Jubilant Ingrevia Limited
Q1 FY22 Earnings Conference Call
July 20, 2021

Hemant Bakhru: Good evening everyone. Thank you for being with us on our Q1 FY22 earnings conference call. I would like to remind you that some of the statements made on the call today could be forward looking in nature and detailed disclaimer in this regard has been included in the press release and the earnings release that have been shared on our website.

On the call today we have Mr. Shyam Bhartia – Chairman; Mr. Hari Bhartia – Co-Chairman; Mr. Rajesh Srivastava – CEO & Managing Director; Mr. Prakash Bisht – CFO; Mr. Arvind Chokhany -- Group CFO.

I now invite Mr. Shyam Bhartia to share his comments. Over to you, sir.

Shyam S. Bhartia: Thank you, Hemant. Good evening everyone. I hope you all are in good health and keeping safe.

With immense pleasure I would like to announce that we have started the FY22 with a very positive note by delivering our record quarterly financial performance so far. Along with managing COVID-19 related challenges, we reported highest ever quarterly Revenue and EBITDA during Q1'FY22.

In our Specialty Chemicals segment we witnessed strong growth across product segments. In Nutrition & Health Solution segment, the demand grew across geographies. In Life Science Chemical Segment, we witnessed favorable market conditions leading to strong demand and improved product contribution. The Input cost continued to rise throughout the quarter and businesses are trying to pass on the cost increases. During the quarter we also witnessed an all-time high price of Acetic Acid which was passed-on successfully.

I am pleased to inform that company's growth projects are progressing as per plan. With our continuous endeavor to reduce leverage, we have further reduced the net debt by Rs 45 Crore in Q1'FY22

During Second wave of Covid, we created a focused task force across our business units and locations to support our employees and their families. The efforts of the task force resulted in significant mitigation of Covid hardship for our people. We also take this opportunity to thank all our employees who have worked tirelessly across all our plants and offices to ensure continuity in company's operations, while continuing to serve our global customers.

With this, I now hand over to Rajesh to discuss about the business in detail.

Rajesh Srivastava: Thank you, Mr. Bhartia. A very good evening to all of you. At the onset, I hope you all and your loved ones are safe and healthy. I would like to welcome you all for joining our Q1 FY22 quarterly Investor Call of Jubilant Ingrevia Limited.

At the onset, I hope you all and your loved ones are safe and healthy. I would like to welcome you all for joining our Q1'FY22 quarterly investor call of Jubilant Ingrevia Ltd.

It gives me immense pleasure to report a robust financial & operational performance of Jubilant Ingrevia for the Q1'FY22. Revenue during the quarter was Rs 1,145 Crore, demonstrating a growth of 55% YoY driven by 18% growth in Specialty Chemicals, 13% in Nutrition and Health Solution and 103% in Life Science Chemicals business segments. EBITDA during the quarter was at Rs 287 Crore, up 126% YoY, led by significant growth in Life Science Chemicals business segment and also by Specialty Chemicals business.

Now let me take you through the updates on all our three business segments.

Specialty Chemicals revenue grew by 18% on YoY basis, driven by higher volume across product segment. EBIDTA grew by 22% during the quarter, along with superior EBITDA margin of 27.7% which is 88 basis points higher than Q1'FY21. Overall demand continues to be strong. Domestic demand continues to improve due to shift of some of the Pharmaceutical & Agrochemical end products customers from China to India The fresh wave of COVID-19 in India during Q1'FY22 led the improvement in domestic customer's demand of drugs, thereby improving the demand of pharma intermediates Input costs relating to raw material, utility and logistic are increasing and business is trying to pass on the incremental costs

Nutrition and Health revenue grew by 13% on YoY basis driven by higher volume and prices and the EBIDTA margin was 15.9% during the quarter. The 13% growth in Revenue YoY was moderate due to Pandemic situation. The demand started improving towards the end of the quarter During the quarter, there has been volatility in demand of Vitamin B3 due to global pandemic situation, however the demand has started picking up towards the end of the quarter Business is continuously making efforts to improve market share of Vitamin B3 for specialized and higher margin segments like Food, Cosmetics etc. and also focusing to enhance our market share in North American markets Raw material, utility and logistics costs, which increased sharply during the quarter, which were passed on partially and has resulted in lower margins in the segment

Demand in Animal Nutrition Segment got impacted due to Covid-19, regional cyclones and bird flu, especially in poultry segment Animal Nutrition business is making efforts to increase share of specialty premixes through various initiatives.

