



“Camlin Fine Sciences Limited
Q4 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Camlin Fine Sciences Limited Q4 FY2022 Earnings Conference Call hosted by Sunidhi Securities and Finance 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 the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Sinha from Sunidhi Securities and Finance. Thank you and over to you!

Rohit Sinha: Thank you. Good afternoon everyone on behalf of Sunidhi Securities, I welcome all participants’ to Q4 FY2022 Earnings Conference Call of Camlin Fine Sciences Limited. We would like to thank the management for giving us this opportunity to host the call. From the management of Camlin Fine we have with us today Mr. Ashish Dandekar – Chairman & Managing Director of Camlin Fine; Mr. Nirmal Momaya - Managing Director; and Mr. Santosh Parab – CFO of the Company. Without further ado I would like to hand over the call to Mr. Ashish Dandekar for his opening remarks. Thank you and over to you, Sir!

Ashish Dandekar: Thank you, Rohit. A warm welcome to you, ladies and gentlemen, to the analyst call. We have ended the year and the quarter, and as per our customary procedure, Santosh Parab will give you a brief summary and outline of the quarter and the year. After which, Nirmal Momaya will take your questions as usual. So without wasting any more time, over to you, Santosh!

Santosh Parab: Thanks Ashish. Good afternoon everybody. As you are aware we have already released our results for the quarter and financial year March 31, 2022 yesterday. We have also released our earnings call presentation today and both these documents are available on our website as well as stock exchanges.

In the last quarter all of us are struggling to cope with the challenging economic condition. The European crisis as you know has fueled unprecedented inflation across all geographies and across all costs and this situation has led to uncertainty of huge proportions making it very difficult to predict the future trends, but despite all this we believe and are confident to navigate through these difficult times of course with smart mitigation strategies and quick proactive actions against the emerging situation.

We assume that you would have reviewed the basic numbers published by us and hence would not dwell in detail on them and rather deep dive into the qualitative and business aspects of this number.

Fourth quarter review we placed a very high inflationary trend which impacted nearly all the costs including prices of feed stocks that is mainly phenol, cost of power, and fuel and also the logistics, however company was able to partially (00:03:09) this trend and was able to hold on to the margins which basically was due to the calibrated pricing actions and of course backed by the optimum capacity utilization of a Biphenyl plant at Dahej. The growth momentum bagged by the

enhanced prices in all products and geographies also helped barring of course aroma products our Chinese Zhejiang plant remain shut for entire year due to the court action there.

With all this revenue remains stable as compared to last quarter and this quarter, but it did grow by around 19% as compared to last year's corresponding quarter as well as when we compared to the whole of the year last year. The company was able to control other operating expenses mainly because of an effective cost management action an exceptional increase in energy cost of around 27 Crores in quarter four at CFS Europe has been a dampener on the results. Even then our Diphenol manufacturing international subsidiary, the subsidiary was able to give a both yearly as well as quarterly operational EBITDA in this quarter as well as last year.

To fire all the operations of subsidiaries from the shutdown of the Diphenol plant which we took in April, May 2022 we did increase our sale to the subsidiaries in quarter four not to dry out them because of lack of supply due to the closure of the plant. Since majority of these stocks remain unutilized at the year-end. Due to the accounting convention the profits of around 1954 19.54 Crores earned by India thereon was eliminated while reporting the consolidated results.

Despite all these the operating EBITDA for the quarter was at 24.3 Crores that is 6.3% as compared to previous quarter consequently the annual operating nearly at Rs.153 Crores that is 10.8% as compared to around 193 Crores last year. The European crisis and its consecution impact on economic conditions are likely to have a continued pressure at least in near-term with inflationary conditions existing in all product prices, cost of energy and logistics. As I said earlier this makes it difficult to anticipate or predict the exact future trend. But we believe that we are in a strong position to tide over this difficult situation. This is quite evident from the exemplary results of our standalone entity in India, which has posted one of its higher quarterly and annual turnovers ever and that too had a quite healthy margin in the current circumstances.

The restart of the Diphenol plant at Dahej on May 14, 2022 with 50% enhanced capacity that is from 10000 metric ton to 15000 metric ton will strengthen our capability in Diphenol as well as their downstream. We have also commenced sample trial runs of our methyl vanillin. Of methyl vanillin it had our newly constructed vanillin facility at Dahej on May 15, 2022. The earlier plans of commencing commercial production in and around July 2022 remain well on track. This capacity would fortify our place in aroma product market; it also addresses the lack of margins in Catechol as an individual product.

