"Galaxy Surfactants Limited Q3 and 9M FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day, and welcome to Galaxy Surfactants Limited Q3 & 9M FY2020 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the lines 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. U Shekhar, Promoter and Managing Director. Thank you and over to you Sir!

Unnathan Shekhar: Thank you and good evening to all of you ladies and gentlemen. It gives me immense pleasure to welcome you all once again for our quarterly investor call.

Ladies and gentlemen, globally the business environment remains subdued. Consumption while it continues to grow, the growth today is fairly modest across the globe. While the premiumization trend continues to show traction Mass and mass-tige products are facing challenges. Rising geopolitical tensions and outbreak of the latest Corona virus epidemic will only compound the slowdown. Uncertainty impacts consumption and we believe this is the biggest risk going ahead in 2020.

Before we get into details of this quarter, I would like to highlight that this has been a modest quarter for us, but in the midst of uncertainty and somberness, there have been a couple of positives like the revival of Egypt and volume growth in India.

Revenue showed a decline due to lower fatty alcohol prices which accounts for 52% of our raw material buying and which declined 6.7% price-wise for the quarter under review.

EBITDA was impacted primarily due to the following reasons. The incremental costs due to the new plant startup at Jhagadia and continuation of the trade restrictions with our neighboring country, which again had an adverse impact of Rs 1.5 Crores. The total impact on account of these restrictions now stands at about Rs 2.6 Crores for the nine months ended December.

As highlighted earlier despite the uncertainty there are a couple of positives. While the volume growth stood at 2.4%, performance surfactants registered a double-digit growth of 10.2% primarily driven by the AMET markets which grew at 14.2%. Egypt continued its momentum registering a 34% growth in this quarter. This is a significant positive for us.

India after two quarters of slowdown is finally seeing some signs of pickup. The 4.8% volume growth registered in this quarter is encouraging, we remain optimistic and believe the slow recovery should continue in the ensuing quarters.

Specialty segment driven by the rest of the world markets saw a decline of 9.1%, the rest of the world constituently saw a decline of 15.1%, this we believe is a temporary quarterly blip and we do see the momentum coming back in the next quarter. Seasonal holidays and delayed consumption primarily drove this.

EBITDA per metric tonne stood at Rs 15,754 per metric tonne in the range of Rs 15,000 to Rs 17,000 per metric tonne primarily impacted by the mix change and adversely impacted by the factors highlighted previously.

We are also pleased to share that our Jhagadia plant recently received the gold level recognition in the national awards for Manufacturing Competitiveness in October 2019. NAMC is an awards platform that is aimed at encouraging and recognizing manufacturing units who have adopted global manufacturing practices in their journey to become world-class.

Galaxy was also certified as a great place to work by the great place to work institute in December 2019 a testimony of the efforts we have taken over the years to build a high on trust and high on performance organization.

To conclude despite the headwinds for nine months ended December we have seen a volume growth of 5.6%, volume growth driven by growth across segments and regions. This is positive for us. We remain optimistic that barring any global slowdown due to trade restrictions, geopolitical uncertainties or epidemic breakout which could impact consumption significantly, growth momentum should improve slowly and steadily going ahead.

Capex plans for our new sustainable innovative products remains on track. Qualifications are on and we are receiving very encouraging response from our customers.

Ladies and gentlemen before we move on to our Q&A, I would like to state that the inherent robustness of our business model has been clearly demonstrated in the last few quarters, underscoring our ability to respond to the changing external conditions and business dynamics.

Our presence in 75 plus countries with 1750 plus customers has enabled us and shall enable us to sustain the growth momentum going ahead. We remain committed and confident about our growth story.

Thank you, ladies and gentlemen. Now I would like to open the floor for Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.

Nav Bhardwaj: Good evening gentlemen. A short question I want some clarification, if you could provide as to how do we read the move from the Indian government as to banning the palm oil and how much does it affect us and do we have any long-term tie-ups with any RSPO certified firms in Malaysia and if that is going to adversely impact us?