Life Science Chemicals recorded very strong performance in our Life Science Chemicals segment with 103% growth in Revenue and 677% growth in EBITDA on YoY basis, along with an unprecedented margin of 27.3% during the quarter based on very favorable market conditions and Acetic Acid stock benefit due to increased price situation. Life Sciences Chemical market condition remained favourable due to disruption created by URI storm in southern industrial states of US, which impacted availability of Acetic Acid and Acetic Anhydride. The availability of both the products started improving by the end of quarter.

The demand of COVID related Pharmaceutical products like Ibuprofen, Paracetamol, Aspirin and others products were strong during the quarter leading to continued higher demand for Acetic Anhydride. With the improvement in Covid situation, the demand is getting back to normal level.

Demand of Ethyl Acetate, from packaging and related Industrial sectors remained strong led by COVID situation. The demand has started getting back to normal level towards the end of the quarter.

Business had higher capacity utilization during the quarter across all plants for both Acetic Anhydride and Ethyl Acetate driven by high demand in domestic as well as Global market

We also Maintained domestic market leadership for Acetic Anhydride and increased our market presence in Europe, Americas, and Rest of the world.

Growth Plans and Capex. Our first phase of Diketene project is well on track, and we expect to have the Commercial production from this plant some time during Q3 FY2022.

Further during the year, we have committed investment worth Rs. 360 Crore for following growth capex. At peak capacity these investments are expected to generate additional annual revenue of Rs. 900 Crore at prevailing prices. These CAPEX are for the CDMO GMP Facility at Bharuch. Which is expected to be in operation during the quarter April to June 2022. Two Multi-Purpose plants of Specialty Chemicals which are expected to be in operation during the quarter April to June 2022. Food Grade Acetic Acid which is expected to be in operation during the quarter April to June 2022. Acetic Anhydride Plant which is expected to be in operation during the quarter Jan to March 2023. Agro Actives Phase-1 which is expected to be in operation during the quarter Jan to March 2023 Our expected CAPEX cash outflow for the year will be in the range of Rs 350 crore.

With this I hand over to Prakash to discuss the financials.

Prakash Bisht: Thank you, Rajesh. A very good evening to everyone and thank you for joining us on Q1 FY22 quarterly earnings conference call. I hope you and your loved ones are in good health and keeping safe. I would now highlight the company's financial performance during the quarter ended 30th June 2021. I would like you to recall that the life science ingredient business of Jubilant Pharma Limited demerged into Jubilant Ingrevia Limited effective 1st February 2021.

Our published consolidated results for Q4 and full year ended 31st March 21 comprised results only for two months of operation starting from 1st February 2021. Similar to last quarter, in order to provide the comprehensive picture of operations of the company on continuing basis, the results for the previous period have been presented on proforma basis in the investor deck and also during this call.

By deriving the same from the published results relating to discontinued operations of LSI segment of Jubilant Pharma Limited. The detail in this regard is provided in the investor deck and also in the note three of our published results, and we request you to go through the same.

Revenue from Operations during the Q1'FY22 was at Rs 1,145 Crore as compared with Rs 737 Crore in Q1 last year.

The EBITDA during the quarter was at Rs 287 Crore as compared with Rs 127 Crore in Q1'FY21, with margin firming up further at 25.1% vs. 17.3% in Q1'FY21.

Depreciation & Amortization expense during the quarter was at Rs 32 Crore vs. Rs 31 Crore in Q1'FY21. Finance cost during the quarter was significantly lower at Rs 13 Crore versus Rs 28 Crore in Q1'FY21, a reduction of 54% YoY on account of repayment of debts and lower interest rate. Average debts was lower by Rs 706 Crore in Q 1 FY 22 over Q 1 FY 21 and average blended interest rate for Q1'FY22 was @ 7.09% against 7.84% in Q 1 FY 21 PAT during the quarter was at Rs 168 Crore, as against Rs 53 Crore PAT in Q1'FY21.

Company maintained the steady deleveraging in Q1'FY22 too. The Gross debt was reduced by Rs 91 Crore in Q1'FY22. Gross Debt as on 30th June 2021 Stands at Rs 457 Crore as against Rs 548 Crore as on 31st March, 2021.

The company's net debt stood at Rs 386 Crore as at 30th June 2021, a reduction of Rs 45 crore from 31st March, 2021. Net Debt to EBITDA ratio further improved at 0.5 times, from the earlier level of 0.7 times as on 31st March, 2021.Capital expenditure during Q1'FY22 was at Rs 44 Crore.

