



Clean Science and Technology Limited
i n n o v a t i o n a t w o r k

28.10.2022

To,

BSE Limited
Phiroze JeeJeebhoy Towers,
Dalal Street,
Fort, Mumbai – 400 001
Scrip 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 FY22-23 Earnings.

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

Further to our letter dated 18.10.2022 and in terms of Regulation 30 read with Schedule III - Part A to the Listing Regulations, please find enclosed herewith the transcript of conference call on the Company's Q2 FY22-23 Earnings held on 20th October, 2022.

You are requested to take the same on record.

Thanking You.

For Clean Science and Technology Limited

Mahesh Kulkarni
Company Secretary

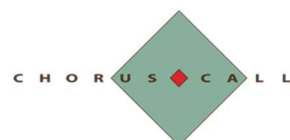
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“Clean Science and Technology Limited
Q2 FY 23 Earnings Conference Call”

October 20, 2022



MANAGEMENT: **MR. SIDDHARTH SIKCHI – PROMOTER AND
EXECUTIVE DIRECTOR – CLEAN SCIENCE AND
TECHNOLOGY LIMITED**
**MR. PRATIK BORA – CHIEF FINANCIAL OFFICER –
CLEAN SCIENCE AND TECHNOLOGY LIMITED**

MODERATOR: **MR. ANKUR PERIWAL – AXIS CAPITAL**



*Clean Science and Technology Limited
October 20, 2022*

Moderator: Ladies and gentlemen, good day, and welcome to the Clean Science and Technology Limited Q2 FY '23 Results Conference Call hosted by Axis Capital Limited. 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Periwal from Axis Capital. Thank you, and over to you, Mr. Periwal.

Ankur Periwal: Yes. Thank you, Tanvi. Good evening, everyone, and welcome to Clean Science and Technology Limited Q2 and H1 FY '23 post results earnings call. The call will be initiated with a brief management discussion on the quarterly performance, followed by an interactive Q&A session. Management team will be represented by Mr. Siddharth Sikchi, Promoter and Executive Director, and Mr. Pratik Bora, Chief Financial Officer. Over to you, Siddharth, for your initial comments.

Siddharth Sikchi: Thanks, Ankur. Thanks a lot. So good evening, everyone, and thank you for taking time out to understand our results. I am very happy to inform you all that on September 26, we have conducted Bhumi Pujan for our new 34-acre land parcel, which will be housed in our subsidiary, Clean Fino-Chem Limited. With around 300 people already working at this site, the construction activity has started fully and hopefully we'll commercialize the first phase of plants by December '23. For this first phase, we are anticipating an investment of about INR 300-odd crores, which will be all made through internal accruals. Also, we had earlier communicated that our facilities for HALS 701 and 770 in Unit 3 will begin in half H2 FY '23. And I'm happy to share that all facilities are near to completion, and we expect to start commercial production by November end. So about a month's time from now.

Let me give you a little financial highlights. Our revenue growth has continued as all our geographies and segments reported healthy growth. Revenues from Q2 FY '23 was INR 248 crores, which is an increase of 62% as compared to Q2 FY '22. Exports revenue grew 63%, and domestic revenues grew 57% on a Y-o-Y basis. Revenues mix was 75% export and 25% domestic, as it always had been. The key raw materials, energy and fuel costs continue to remain volatile and a mixed bag because of prices of some of the raw materials are still marginally reduced, while prices of some are still at peak.

Input prices are still higher compared to last year. Despite of that, our EBITDA increased to INR 98 crores as against INR 69 crores as an increase of 42% on a Y-o-Y basis. Our margins were impacted largely due to continued inflationary pressures across raw material power and fuel cost. The profit before tax is at INR 92 crores and PAT at INR 68 crores, which grew by 29% and



*Clean Science and Technology Limited
October 20, 2022*

28%, respectively, as compared to Q2 FY '22. Balance sheet, of course, continues to be debt-free with a cash balance of about INR 235-odd crores.