K. Natarajan: I will take this question. See, first of all what the government has done is in terms of restricted imports of RBD palm oil that is refined, bleach and deodorized palm oil, what we serve is palm oil derivatives, essentially palm oil, and palm kernel derivatives. So, this particular action by the Indian government is no way impacting us and all the palm oil derivatives and palm kernel derivatives that we source are all from RSPO accredited vendors. So, we are pretty much in a good position in terms of vendor portfolio for sourcing all palm and palm kernel related products.

Nav Bhardwaj: So, Sir basically this is the nonevent for us and does not impact us.

K. Natarajan: Yes.

Nav Bhardwaj: Sir in terms of the volume breakup that you have seen in the markets that you operate on, how much of I do we think it is sustainable and then can we consider this to be a turnaround for us.

K. Natarajan: See in India Q3 was better than Q2 which was in turn better than Q1 which gives us sufficient reason to believe that the slowdown in India is started to correct. We would have to wait for one more quarter which is January, February, March quarter to make a clear statement on that. But with respect to Egypt, I think we have sufficient optimism to believe that this particular growth momentum that we have gained in the last quarter would continue.

Nav Bhardwaj: Thank you that is it from my side and all the best going ahead.

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

Sanjesh Jain: Few questions from my side. First on the specialty chemicals, so last year has been a wonderful year for us, though we are on a high growth, but the dip in the volumes look certainly very steep so what went behind it and was it a particular product led or can you give certain more color on what was the reason behind decline particularly ROW.

K. Natarajan: Yes, so Sanjesh essentially there are couple of reasons. The Q3 of financial year 2018-19 was a significantly higher as far as the specialty care products were concerned, driven by certain consumption that happened via certain launches that the customers did and the sort of pull that we had for those products where the projects in pipeline matured with certain customers and that is how the volume pickup happened. Coming on to the current quarter, you see our first half in terms of specialty care products was a pretty good plus some orders have got carried onto Q-4 – the next quarter. So, it is more in terms of people either advancing the requirements or some of them pushing it, so that is the only reason we see, in terms of our projects with customer and the sort of business pipeline that we have, we do not see this continuing, we see this reversing going ahead.

Unnathan Shekhar: Yes, we see this as a temporary blip, what is also important is that our traction with respect to new customer creation, new customer development and projects in pipeline they all are moving pretty well and we remain optimistic as far as our specialty ingredients portfolio is concerned.

K. Natarajan: One of the other reasons also Sanjesh is that last year in Q3 2019/2020 we also had the volumes getting into Pakistan of specialty care products ; in this quarter it is actually 0. So that also has been an additional impact.

Sanjesh Jain: So is it fair to believe that from next quarter we will see the normal growth at least if not the super normal growth is achieved.

Unnathan Shekhar: Yes, we have always maintained that we would like to see a growth of approximately 10% or so, and this is something that we should see in future.

Sanjesh Jain: So, you are confident that we will again bounce back problem this quarter ended that will come.

K. Natarajan: Yes, pretty much.

Sanjesh Jain: One on LA prices, so we understand that the LA price was in the month of December has seen a significant jump probably 30%, 40% in terms of pricing whereas the petroleum base pet chemical would not have seen that jump right because fluoride has been more or less stable, do we see any risk in terms of volume movement from LA to petro base surfactant.

Unnathan Shekhar: See as a matter of fact, some of this can be very speculative, what has gone up has come down also in this month, so these volatilities keep happening and this is something that we have got used to

K. Natarajan: See the other thing Sanjesh is that in markets where we source the LA from, LA Based products are pre-dominantly used. Most of them being consumers of natural alcohol based products .The synthetic derivative products are majorly used in Europe, there they have source of the synthetic based derivatives. I think those markets we are only catering those where they need natural alcohol based products, so we do not see this as a significant issue.

Sanjesh Jain: No, particularly from India Tier III were very price sensitive even a small blip in the transfer of volumes from say LA to synthetic surfactant can hurt us right that have at least incremental growth.

K. Natarajan: No, see for synthetic surfactant it is not that we can, it is not an immediate replacement, it is not fungible in the true sense. So it is not only about the pricing but the fungibility of the end cosmetic formulation as to how easily it can be substituted. We have seen this at times in the Home Care segment but this is not prevalent in the Personal Care segment

Unnathan Shekhar: In any case we have not heard about usage of this synthetic as a substitute for natural based products SLES in this country till date.