With this I would like to conclude our opening remarks. We will be happy to address whatever questions you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Veera from Abakkus. Please go ahead.

Rahul Veera: So, just wanted to understand in terms of our Diketene capacity, that is going to come online, have we started test marketing via trading or marketing from any other players, like just are we started feeding the market, sir? What kind of response are we getting for that?

Rajesh Srivastava: So, in Diketene our facility as we stated will be ready by Q3 this year. We have actually test marketed with our sample quality with some of our customers and based on that we will be producing the product as required by the customer.

Rahul Veera: Okay and sir, our product will have any like overlap with Laxmi Organic's products or customers?

Rajesh Srivastava: Yes, some of the products will be also common and most of the products we are for future we are developing the value-added products so of course some of the products may be common.

Rahul Veera: Okay can we assume that there will be some kind of a market formation that will be required from our end by lowering the prices of the products?

Shyam Bhartia: No, I think there is a lot of imports of the product, so we will be substituting basically imports.

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

Rohit Nagraj: So, the first question in terms of the capacity utilization for the newer project. So, the CAPEX that we are doing, and it will be coming into phases, when do we see optimum utilization of this incremental capacity maybe over the next two -four years?

Rajesh Srivastava: So, in each case, the capacity utilization of the new CAPEX takes time, so normally we planned to utilize the full capacity after one full year. So, after 12 months of operation we expect to utilize 80% to 90% of our capacity in each of the investment which we are trying to do.

Rohit Nagraj: Sir, the second question is in terms of the price transmission, so you indicated that in most of our I mean all of three segments and in terms of individual products across the segments, we have been able to pass on the price hikes at least partially or completely in some cases. So, is it completely passed on now since we are in, you know, probably mid-July and some of the prices of our inputs such as acetic acid has now started receding? So, the entire price increase from the input costs front, logistic as well as other inflation is it completely passed on?

Rajesh Srivastava: So, as you must have seen that last quarter has been very, very volatile in terms of input pricing. And it has been continuously increasing, so we have been working to pass on the prices and with the lag I think we normally try to pass on in every product. So, if you ask me today, I think depending on product to product there is a situation of 100% passed on and for partially passed on. But our endeavor is that after a lag the input price increase is to be passed on.

Rohit Nagraj: Right, and if I can just squeeze one more question. In terms of the life sciences segment we have certainly benefited because of the acetic acid stock situation. Could you quantify what was the benefit due to the lower price stock?

Rajesh Srivastava: So, it is very difficult to give you the exact number, but as you know that acetic acid price of the last quarter versus last to last quarter, there has been a significant increase, which of course has come benefit on a stock price or stock valuation.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: Sir, my first question is on the specialty chemical. Out of this 21% year-over-year growth, which we have seen 47% year-over-year growth, which we have seen in terms of the revenue, how much could be the volume like?

Rajesh Srivastava: Yes, so in case of specialty chemical year-on-year the major growth has come from volume.

Amar Mourya: You are saying the 47% growth year-over-year is largely led by volume?

Rajesh Srivastava: Volume as well as price, but more volume.

Amar Mourya: Can we get the mix if it is possible for you, the volume and price mix?

Rajesh Srivastava: I do not have the exact number, but I can tell you that the growth has been significantly good in volume in specialty chemicals.

Amar Mourya: Is that we have I mean is if we got us some I mean capacities because I believe the capacities are yet to come?

Rajesh Srivastava: No, so as we stated earlier also that we continuously do the augmentation of capacity of those products which are in high demand. So, during the last year of course we have done the augmentation of capacities of those products. And of course, we are utilizing those capacities because the demands have gone up.

Amar Mourya: Okay, I also believe among the pyridine prices overall and the derivatives of the pyridine prices are also gone up I mean year-over-year basis. So, just wanted to understand, obviously we would have benefited because of the volume also, but there would be a good portion of the price increase, which is also sitting in the revenue today?

Rajesh Srivastava: Yes, so there is a portion of price increase, but you know I stated earlier that the price increase happens gradually, so definitely the partial impact has come, and further impact will come in future as well.

Amar Mourya: Okay, so basically you are saying that still you have not been able to pass on the whole prices?

Rajesh Srivastava: This is exactly I said earlier also, that in some products of course partially we have passed on, in some products we have passed on.

Amar Mourya: Okay, and you accept this prices to sustain?