Our capacity utilization has improved due to which our net fixed asset turnover reached approximately 3x compared to 2.3x in March '22. So this has resulted in improved return ratios, particularly ROCEs. For H1 FY '23 versus H1 FY '22, sales improvement was led by a combination of good volume growth and improved realizations across all segments. For H1 FY '23, performance chemicals, pharma, agro and FMCG chemicals contributed 67%, 20% and 11%, respectively, to revenues.

On CapEx, we have incurred a CapEx of INR 62 crores during H1 FY '23 with majority of this going towards our new plant for HALS in Unit 3. We have made further investment in our subsidiary Clean Fino-Chem of about INR 65 crores during H1 FY '23.

ESG is one of the most prominent factors of this company. And we, as a company, are fully committed to sustainability and continuously implement several initiatives across the organization. In line with our commitment, we have purchased additional land for setting up an open access solar power plant of 5-megawatt capacity. It is expected to be operational by end of this fiscal. Currently, approximately 55% of our electrical energy consumption is from renewable sources. We strongly follow the 3R process: Reduce, recycle, reuse. We are continuously upgrading our facilities and investing in various technologies across our manufacturing units that are energy-efficient and helping resource recycling.

Our initiatives on constantly optimizing plant processes has helped us significantly reduce water consumption and emissions. Under CSR, our core focus areas still remain as education, environment, sustainability and health care. Our initiatives have significantly benefited and uplifted the surrounding communities.

Our basic outlook, macro concerns like geopolitical tensions, elevated power and fuel prices still continue to remain as a short-term challenge. But with our new sites, new series of products, strong R&D pipeline, we will continue to focus on diversifying our product portfolio and geographical presence while simultaneously improving yields and operational efficiencies. Thank you so much from my side, and we can open now for questions and answers.

Moderator:

We will now begin for the question-and-answer-session. Anyone who wishes to ask a question, may press * and 1 on your touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets, while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. To ask a question you may enter star and one The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.



*Clean Science and Technology Limited
October 20, 2022*

Sanjesh Jain:

A couple from my side, a couple of them. First, on the HALS series. Now that we are very close to start the commercial production, can you help us understand what is the competitive advantage that we have built in this business like we have in MEHQ in terms of innovative production process. We are fully backward integrated. Similarly, can you help us understand what is the winning mantra for us in HALS series?

Siddharth Sikchi:

Absolutely. So Sanjesh, thank you so much for your question. The first is, so we are, like MEHQ and Guaiacol, we are fully backward integrated in the manufacturing of HALS. We will be one of the very few companies which will be starting from the basic raw materials, which is acetone and ammonia.

All the catalyst which is needed for these processes will be developed totally in-house and this unit 3 will be the first time when this series will be introduced in India. One of the very big advantages of course, with dollar inching towards 83 types, this HALS 770 is majorly imported into India, majorly, the players are BASF, Suqian in China, SI Group in Europe and with the dollar becoming INR 83, it will be more attractive for buyers within India to buy from us. And of course, for buyers who are importing these products have to pay an additional 8% custom duty which, in our case, will also be an additional advantage to us.

Sanjesh Jain:

Siddharth, I got the process point, but I don't think I agree with you on currency because if it is coming from China, China has depreciated, Yuan has depreciated more than India. That way, I don't think we have that advantage. You may revisit at that. But that's my limited point on that. But I got your point that we are fully backward integrated, plus we are having a unique -- is this process unique for us, like what we do in MEHQ and Guaiacol?

Siddharth Sikchi:

No. So see, typically, the HALS series is derived out of two main raw materials, which are called Triacetoneamine and Tetramethyl Piperidinol. These two raw materials have to be made from acetone and ammonia. So basically, there's a triphasic reaction where we have developed a very unique process and a catalyst which is very unique.

Our yields and efficiencies are quite competent. But of course, I would not understand what Chinese or BASF has at the moment, but looking at the prices, I think our process and yields are quite unique. And of course, as and when the plant commercializes and as and when we move on, there will be further optimization of our process like we have done with MEHQ and Guaiacol. Sanjesh, as you already know, that MEHQ and Guaiacol also was not a day one highly profitable product. You cannot start with a 50% margin product at any given point of time. These margins buildup happen over the period of time.