As of now Catechol will get value added into aroma products. Due to inadequate supply of vanillin as you may be know its current prices are short beyond \$30 per kg from the historical average of \$10 per kg. The commercialization of vanillin seems to be happening at an opportune time. The robust earnings on foreign exchange have helped the company to achieve a consolidated PAT of 60.4 Crores this year as against 65.4 Crores last year. So even though we badly had been impacted by the energy costs in Europe on EBITDA we have seen been able to post a reasonably good consolidated PAT.

Now briefly on the operations of our subsidiary the CFS Europe which manufactures ethanol posted turnover of 134 Crores in this quarter this is despite the economic situation in Europe under which they are working and despite the enhanced energy because the company as I said earlier has posted a positive EBITDA during the quarter and the year. The CFS Mexico our subsidiary which manufactured blend in the Central America clocked a turnover of 76.96 Crores in this and is expected to continue with this impressive performance. Our other two subsidiaries one in South America's CFS Brazil and the North American subsidiary CFS North America had turnover of 27 Crores and 9.8 Crores respectively in this quarter and with the opening of the economy is all over the world we are certain that this will be doing much well in the subsequent quarter.

Now coming to the legal aspect which have been reported in the financial statements also as you are aware National Green Tribunal on January 2022 had revised compensation levied on the alleged pollution in the Tarapur area the compensation was revised in 5.16 Crores to 17 Crores in January, we had filed an appeal against this order and we are happy to tell that Supreme Court has stayed that order until final hearing and the action against that has been stayed by the Supreme Court. At this juncture we do not foresee any cash were flow on the matter. Coming to legal case against our partner of vanillin manufacturing subsidiary in China we are still awaiting the final order of the court which seems to have been delayed due to the pandemic that has arrived in the cities of Chennai and Beijing. Though the timelines are not determined as such and we cannot estimate when we feel that this order should be received in a future few months however as a derisking strategy to this situation company has decided to produce Heliotropin and aromatic product complementary vanillin by converting the facility back to at a very minimal capital cost from vanillin manufacturing but facility to Heliotropin manufacturing facility. The subsidiary has already received permission from the local authorities for such conversion and now we would be seeking further permissions for energy effluent and other related matters for the conversion of the plant from vanillin to Heliotropin. We will update you on the matter as far as it progresses.

Lastly coming to our battery solution business the discussions with Lockheed Martin have been in progress for supply of chemical for the battery storage systems. As told in the earlier quarter the plan of Lockheed Martin is to commercialize the supply by 2024. Of course the current economic situation has been closely watched especially the enhanced cost of infrastructure material such as steel, cement before taking the decision. We will be sharing more information on it as it progresses and hopefully in the coming quarters.

With this I will hand over back to Rohit for opening the floor further to the question. Thank you.

Moderator:

We will now begin the question and answer session. We have the first question from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

- Amar Maurya:** Thanks a lot for the opportunity. Sir, I have couple of questions. Number one is that in your standalone business what would be the contribution from the Diphenol plant I believe now Diphenol would be operating at a 100% utilization level right.
- Nirmal Momaya:** Yes, it is operating at 100%.
- Amar Maurya:** So what would be the benefit to the EBITDA would you have seen in this particular quarter.
- Nirmal Momaya:** In this the hydroquinone of course counting the EBITDA margins have of course improved considerably but Catechol yet remains a loss-making product. So therefore with increase in cost of phenol the loss on Catechol continues which of course will get corrected with the vanillin facility coming on stream now.
- Amar Maurya:** So Vanillin capacity would be how much Sir around 5000 right.
- Nirmal Momaya:** 6000 tons.
- Amar Maurya:** And I believe in this 10000 the overall Catechol generation would be around 4000 metric ton correct. So you would be having the inventory of Catechol left with you correct.
- Nirmal Momaya:** Yes we have some inventory of Catechol left.
- Amar Maurya:** And you said that \$25 per kg vanillin price.
- Nirmal Momaya:** That is currently \$25 but of course when we come into the market there will be a little bit of easing up of the price because we start supplying in the market. So we believe that the price should settle between \$15 and \$20.
- Amar Maurya:** And when we will be starting our vanillin facility.
- Nirmal Momaya:** As Santosh mentioned we started the trial production we expect by July to start commercial production.
- Amar Maurya:** So peak revenue let us say at a 75%-80% utilization level if this \$20 or \$18 price sustained so are you saying that the revenue generation from vanillin plant itself would be more than 500 Crores.
- Nirmal Momaya:** Yes, that is right.
- Amar Maurya:** And when you are saying that earlier which used to talk that the Dahej once at a full capacity utilization would generate at least 20 to 25 Crores EBITDA per quarter so that would fructify them right, cost saving.
- Nirmal Momaya:** Cost saving yes, the way it and right now we have debottlenecks our plant so our capacity has increased from 10000 to 15000 tons so which will contribute in this year going forward to our

top line as well as the bottom line. The addition of vanillin because as we produce more Catechol comes and of course that is sold at a loss of course hydroquinone compensates it, but it kind of drags down this overall margin but the Catechol turning profitable with addition of vanillin we believe that the margins will improve.