Rajesh Srivastava: Depending on the input prices, definitely if the input prices remain at this level, these prices will be sustained, definitely sustained.

Amar Mourya: Okay how about the situation would be in your life science chemical? I believe where the spread was significantly in our favor, right? That is primarily visible, with the EBITDA margins, but in terms of the revenue growth also, the revenue growth has been very sharp, so is there some capacity addition we did here in life science?

Rajesh Srivastava: Yes, in life science chemical, if you recall, we had added one plant of anhydride in 2020 and that is coming handy to us in getting our volume growth along with the positive scenario of market as well as raw material prices.

Amar Mourya: Okay but sir, include the easy if we can give some mix of the price and volume which we got benefited in specialty and the life science. Is it possible for you like 40:60 and how the benefit has been so that it helps for understanding the future better?

Rajesh Srivastava: But you know, it becomes very difficult to give those specific numbers, but you can fairly calculate that what was the acetic acid price in Q4 FY21 and Q1 FY22 and that is a gain everybody must have got whoever has the inventory of hold. There have been some positive market conditions as well because of the demand scenario. Demand was high and the availability was low. So, both put together, the benefit has come and some of it will continue like some demand scenario and our volume increase is happening, our volume will further go up in the coming quarters. However, it is difficult to give any estimation on market condition right now.

Moderator: Thank you. The next question is from the line of Vinit Gala from Monarch Networth Capital. Please go ahead.

Vinit Gala: So, on the nutrition segment, how much of the business is under long term agreements and how often do we renegotiate the pricing since we procure entirely from in-house? Do we actually get the benefit on RM escalation?

Rajesh Srivastava: So, in Nutrition segment, I think the volume scenario is looking very good and in terms of raw material prices if the raw material prices are going up, the cost also goes up for nutrition segment.

Shyam S. Bhartia: No, regarding the Nutrition segment, our contract is normally quarterly. So, on contract prices we are not able to increase but next quarter we will be able to increase the price.

Rajesh Srivastava: Yes, sorry I missed that question. Nutrition segment we do not have any long-term contract. We normally have the volume commitment for a year, or the quarter and the prices are mostly driven on quarter basis. So, if the price goes up in raw material first goes up. We are normally in a position to pass on with the lag.

Vinit Gala: But do we get benefits entirely in-house, do we get the benefit?

Rajesh Srivastava: No, so we always transfer the internal raw material to arm's length pricing. So obviously the raw material cost has gone up, even the internal transfer of product will be at higher cost, obviously because it has to be transferred with the arm's length transfer pricing.

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

Rohan Gupta: Sir, three questions from my side. So first you gave CAPEX outlook for the current. Almost Rs. 360 crore with revenue potential of Rs. 900 crore. can you give for the segmental like how much of this will be coming in which segment and if the revenue which you gave is contributing to which segment, further breakup of this CAPEX and the revenue?

Rajesh Srivastava: So difficult to give you that specific, but in general that most of our capital investment gives us in a range of 2 to 2.5 times of investment to the revenue.

Shyam S. Bhartia: And this year, our capital expenditure is going to be not Rs. 900 crore but Rs. 350 crore.

Rohan Gupta: No sir, I think the growth CAPEX which sir mentioned that is Rs. 260 crore revenue instead of Rs. 900 crore I think that number?

Shyam S. Bhartia: Yes, that is for about during the three years period, yes.

Rohan Gupta: Sir, I did not get that? Sir, this year current year growth CAPEX is Rs. 260 crore, right?

Rajesh Srivastava: No, so the investment committed is Rs. 360 crore. The revenue from this investment will be Rs. 900 crore at peak capacity, which Mr Bhartia is saying will take two to three years' time to reach to that peak capacity as we also mentioned earlier. It will gradually increase. Your question was can we give specific on each CAPEX wise. I said it is a little difficult, but you can fairly assume that 2 to 2.5 times of each investment we will be increasing capacity. So right now, we are not giving the CAPEX wise investment here.

Rohan Gupta: Right sir, and sir as there also earlier participant have asked, I just like to elaborate more on that on the Diketene chemistry, which you mentioned is going to commission from Q3 FY22. That is just four months, six months down the line. Sir, if you got a long gestation period these are the very critical chemistry process if you understand. So, if you are going to start this production almost six months down the line, I believe that we must have got a fair amount of customer comfort of product approvals and some kind of order visibility. If you can just give not for the Q3 FY22, but how much the Diketene revenues during the current comfort and correct order insurance from the customer can contributing in terms of revenues next year?