However, in MEHQ and Guaiacol, we were late because we started the production of raw material like Anisole later on, and then we started getting into forward and backward integration. But in HALS, because of our understanding, we are starting with the key raw materials, with



acetone and ammonia day one. And you should also understand that nobody in India has been able to ever been successful in this chemistry, and we were the first ones to get into this zone.

Sanjesh Jain:

Fantastic. I think I'm more than clear on this. Great, Siddharth. Second, on the margin side, I thought raw material prices have corrected quite a bit and that is still not reflecting in our margin. Is that we were carrying inventory, there were some inventory losses. Is there anything unusual here that we should see in the margin because we are still at 39% margin.

When you started, it was upwards of 50%. One, I understand that there is an increase in the top line because of the inflation. So that optically reduces the margins. Can you help us understand, on a like-to-like basis, how far are we from the previous high margins?

Siddharth Sikchi:

See, now what happens is, Sanjesh, is that of course, if you compare the COVID year, see that was one of the very unique years, which we should not really take into consideration because those were the times when phenol was 1/4th or 1/3rd of what it is today. Phenol is still at about INR 100, INR 110, which otherwise phenol, on a regular basis, is about a INR 70 to INR 80 kilo product. However, during COVID times, phenol has fallen to as low as INR 40 as much contracts were continuing even in COVID year.

So that COVID year is a very unusual year, which we should not really take into consideration. However, what is also happening is as we are growing our new lines, as we are expanding our - foraying into newer products, so there is not super margins to begin within these products like TBHQ, para benzoquinone. So in this case or in this product, like DCC also, we have to be aligned to our customers, giving them service and giving them the most competitive price for us to first enter into these businesses.

And that is why if you see our asset turn has now started improving because all these facilities are now started production, and now we are reaching these scales. And I mean still, we are at a very low level, but I think in the next two years, we are really hoping that these numbers should also improve.

Sanjesh Jain:

So for now because we are starting new facilities, there is new product launches. The margins should stabilize at this level or you expect some more correction before you start moving up again.

Siddharth Sikchi:

So see, the margins, now once we start HALS, we are now a growing company. If you really look at our ROCEs, what we are now assuring is that our ROCEs will be upward of 50%. If you see at these current H2 numbers, our ROCE is at about 54-odd percent. So this will continue, new plants will come up, which will give lower margins. There will be old plants, which will run at optimum capacities. So this is a mix. And in a growing organization, this will always happen because we want to keep growing. Now if we grew at about 64% or 62% on a year-on-



year basis. So we are going to come up with new facilities, see, there will be new complexities. I'm not saying that Chinese are going to just be there. I'm sure they would also play around. They might want to reduce prices. And we have to deal with it. And that is how the competition is going to play around. Nobody is going to just give me very easily. But we have to compete only on technology, which we are very focused about on a longer-term perspective.

Sanjesh Jain: Got it. I have two more questions, if you allow me. Yes. One is on China. We saw last quarter, it was one of those of lockdown, but I think that lockdown is still around. Is it cautious choice of diversifying more and limiting the sales there or you do see that bottleneck has really gone off and we are still willing to completely normalize the sales in China?

Siddharth Sikchi: Sorry. I have not understood your question. Can you please repeat?

Sanjesh Jain: China segment, we used 40% earlier, right? 40% of our exports is to be China.

Siddharth Sikchi: Absolutely.

Sanjesh Jain: Now it is 32%, right? And last quarter you made a comment, it came to 32% because of the lockdown and the various other impacts.

Siddharth Sikchi: Right.

Sanjesh Jain: Even in this quarter, I think we are at the same level, right? 32%. It has not shown improvement while China has come out of the lockdown. My question is, it is a cautious choice by the company to see that we diversify more into a non-Chinese market or China market has still not normalized. So what's happening on the China side?

Siddharth Sikchi: Two things. I mean now what is happening is that newer products which are coming, which are not currently being exported to China. Now when this HALS series come up, it will be predominantly Indian business to begin with. So what will happen, this 32%, maybe in the next two, three quarters, will further reduce. And that will...

Sanjesh Jain: Got it. It's a mix change which is impacting the geographical mix, and this will only be in favor of more India now going onwards?

