



Clean Science and Technology Limited

i n n o v a t i o n a t w o r k

**Date: 18.11.2021**

To,

**BSE Limited**  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Fort,  
Mumbai – 400 001  
**Scip Code: 543318**

**National Stock Exchange of India Limited**  
Exchange Plaza, Plot no. C/1,  
G Block, Bandra-Kurla Complex  
Bandra (E),  
Mumbai - 400 051  
**Trading Symbol: CLEAN**

Dear Sir/Madam

**Subject: Transcript of conference call on the Company's Q2 FY21-22 Earnings.**

**Ref.: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations")**

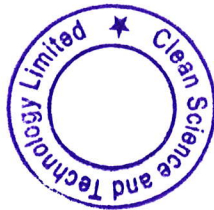
Further to our letter dated 09.11.2021 and in terms of Regulation 30 read with Schedule III - Part A to the Listing Regulations, we are enclosing herewith the transcript of conference call on the Company's Q2 FY21-22 Earnings held on 11<sup>th</sup> November, 2021.

You are requested to take the same on record.

Thanking You.

**For Clean Science and Technology Limited**

**Mahesh Kulkarni**  
Company Secretary



**(Erstwhile known as Clean Science and Technology Private Limited)**

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## Conference Call of Clean Science and Technology Limited

Event Date / Time : 11<sup>th</sup> November 2021, 05:00 PM IST

### **Presentation Session**

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**Moderator:** Good evening, ladies and gentlemen. I am Momita, moderator for the conference call. Welcome to Q2 FY2022 earnings conference call for Clean Science and Technology. 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 any assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchstone telephone. Please note that this conference is recorded. I would now like to handover the call to Mr. Ankur Periwal from Axis Capital. Thank you and over to you, sir.

**Ankur Periwal:** Thank you Momita. Good evening friends and welcome to Clean Science and Technology Limited Q2 and H1 FY2022 conference call. The call will be initiated with a brief management discussion on the Q2 and H1 performance, followed by an interactive Q&A session. Management will be represented by Mr. Siddharth Sikchi, Whole-time Director and Mr. Pratik Bora, Chief Financial Officer. Over to you Siddharth, for your initial comments.

**Siddharth Sikchi:** Thank you Ankur for hosting us. Good evening, everyone. I am Siddharth Sikchi, on behalf of Clean Science and Technology I would like to wish everyone a very Happy Diwali. I trust all of you are in good health and all of you are safe. For the benefit of participants who are hearing us for the first time, let me give you a quick introduction to Clean Science and Technology.

Clean Science and Technology is a highly differentiated specialty chemical company with very high focus on R&D and innovation. There is lot of focus given on developing newer innovative chemical catalytic processes. And due to this, we have emerged as a key global supplier for critical specialty chemicals within the span of last fifteen years. 70% of our revenues come from export market, with a sizable share coming alone from China, which is one of the most competitive market globally. We enjoy meaningful gross margins of about 68%, despite the high inflation, the logistics problem and all the scenarios which are currently prevailing.

Our revenues are typically derived from three key segments. One is performance chemicals, which comprises 70% of our sales, which comes from MEHQ, BHA. Pharma segment, which comprises of about 15-16% of sales, which comes from Guaiacol and DCC. And third segment is FMCG chemicals, which comprises of about roughly 14% of our sales. Besides creating innovative chemical processes, our value chain is backward integrated to basic commodity chemicals, including phenol, methanol, acetic anhydride, to name a few.

Differentiated process and backward integration ensures that our gross margins remain resilient. The testimony to this competitive advantage is our healthy gross margins, which are at 68% despite key raw material prices increasing by over 60%, compared to pre-COVID levels. This quarter particularly has been a consolidation phase for us and as a strategic move, we have not passed all the raw material price increase to our customers. This, I believe has given us a very high goodwill with our customers, and will

benefit us with a higher wallet share of their requirements. Our endeavor is to be a premier partner of choice for our customers.

ESG, of course is one of the most important criteria in our company. Our entire processes are designed looking at cleaner and environment friendly processes. To also ascertain this, we are undergoing a very reputed certification called as the GreenCo. Very few companies in India have been certified by this certification. GreenCo evaluates commitment of the company towards environment friendliness. It basically determines the amount of carbon dioxide emitted per metric ton of chemical products produced by any organization. We estimate this certification to be completed by H1 FY2023.