Sanjesh Jain: No, no, I have heard from somebody that they can switch between LA and TDA do not know how…

Unnathan Shekhar: What is TDA, oh, that is in terms of you have talked about not in personal care and you are talking about tridecyl alcohol.

Sanjesh Jain: Particularly in the laundry detergent.

K. Natarajan: See laundry detergent the consumption is Linear Alkylbenzene Sulfonate, so someone can decide to shift to tridecyl alcohol but since we do not operate in this segment in India, we do not see this issue impacting us.

Sanjesh Jain: So that is not an area which can impact us or we cater to

K. Natarajan: Yes.

Sanjesh Jain: One on the China situation, so does it open at least a temporary opportunity for us, in the export market where Chinese have been aggressive and now that the production may get delayed there do we see interim opportunity in terms of selling some volumes in the market where Chinese were normally aggressive any such opportunity exist or even in near-term.

K. Natarajan: First of all, right now I think we all have to pray for the things to get back to normalcy and people recovering, the mortality rate coming down and the rate of infections reducing. So having said that it is too early for us to comment, but if the supply chain in China does not get back to normalcy for a significant amount of time, which we obviously have to wait and watch and that China is unable to supply anything at all out of China, then the market that they are catering to would probably have to approach others, but we need to wait and watch. It is too early for us to comment because the Chinese government has said from February 13th they can start the factories. Now whether if the situation worsens which you do not want to in terms of the impact on the people, but yes if it continues for a significant period of time and the shutdown continues then we will have to see.

Sanjesh Jain: But in general understanding which are the markets where we compete with the Chinese

K. Natarajan: See China typically plays in markets of say Latin America, they play in the markets of Africa, Middle East, Turkey, in Asia Pacific these are the markets.

Sanjesh Jain: So mostly closer to our Egypt facility and not really the India facility where we can see Jhagadia utilization ramping up faster than expected.

K. Natarajan: Yes, see it is not there supposing the China does not supply then they would want whoever can give material so whether Egypt or Jhagadia, if the situation worsens significantly, but we do not want to be commenting on there right now, we will have to wait and watch as to how the situation unfolds.

Sanjesh Jain: One on this, just one book keeping question, what was the non-Egypt growth in AMET?

K. Natarajan: The non-Egypt growth in AMET this quarter was about 4.5% YTD was 7%.

Sanjesh Jain: We have come down significantly in non-Egypt volume in AMET and particularly this…

K. Natarajan: Sanjesh what we need to realize is that when Egypt market was underperforming we had to find markets where could position our products, if Egypt really starts performing well we do not want to be doing that, so we will go slow on the non-Egypt markets, so we do not want to be positioning our products aggressively once Egypt comes back on track so that is precisely what has happened.

Sanjesh Jain: So, you are telling that we were going aggressive into the non-Egypt market was it more pricing led or how was it?

K. Natarajan: Obviously it will be pricing led so in terms of the pricing position that we had to take, so if then Egypt was not performing we have to take those calls and then position our products in the non-Egypt markets

Sanjesh Jain: So, you are reversing that pricing get started, this is coming back to the normalization.

K. Natarajan: Yes.

Sanjesh Jain: Can you slightly give some color on how the Jhagadia plant is performing now that we have commission and can you give breakup of what was the incremental fixed cost above EBTIDA and the depreciation payment because of commissioning of Jhagadia.

Ganesh Kamath: See including depreciation is about Rs 12 Crores per annum.

Sanjesh Jain: And what was for this quarter.

Ganesh Kamath: This quarter it is approximately Rs 3 Crores.

Sanjesh Jain: So, it includes depreciation you are telling Rs 3 Crores includes depreciation.

Ganesh Kamath: Yes, it is including depreciation.

Sanjesh Jain: Okay, so it is not that bigger hit to our margin.

Ganesh Kamath : Yes, see what happens is that as far as EBITDA is concerned there are two, three factors which influenced the EBITDA one is this new capitalization which has happened the second thing essentially is that we have incurred certain developmental expenditures as well there was a regulatory expense. See what we do is that all these expenses we do not capitalize it, we charge it after they come up. So, these are expenses that are not incurred every year but when they are incurred they are quite substantial.