Rajesh Srivastava: So as Mr. Bhartia mentioned that most of volumes, if you see Diketene today in India is being imported volume. So, we are going to replace most of the imported volume. And we have already communicated earlier that our capacity is going to be in the range of 6,000 tons to 7,000 tons. So, we will try to place this capacity one year, one-and-a-half year time.

Rohan Gupta: You are confident that 6,000 tons to 7,000 tons of capacity, which we are going to put by Q3 FY22 maybe over the next year we will be able to fully utilize that?

Rajesh Srivastava: During one-and-a-half year time, two years we should definitely be placing that volume.

Rohan Gupta: Sir, when we are talking about the import replacement, so can you just give some size of the opportunity in Diketene based chemistry which is coming, or it is getting imported in India right now?

Rajesh Srivastava: Yes, today if you see the imports of Diketene in India is in the range of 4,000 tons to 5000 tons. Sometimes it goes up, sometimes it goes down, but in the range of 4,000 tons four to 5,000 tons.

Rohan Gupta: These 4,000 tons to 5,000 tons are include the value at passed as well, right?

Rajesh Srivastava: No, mostly these are basic chemicals, not value-added products in India is not very large.

Rohan Gupta: So, it is a plain vanilla. Commoditized product which was going on getting imported in India 4,00 tons to 5,000 tons in the market there?

Rajesh Srivastava: Yes, and also, we are working towards the value-added advanced intermediate and exports which we have mentioned earlier.

Rohan Gupta: Okay. Sir, when we are talking about the Diketene commissioning first our focus is more on replacing the imports. We are directly not looking at the exports opportunities or the customers which we are already dealing with. We are not trying to sell to them right now, right?

Rajesh Srivastava: These are very, very specific questions. I think we will deal it when we reach to the market, but broadly we have explained you our strategy in Diketene.

Shyam S. Bhartia: See what for exports we will be doing value-added intermediates out of Diketene for exports.

Rohan Gupta: Sir, just last question from my side. So, we have definitely gained significantly in the current quarter from the higher commodity prices in Acetic Acid and Anhydride which you have already mentioned. Also mentioned that the price is now because the pandemic is getting over it seems to be the prices are rising right now. So, where we see that for the current year if you can give some outlook in terms of margin profile of our Life Sciences business? I understand the current quarter has been a significant benefit of price increases. Where we see that this segment Life Sciences business can contribute in terms of revenue for the current year, full year FY22 in normalized profit?

Rajesh Srivastava: So, all the three business segments are doing very well. They are very strong in terms of demand scenario except for Life Science Chemicals where the pricing scenario nobody can confirm for future. I can confirm you that our Specialty Chemical as well as vitamin businesses volume as well as prices are in a good phase and we expect the overall year to perform much, much better than last year.

Shyam S. Bhartia: See overall, we expect to perform much better than the last year.

Rohan Gupta: Yes, that is very much sure because it is visible also from the current scenario because prices are on a much higher than the last year that we agree and understand for. So just wanted to understand that where the normalized profit can be in the life sciences business?

Shyam S. Bhartia: In Life Science Chemicals our demand situation remains very strong and that is why we are adding more capacity there. Demand is very strong therefore we expect a good volume increase in our life science segment.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: So, just wanted to understand, you did speak about the passing on the input prices, and it comes with the lag, so currently itself we kind of did quite a decent EBITDA margin. So, is there any scope for improvement that we are talking about when we are able to completely pass on the input price increase on an overall basis?

Shyam S. Bhartia: See overall we cannot say that, as Rajesh mentioned that we have been able to pass on the like in most of the segments. In some segments like Nutrition where there is already a contract during the quarter in some quantities where contracted quantities, we are not able to pass on, which we will be able to pass on during the second quarter and during the third quarter also.

Deepak Poddar: Yes, so that will help us in terms of margin?

Shyam S. Bhartia: Improve the margins in the Nutrition segment.

Deepak Poddar: Can you help me with the capacity utilization of individual segment wise if that is available?

Rajesh Srivastava: So, our Specialty Chemical business, we are at a level of 85% to 90%. In our Nutrition segment we are at around 75% to 80%. In Life Science Chemical business, we are close to around 90%.

Moderator: The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: To start with just taking the previous question forward, while you shared the capacity utilization for most of the segments except Nutrition, your capacity is completely utilized or almost close to being utilized. So, is it fair to assume that incremental growth, at least for one one-and-a-half year, will only be from the Diketene business and then the CAPEX that will come in FY23 will be the next leg of growth driver or is they plan to do any bottlenecking at existing facilities also?