CAPEX is underway towards our unit 3, where we are expanding our existing products capacity by about 50 odd percent and adding new range of products called as HALS, which is Hindered Amine Light Stabilizers. To this end, we have entered into an agreement to acquire 34 acres of plot, which is unit 4 for our greenfield CAPEX. This is the largest CAPEX till date for our Company. During the first half FY2022, we have incurred a CAPEX of about 75 odd crores and the CAPEX commitment continues to be strong with over 100 crores annually which shall be funded through internal accruals.

HALS stands for Hindered Amine Light Stabilizers. It is a new series which we are launching. It finds application in diverse industries including, water treatment, paint industry, master batches, polymerization inhibitor etc. We would be the first Indian company to manufacture HALS in the domestic market. The global market size for HALS is estimated to be about 1 billion dollars and growing at about 7-8% CAGR. And our endeavor is to be a key player in this segment within three to four years of our launch.

On the quarterly numbers, during Q2 FY2022, we reported highest ever revenue of about 153 crores, which is 9% higher than the last year Q2. Despite steep increase in input prices including the raw material prices, logistics prices, power and utility like coal prices our gross margins and PBT margins remain resilient at 68% and 47% respectively, with PAT of about 54 odd crores. Balance sheet, of course continues to be debt free, with a cash balance of approximately 275 crores.

On the outlook, company is undergoing a consolidation phase, wherein sizable CAPEX is underway towards existing and new products. We will continue to follow a prudent policy about capital expenditure program and cash management. We see sustainable growth environment in our business by introduction of new products and planned capacity expansion. We are confident that our focus on products and our process innovation, backward integration and operational excellence will help us navigate through the inflationary cost environment. The company is always working towards increasing its global presence by expanding its markets into newer geographies, business segments and product portfolio. So, this is all from my side. And I am now open for any questions and answers that you guys might have.

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### **Question and Answer Session**

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**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing \* and 1 again.

Our first question comes from Mr. Rohit Nagraj from Emkay Global Financial Services. Please go ahead sir.

**Rohit Nagraj:** Thanks for the opportunity and congrats on decent set of numbers in this challenging environment. Sir, the first question, as you mentioned in your opening remarks that we have not completely passed on the price increases, do you see that we will be passing this on, given the increasing price in the raw material cost is still underway? And thirdly, the cost will reduce only after the next three months and that will probably help in terms of Q3 and Q4 margins, sir your outlook on the same.

**Siddharth Sikchi:** Absolutely. So, let me explain to you. Generally, next year contracts of any company start in the month of October, November, December. And quarter 2 for us was very important to prove to our customers that despite of very high increase in our raw material prices, we are not being over aggressive and passing everything to them. We believe that even our end customers have not been able to increase prices of their end products as much as we are able to increase. So, everybody in the value chain is trying to absorb a little cost. And this has helped us in gaining some of the good contracts in the coming year and of course has given good confidence to our customers. But, going forward, the new contracts which will come in place will have these price increase incorporated in it.

**Rohit Nagraj:** Right, got it. And that is good to know that you will have the ability to pass through in the second quarter. And the second question is in terms that the CAPEX commitment that we have, we have land parcel for the greenfield CAPEX. In terms of this new land parcel, how much is the CAPEX commitment that can be accommodated over the next few years? This is just from the perspective that our land bank or our facilities are located adjacent to each other right now and whether we will be looking at some other places eventually when we will grow, outgrow the current size from a three to five years vision perspective? Thank you.

**Siddharth Sikchi:** So, I think you are asking question pertaining to unit 4, which is about 34 odd acres. One of the reasons for selecting similar MIDC area is our ability of understanding the labor problems in that particular locality and because of our proximity to our offices which gives us a very good control. So, that is one very big advantage we see. We were very fortunate to get a very good piece of 34 acres of land. It is not taken from the Government; it is acquired from Samrat Paper Mill. So, the discussions have been going on, but finally it got concluded. I think for the 34 acres new plot, the CAPEX could be approximately over 300 crores. Of course it will be phase wise, Phase-I, phase-II, phase-III, as and when new products also come on line, these will be incorporated, because 34 acres of land is a very large parcel of land. But, the Phase-I, which we are very confident will have about 150-175 odd crores of CAPEX. And phase-II, I think will also be in similar range. And then phase-III will come when we have more products coming out of our R&D.

**Rohit Nagraj:** Thanks. And just one last clarification, if I may. Could you just explain little bit more on our R&D initiatives and in terms of our R&D bandwidth, investment into it, probably separate R&D facility, given that our focus has been predominantly on technology and our own process? Thank you.