Sanjesh Jain: So, in this quarter have we incurred any reach related…

Ganesh Kamath: No, I was talking in the context of 9 months

Sanjesh Jain: No, I was more looking from this quarter perspective.

Ganesh Kamath: Yes.

Sanjesh Jain: Some color on the Jhagadia plant commissioning whether it was smooth and how was it?

K. Natarajan: It was very smooth.

Sanjesh Jain: So, at what utilization are we running on Jhagadia plant?

Unnathan Shekhar: As you know, see Jhagadia our normal thing is that for every performance surfactant plant to reach 100% utilization it takes atleast four years. So, we are, on an overall basis for Galaxy we are at about approximately 62% capacity utilization.

Sanjesh Jain: If I want to look at only Jhagadia will it be less than 10% as of now.

Unnathan Shekhar: No, it will be more than that.

Sanjesh Jain: That is, it from my side and thank you and best of luck.

Moderator: Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

Saravanan V: At this point would you have, I mean, would you be able to provide us any volume guidance for next financial year.

K. Natarajan: No next financial year, our own aim is to grow ahead of the market and for the next financial year we would not be able to provide guidance now because we are into our annual planning exercise. Okay, so next financial year, I suffice to say that yes, we will continue the growth momentum that we have achieved in the current year

Saravanan V: Have we launched any new products in this quarter, in the quarter that went by.

K. Natarajan: No, there is nothing that we have launched in this quarter but as I said there are number of products that we have launched in the category of mild surfactants and nontoxic preservatives. Good number of projects are getting concluded with customers and these are at various stages of maturity. Those that are going on, we are receiving a positive feedbacks from our customers

Saravanan V: A book keeping question, what would be the total debt as of nine months.

Ganesh Kamath: See total debt as of nine months is Rs 286 Crores, it has gone down actually, debt equity has gone down from 0.34 to 0.27.

Saravanan V: So, do your intent to keep debt equity at this range or depending on the capex and any inorganic opportunities.

Ganesh Kamath: No, there is CAPEX in the pipeline and we will take a call accordingly basis that.

Saravanan V: Yes.

Ganesh Kamath: Otherwise if you see either you have to invest, or you have to give payout one of the two.

Saravanan V: Thanks a lot, I will join back the queue.

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

Rohit Nagraj: Sir you have indicated that the Mass and mass-tige products are continue to face challenges so what could be the trigger for the market to come back to normalcy.

Unnathan Shekhar: See as we said firstly the challenging situation is at the global level where there is a slowdown. As we have said before that we would be able to grow ahead of the market. As far as India is concerned, after three quarters of slowdown, we are finally seeing some signs of improvement. Globally as well Egypt is getting its tempo back. Overall pick up in consumption is the key for this trend to continue and restart globally.

Rohit Nagraj: Sir you also commented that given the uncertainties related to the global markets 2020 can be a bit challenging year. So, in such an environment would there be impact on the overall volume growth for us for the next year financial year as such.

Unnathan Shekhar: See what we said it could possibly be a challenging year because there are obviously certain headwinds including the Corona virus syndrome, but this could also be temporary. So, one has to obviously be cautious when we look at the coming year, but we do not, I mean, what we would like to say is that we do not think that the whole consumption will decline significantly, it could be a mild growth to a modest growth like what we have seen possibly in this year which will continue next year as well.

Rohit Nagraj: Sir earlier we had indicated that for FY2020 the volume growth guidance will be about 6%-8% and EBITDA growth would be higher than the volume growth. So, given that nine months are over and one month of the fourth quarter, do you foresee that this guidance could be met on a lower side or probably go below 6% on volume front.

Unnathan Shekhar: We are optimistic that we should be in that particular range.

Rohit Nagraj: Sir just last question on the US Tri-K facility so what is the current progress?

K. Natarajan: It has only got commissioned about 15 days back The new facility got completed on time and has got commissioned.

Rohit Nagraj: Any understanding on the orders for this new facility because I think earlier plant was any which ways coming at almost full utilization.