Rajesh Srivastava: Yes, very right. So, you know, in most of our product we continue our business excellence approach of continuous improvement in capacity through debottlenecking through improvement in our processes. So, wherever the demand is increasing of product we are in a position to augment the capacity very quickly and this is a continuous process. So, whenever we talk capacity utilization, it is of today, but that does not seem that for next one year it will be static. In some of the products we are already working on debottlenecking the capacity. In some of the products we are ready with the additional capacity. So, quarter-on-quarter there is an improvement in capacity availability for different set of products. And therefore, there is an opportunity, and you can see that last three, four quarters there has been opportunity for us to growth, take a growth of volume from augmenting the capacity.

Alisha Mahawla: So, if I may just ask of clarification, you are doing close to double-digit volume growth in most of your segments, and you are saying you can maintain this kind of volume growth through capacity augmentation, which can be done very, very quickly and at minimal cost?

Rajesh Srivastava: So, in product-to-product, we can say that the growth will be possible. In some product, may not be that double digit growth, but wherever there is a possibility of augmenting the capacities, we are definitely doing that.

Alisha Mahawla: And can you also tell us what is the CAPEX that you have done in the Diketene business?

Rajesh Srivastava: The value of capital investment?

Alisha Mahawla: Yes.

Rajesh Srivastava: Yes, so very difficult to give that number because most of the time this capital investment numbers are clubbed with some other initiatives so very difficult to give you specific CAPEX investment number.

Alisha Mahawla: Okay, and sir the last the question I had was on your margins. So, while there have been significant pricing benefits across your segments, what is the more sustainable number say if you historically see over last 2- 3 years that even if we remove any kind of pricing benefits, the kind of margin that the business can do at a consolidated basis, if you are not comfortable giving for individual segments?

Rajesh Srivastava: Okay, so again, I think Mr. Bhartia has mentioned that since we have such a diverse nature of segments, it is very difficult to give a guidance on overall margin but let me now tell you that in Specialty Chemical as you can see, we are consistently improving our performance both on volume growth as well as on pricing growth. And that will continue. Yes, so we are adding capacity, we are augmenting capacities, we are introducing new customer, we are introducing new products. So, Specialty Chemical is going to give consistent performance. On Nutritional side the last quarter has not been very good with regards to our price passing on, as Mr. Bhartia already mentioned. We expect the Nutrition segment to do better performance in terms of margin as well as volume. And Life Science chemical is a segment where it is so difficult to give you a scenario of margin in future. But one thing which we have informed you that in Life Science chemicals the demand scenario stood very strong. We have added capacity one-and-a-half year before, we are adding more capacity which will be ready after one year. So, we see consistent demand scenario. We see our requirement of products in global market. What we cannot confirm today is the future scenario of market as well as input pricing and therefore it is difficult to give the margin scenario of Life Science chemical which we have been saying always. Hope it helps you a little bit in your scenario building please?

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Sir, in terms of our acetic acid prices if you can just throw some like what the price would be currently, what it was in the quarter that we just reported on a per kg /per tonne basis historically what the movement has been?

Rajesh Srivastava: Yes, so the acetic acid price last year quarter one was in the range of $350. And the last quarter, which is Q4 FY21, was in the range of about $700 average. However, in Q1 it has been average about $1,050 or $1,080. That is the range we are talking. The exit quarter price of last quarter has been around $1,150, $1,160. So that is the acetic acid price range.

Pratik Kothari: Yes, absolutely, sir. Sir, also in terms of the CAPEX that we have planned of Rs. 360 crore and we are driving for Rs. 900 crore sales potentials whenever 2, 3 years down the line. But you also mentioned that it is at prevailing price. So, if this acetic price is to correct and come back to normal historical range, should this number be revised downwards accordingly?

Rajesh Srivastava: Yes, slightly variance you will find but you know other products may also go up, so we are giving you a number which is on an average that revenue will come. So yes, you are right. Product to product plus minus can happen, but broad number I think we should be definitely that number or maybe a little better.

Pratik Kothari: Okay, fair enough and given the huge surge in price that we saw in terms of our chemical I mean your LSI business, is it fair to assume that we chose to sell more of those chemicals in the market because of large windfall of profits that you are getting rather than upstream it and convert it to say a Specialty Chemical or a Health Nutrition business?