Siddharth Sikchi: I mean this HALS 770 is very Indian-focused. But when our subsidiary starts, again, we will have a very big export opportunity. So this switch will keep happening. But yes, now the concentration, what it used to happen is, again people used to look at us as a very 2-product or a 3-product company, with this is HALS coming in. It is going to open up a variety of chemistries, a variety of markets, variety of segments which we'll be entering. We are kind of de-risking ourselves from our flagship products.



Sanjesh Jain: Okay. One last question. Now I'm taking from what you said in the previous answer. What is this INR 300 crores aligned to? I mean, what other products are we planning up in this subsidiary? Will it have MEHQ, Guaiacol or it will be a completely new set of products?

Siddharth Sikchi: All new. See, Clean Fino-Chem Ltd., because it's a new facility, it's a 34-acre facility. First INR 100-odd crores is only going into building, common facilities like a utility block, an admin block, QC block and R&D block and an ETP facility, overall landscaping. The next INR 200 crore is all going into building these HALS facilities. Now what happens is after this HALS, when we are coming up with a new product, then the expense or the CapEx is only going into building that particular plant, which will be far lower than doing the entire facility again.

Sanjesh Jain: Okay. And that entire INR 200 crores will be HALS?

Siddharth Sikchi: HALS is a series. So the number, see 770 will further expand 770, 622, 944, 119, 2020 and blends. So this will have the entire series of the product.

Sanjesh Jain: No, because we haven't launched the product while we are already planning a very big expansion. Are we very confident of having HALS a very successful portfolio for us? Will that be a right assumption?

Siddharth Sikchi: The business sir, if I have to take chances, right.

Sanjesh Jain: No, I completely agree. Its calculated risk, right. I know you would know, you would have talked to certain customers, you would have sent samples, you would have done checks before taking such a big decision, right? So I just wanted to understand what is giving you this confidence? I'm not doubting it. I'm not doubting it. I completely agree that entrepreneur has to take up the risk. I'm talking -- you have taken a calculated risk. What is giving you that confidence?

Siddharth Sikchi: See, number one is 770 and 701, these two products will start in November. Our next facilities are really going to start after a year. So this one year we are going to learn a lot about this business. We are going to understand the nuances of this business which we can incorporate going forward.

And the advantage -- in this is if you just make one product like 770, our overall big distributor or a big customer is not really keen to look at you because he's buying seven products more from BASF or Chinese or whoever. If you have the entire basket, you become more interesting as a strategic player. So series is the best thing to do and also these chemistries are very complicated. So because we have mastered this chemistry, it's good to get into this, and we can get the first-mover advantage being located in India. People are all talking about China plus one. And if the Europe energy crisis continue, we are in a very beautiful, sweet spot. So I don't want to lose out



on waiting for two years and see how the market pans out. And the best part is it is all from internal accrual. We can take a little bit more risk compared to leveraging our balance sheet.

- Moderator:** We have the next question from the line of Ankur Periwal from Axis Capital.
- Ankur Periwal:** So continuing with HALS, how power-intensive are these products? Or does it vary from a different product within the HALS series?
- Siddharth Sikchi:** See, HALS series already, there are products which are two steps, there are more which are seven steps. The more the number of steps, the more is the power and energy utilizing each step. So a product like 944 or a 200 will be far more power intensive compared to a 770.
- Ankur Periwal:** Fair enough. And will it be fair to presume that higher the number of steps, higher the complexity and higher the margins on that product?
- Siddharth Sikchi:** And higher the margins, of course. So like if a smaller 770 is about \$7, and 2020 is \$20 to \$22.
- Ankur Periwal:** Okay. Now the relevant question and where I was coming from was, now given the energy crisis in Europe and where BASF is the largest, probably the most of the manufacturing of HALS is also done there, does it also open up a big market for you even from a price competitiveness perspective?
- Siddharth Sikchi:** Absolutely. I mean, secondly, as I mentioned, the dollar also turning INR 83, INR 84, plus the biggest thing what happened is even see these master batches, for instance, these customers are also -- some are small, some are large. With us being in India, people can now have just in time. Whereas when compared to Europe or China, where they have to maintain stocks beforehand because of the complexity of the geopolitical tension and the sea freight which was also a very big issue. So this will give us a very big advantage because we are very strategically located.
- Ankur Periwal:** Sure. But the initial ramp-up of 770 and other products will be India-focused. And then probably with the new capacity coming in, let's say, 12 months out, the focus will be probably equally in India as well as abroad. Is that a fair assumption?
- Siddharth Sikchi:** Yes, absolutely. Some of the products are very big in Europe and North America.
- Ankur Periwal:** Sure. And the distribution network to reach all these clients will be similar to what we are or work has already been in progress for abroad?
- Siddharth Sikchi:** Work is already in progress. Some would be new, some would be old. So it all depends on how interested they are. And once we launch this, then it will give a lot of confidence also to distributors to -- because when you're only talking that product will come after two years, the