Amar Maurya: So both operating, when Catechol going at vanillin and hydroquinone going at your forward at a 15000 metric ton capacity utilization full capacity what is the kind of cost saving you will see at the EBITDA.

Nirmal Momaya: See right now we are losing roughly about I would say 5000 tons of Catechol or 6000 tons of Catechol between Italy and Dahej we are selling for a loss of \$2 per kilo. So that of course will become profitable so the savings would be in excess of that loss what the Catechol which is consumed in vanillin.

Amar Maurya: But any quantum you would be having like 20 Crores, 30 Crores kind of EBITDA additional loss effect to the EBITDA.

Nirmal Momaya: No, so if basically the math is controlled but if you are losing \$2 on Catechol or \$1.5 on Catechol and 6000 tons of Catechol is converted to vanillin that lost at about \$10 million loss will go away and whatever margins we get on vanillin will sit on top of that.

Amar Maurya: So then the EBITDA would be huge in that case.

Nirmal Momaya: It will improve from where we are here.

Amar Maurya: Because at a 500, 600 Crores of vanillin you would be making at least 20% EBITDA over there.

Nirmal Momaya: I would say yes it would be high teens.

Amar Maurya: Secondly in terms of your Europe operation, I mean, the situation in Europe is really tough at this point of time in terms of the inflation perspective let us say this remains at this level for another six, seven months we do not know I mean the situation is very fluid there. So what is the plan B like are you in the position let us say at a worst case you can dismantle the whole plan and bring those whole utility and equipment here in India and install it.

Nirmal Momaya: See at this point it is early days to say anything it is profitable so at this point of time we cannot really say what is going to happen but if the market turns negative if the gas prices go up or if gas is suspended we do not know what is going to happen with the crisis going on in Italy. There is always a possibility in the long run to shift the plant, but currently we are not thinking of that because like I mentioned we are yet profitable the one thing of course good is that we are not any more dependent on any raw material coming from Italy so we are now completely independent in Dahej for all our downstream. So Italy whatever we produce in Italy is basically sold in the market. So in that sense our dependency on a strategic level is a little less but to move it to India

is a big project and it requires a lot of work so that is something that we will look at it is the lead arising.

Amar Maurya: And lastly in terms of the Lockheed Martin so any commercial supplies you would be doing in FY2023.

Nirmal Momaya: In FY2023 yes we have some commercial supplies but small quantities FY2024 will be the larger quantity.

Amar Maurya: Okay Sir I will come back in queue.

Moderator: Thank you. We have the next question from the line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: Mr. Nirmal thank you so much for your time once again. I just wanted to understand that the issue with the gas in Europe or the energy costs in Europe is that largely behind us or given how prices are still high we could continue to face sort of cost pressures into Q1 and maybe into Q2 as well or are we like this is behind us.

Nirmal Momaya: No, see the gas prices will remain high until this situation between Russia and Ukraine is comes to an end because gas prices are not showing any kind of coming down nor is the crude oil coming down. So that is something that is really very difficult to predict. As far as passing on the increase of gas cost we are attempting to do that we have done the part of it and let us see now if the market accepts that fully or in what percentage.

Madhav Marda: And what about our other businesses basically the blend business or if you look at your shelf life extension ingredient business there are we able to pass on the cost largely with customers or is there still some pass through which is pending.

Nirmal Momaya: No I think more or less we have been able to do it, I mean, there is always a lag like we have always mentioned there is a lag of about a quarter. So if you see our gross margins have remained more or less stable we have actually improved it slightly and I think going forward there will be some improvement in the gross margin. So in the blend business as well we should be able to pass on some of that or most of that in the shelf life solutions also we have been able to more or less pass on the price increases, the cost increases due to raw material logistics. So, yes, generally we have been able to pass on except for like we have always mentioned and said that Catechol is the only area where half our product is Catechol about 50% of our volume comes from Catechol is where we can pass on the cost increases but hydroquinone kind of compensates that which will now change with vanillin coming in because vanillin we will consume a substantial portion of a Catechol which therefore will not be at a loss and we will be able to pass on any cost increases even from here on any raw material because of the situation with vanillin.