**Siddharth Sikchi:** Absolutely. So, R&D has been a very key parameter for the organization. I directly look into the R&D of the company. We have currently two R&D

units and the third new unit for R&D has already started; we just did the puja on Dussehra. The new members are joining in and we will have a new segment of R&D coming up there. In R&D, we are specifically focusing on three very large categories. One is the stabilizer, where the entire focus is given on this HALS segment, because it comprises of variety of products. So, we have already done some of them like, 701, 770, 622. There are also more coming up like 944, 292, etc. So, all these products are categorized as an inhibitor segment. Number two segment my R&D team is working is intermediate for agro and intermediate for pharmaceuticals, which is what we have already been doing. And of course, one segment is already working on existing business lines, where we are trying to further increase yield efficiencies and processes of our existing businesses, which we are currently working on.

**Rohit Nagraj:** Got it. Thank you so much and best of luck.

**Siddharth Sikchi:** Thank you so much.

**Moderator:** Our next question comes from Mr. Ankur Jain from Future Investment Private Limited. Please go ahead, sir.

**Ankur Jain:** Hi. Thank you so much for taking my question. My question is related to your R&D. So, what kind of products are we looking to manufacture in the next three to five years?

**Siddharth Sikchi:** So, R&D what we do is, Ankur-ji is that, for us the most important part is not the segment, but we particularly lay emphasis on process innovation. So, we look at a particular molecule say, where India is dependent predominantly on China or where imports are coming from the other parts of the world, and we try and figure out if we can come up with a better, cleaner, innovative processes, which is what we have done over the past fifteen years. So, to give you a reference, this HALS series which we have come up with, it is a very complex chemistry, where we are starting with the simplest raw material, namely acetone and ammonia, which are both less than a dollar. And we are going to make the entire segment of HALS, which comprises of several products, ranging from 7 dollars to 15 dollars. So, it is a multiple step processes which are involved. Similarly, on pharma intermediate and agro intermediate also similar thought process is used, where we try and see if we are able to come up with better processes. Hence, we are able to convince the customers to switch to us compared to the existing suppliers out there.

**Ankur Jain:** Okay, thank you sir. My second question is with respect to the gross margins. So, as you said you have not passed on completely. So, are we looking at the gross margins coming back to what they were in the previous quarter, in the coming year?

**Siddharth Sikchi:** Absolutely, let me explain that even during quarter 1 and quarter 2, there was steep increase in raw material prices, which was really unthought of. Power issues like coal - coal in itself ran up 17% over the last two quarters, which was absolutely unbelievable for us. Hence, it was very typical to anticipate these situations and keep passing the prices to the customer, because we generally do not want to be a supplier which keeps changing the contract as the raw material price keeps revising. So, if a contract is taken, we would like to respect that contract. But, going



forward these scenarios are evident globally that these are the problems which everybody is facing and hence even the customer now understands and even they are willing to discuss new prices with us.

**Ankur Jain:** Okay sir, thank you so much and all the best.

**Siddharth Sikchi:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Ms. Alisha Mahawla from Envision Capital Management.

**Alisha Mahawla:** Hi sir, good evening. And thank you for taking my question. Sir, my first question is what is the current capacity utilization level?

**Pratik Bora:** Hi Alisha. Across performance chemical segment, the capacity utilization is in the range of 70%, MEHQ being higher followed by BHA. Our second segment is pharma chemical segment, where Guaiacol's capacity utilization is again close to 70% while DCC is slowly ramping up. It is in the range of around 25 odd percent. And last segment is FMCG, where utilization is in the range of 65%

**Alisha Mahawla:** Okay. And sir last quarter you mentioned that in FMCG chemicals, one of your products you are seeing some demand contraction. Has that normalized or are we continuing to witness that?

**Siddharth Sikchi:** So, last quarter I think we saw some improvement. I am really hoping that quarter 3 and quarter 4 should be better, unless there is some major lockdown which happens. Because the product of FMCG i.e. 4-Methoxy Acetophenone goes into cosmetics, like the sunscreen product. So, sunscreen is majorly a product which people would apply on vacation, when they are going out in the sun, all those things. So, that segment is little disturbed right now. But, for quarter 2 and quarter 3 we have seen reasonable demand coming back. But, the only hope is that there shouldn't be any other lockdown. Otherwise, I think the segment should come up very well again.

**Alisha Mahawla:** Sir, just to clarify, the CAPEX that we are incurring is only for unit four, there is no other CAPEX that we are currently looking at, correct?

**Siddharth Sikchi:** No, we are also doing CAPEX in existing unit 3. So, there are two CAPEX happening simultaneously. CAPEX in unit 4 will basically begin after March, once we get environment clearance. Till then we are only buying the land. So, advance of about 10 crores is paid to the owner and the balance will be paid on due diligence. And CAPEX right now is happening in existing unit three.