interest is very low. When you tell them okay, one has come, few are coming along the line, that gives them a lot of interest.

Ankur Periwal: On the demand outlook side, given the slowdown that you are seeing in Europe and probably even China. How are things on the ground across our existing as well as maybe HALS as a product range?

Siddharth Sikchi: I think Q3 would be a little soft...

Moderator: Sorry to interrupt you. Sir, we have lost. Sorry, sir. You'll have to repeat the answer because we lost your audio in between.

Siddharth Sikchi: Okay. See Q3 is always a little softer because everybody in US, Europe, China, they are managing their inventory. So all the orders become slow, plus the holiday seasons in this country. So the demand again rises up in Q4. So this is a very general trend we have seen over the past several years.

Ankur Periwal: Okay. Fair enough. Another question on the competitive intensity. I recollect you again mentioning that you have not been as aggressive in terms of passing to the RM inflation and try to focus more on the market share gains. How will be the pricing gap now? And have we taken any pricing increase now?

Siddharth Sikchi: See, now the new contracts will start happening in the month of November, a little bit in October, some in November. And now what is happening is people are also getting cautious because the prices of raw material everybody sees will come down. Freight prices have come down already. So everybody is a little cautious of booking the next year. So we are also trying to see how all this is going to happen, plus the currency movement has happened dramatically over the past four to six weeks' time.

Ankur Periwal: So, when the industry will be moving more towards shorter-term contracts rather than longer term given the volatility?

Siddharth Sikchi: I don't know that. Some will be still a longer-term contract but today, what I have seen the flavor is people are looking at a half yearly contract and what has happened is over the past two years, people feel that it is better to do half yearly or quarterly rather than the complete annual contract. Some are still doing contracts on annual, but there is still a discussion going around it.

Ankur Periwal: Okay. Fair enough. And just last one, if I may, on the margin front here. So, the Q-on-Q improvement that we are seeing in the gross margin, is it largely a function of revenue mix here or some bit of pricing benefit?



- Siddharth Sikchi:** So it is mix of both. I will let Pratik answer this on minor detail.
- Pratik Bora:** Yes. So Ankur, there are three factors playing here. First is a product mix. Second is also the realizations have improved across four flagship products, which is MEHQ, Guaiacol, BHA and 4-MAP. And third is of course, we have also got benefited from the softer raw material prices.
- Ankur Periwal:** Okay. Sure enough. And given the pricing trend being downward, probably this number should be a basis going ahead?
- Pratik Bora:** It depends on the product mix also. As we mentioned that Q3, we are also launching a couple of new products, so what percentage of revenues they form that will also have a bearing on the margin.
- Moderator:** Thank you. Participants if you wish to ask questions, please enter star and one. The next question is from the line of Sher Shah from Capital BMS. Please go ahead.
- Sher Shah:** Congratulations for a very good set of numbers. I just wanted to know that how do we first, when we are looking for a product or a new chemistry, what is the process that the team generally follows? Do we look at the industry and maybe the export/input data and customer requirement? Like, what are the factors that help you decide on a particular chemistry or a particular product?
- Siddharth Sikchi:** So this is a very generalized question, and the answer is it really depends on chemistry. It depends on market situation. It depends on import, statistics and a variety of factors where we decide what products we have to work on.
- Sher Shah:** Okay. And so for that, then apart from HALS, can you tell us that what are the some other chemistries or not obviously products but what are some chemistries that we are looking at or maybe there...
- Siddharth Sikchi:** We are looking at interesting agro intermediates and also expanding our performance chemical base.
- Sher Shah:** Okay. So when you say agri intermediaries, is it because there is a lot of China plus 1 and Europe plus 1 playing out that is helping us at the income traction? Is that why one of the reasons that we are focusing on that particular segment? Or is it that we see good void that we can fill up because of..
- Siddharth Sikchi:** Any Europe plus 1 strategy, I don't understand Europe plus 1 strategy but what I'm looking at is these are some of the molecules, which would drive growth on a longer-term sustainable basis.