- Madhav Marda:** And what is the Capex outlook for the next couple of years like what are the Capex projects which are pending and how much do we intend to spend in the next few years.
- Nirmal Momaya:** I think the vanillin plant is about 240-odd Crores which is completed now it will be by June end will be done hopefully by July we should commercialize it. Thereafter it is about an average per year would be between 70 to 100 Crores maximum.
- Madhav Marda:** 70 to 100 Crores is in FY2023 and 2024.
- Nirmal Momaya:** Yes, at a maximum.
- Madhav Marda:** And this is all maintenance largely is there any...
- Nirmal Momaya:** There would be some additional capacities that we build, new product capacities that we are building so it is a mix of both maintenance and a little bit of new product.
- Madhav Marda:** And maybe just last question in terms of the end markets that we service like multiple end markets is the demand largely holding up or are we seeing any sort of demand pressures on the client side like just I know it is very evolving but how is the situation right now.
- Nirmal Momaya:** I would say that about almost 80% of our business is directly or indirectly driven by human food consumption so keeping that in mind generally the contraction of demand is very limited in food consumption maybe you may switch for one thing to the other but at the end of the day you have to consume x amount of salaries as the human and world continue to consume that populations are growing so there is demand is growing so in that sense we do not see significant contraction of demand yes of course oil prices, edible oil prices, if you look at palm oil, you look at soya, and you look at all this seed all of them have gone up in price there is the inflationary pressure on food but I think people need to eat so in that sense I do not see a big impact to demand.
- Madhav Marda:** Got it, I will come back in the queue. Thank you.
- Moderator:** Thank you. We have the next question from the line of Varun Ghia from Dimensional Securities. Please go ahead.
- Varun Ghia:** Sir, could you help us with the geographical breakup of revenues like how much portion of revenues come from Europe overall.
- Nirmal Momaya:** I did not get your question.
- Varun Ghia:** Geographical breakup of revenue like how much portion of revenues comes from Europe, Europe and other countries if possible.

- Nirmal Momaya:** The question is that how much I earned in my subsidiaries that is the question right because otherwise 1400 Crores being sold in which country is a difficult question but I can share we have shared those numbers in the presentation.
- Varun Ghia:** No, that is according to the plant right based on the different regions. I wanted the breakup of this 1400 Crores.
- Nirmal Momaya:** You again said give you this breakup because it is not readily available because that is not tracked like that we are tracking it on the basis of each country and each geography because the products are determined and the products are pretty local blends are sold locally in Central America by the Mexican subsidiary blends are sold locally where North America and the Northern America present sales here. So generally the revenue of the subsidiaries is concentrating on those geographies so India does yield revenues all over the world of basically from the states. You can contact me offline I will give you these details.
- Varun Ghia:** Okay and secondly if you could provide the gross margin in a normalized scenario or how much gross margins can the company earn on different segments aroma, shelf life, and...
- Nirmal Momaya:** No we do not give the breakup segment wise overall our gross margins are roughly about 46%-47% and we expect that to remain in that region around 50%.
- Varun Ghia:** And one more question in China you are going to make a new product so wanted to know the usage and how big would be the market spend market for that.
- Nirmal Momaya:** So Heliotropin is again is a flavor fragrance product it is the buyers of vanillin are typically buyers of Heliotropin as well though it is a much smaller product compared to vanillin the overall point will be about 5000 tons and we are looking at the capacity I think we probably will get is about 1500 tons while you have to take a 30% market share globally.
- Varun Ghia:** I was asking that is majority of the consumption of that product does it happen in China.
- Nirmal Momaya:** No it is a globally consumed product.
- Varun Ghia:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Ravi Mehta from Deep Financial. Please go ahead.
- Ravi Mehta:** Thanks for the opportunity. You mentioned that despite the impact of the gas prices the European subsidiary was still EBITDA positive when I look at the sales number of the subsidiary there is a marked step jump from 100 Crores average to 134 Crores in this quarter and I believe that Catechol is not a profit making product. So it suggests that HQ prices have been normally high so is it cost pass through is it the market dynamics or the demand of the product is increasing or

some flavor on that because this revenue run rate looks pretty decent and pretty high and I think it is taking care of your gas costs.

Nirmal Momaya: That is right and the demand for hydroquinone is strong and it is growing in various applications whereas supply has not grown at the same pace so there is a bit of a demand supply gap which I think with our debottlenecking we should be able to service that gap which is there also since a large portion of hydroquinone and Catechol especially Diphenol is also manufacturing in Europe our competitor also has a large plant there and they are facing similar issues as well on gas prices so essentially that pass-through has happened on hydroquinone and very robustly. So yes at this point of time hydroquinone is holding up.

Ravi Mehta: That is encouraging so the other question I had was on the blend so again when I look at the quarterly revenue run rates for many quarters we were stuck somewhere around 85, 90 Crores range and in last two quarters we are seeing a step jump in the range of 110, 120 Crores quarterly run rate so what is changing in this and how is the traction on this side.