Rajesh Srivastava: No, we do not consume acetic anhydride internally, right. So, there is no way that we have diverted our internal volume to outside. Same way in ethyl acetate, very, very insignificant volume we consume internally. So, both these products we do not see any diversion. What we transfer from life science chemical business is a product called acetaldehyde and formaldehyde. Now those products we do not sell in market as such. What you have assuming is not correct.

Moderator: Thank you. The next question is from the line of Hiten Boricha from Joindre Capital. Please go ahead.

Hiten Boricha: Sir, my question is again on the margin side. So, we did 25% better margin this quarter against 17% last, and this is mainly articulated to you mentioned that in the LSI segment or life science segment which is because of the lower raw material cost. So, just wanted to understand if this impact would continue in Q2, so if not, then our margin will again go back to 17% odd in this coming year? Is my understanding correct?

Rajesh Srivastava: On quarter-on-quarter again, giving the margin guidance is very difficult and we have been always saying that it will be good for Life Science chemical to definitely observe us on absolute EBITDA value.

Hiten Boricha: I am not asking sorry to interrupt. I was asking on mainly on like a full year basis so our margin can go back to 20% levels.

Rajesh Srivastava: Again, you know, it depends on how the market will behave. If the market remains good, it can be better; if market goes to the normal level, then obviously we should be close to that number. I said specifically in Life Science chemical, business, margins difficult to say. So, if the market conditions remain good, we can even do better. So, we do not know. I cannot comment on that.

Hiten Boricha: And sir, my second question is on the debt reduction. We are focusing on the deleveraging right now. So, what kind of debt number we can see by end of this year? We have already reduced Rs. 40 crore, Rs. 45 crore in Q1?

Prakash Bisht: So as you see that we are generating very healthy cash flows. We also have capital investments lined up. Our current endeavor is to meet the investments from the internal accrual. So, as it is we do not plan to add debt. So that is where we are. So, that is the level where we will be. It is difficult to tell at this point of time because it also depends. But, as and when we have an opportunity, we are reducing debt and at the same time we are planning to meet our CAPEX through the internal accrual.

Shyam S. Bhartia: So, our debt to EBITDA level is only 0.5%, so very comfortable.

Hiten Boricha: Okay, so debt to EBITDA level will remain at this level, so we would not need any debt for this CAPEX?

Shyam S. Bhartia: Yes. CAPEX is likely to be from internal cash generation.

Moderator: Thank you. The next question is from the line of Rushabh Sharedalal from Pravin Ratilal Share & Stock Brokers Limited. Please go ahead.

Rushabh Sharedalal: Just a slightly longer-term outlook question on the CDMO business. in your presentation that the CDMO GMP facility at Bharuch is expected to go into operations from April to June. So, is this a sort of business where we will be, you know, doing the contract research and CDMO activities for companies like Syngenta or DuPont and what sort of companies would be there in this kind of an arrangement and contribution to the revenue and EBITDA, you know, two years down the line if you can give some picture to the investors?

Shyam S. Bhartia: We cannot talk about companies who we are doing business. We are doing business with both pharmaceuticals and agrochemical companies. But our margin and the demand remain very strong and that is why we are investing to increase capacity. Apart from this, we are also increasing our capacity as mentioned by Rajesh in multi-purpose facility which are non-CGMP intermediates. That also has a very good traction. So, with non-CGMP and CGMP both we do for both pharmaceuticals and agrochemical companies and that also large pharmaceutical and agrochemical companies. The margin there is very strong and growing.

Rushabh Sharedalal: Okay, but some sort of a ballpark number that you can give in terms of revenue and in terms of margin, you know, two years down the line, because this business seems promising?

Shyam S. Bhartia: This business is very promising as you rightly said. That is why we are investing into both CGMP and non-CGMP facility. So, there is a demand for both non-CGMP products, mainly in agrochemicals and pharmaceuticals, and also in CGMP mainly in pharma products.

Rushabh Sharedalal: Okay, but any ballpark number if you can share with us if that is possible?

Shyam S. Bhartia: See overall we have said that it will add to about Rs. 900 crore sales, which also includes CDMO. But we have not separately called out on how much will be that CDMO, and how much will be the other products. And I can only say that we are adding these plants because our future demand from the existing customers and the new customers are also growing.

Moderator: Thank you. The next question is from the line of Vipul Shah from RW Equity. Please go ahead.

Vipul Shah: My question was on Life Science sustainability of the Life Science EBITDA margins. But I guess you have answered it very clearly that the margin which we recorded this quarter cannot be taken as a proxy. So, we probably will have to moderate it a bit. Is that understanding, correct?