**Alisha Mahawla:** Okay. Sir, what is the CAPEX we are doing in unit three, the amount or quantum?

**Siddharth Sikchi:** 75 crores is almost done and we are anticipating additional, so total would be around 100 crores. So, around 30 crores more would be done in over six to seven months' time.

**Alisha Mahawla:** Okay. And this all will be ready for use by the end of the year?

**Siddharth Sikchi:** So, it is coming up phase wise. Some of the plants will start in December and some are starting in March or April and some will start in September, so different product and different lines.

**Alisha Mahawla:** And this is expanding 50% of our capacity for our existing products plus doing the new HALS?

**Siddharth Sikchi:** Absolutely, perfect.

**Alisha Mahawla:** Okay. And then in unit four, that is something I think you will define later or have we defined what is the kind of CAPEX we are looking at?

**Siddharth Sikchi:** So, basically the balance as I mentioned is a series of products. Right now, we are coming up with only two. In unit four, additional four-five will come up and some pharma intermediate which we have already been successful in lab will also come up in unit four. This is planned for phase one of about 150 odd crores.

**Alisha Mahawla:** And when do we start?

**Siddharth Sikchi:** June 2023.

**Alisha Mahawla:** June 2023 even the plant will be ready.

**Siddharth Sikchi:** Hopefully, yes.

**Alisha Mahawla:** Okay, understood. And can we expect asset turn for the CAPEX we are doing in the unit three, the 100 crores to be similar to what we are currently doing, 2.5? 2.5 I believe is our asset turn currently?

**Siddharth Sikchi:** Close to 3.

**Alisha Mahawla:** Okay, understood. And just one last question, if I see your current run rate, while I do understand the challenges that we are facing, but it is not because of any contraction in demand, we are running slightly short of the kind of the growth, annual growth that we historically used to show. So, are we expecting H2 to be stronger?

**Siddharth Sikchi:** Yes.

**Alisha Mahawla:** H2 will be stronger.

**Siddharth Sikchi:** The reason is Q2 also had lot of shipping issues, logistics problem and same was in Q1. But now, in Q3 at least we are not seeing those issues as we had seen in Q1 and Q2. So, my real thought remains that Q3 and Q4 should be better than H1.

**Alisha Mahawla:** Got it. And just one last question, if I may, what is the kind of price hike that we have taken in this quarter or in H1?

**Siddharth Sikchi:** It depends on product to product. But, the price range has been increased on 3% to 10%.

**Alisha Mahawla:** In H1?

**Siddharth Sikchi:** In Q2 ending and these results will be seen in Q3.

**Alisha Mahawla:** Okay, great. Thank you.

**Siddharth Sikchi:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Ritesh Gupta from Kotak Securities. Please go ahead, sir.

**Ritesh Gupta:** Hi, thanks for taking my question and congratulations for the great listing and kind of numbers posted. I had a question in terms of the new capacities that were coming up for your product, for your core product. And when does that get commissioned, volume expansion for your core products? And the second part is that if I have understood you correctly, I kind of rechecking what you have said so far that you had already taken price hikes and from quarter three onwards, you would go back to your old rough margins, is that a correct understanding?

**Siddharth Sikchi:** So Ritesh, let me answer your first question. So, the plant should begin by March-April 2022 in phases, that is question one. Answer to your question two is, if the raw material remains at these levels, then yes, we have given price hike. But, tomorrow if further raw material price increase happens, then again, the margin would be at similar levels, because today it is very difficult for me to predict, because over last quarter to this quarter, say for instance, phenol for that matter, grew by 13%. Tertiary butanol grew 25%. This has been absolutely out of the normal. I have not seen this situation over the last thirteen-fourteen years, where quarter on quarter prices are increasing by 25%. The situation I believe is now going to get better, things should start stabilizing, then of course the margin build up will start happening again to the earlier levels. However, I still anticipate that the RM prices should still be closer to 30 odd percent, which in quarter two is 31.7%.

**Ritesh Gupta:** Got it, got it. So, the price hikes you have already taken and whatever sharp increase in coal prices that we saw in the month of September and probably later on and probably some of the other segments, where we saw a sharp increase towards the end of quarter two and probably the beginning of quarter three as well, all that is getting factored in.

**Siddharth Sikchi:** Absolutely.

**Ritesh Gupta:** And the next one is that one of the competitions have been ramping up their capacities and their volumes. Have you seen any increase in competitive intensity etc. so far or you haven't seen any kind of volume related issues etc.?

**Siddharth Sikchi:** I can only tell you that we are running full, reasonably full capacities. And I think Q3 and Q4 remains strong for us.