Nirmal Momaya: So basically if you look at it last couple of quarters so now there has been more mobility with the COVID crisis kind of coming down people getting vaccinated there is more interaction so with customers prospective customers so new accounts and new products with old customers. So that kind of is slowly taking traction which was suspended for almost about four or five quarters actually six quarters we did not do nothing very little interaction with customers and that has kind of come back so that is the reason why you see that there will be growth we believe we will continue to grow in this year as well some very good marketing initiatives as well as new products that we have launched are gaining traction. So we believe that this year we should be able to grow this very healthily.

Ravi Mehta: So blends growth in the whole of 22% is some 26% growth despite things opening in just last two quarters so you are confident to grow healthily on this basis.

Nirmal Momaya: Yes, that is right.

Ravi Mehta: Sure thanks I will come back. Thank you.

Moderator: We have the next question from the line of Dhruv Joglekar from Vasuki India. Please go ahead.

Dhruv Joglekar: Thanks for the opportunity. Can you throw some light on our plans in the nutraceutical segment what are our plans on the entity that we recently acquired and what can we expect from this in our books especially in the near-term.

Nirmal Momaya: We have taken control of that subsidiary now and we are scaling up the operations at the site that where the plant is located and in the next one quarter we will really define the strategy for growth in terms of what kind of investments are required for building capacities end use cases for different products. So I think we will have a much better idea in the next quarter on what is it that

we want to do in which part because there are many end users which whether it is human, whether it is animals, whether it is aqua feed. So there are several end use cases so we are just defining our strategy and we will be able to update you in the next quarter on what really we want to focus on and what kind of numbers are we looking at in the near-term to long-term.

Dhruv Joglekar: What exactly would be the potential of this plant?

Nirmal Momaya: This plant with the bottlenecking and there is some space available there so we can take it up to about 5 tons a month is what this plant would be capable of but that does not stop us from expanding because we do have some land in Dahej also surplus land available so we can always set up a plant there so we will define this all of this as the next three months because it is too early we have just taken control we are understanding seeing how to look at engineering look at capacities to see cycle time improvements and so there is a lot of work that is going on, on the development side.

Dhruv Joglekar: Thanks that is it from my side.

Moderator: Thank you. We have the next question from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Thank you for this opportunity. I have a couple of questions, firstly as you say that the vanillin the trial run has already started so can you confirm the commercialization plans and for that and the likely ramp up of the vanillin operation going ahead.

Nirmal Momaya: We estimate that the plant should reach commercialization in July and thereafter we will be able to ramp it up to 50% in the next few months and then based on market conditions pricing we will decide on whether to take it up to 70%, 80% immediately or over a period of time. So that will be driven more by market and the conditions there and see what is most profitable for us and as far as technically since that in three, four months we should be able to ramp it up to 70%.

Surya Patra: Then the related question is that see obviously the vanillin operation has not been there entirely of last year and we have got expanded the Diphenol operation from India as well as a Italy so what was the actual sale volume of this Catechol which we consider that it is a loss-making product.

Nirmal Momaya: There is direct Catechol sales would have been about 4000 tons but there are other products like veratrole which we make which also I think we sold over 1000 tons where we do not make any margin. So if you look at all of that it is almost about 5000, 5500 tons of sales without margin or at a loss.

Surya Patra: So to that means if the vanillin will be started then I think the loss on this volume will be protected right Sir.

- Nirmal Momaya:** That is right, so what we were losing should turn positive.
- Surya Patra:** So then the second question is on the practically the consolidated EBITDA performance so when we are seeing that there is a kind of a 28 odd Crores kind of impact on the Italy operation and that would have impacted our consolidated EBITDA performance but if I see the EBITDA contribution by individual subsidiaries then I think even Europe, Italy is a kind of positive, Mexico has done well and the standalone performance is like robust I think this is the best ever performance on the standalone front possibly we are seeing the benefit of for this 100% utilization of Diphenol. So still the consolidated number is lower than the standalone. So what is driving this?
- Nirmal Momaya:** See it is basically in consolidation like Santosh mentioned in Q4 we had a large amount of quantities of tax to be sold to our subsidiaries who in turn would convert them and resell them to customers so all that product which had not reached the subsidiaries as yet or may have reached and may not have been converted into final product and sold works with a tune of almost 60 Crores and that this is at 46% margin this is like almost 25, 27 Crores of margin which was taken away because the cost is already incurred and it is lying at cost and not at a realizable value. So which means the margin was impacted by Diphenol. So if you look at standalone is higher than the consolidated where everybody else is also making a profit so that was the main reason.
- Surya Patra:** So that means in the standalone side possibly the revenue as well as everything has been booked but on the consolidated levels that is still there at the cost level.
- Nirmal Momaya:** That is right, exactly.
- Surya Patra:** So then that will to a greater extent cover up the quarter on performance although there are challenges that is visible and also if you can share some idea about some outlook on the Q1 performance because we are already into almost mid or end of the May and the cost scenario globally has been really concerning so given that how should one look at the given performance.
- Nirmal Momaya:** With the shutdown for one month in the Dahej that will of course will have some impact but with the debottlenecking coming in now and we are hoping that in June we will get the full advantage of the debottlenecking or a substantial advantage of the debottlenecking we should be able to recover a part of what we would lose in the one month's production. So overall I mean when you look at India we should be on track as last quarter and Q4 we should be able to reach those numbers with the enhanced capacity in India I think Europe will continue the same trend as it was in Q4 nothing significantly has changed there is some that the gas prices have remained pretty stable in the last one month or so. So there is no extra increase now but if something happens tomorrow we do not know if again the prices go up but barring that it is more or less on the lines that we were on.