Unnathan Shekhar: Yes, so as we have always said when we build any capacity, we build it for long-term and particularly facilities like these we build it over an eight year horizon. I have always said for performance surfactants, the horizon is about four years and for any specialty ingredients the horizon can be even eight years or so. Incurring a CAPEX also warrants the requisite approvals are in place so that we are ready as and when the market presents opportunities so that we can capitalize on the same and steadily cater to the rising demand.

Rohit Nagraj: Thank you so much and best of luck Sir.

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

Abhisar Jain: Sir my question is related to the product mix. So, as we have seen that specialty care product segment was doing very well for us in FY2019 and also in H1 FY2020, while we have seen a significant dip in Q3. So just want your sense around this mix which was improving for us on the while and has seen a dip maybe due to the structural issues that you mentioned in the rest of the world market, but how do you see it going forward, because it seems to have had an impact on our EBITDA per tonne also which we make.

Unnathan Shekhar: That we see it coming back, as we said in the beginning itself we see this is a temporary blip and we will come back.

K. Natarajan: See that what we have also understand is that, we also wanted to grow our performance products portfolio. Our strategy is to grow both the segments and that is why we have maintained the EBITDA/MT range will be between 15000-17000 Rs/MT.

Unnathan Shekhar: So, both of these classifications will grow as we said we want to reiterate that what is important for us that we are growing ahead of the market whether the market is for performance surfactants or specialty ingredients.

Abhisar Jain: Sir in that endeavor but say we would be looking at the overall absolute volume rather than higher focus on the EBITDA per tonne we will get…

Unnathan Shekhar: Right, so, our EBITDA as we said will be in the range of Rs 15000 to Rs 17000 per metric tonne and for your information the EBITDA per metric tonne has more or less remain the same whether it was in Q3 FY2019 or Q3 FY2020.

Abhisar Jain: Yes, I was just looking at maybe the whole of FY2019 as well as H1 versus what we did in Q3 that is why…

Unnathan Shekhar: Yes, this could go up and down but they will remain within the range.

Abhisar Jain: Sir could you quantify the one off impact on the EBITDA for this quarter like you mentioned some startup cost and another Rs 1.5 Crores one off you had mentioned.

Ganesh Kamath: No, see startup cost we mentioned about is for Q3 because in the sense that the new plant which has become operational in Jhagadia the annual impact is around Rs 12 Crores and for Q3 it is about Rs 3 Crores, it includes both cash expenses and depreciation. Now as far as YTD is concerned what happens is certain regulatory expenses which are incurred in respect of the product and other development expenses we generally do not take it to prepaid or capitalize or defer it, we charge it directly to the P&L account that also will be approximately Rs 3 Crores for YTD. The other thing we charge all the developmental expenses to the P&L account - all R&D expenses and everything are debited to the P&L account.

Abhisar Jain: Sir just a bit of guidance on the capex outlook now.

Ganesh Kamath: We have invested about Rs 110 Crores till now. Last year we had invested Rs 169 Crores, we should exceed that.

Abhisar Jain: Any number for FY2021 Sir?

Ganesh Kamath: Yes, that is what I said it should be around the same number some Rs 170 Crores this way that way because it is mostly on the higher side than on the lower side.

Abhisar Jain: Thank you so much Sir and best of luck.

Moderator: Thank you. The next question is from the line of Mayank from Axis Mutual Fund. Please go ahead.

Mayank: Sir just wanted to know that how you should think about the ROW business the cost is just pretty volatile over the last few years so we are seeing FY2017/2018 year actually growth was negative mid single digit in FY2019, we have seen a strong 30% in this year again we had seen that credit volatility in the quarterly results as well. How should we think about the nature of business over there hence the growth from a near to medium-term perspective in this business and what is causing to that increase.

K. Natarajan: See if you look at rest of the world, Rest of the World has been growing pretty significantly quarter-on-quarter, if you see the last two years, this is the first quarter where it has actually taken some sort of a break. Rest of the world for us mostly we have more or less specialty portfolio that goes on there and because of the seasonality and the sort of growth that we had in the corresponding quarter previous year there is some blip. But as we explained earlier we see this as a temporary blip and we will comeback both in specialty and rest of the world market

Unnathan Shekhar: See for the almost the 9 month period the rest of the world growth rate is approximately 6.8%.