**Ritesh Gupta:** Okay, that is it. Thanks. Thank you so much.

**Siddharth Sikchi:** Thanks, Ritesh.

**Moderator:** Thank you sir. Our next question comes from Mr. Shrinivas Aiyer from Rockfort Consultancy. Please go ahead, sir.

**Shrinivas Aiyer:** Good evening, sir. I have two questions. One is, you mentioned that capacity utilization is 70%. Why it is not fully utilized? And when we are expanding the capacity, why existing capacity is not fully utilized?

**Pratik Bora:** So, optimal utilization level is between the range of 80% to 85% levels. And we are expanding capacities only in those products where the utilization levels are optimal. So, for instance in FMCG chemical segments, we are not planning to add any additional capacities for now.

**Shrinivas Aiyer:** Okay. My second question is, in the last conference call you mentioned that environment clearance will be available by January, but this time you are telling by March. What are the reasons why it is getting delayed?

**Siddharth Sikchi:** No, it is not getting delayed. Unit four earlier was planned on 17 acres. But, after getting that land from MIDC, we found this 34 acres piece of land and we thought it is far more better for us, for future expansion. Hence, the 17 acres will be sold out and all future expansion will now be done on 34 acres. And hence because the new address has come up, so the new process of clearance has begun.

**Shrinivas Aiyer:** Okay, I understand. Thanks.

**Siddharth Sikchi:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Sai Kumar from Vigneshwara Consultancy. Please go ahead, sir.

**Sai Kumar:** Thank you for accepting my question. Sir, I had a doubt in antiretroviral API. So, can you give us some idea as to how the pharma chemicals has impacted, like there is a de-growth, however, there is demand in the pharma antiretroviral API. So, can you give us some guidance and how it will be affected further?

**Siddharth Sikchi:** So, antiretroviral drugs which we make, typically go for treatments of Herpes and HIV related infection. And I think because of lockdown, people are not travelling and hence antiretroviral markets are a little slower than in general what they were. Reason two is, across the world majority pharma companies still are focusing on COVID and COVID related vaccines and COVID related drugs. So, the emphasis on the validation of a new vendor in a different space is not their priority as of now. But, I think over the next six to eight months' time, we will get approved at other pharma companies and there will be visible growth.

**Sai Kumar:** Okay, got it. So, I had one more question. So, how is our acetic anhydride asset and the revenue growth, revenue after increasing the price hike last quarter and this quarter, there is a decrement, right? So, how did the asset and will

there be any possibility of incremental or decremental price, just a guidance, it is not a forward-looking statement, just we need some idea?

**Siddharth Sikchi:** So, acetic anhydride is dependent on acetic acid, which is dependent on methanol. And this has been extremely volatile for the past one year. I have been seeing volatility in prices of acetic anhydride since January. Last month suddenly methanol prices touched almost Rs.60. And today as we speak, it is at Rs.40. So, these prices of acetic anhydride are not very static even at the moment. And hence, it would be very difficult to really anticipate whether tomorrow the prices of acetic anhydride will go down or it will go up again. So, we have taken an average price and quoted our customers based on that and the business is happening based on that. But, tomorrow if prices further go up by 25%, it will be detrimental. But, if prices come down by 20%, it will be beneficial for us for the existing contract.

**Sai Kumar:** Okay, go it. So, I had one more doubt regarding the product discovery recently in HALS, Hindered Amine Light Stabilizers. So, I need to know how the growth in that segment has happened recently after releasing the statement of discovery of the product? How is the growth in that segment?

**Siddharth Sikchi:** So, we are still on lab and pilot stage. The construction is going to begin for one of them or has just started construction. And the plant will in itself start by June or July 2022. And that is when the commercial production of these products will begin.

**Sai Kumar:** Okay, go it. Thank you.

**Siddharth Sikchi:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Keshav Kumar from RakSan Investors. Please go ahead, sir.

**Keshav Kumar:** Hi, good evening, sir. Thanks a lot for taking my questions. Sir, I just have one very broad-based question. This year, the Nobel Prize for Chemistry was awarded for developing a tool, for building an asymmetric organocatalyst.

**Siddharth Sikchi:** Organometallic catalyst, right.

**Keshav Kumar:** Yeah. So, sir, could this come as a deterrent for our company and reduce the cost arbitrage that we have or could we benefit or should it not have any material impact?

**Siddharth Sikchi:** So, asymmetric synthesis, organometallic chemistry had been very popular already. But, these chemistries are used where molecules are extremely expensive. Organometallic catalysts costs are so expensive that products which we manufacture in the range of 5 dollars to 10 dollars, these organometallic catalysts cannot be used. These are used for very high value compounds or very high-priced molecules. So, it has absolutely zero impact on any of our businesses.