- Sher Shah:** Okay. And this is basically because most of our capacities are fungible is why, what helps us attain the sustainability in this molecule?
- Siddharth Sikchi:** No, we don't have any fungible capacities. We are generally, we like to have dedicated plants for dedicated products and that is how the phenomena will be going forward as well.
- Moderator:** Thank you. Participants if you wish to ask questions, please enter star and one. The next question is from the line of Samir Gilani, individual investor. Please go ahead.
- Samir Gilani:** Hi, Siddharth! Siddharth, my question is more to do on your comments last time you made on PBQ. You had mentioned we were at 30 tonnes, 40 tonnes a month, where on that product, if you could maybe give us some indication there? And is it fair to assume that over the course of time, we would probably be able to serve the entire import of this product for India?
- Siddharth Sikchi:** So we have expanded the capacity. We've doubled the capacities to about 70 tonnes to 80 tonnes a month and I think Indian demand is closer to 70 tonnes to 80 tonnes a month, but of course, the switch does not happen easily. People still want to keep Chinese as a second source. So that switch and that confidence for these customers will take over the period of time, so as and when the confidence starts building, as and when the customer gets more and more confident about our supply position, that is the time when we will see 70% of the switch happening to us. It will never be 100% switch. Because no purchaser likes to depend on any company on a 100% basis.
- Samir Gilani:** Yes. Fair enough. But is it fair to assume that we will be able to charge close to \$30 on that product even as we scale up? Or we are going to get a lower product price for that?
- Siddharth Sikchi:** See, PBQ is a product which is dependent on raw material prices. Now these raw material prices have come down. So the PBQ prices will also come down. So the prices which were at about \$30 today is about \$16, and we are following the market trend.
- Samir Gilani:** Fair. Is it fair to assume, Siddharth, that once PBQ scales up, I mean now, let's say, when the customers take the offtake, we should probably clock INR 100 crores, INR 150 crores from this product?
- Siddharth Sikchi:** Not, INR 150 crores, but approximately, now it is not a \$30 product, if you assume it safely \$15 into 70 tonnes, whatever that number is, would be the safe assumption on that product.
- Moderator:** Thank you. Reminder to all the participants, if you wish to ask a question, please enter star and one on your phone now. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.
- Anurag Patil:** For this INR 300 crores CapEx, what can be the typical asset turns?



*Clean Science and Technology Limited
October 20, 2022*

- Siddharth Sikchi:** Typically, we are 2.7 to 3 is the asset turn.
- Moderator:** Thank you, very much. We have the next question from the line of Sujit Lodha from Birla Sun Life Insurance. Please go ahead.
- Sujit Lodha:** Sir, just one question regarding this new facility where you've done a bhoomi poojan, which has been recently started work. What proportion of the land will be used for this HALS capacity? The CapEx you are expecting about INR 300 crores, what percentage of the land will be used for that?
- Siddharth Sikchi:** See, I think the overall facility can have about 11 plants, 12 plants, HALS will be about less than 4 plants, 5 plants so we still have a lot of space for growth.
- Sujit Lodha:** Okay. So roughly about 1/3rd of the land would be used for this?
- Siddharth Sikchi:** Yes. You can easily assume that, but only advantage now is after we have done the initial groundwork, the next plant will come in less than nine months or 10 months' time frame. So the ramp-up will be far quicker for the new facilities or the new product side.
- Sujit Lodha:** Is there a problem from my side? I'm not able to hear.
- Moderator:** Yes, probably. You can call back from an alternate number because we were able to hear the management. Sure. In the meanwhile, we'll move to the next question from the line of Mukul Jain, individual investor. Please go ahead.
- Mukul Jain:** I'm sorry, if my question is very basic. The company has catalyst technology, and my worry is ensure the company would also be worried, what if these technologies leak outside? So basically, what precautions the management have taken to protect this technology? Who have access to this technology? Are there a scientist or the management or something inside if you would give on this?
- Siddharth Sikchi:** Basically, these are very-very complicated technologies, building catalysts. We are fully backward integrated, forward integrated. The chemicals, some of the chemicals still come in coded form and it is customer acquisition. Some of the validation of each product sometimes take close to 3 years, 4 years. This is a very long-drawn process, and we have been able to reach here in 17 years. It's not very easy for somebody to just copy these technologies.
- Mukul Jain:** Yes. Right, sir. But maybe others won't be able to copy, but somebody from inside might leak them, is it possible something like this?