Shyam S. Bhartia: No, you see as Mr. Rajesh said very clearly, we should not focus on the margin, you should focus on growth of EBITDA. That is very important.

Vipul Shah: Absolute EBITDA?

Shyam S. Bhartia: Yes, absolute EBITDA growth.

Vipul Shah: This way sir, the absolute EBITDA which we recorded this quarter, is it fair to assume that the quantum of the EBITDA will be sustained going forward?

Shyam S. Bhartia: No, we cannot say that because of the different uncertainty in both raw material pricing is very important. There is a complete volatility in the raw material pricing, so we cannot comment on this. But we can only say that the demand situation is very strong in all our products in Life Science segments.

Moderator: Thank you. The next question is from the line of Ronak Ajit Jain from Jeeto Adviser LLP. Please go ahead.

Ronak Ajit Jain: Actually, I want to understand the future expansion plan what you are going to do for further having a good result?

Rajesh Srivastava: So, some of the expansion plan you have seen in our speech as well as in our presentation. The CAPEXs, which we have already committed and further I just want to inform you we are working on Specialty Chemical side to grow our business both in CDMO as well as our Specialty Chemical and also in Nutrition side we are planning to grow in Vitamin B3 and other products. So, these are our growth plans along with the anhydride which we have just informed that we are adding one more capacity.

So, all the three segments, we have a clear growth plan, and we are moving towards that implementing it as we have communicated in the past as well.

Ronak Ajit Jain: Sir, you are going to acquire any acquisition further in future like as of any plan of like that?

Rajesh Srivastava: As of now we are not working on any acquisition.

Moderator: Thank you. The next question is from the line of Kavita Thomas from First Global. Please go ahead.

Kavita Thomas: Sir, my question is on this Specialty Chemical segment. So, I just wanted to understand if I even see on a sequential basis the Specialty Chemical segment revenues are almost flattish but there is a significant improvement in the margin, and it is quite significant. So, from around I think 21% or something it is gone up to 27%, 28%. So, could you guide some specific contributors to this significant improvement in margin?

Rajesh Srivastava: On sequential basis, why you are finding flat is because during Q1 FY22 in domestic market and also in global market demand has got little bit impacted right between Q4 to Q1. With regards to margins, I think our product mix is improving. As we have communicated that we are seeing a good traction on our CDMO business where our margins are better. We are getting a good traction on some of the products where we are getting a better pricing also because of our niche capability. And on our capacity side we have unique capability so margin is improving because of our product mix improving and volume side in sequential basis the revenue also we can see the growth in coming quarters.

Kavita Thomas: Okay sir, I actually wanted to understand here, when you say Specialty Chemicals, as far as I know pyridines you know which are there as part of the segment. Could you just give some examples so that it gives us an idea in terms of you know what kind of specialty chemicals are we you know talking about which is giving us this improved margin? some flavor on that?

Rajesh Srivastava: So, in pyridine and pyridine beta, alpha, gamma this is one product range in Specialty Chemical. But we have a host of products, which are very high value, and you know six step, five step chemistries which are used for a specialized product, and we have almost 25 to 30 products, which are going in pharmaceutical and agrochemical field. So, these are the products where we have niche customer and niche business. The margins are good as well as this CDMO business where we have developed the product specifically for customers and they are also some products are 6, 7, 8 chemistries. So, these products are definitely higher margin products, and it is a continuous process of adding value. So, specialty chemical business is not a constant business. Pyridine and pyridine picoline is one set of products which were cash generating products for long. But we continued developing new product with higher value addition as per customer demand using our chemistry expertise and manufacturing expertise and those continuous improvement and value addition is happening all the time. So, that is why you see the consistent improvement in Specialty Chemical business.

Kavita Thomas: But sir, I mean as we know there are various companies even within India who are manufacturing various specialty chemicals. So, are there players manufacturing products similar to what we are doing?

Rajesh Srivastava: So, most of the products, which we are producing. In India, you will hardly find any producer. Maybe couple of products out of 20, 30. Most of the products we are producing which are very niche.

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

Prakash Bisht: Thank you everyone. We appreciate the time you spent interacting with us today. I hope that we have addressed all your questions and queries comprehensively. If you have any unanswered questions or any area where you have clarification that we need to provide, please get in touch with the IR team and we will be happy to engage and clear those doubts. Thank you so much, stay safe and good evening. Thank you.