**Keshav Kumar:** Sure sir, that is all from me. Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Sanjay Goradia from VEC Investments. Please go ahead, sir.

**Sanjay Goradia:** Hello. Thank you for taking my question. My first question is regarding the revenue mix by geography. Could you throw some color on how you had an expansion improvement in revenue to China, so if you can just throw some color on what led to this and where do we see this going forward?

**Siddharth Sikchi:** So, China has been a very interesting geography for us. And I think this quarter our sales to China have been in range of 40-42%. And China has been a very favorable market for us. The demand is very strong in China. And we see volumes growth happening in that part of the geography.

**Sanjay Goradia:** But, that just primarily pertains to performance chemicals that we are looking at growth?

**Siddharth Sikchi:** Yeah. Performance chemicals is one of the major criteria. We export all the products to China. But yes, performance chemicals have been the largest amongst them.

**Sanjay Goradia:** And going forward do we maintain a similar mix or we see this further increasing from here?

**Siddharth Sikchi:** No, I think it should be closer to 38-40 odd percent.

**Sanjay Goradia:** Okay, thank you. My second question will be on the balance sheet. Wanted to understand, we are now sitting on cash and we have seen improvement in the working capital. Do we take this now as the new steady state capital, do you see further improvement? And any thought on how we are going to be utilizing the cash?

**Pratik Bora:** So, the cash utilization strategy as we have already mentioned as a strategic call, we would like to maintain 1 year of PAT as cash on books. Besides that it would be CAPEX funding which is already underway. We will continue on other strategic investment which will help us moderate our operating expenses, like we have done in the past towards captive solar plants. And dividend is of course, as committed during the IPO time.

**Sanjay Goradia:** Okay, thank you. This is the last piece of suggestion, if we could also have some of the key products that we are operating in, if you can give the market size in the presentation that will also be very helpful.

**Siddharth Sikchi:** Sure.

**Sanjay Goradia:** Thank you. I will come back in the queue.

**Siddharth Sikchi:** Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Rohit Nagraj from Emkay Global Financial Services. Please go ahead, sir.

**Rohit Nagraj:** Thanks for the follow up. For the existing set of products, I understand that the byproduct is water and probably requirements from the treatment perspective will be relatively minimal. But, in the next set of products which we are developing and which we are currently under development stage, do you need a good amount of environmental clearance, which needs to be taken care of and which will again have investments going into that? Thank you.

**Siddharth Sikchi:** So, primarily our focus is on developing very cleaner processes, number one. Number two, we anyway have to get permission for building the plant. Kurkumbh is a landlocked area. And all the plants and all the capacity expansions which we do are with keeping in mind that nothing can be discharged outside of our factory premises. So, the water is regenerated back. The salts are sold in the market. So whatever is there has to be utilized in-house or has to be sold out.

**Rohit Nagraj:** Got it. And in terms of the scale up of HALS business, how do you see it shaping up over the next three to five years. You had alluded that we would start sometime by mid calendar year 2022. How do we see it in terms of maybe growth rate or potential revenue profile? Thank you.

**Siddharth Sikchi:** So, we are first starting with two HALS, one is 701 and 770. 701 is predominantly export market, whereas 770 is domestic market totally, because India is importing close to 3000 tons of 770 and we would be manufacturing around 1500 odd tons. So, that would be only domestic market and 701 it will be export market.

**Rohit Nagraj:** Okay. So, that will be the initial phase of starting and then eventually we will add more products?

**Siddharth Sikchi:** We will add more products and we will add more capacities to the existing as well.

**Rohit Nagraj:** Sir, normally what is the optimal time that we look at from utilizing the capacities?

**Siddharth Sikchi:** Typically, I think it should take good one year to get approval from all major accounts within India and abroad. So, year one you can anticipate 30% to 40% capacity utilization. Year two should be 40% to 60% and year three should be 60% to 75%. So, three years is a very good number, thousand days when we start a plant to reach optimal time, of course, if your price, quality, everything is in line, a thousand days program to get a significant market share is what I aim to pursue.

**Rohit Nagraj:** Got it. Thanks, and best of luck.

**Moderator:** Thank you sir. Our next question comes from Mr. Ankur Jain from Future Investment Private Limited. Please go ahead, sir.

**Ankur Jain:** Thanks for taking my question. I just wanted to know what kind of market share are we looking to capture in the HALS series? As you said it is a dollar 1 billion market, market size. So, what kind of market share do we see in the next three to five years?

**Siddharth Sikchi:** So, in five years I think we should be aiming at 10% market share, which is a very big market share.