- Surya Patra:** Just one question last question from my side this Heliotropin capex would be what it would be just couple of 10 Crores or it would be like 50 Crores, 60 Crores something like that some sense on that.
- Nirmal Momaya:** No it would not be 50, 60 Crores for sure. See the process is very similar to vanillin it is from Catechol and it is an aromatic and very similar kind of equipment is required so it is just balancing equipment and some specialty equipment I do not think it should be more than \$3 million in that range so 20 Crores or so.
- Surya Patra:** But the capacity of the Heliotropin what you are mentioning it is one third of the vanillin capacity what you are having. So that is the kind of equation for the Heliotropin or it is spare capacity we will still have for something else.
- Nirmal Momaya:** No so I mean that plant very special plant so I do not know I mean that is something that they are looking at if we can utilize it for some other product as well so it is not they are not ruling it out we are working on some products which technically would require that kind of a plant. So that we can utilize if there is any surplus capacity left we can utilize that is work in progress right now.
- Surya Patra:** So that is my basic question Sir this 1500 ton what you have mentioned for Heliotropin that will occupy majority of the Capex that is there for vanillin.
- Nirmal Momaya:** Yes they are 20 Crores roughly that will be the Capex.
- Surya Patra:** No, I am saying that of the total capacity available for vanillin there in China so see this 1500 ton of Heliotropin will more or less occupy the entire of the capacity.
- Nirmal Momaya:** It would occupy yes I would think about 60%, 65% of the capacity.
- Surya Patra:** Thank you. Wish you all the best.
- Moderator:** Thanks you. We have the next question from the line of Anurag Patil from Roha Asset Managers. Please go ahead.
- Anurag Patil:** Thank you for the opportunity. Sir out of this expanded 15000 Diphenol capacities how much we might sell outside on hydroquinone.
- Nirmal Momaya:** Hydroquinone I do not think we will have surplus if it is even there we are very, very small percentage because we are consuming in our downstream more or less you consume everything.
- Anurag Patil:** That is it from my side Sir thank you.
- Moderator:** Thanks you. We have the next question from the line of Nirali Gopani from Unique Asset Management. Please go ahead.

- Nirali Gopani:** Sir can you please share some further details on this Lockheed be like what kind of revenues can be seen in FY2023 or 2024.
- Nirmal Momaya:** FY2023 and 2024 would be not significant revenues because they are also in their first commercial battery of theirs will be installed in FY2025 which is for FY2024 we deliver the material and then they will install it in FY2025 so only thereafter the real large commercial quantities will come.
- Nirali Gopani:** We plan to start the Capex for the same in this financial year.
- Nirmal Momaya:** Yes we are in the process of evaluating what that is then of course the first plant will be funded by our customer so that it is all work in progress right now to see when and how they want, how much materials they want and when do they want the plant to be ready.
- Nirali Gopani:** Still revenue the same in FY2025.
- Nirmal Momaya:** No, the pilot facility which we are developing or which we are talking about is for FY2024 that part of that capacity will come into play but the major revenues will come in FY2025.
- Nirali Gopani:** In the last call you are guided that in the next three years we will see additional 1400 Crores revenue from various new products so this will not include Lockheed portion right.
- Nirmal Momaya:** No we are not included Lockheed in any of our projections.
- Nirali Gopani:** Remain with our margins will be in high teens EBITDA margin.
- Nirmal Momaya:** For which one.
- Moderator:** Ms. Nirali your question was not very clear do you repeat the question please.
- Nirali Gopani:** I was just asking that in this Lockheed deal the EBITDA margins will be high teens or can you just give a broad rate.
- Nirmal Momaya:** No so Lockheed deal will depend on ultimately who is funding what so based on that the margins would be defined so difficult to say right now.
- Nirali Gopani:** Okay that is it from my side. Thank you Sir.
- Moderator:** Thanks you. We have the next question from the line of Shivaji Mehta an individual investor. Please go ahead.
- Shivaji Mehta:** Thank you for this opportunity. Sir in the last call you had given an EBITDA margin guidance band of 17% to 20% so just wanted to understand any change to this given the current situation in

Europe where the increase in gas prices, the prices could be more structural and may not be transitory.