Mayank: No Sir I missed and a part of it, all I am saying is if I just to see on an annual basis FY2017/2018/2019 and then 2020 the growth rates have varied so much, FY2017 I think the ROW business I think degrown by 2%...

Unnathan Shekhar: Obviously there is a base effect, I mean we cannot expect it to be at the same, we have grown at the highest at something like 28% in a particular quarter we cannot expect it to be at that particular level. So, the growth that one would like to see is the growth about 10% or so that is what one would like to see.

Mayank: On a stable steady state basis on this base you are saying that the base of 9% to 10% kind of growth rate is what we are going to expect.

Unnathan Shekhar: Yes.

Mayank: Sir, yes Sir, on the nature of business over there and the cliental so we were all established large clients over there like the LLPs?

Unnathan Shekhar: No, mix of all types of clients what we call global multinationals, local and regional majors, small niche customers, so this is a mix of all these things because premiumization as a concept straddles across various consumer and customer segments.

Mayank: Sir what would be the percentage of the share of repeat business share versus that such company in ROW business.

Unnathan Shekhar: Almost all of these are repeat by nature, most of them are long term customers who want reliable suppliers given the nature of the home and personal care business.

Mayank: So basically, we would have in the beginning of the year there was decent visibility of what kind of volumes are going to be placed from there.

Unnathan Shekhar: We do discuss with them, but there are no, what is called straightaway, cannot, will be an indication but not contracts.

K. Natarajan: Yes so I just want to clarify because I think the others also would like to understand that, rest of the world where you had a question in FY2018 we grew by 7.2% in FY2019 we grew by 29% and now YTD nine months we have grown by 7% so it pretty much tells you as to the base effect is there and it also tells you that the typical growth rates will be around the 10%, so there can be years in which you can gain more business and then obviously that becomes the base and then you start growing with that higher base.

Anupam Tiwari: Basic objective was to understand this not the quantum approach why it is down or up that is not the objective the objective is more to understand what is the drivers, which make it so different in terms of growth rate.

Unnathan Shekhar: See what happens is when a product gets introduced as you know, all these specialty products have a good amount of gestation period, here the customer testing and customer formulating and customer stabilizing can take anywhere from one to even two and a half years so it is quite rightly that a lot of customers realization or fructification could get bunched up and that is what explains a sudden jump there. These are not what I would call exactly predicted or intended, it just happens to be so.

Mayank: So, can we safely assume that this drop is nothing to do with any loss of customer.

Unnathan Shekhar: No.

Mayank: So, it is not that a product has been withdrawn or a customer has been lost, due to timing issue inventory issue?

Unnathan Shekhar: No, not at all.

Mayank: Thank you. Thanks a lot.

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

Rohit Nagraj: Sir just couple of clarifications, on the capex front you have indicated that FY2020 will exceed Rs 179 Crores which was in FY2019 correct.

Unnathan Shekhar: To be exact last year was Rs 169 Crores if I remember correctly.

Ganesh Kamath : It is around 170 Crores.

Unnathan Shekhar: Around Rs 170 yes.

Rohit Nagraj: FY2021 you said that again a similar number?

Ganesh Kamath: Yes, I was talking about 2020 somebody asked me for the current year where I mentioned for nine months we have already deployed Rs 110 Cr, but the last quarter we will exceed that number given there are projects under execution at Jhagadia and Tarapur.

Unnathan Shekhar: So, we maybe touching something last year's numbers possibly by the end of this year.

Rohit Nagraj: FY2021 will be again a normative capex, so it will be just a maintenance capex we will not have any?

Ganesh Kamath: Yes, we said that we do a rolling plan exercise where three years demands are mapped and we will have to identify the capacity needs only after that it will come.

Unnathan Shekhar: See if you remember, at the time of IPO we had said that the capex would be approximately Rs 300 Crores for the next three years. We remain on track as far as that is concerned.