**Ankur Jain:** 10%, okay. Thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Sukanth Krish. He is an Individual investor. Please go ahead, sir.

**Sukanth Krish:** Hello, thanks for giving this opportunity. Since some of my questions are already answered, so related to the HALS product, how we can command the margins? Like, once we started manufacturing the HALS product, will there be a margin increase or decrease will happen and what is the margin we command for the HALS product? And the product, if it is already integrated with our existing chemistry or entirely, we are procuring new raw materials? That is the question.

**Siddharth Sikchi:** So, one of the raw materials is known, but both the raw materials we are buying for some other products. But, these are very basic commodity chemicals, like acetone and ammonia. The margins built up typically we have seen happens when the optimal capacity utilization is achieved. As and when we keep operating the plant for two or three years, the competitiveness becomes much better, the yield, efficiencies keep improving over the period of time. So, we might start with a reasonable margin to begin with. But, I am very confident that as we keep moving on, with better efficiencies, better operational yields, the margin built up will keep happening.

**Sukanth Krish:** Okay sir. Same question, related to the HALS product. For Anisole we have the unique manufacturing process, the vaporization technology, so that we are the low cost producer among the whole world. So, similarly for HALS, do we have any unique technology or we have any unique technology across that?

**Siddharth Sikchi:** So, here one of the key producers of this series what we are doing is BASF globally. Honestly it is very difficult for us to identify what process they are using, what are their yields and what are their efficiencies. But, the process which we have developed, I think is one of the superior process. And of course, because our operations are in India, so I personally believe that our manpower, our overall expenses should be better compared to global players

**Sukanth Krish:** Okay sir. So, in that case, are we not going to patent this also, like vapor technology?

**Siddharth Sikchi:** No sir, we will not patent.

**Sukanth Krish:** Okay, thanks. Is there any reason?

**Siddharth Sikchi:** Patenting is the same problem as I keep mentioning that you have to divulge so much information.

**Sukanth Krish:** Okay.

**Moderator:** Thank you sir. Our next question comes from Mr. Roshan Nair from Equentis Wealth Advisory. Please go ahead, sir.

**Roshan Nair:** Thanks for the opportunity. Majority of my questions have been answered. Sir, just one question. So, how much of MEHQ we consume in-house to forward integrate to BHA?

**Siddharth Sikchi:** Closer to 70 tons is something which we consume as such, per month.

**Roshan Nair:** Okay and the rest is sold in the market, sir?

**Siddharth Sikchi:** Absolutely.

**Roshan Nair:** Yeah, thanks a lot.

**Moderator:** Thank you sir. Our next question comes from Mr. Rajasekar MS. He is an Individual investor. Please go ahead, sir.

**Rajasekar MS:** Good afternoon, sir. In your commentary, you just mentioned that you have utilized capacity up to 70% and the optimum capacity utilization is about 85%. So, suppose if you have to expand, if you get more orders, will you be able to cater with the existing capacity or there will be a bottleneck?

**Siddharth Sikchi:** Not in two quarters, because our new capacities will start by March. So, after that plant startup, there will be absolutely no problem. And tomorrow if we get very, very large order, which I don't believe should happen, I think it shouldn't be a very big bottleneck right now.

**Rajasekar MS:** Okay, that's right. And my second question is, you told that to develop a product, you follow the new process and excellent process. And after that you will go to the customer for convincing him to take the products from you. In that case is your prices of the product coming down with your new process or how did that you convince the customer, on where did you convince the customer?

**Siddharth Sikchi:** Pricing is the major, major criteria and of course if better pricing is coupled with green, clean process that gives a definite, very large impact to customer, because he starts believing that you will be a sustainable supplier. If there are pollution problem happening, you will not be the first ones that Government would ask to shut the plant.

**Rajasekar MS:** And the second thing is your process and technology is all unique to you, that is why you don't want to divulge, when you file a patent, you need to divulge lot of things. That is the same case with your R&D personnel. You need to retain your R&D personnel, because the knowledge, the repository of knowledge is with them. How are you retaining your personnel or is there any churn in the R&D? Thank you.

**Siddharth Sikchi:** So in R&D, lot of raw materials are still in coded form. And we have managed our R&D in a fashion that, all steps are not happening in one particular lab.

**Rajasekar MS:** Okay. Right sir, thank you. And then my last question is, how much of cash you have in hand as of now?



**Siddharth Sikchi:** 275 crores.

**Rajasekar MS:** Okay, thank you very much. All the best sir. thank you.

**Siddharth Sikchi:** Thank you, sir.

**Moderator:** Thank you sir. Our next question comes from Mr. Nitin Gandhi from KIFS Trade Capital Private Limited. Please go ahead, sir.