Nirmal Momaya: Going forward our major focus of manufacturing will be in Dahej and in India so based on the fact that the global gas prices have hit Europe disproportionately not other parts of the world are more or less everybody has been hit but it has not been hit as badly we are saying that high teens is what the margins should be, we should be able to get there.

Shivaji Mehta: Also from say a more longer-term perspective say next four to five years do you still hold that high teens or can it be more than that.

Nirmal Momaya: Again depends on market conditions and what happens to hydroquinone and what happens to Vanillin it is difficult to predict and especially right now with all this volatility very difficult to predict in a very long-term where the market will go and settle we have no idea.

Shivaji Mehta: Right make sense and lastly just a clarification whatever you are producing in Italy will eventually once the vanillin plant comes up, will be used to produce hydroquinone right?

Nirmal Momaya: No, what we produce in Italy is both hydroquinone and Catechol which we sell. It is not used for vanillin or for any other product in India that we produce in Dahej and we use.

Shivaji Mehta: So the status quo in Italy would remain the same going forward so whatever is being produced they will stay as it is.

Nirmal Momaya: Yes.

Shivaji Mehta: Okay thank you and wishing you all the very best.

Moderator: Thanks you. We have the next question from the line of Madhav Marda from Fidelity International. Please go ahead.

Madhav Marda: Just one follow-up on the revenue potential from the Heliotropin product basically how much revenue can that 1500 ton capacity give us just on a normalized size basis and what kind of margins do we make broadly on that revenue.

Nirmal Momaya: The revenue 1500 tons can be about 250 Crores roughly and the margins would be in high teens.

Madhav Marda: And by when do we expect this plant to start off.

Nirmal Momaya: It depends on we need to get all the regulatory approvals once we get the regulatory approvals it is I think three to four months period of making all the modifications and then looking at start up so if you say that the regulatory come in three, four months from now I think by end of the year early next year we should be on.

- Madhav Marda:** FY2024 broadly you should expect that.
- Nirmal Momaya:** Yes.
- Madhav Marda:** Okay great thank you.
- Moderator:** Thanks you. We have the next question from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.
- Amar Maurya:** Couple of questions Sir. Firstly this hydrotropine basically what has changed that I understand that we have moved a vanillin plant in India because of some regulatory issues there so what makes us comfortable that this hydrotropine plant will not come under any regulatory issue or anything like that.
- Nirmal Momaya:** What regulatory issue sorry I did get that.
- Amar Maurya:** Why we discontinued at the first place the vanillin implant there in China.
- Nirmal Momaya:** In China because our partner whom we had bought 51% from the case was filed on him by our pre-existing producer competitor that the technology that he has from 2012 when he set up the plan was picked up from his competitor which was the case that was the reason why it was shutdown nothing else.
- Amar Maurya:** Okay so now this hydrotropine plant is basically your own technology.
- Nirmal Momaya:** The vanillin plant is our own technology, yes.
- Amar Maurya:** I do not know but new product which we are putting up hydrotropine is that our own technology.
- Nirmal Momaya:** Heliotropin is our own technology that is our own process developed in India only there are competitors but they are small and of course they are very different process this is our own process because our partner is not in that business so we have to develop it.
- Amar Maurya:** And secondly sir like as you indicated that almost around \$1 or \$1.5 we lost in Catechol let us say during this whole year followed by this 28 Crores of the extra expenditure which we are having of Europe that may continue plus now vanillin coming by July so at least you will have at least second half of Vanillin. So should we see a meaningful improvement in your EBITDA at absolute level in FY2023?
- Nirmal Momaya:** Yes that is the expectation.
- Amar Maurya:** And according to you like both this plan of vanillin coming up and Catechol loss going away and let us say Europe obviously 28 Crores whatever additional cost of 20, 25 Crores whatever we are