Rohit Nagraj: Sir second question on the volume front. So, we have done 5.6% in nine months so effectively if we were to achieve the lower end of guidance of 6% Q4 should grow by around 7% and we have the confidence that on a year-on-year basis 7% volume growth in Q4 is achievable.

K. Natarajan: See the reason why the guidance is 6% to 8% is because India for the first two quarters of the year was actually flat to negative. India now has started growing so if India growth momentum continues then this guidance can improve. Plus as stated, we see specialty ingredients in rest of the world gaining back the momentum, so we do not see any reason why it cannot be around that 7%.

Rohit Nagraj: And Sir just one question forms the specialty ingredient perspective so normally what has been the life cycle for these products and has it shortened because there is changes in product mix or for some newer applications or so over the last couple of years.

K. Natarajan: No, in fact I do not remember any specialty products that we introduce getting formulated out. All of them are pretty much into the formulation they can undergo some change, in terms of our new product getting into the formulation, and existing can get reduced in terms of the usage level but there is nothing that obviously has gone out of formulation.

Unnathan Shekhar: We have also seen for your information where our new product cannibalizes an exciting product, but that all then is intended by us

Rohit Nagraj: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Ramanuj from ECA Capital. Please go ahead.

Ramanuj: Sir, just wanted to know, how do we see the prices of fatty alcohol prices going forward and the strength of margin ahead.

K. Natarajan: See fatty alcohol went significantly by almost 50% to 60% in a span of about two months and then in the last 15 days we have seen it correcting by about 20%. So, in my view it will all depend on the way the palm kernel prices are and today they are softening so we expect this to be in this pretty volatile zone but what is important is that we have a very good risk management framework in place to ensure that we do not get caught unaware. So that is what is important to note, so the volatility that happened in the market is not in our control. So, the prices we just could not predict the prices today two months back so that is how the market is, but we ensure we work within the well- defined risk management framework that we have.

Ramanuj: That could affect the margin.

K. Natarajan: No.

Unnathan Shekhar: We do not look at the margin percentage or I think for us we have said always please look at the EBITDA per tonne which we have always said it will be in the range between Rs 15000 and Rs 17000 per tonne

Ramanuj: Understood, that is from my side. Thank you.

Moderator: Thank you. The next question is from the line of Divya Singhal from HDFC Securities. Please go ahead.

Divya Singhal: Just one question, I wanted to ask with the breakout of Corona virus coincidence, how that pans out for your company and secondly if such viruses are something do with hygiene. So is it correct to assume that Galaxy will benefit if such breakouts occur.

K. Natarajan: Yes, I will answer your first question. As I responded to one similar question earlier in the call, that if the Corona virus, which is now almost 15 days old, impacts adversely further going ahead, to an extent China which is going to open up next week, delays, and if the said situation prolongs much beyond than as stated currently with closure of the units in China for an extended period of time, then we can benefit. For now we will have to wait and watch in terms of several customers who were buying from China whether they start scouting for other vendors who can supply. If that happens they will come to Galaxy for sure. So that we need to wait and watch we cannot make any clear comments right now.

K. Natarajan: So, the second question that you had, yes so what we can say is that, if you see the advertisements in India that all big multinationals have been playing, they are talking about the need for washing your hands and hygiene therefore if due to the same there is any spike in demand we are ready to cater to any spike in demand that may happen.

Unnathan Shekhar: As matter of fact whenever this happens obviously the awareness and the sensitivity towards hygiene and sanitation obviously goes up. To give you a piece of interesting news, all of us know about Reckitt Benckiser, they are our customers in India but we are told that they have got a very special permission from the Chinese government to run 24 hours in Shanghai, it tells you that they cannot afford to stop production in China for various cleaning materials. So very obviously when such things happen there is an increased awareness and sensitivity about hygiene and sanitation which is obviously good for your company over the long run.

Divya Singhal: Correct. But have you seen any pickup in volumes in the current quarter in Q4 in the last 10, 15 days.

K. Natarajan: No we have not seen anything like that as of now. We did see an uptick in Q-3 and that momentum continues but no incremental demand due to this is visible as of now. Ideally we will wait for the next 10-15 days to reasonably be sure if any uptick comes in due to this development. This is the same when it comes to China as well. Also assessing whether the same is tactical or structural in nature needs to be assessed therefore for now we will wait and watch

Divya Singhal: Is any of your sourcing affected because of this?