**Nitin Gandhi:** Sir, you said third year could be or maybe the fourth year will be the peak revenue potential, which you will be able to exploit based on all the expansion which you have then planned. So, what could be the best potential case revenue based on your existing plants and money which you have figured out for CAPEX, including 75 crores now and in H2 and whatever phase four?

**Siddharth Sikchi:** I think typically once all these plants operate, we should touch a top line of 800-900 odd crores.

**Nitin Gandhi:** I thought it will be a little higher, because your existing is 600 at 75% and at 85% best-case scenario, it could be somewhere around 750 and your existing 100 crores CAPEX will give around 1050 and plus HALS?

**Siddharth Sikchi:** No, this 100 includes HALS, one part of HALS is included.

**Nitin Gandhi:** Right. The best-case scenario is 1050 crores?

**Siddharth Sikchi:** It is better to say less and deliver more

**Nitin Gandhi:** I am not saying delivery. I am saying peak potential. I am just checking the peak potential. So, that means you will need whatever cash flow generation you will start generating from 2023-2024, you will need to have another big expansion ready to meet whatever cash flow is generated, approximately 250 crores?

**Siddharth Sikchi:** This 34 acres of land is purchased, so that we can do much better expansion and bigger expansion. And we don't have to wait every time for ECs and Government and procurement of land.

**Nitin Gandhi:** Okay, thank you.

**Moderator:** Thank you sir. Our next question comes from Mr. Karthikeya Yakkali. He is an Individual Investor. Please go ahead, sir.

**Karthikeya Yakkali:** Hi sir. Thanks for the opportunity. I have one question. So, when all the CAPEX is done and everything is ready, would the current margins sustain?

**Siddharth Sikchi:** Sir, if I only start looking at chemical products, where margins are 50%, then probably I cannot do anything. So, the answer to your question is that our focus is that we should always keep a very healthy ROC. And I think our ultimate goal is to maintain an ROC of 50%, minimum.

- Karthikeya Yakkali:** Okay, thank you.
- Moderator:** Thank you sir. Our next question comes from Mr. Tejas Seth. He is an Individual Investor. Please go ahead, sir.
- Tejas Seth:** Good evening, sir. Last year in September quarter, our top line was around 480 odd crores.
- Siddharth Sikchi:** It was not 480 crores. Last quarter was 138, I think.
- Pratik Bora:** Yes, 139 crores.
- Tejas Seth:** Okay, then I am mistaken somewhere. And sir, in your DRHP you had mentioned that you will be coming up in the fragrance chemicals as well, in the stabilizers and the fragrance chemical business.
- Siddharth Sikchi:** Stabilizer I know, fragrance not really.
- Tejas Seth:** Okay. In the DRHP, the four segments that you had mentioned new products will be coming, one, from the stabilizer and there are other three segments as well fragrance, chemicals and agro chemicals.
- Siddharth Sikchi:** Not fragrance, because we are not into making any perfumery chemicals. We make raw materials which might go into making perfumery chemicals.
- Tejas Seth:** Okay. And you said in the last concall that H2 will be much better than H1. do you see the same happening as of now?
- Siddharth Sikchi:** Because, the only logical answer I have is that, because the shipping problems now seem to be getting better. So, sales will not be impacted because of shipping problems, which we saw majorly happening in Q1 and Q2, where we couldn't take businesses, because of unavailability of shipping.
- Tejas Seth:** Okay. And any guidance, how much percentage improvement can we see?
- Siddharth Sikchi:** I think it should be better, if these shipping problems, as it appears to me, will get better, then I think even our H2 should be better than H1.
- Tejas Seth:** Okay, thank you sir.
- Siddharth Sikchi:** Thank you so much sir.
- Moderator:** Thank you sir. Ladies and gentlemen, that would be the last question for the call. I would now like to handover the floor to Mr. Siddharth Sikchi for closing comments. Please go ahead, sir.
- Siddharth Sikchi:** Thank you all for taking time out and listening to us and understanding how the company is going forward and how the quarter results are. I also appreciate all the questions being asked. I hope I have been able to answer most of the

questions. I think the major concerns again are the increasing raw material prices and the increasing problems with shipments and logistics, which I think should get better in the H2 of FY2022. And with this, I would like to conclude my call and my discussion. Thank you so much. Thank you Axis team and Ankur for organizing the call and thank you Momita. Thank you so much guys. Have a good one.

**Pratik Bora:** Thank you so much. Bye.

**Moderator:** Thank you sir. Ladies and gentlemen, with this we conclude our conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now.