- having do you think it can go further worse from here on or obviously we will pass on something right.
- Nirmal Momaya:** Hydroquinone side we are trying no we have been able to pass on but from the Catechol which is a problem so question is whether the gas prices will go further up very difficult to answer.
- Amar Maurya:** But then Catechol any which ways after the vanillin coming you can actually use that Catechol here in India right.
- Nirmal Momaya:** No that Catechol which we make in Dahej only will be used here anyways that is surplus Catechol for us that is in Italy.
- Amar Maurya:** So any plan to utilize that Catechol let us say in over a period of time.
- Nirmal Momaya:** Nothing really on hand right now.
- Amar Maurya:** Because this hydrotropine coming you cannot utilize that Catechol there.
- Nirmal Momaya:** May be a small part because we have a decent capacity in Dahej of our debottlenecking we will almost have 8000 tons of which only 5000, 6000 will go to vanillin the rest will go for other products. So we have room yes maybe we will consume some part of Catechol from there.
- Amar Maurya:** But ultimately the dynamics of Europe will not change too much.
- Nirmal Momaya:** Yes, not too much but it will require a little more on the down streams of Catechol to take off for it to change significantly.
- Amar Maurya:** But then like vanillin do you have any other downstream of Catechol which are equally profitable like vanillin.
- Nirmal Momaya:** The Heliotropin is profitable so that will give us but if that would reaching that 1500 tons will take a couple of years. So that is the issue.
- Amar Maurya:** Perfect Sir thank you.
- Moderator:** Thanks you. We have the next question from the line of Varun Jain an individual investor. Please go ahead.
- Varun Jain:** Thank you for giving me the opportunity. So I would like to ask now we have 25000 tons of additional capacity total including India and Italy so how much of it is sold in the open market and going forward post vanillin plant commercialization how much of it will be sold in open market like how much of it will be used in making of vanillin and all.

Nirmal Momaya: What we make in Dahej the 15000 we consume internally and what we make in Italy is for local market that is sold out.

Varun Jain: So more than 80% to 90% of that is consumed captively.

Nirmal Momaya: No out of 25, 15 will be captive 10 will be sold.

Varun Jain: So 10 will be open market.

Nirmal Momaya: Yes.

Varun Jain: So we do not use any Diphenol from Italy to make downstream derivatives blends and all.

Nirmal Momaya: No it is all Dahej.

Varun Jain: So do we have any plans going ahead because like this is nothing but a commodity. So we will have volatility in that product. So we do not have any plans.

Nirmal Momaya: Plan for.

Varun Jain: For using 10000 tons of Italy Diphenol to make downstream products.

Nirmal Momaya: No that is of course first we need to fill up our 15000 and then we will look at what we do with the balance 10.

Varun Jain: Okay fine. My second question will be conservatively what could be the minimum EBITDA margin we can make from vanillin sales conservatively.

Nirmal Momaya: Conservatively we should be in mid teens.

Varun Jain: And my final question will be like post vanillin commercialization we would not be having such large Capex going ahead so we will obviously have some free cash flows and all so do we look forward to de-leverage our balance sheet and like any plans for that.

Nirmal Momaya: Yes so we do not have any big projects or big Capex lined up so at this point of time of course as soon as we get free cash flow we will look at paying down the debt.

Varun Jain: So are we looking to be net debt free or we will have some of it on our balance sheet.

Nirmal Momaya: Sorry.

Varun Jain: Are we looking to be debt free company or some of it will have it on the balance sheet.

Nirmal Momaya: Debt free is a long time away so difficult to answer that right now.

- Varun Jain:** Because post vanillin like we will have a good amount of free cash flow on it, it would be like 150 to 200 Crores of free cash flow going forward like in next two, three years if my projections are correct and we have 600 Crores of depth.
- Nirmal Momaya:** As far as see there are contracted secured loans on books like ECB which are long-term so one cannot say vis-à-vis the contractor loan so at time when we will look at the interest rate at that time and we will take a decision any company wants to be debt free but looking at the position in our growth plan this decision will be there so it is very difficult to tell you that at what time we will be debt free. So whatever is feasible and throughput the stakeholders will be done.
- Varun Jain:** All the best thank you for answering my questions.
- Moderator:** Thanks you. We have the next question from the line of Abhishek N from Nirmal Bang. Please go ahead.
- Abhishek Navalgund:** Could you please help us with the EBITDA margin of all the subsidies for the full year FY2022.
- Nirmal Momaya:** Europe was 5%, Brazil was 18%, Brazil was near to breaking even, North America as you know because it is still gathering traction it did around 2.5 Crores negative EBITDA. Wanglong is closed overheads there are around 75 lakhs per month.
- Abhishek Navalgund:** Got it and one last thing on the working capital side so since this Dahej is commercialized in I think second half of this year but on a full year basis basically in FY2023 should we expect some improvement.
- Nirmal Momaya:** Improvement in what. Working capital cycle, looking at the whole way it works, there will be some working capital cycle reduction on vanillin production but on the overall working capital cycle of the consolidated business it will not be major but we over progressively we will be migrating from 100, 110 days to 80 to 90 days.
- Abhishek Navalgund:** Sure. Thank you.
- Moderator:** Thank you. That was the last question. I would now like to hand over it over to the management for closing comments.
- Ashish Dandekar:** Ladies and gentlemen thank you very much for patiently listening to us and answering and I hope we have answered you satisfactorily I look forward to interacting with you again at our next conference call until then thank you very much good day.
- Moderator:** Thank you. On behalf of Sunidhi Securities and Finance that concludes this conference. Thank you for joining us and you may now disconnect your lines.