K. Natarajan: No, nothing we have taken a review there and we have the required inventory available with us and as I said if this shutdown prolongs for next three months then we might have a problem with respect to certain raw materials but nothing major

Divya Singhal: That is all. Thank you.

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

Sneha Talreja: Thanks a lot for taking question. I am sorry I have joined in late in case it will be a repeat question. Sir just wanted to understand how has been the growth in each of your segments, you have definitely mentioned in your presentation figures of growth in India, AMET and all so I think that is a nine month so can we have the figure for Q3?

Unnathan Shekhar: So, in Q3 as we said the overall volume growth was 2.4% and the performance surfactants grew by about 10% specialty had a decline of about 9% India grew at about 5% AMET grew at about 14% and the rest of the world had a decline of about 15%.

Sneha Talreja: Sir what would be the reason for decline in your rest of the world because that would answer your specialty degrowing also.

Unnathan Shekhar: So, we said that we consider this as a temporary blip and we should come back as far as this quarter, Q-4 is concerned.

Sneha Talreja: Sir can I also know what has been the growth in Egypt specifically in the current quarter, and what is the scenario.

Unnathan Shekhar: Pure Egypt was 34% year on year.

Sneha Talreja: So that has been growing in line what we have seen in Q2.

Unnathan Shekhar: Yes.

Sneha Talreja: Till when do we expect this kind of growth momentum to come up continue I mean where have we reached.

Unnathan Shekhar: Normal growth for the AMET Market is 5-7%. So till the Q-1 of next year the base effect will play out

K. Natarajan: See what we also need to understand is that the corresponding quarter last year for Egypt was extremely slow. So, Egypt coming back to 34%, one of the primary reasons is growth that has happened in the market and second is the base effect so this has to be understood. It will be wrong to presume that it will keep growing 34% quarter-on-quarter.

Unnathan Shekhar: Yes, the nominal growth rate we can say is at about 5% to 7% or so.

Sneha Talreja: Got that Sir. Thanks a lot for taking my question and all the best.

Moderator: Thank you. The next question is from the line of Divya Singhal from HDFC Securities. Please go ahead.

Divya Singhal: Just wanted to know if during any breakout in the past that has happened in China or any other country you have seen any pickup in volumes as such.

Unnathan Shekhar: See we have mentioned before that our business has not been significantly impacted or dependent on China, so the China factor has never been an important factor.

Divya Singhal: I know it is something like the bird flu that has broken out or any of those viruses that has come?

Unnathan Shekhar: So what we can say is that whenever such situations happen there is an increase sensitivity towards sanitation and hygiene and that certainly makes more people wash their hands more frequently.

Divya Singhal: Correct, but it is safe to assume that none of this impact your company on a dramatic level.

Unnathan Shekhar: No, on an overall basis I am saying, no impact.

K. Natarajan: See but what we have to also keep in mind is that the global supply chain is now very closely integrated with China that was not there earlier so this kind of situation can be different this time because we are also seeing the kind of action that is being taken by the Chinese government was not something they did when the bird flu broke out, or when SARS happened so the way they have closed down the facilities, they have quarantined the provinces. Now this is very different from earlier situations so for now we will have to wait and watch because it is too early for us to comment either way. But suffice to say that if there is any situation where it prolongs and there arises any sudden gap, we are well positioned to meet that incremental demand. The second is that in terms of what we are importing from China we have taken care of that as well. We are well covered to ensure that we do not have any disruption in our production. But if this prolongs beyond three months then I do not think anyone can do anything about it but we do not expect that to happen.

Divya Singhal: Thank you.

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

Unnathan Shekhar: Thank you ladies and gentlemen. As we close this session, we look forward to the coming quarter and quarters with optimism both for India, Rest of the World and AMET region. Thank you once again.

K. Natarajan: Thank you.

Moderator: Thank you. Ladies and gentlemen with that we conclude today’s conference. Thank you for joining us and you may now disconnect your lines. Thank you.