companies. So, the ideal way would be to look at the numbers on a holistic basis.
- Moderator:** The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** Sir, my first question is on the Unitop side. At Unitop, we serve predominantly agrochemicals and oil & gas. And from the agrochemical companies, we have seen a very muted commentary. Was there any impact during Q1 on the agrochemicals side and how has it been looking in the foreseeable future, given the demand or the POs that we are receiving?
- Ketan Sablok:** On the Unitop side, this quarter, I think we have seen a good demand. The only thing that impacted slightly on the Unitop sales was we had about 8-10 days of complete shutdown on the dispatches early in April because of the SAP implementation. That actually impacted more on the Unitop side because it took some time for us to consolidate and go live on the system there. But post that, I think we have seen good demand and I think even July has been a good month for us in Unitop. The capacity utilization at Unitop I could say in the last 3 months, including July, has been

significantly good. It has been at about 85% to 90% plus utilization of the capacity. So, for us, at least in terms of the orders and the POs, it has been good for the last 3 months at least.

Edward Menezes: Rohit, to add to that, in Unitop, because of the synergies between Rossari, BRPL, Romakk, and Unitop as well as Tristar, a lot of demand for non-agro surfactants have been generated by the group and we are looking at pending orders this month. It's pending orders in excess of 2000 tonnes. We are seeing that Unitop is doing pretty well for us, and I am sure this quarter also will be strong for Unitop.

Rohit Nagraj: The second question is, from the export side, how has the performance been during Q1 and what are we hearing? Because, generally for the chemicals companies, exports have been dampener over the last few quarters. What is our feedback on the same?

Ketan Sablok: This quarter we have done about Rs. 80 crore of exports. Roughly about 20% of our turnover is on the export side. Partly you're right, we have not seen the growth coming. In the last quarter also, we were at 80. Last year, we were at about 85-ish. So, we have not seen the traction there. It has more, I think, been impacted by the textile's slowdown. Even on the export side, in a lot of the countries where we export, we have become rather more cautious because many of these countries like Bangladesh, Egypt, etc., there are issues on the payment side in terms of forex and we are quite cautious on the customers that we are dealing with. We don't want any of our funds to get kind of stuck there. There are headwinds in Europe and US also in the textile space. We expect at least the next 2 quarters also to be slightly sluggish. We may not see growth coming in, but we would be happy if we can maintain the current run rate. Maybe post that, we will see some inventory use up in the textile space and then we can see the export turnover in textiles also going up. And then the overall turnover on the export side should also grow.

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

Edward Menezes: Thank you, 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.

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility for such errors, although an effort has been made to ensure a high level of accuracy.