Siddharth Sikchi: There is anything possible, but the chances are quite remote because not one person is aware of entire portfolio of products. Like a person who is working in catalyst division would not know what is happening on plant scale. Or person using the catalyst does not know what is happening with the regeneration of catalyst. The person who is working on one of the line is not aware of how the raw material is being produced. So, there is a variety of things happening. So it is not easy for a set of people to just pass on these technologies.

Moderator: Thank you. Participants if you wish to ask questions, please enter star and one. As there are no further questions, I would now like to hand the conference -- sorry, we do have two questions in the queue now. We have Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, first question is, as you mentioned that we have optimized the process for our flagship products over a period of time. So how much time do we expect to optimize our HALS series in terms of -- optimal level of margins over a two year period, three year period? Thank you.

Siddharth Sikchi: So typically, how it happens is year one, where typically -- validation happen, customer has to understand and understand our product. So the first year is typically a little slower compared to the balance. The first year would be a 20% to 30% capacity utilization. I mean, in case of HALS, we are expecting a little bit more higher and then the ramp-up happens over the period of time.

Rohit Nagraj: Right. So maybe by second year end or early third year, we'll be able to have optimum utilization? And that time, the margins will reflect the correct picture?

Siddharth Sikchi: Absolutely.

Rohit Nagraj: Right. And second thing is for the -- your set of products. Normally, what is the benchmark that we are using? So is it like import substitute? Some kind of a return profile or a margin profile that we are looking at?

Siddharth Sikchi: We first look at very interesting chemistry. We want to be in segments where there are not too many people. So we like that space and of course, we are into a particular segment like a performance chemical or in intermediaries for pharma and agro. So we like to stick to this space and stick to chemistries, where we can make some impact and make some better margins than our competitors.

Moderator: Thank you. The next question is from the line of Krishan Parwani from JM Financial. Please go ahead.

Krishanchandra Parwani: I have just one question about the HALS global tonnage. So, I remember, I think you told, I think, in the last call that 770, it's about a 2,000 tonne import in India. So, could you please help us with global tonnages of 701 and 770, if you have it handy?



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- Siddharth Sikchi:** Typically, I think the import of 770 is close to 3,000 tonnes in India. That installed capacity is 2,000 tonnes. So there is a big headroom and for us to supply only retail market.
- Krishanchandra Parwani:** Okay. And the global tonnages, do you have it handy for that?
- Siddharth Sikchi:** Globally, I think, I don't have handy, but I can tell you that these products are upwards of 12,000 tonne to 13,000 tonne capacity. Overall HALS, as a segment, is a 1.2 billion market, and growing at about 7% to 8% each year.
- Krishanchandra Parwani:** Yes. Understood. And I think one last follow-up, if I may. So on this 770, 701, who would be our customers domestically? I mean, just to understand the usage would be like, let's say...
- Siddharth Sikchi:** 770 would be companies like Plastiblends, Alok Industries who are into master batches. And for 701, it would be customers who will be using it for, say, water treatment chemical like a GE or Suez chemicals. So these are some of the customers we would have and also, 701 has some pharma usage.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.
- Siddharth Sikchi:** So, thank you so much for taking time out. And I would want to wish all our listeners a very-very happy Diwali and a safe Diwali. And thank you so much from my side.
- Moderator:** Thank you very much. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.