# "Galaxy Surfactants Limited Q4 FY-18 Earnings Conference Call"

**May 30, 2018**

**MANAGEMENT: MR. U. SHEKHAR – PROMOTER & MANAGING DIRECTOR; GALAXY SURFACTANTS LIMITED,**
**MR. GANESH KAMATH – CHIEF FINANCIAL OFFICER; GALAXY SURFACTANTS LIMITED**
**MR. G. RAMAKRISHNAN – CO-FOUNDER & DIRECTOR; GALAXY SURFACTANTS LIMITED**
**MR. K. NATARAJAN – CHIEF OPERATING OFFICER; GALAXY SURFACTANTS LIMITED.**

**Moderator:** Ladies and gentlemen good day and welcome to Galaxy Surfactants Limited Q4 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a remainder 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 '*' 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.

**U. Shekhar:** Hello all, a very good afternoon, ladies and gentlemen and a warm welcome to all. On the call I am joined here by Mr. Ramakrishnan – our Co- founder and Director, Mr. K. Natarajan – Chief Operating Officer, Mr. Ganesh Kamath – Chief Financial Officer. The results and the presentations are available on the stock exchanges and our company website. And I do hope everyone has had a chance to look at it.

Let me start by giving a small brief about our company and industry before we move on to the financial performance of the company.

Galaxy is an Indian multinational and preferred supplier to leading multinational, regional and local FMCG brands across the globe. We are India's largest manufacturer of oleochemical-based surfactants and specialty care products that are used as ingredients by the home and personal care industry. Ladies and gentlemen, surfactants are products that enable the removal of dirt and oil and hence are the core ingredients of consumer centric products like shampoo, washing machine detergents, hand wash, household cleaners, etc. Our specialty care products get used for specific functional benefits like sun protection, preservation, nutrition and when I say nutrition, not food nutrition, but hair nutrition or skin nutrition, mildness as our critical ingredient in skin care, oral care, lotions and creams, face washes etc.

Galaxy has been in this business since 1980 and have proven our credentials through our long-standing trusted relationships, high level of innovation and solution providing backed by 47 patents, robust quality systems and serving over 1700 customers across the globe. Though our products can be used in other industries, Galaxy is completely focused on the home and personal care FMCG industry since inception.

2017-2018 has been a year of making our company stronger; strengthening our position in our home base that is the Indian market, where we grew by 14% in volumes and AMET region by 11% in volumes. We fortified relationships with our existing customers, increased wallet share by cross-selling and enhancing the product basket with customers added new customers across markets and geographies. We took our innovations to customers enabling them to launch new products and solutions to their consumers. While 2016-2017, saw a turnaround of Galaxy Egypt and the performance products division of Galaxy North America, 2017-2018 saw a sustained growth where in all our divisions that is Galaxy India, Egypt and Turkey grew despite a competitive and challenging environment.

Ladies and gentlemen, the global surfactant's market was valued at $30.65 billion in 2015 and expected to breach $45 billion by 2024 at a CAGR of 4.4%. In volume terms, surfactants are 16.35 million tonnes and expect to touch 23 million tonnes by 2024.

The personal care segment is expected to be the fastest growing segment. Performance surfactants for us, also includes certain ingredients which are higher margin products along the same line as specialty care products. The performance surfactants in the specialty care products play a very complimentary role and they together drive the profitability of the company. The performance surfactants will be particularly pronounced in the emerging markets like India and the Africa, Middle Eastern, Turkey region and parts of Southeast Asia. We have been granted 47 patents globally and we have applied for 36 new patents. We have 7 state of the art manufacturing facilities; 5 in India, 1 in Egypt, 1 in US for the 200 products that we manufacture. The utilization level last year was roughly around 70%.

Now let me come to the FY 2018 performance:

As I said, we have a mutually complimentary two-pronged strategy to grow in both the emerging and the developed markets driven by increasing our share and sustainable growth in both the categories that is performance surfactants and specialty care products. For the period ending March 2018, that is 12 months ending March 2018, we saw of volume growth of 11.2% versus the previous year. The performance surfactants during the said period have seen a 13.2% volume growth and the specialty care products have seen 7.6% volume growth.

I would like to reiterate and repeat that Galaxy we measure ourselves on volume growth, EBITDA growth, PBT growth and return on capital employed. Our volume growth in India this year also included sales from an intermediate product being sold to one of the large FMCG brand on opportunistic basis. Now this is a spot opportunity, the same product of course gave us a ROCE of (+22%) which was well in favor of the company. There has been growth across customer segments in geographies; we have been able to increase market shares in India and other markets on the back of double-digit volume growths. This in turn has also helped us to grow faster than the markets, which has been the trend over the years for Galaxy.

As far as US FDA is concerned, we are very pleased to inform that US FDA has concluded the inspections for both the N3 and N46 plants at Tarapur and the inspections stand closed under 21 CFR, 20.64 D3 that is their noting and we have received establishment inspection reports. Now as you know, US FDA have conducted in March 2018 inspection of above 2 facilities and it showed observations on the form 483 with an inspection classification of voluntary action indicated. These observations were very procedural in nature, we have responded to these observations fully and this resulted in closure of this inspection.

We have undertaken debottlenecking of capacities of certain key products which shall add to the growth momentum going ahead. We have seen this operationalizing at different points in FY 2019.

To sum up ladies and gentlemen, FY 18 has been a remarkable year for us. We are confident of continuing on the growth path backed by our strong R&D and in-house manufacturing capabilities.

Now I would like to handover the call to Mr. Ganesh Kamath who is our Chief Financial Officer.

**Ganesh Kamath:** Let me take you through the financial performance of our company:

Our top-line for 2018 grew by 12.5% at Rs. 2444 crores. Our EBITDA margin has been steady at 12.2% now this EBITDA margins had 2 impacts on it; the average exchange rate realization for the previous year was Rs. 67 on our exports whereas for the current year it was Rs. 64.4. This has affected the gross profit by Rs. 8.5 crores for 2018 versus 2017. There was an LBT impact which we have discussed levied in the Navi Mumbai area in the pre-GST era. The same has impacted our EBITDA by Rs. 3.2 crores. Now if we add 3.2 and 8.5 our EBITDA margins adjusted stand at alone 12.7%.

The PAT stood at Rs. 158 crores with 7.1% growth against 2017. Our CAPEX plan for the next year is about Rs. 125- Rs. 150 crores. We have reduced our debt by Rs. 45 crores from Rs. 393 crores to Rs. 348 crores. Our debt-to-equity ratio stands at 0.48.

**U. Shekhar:** We can now start ladies and gentlemen, with your questions and our answers.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Amol Kotak from Max life. Please go ahead.

**Amol Kotak:** Can you give me the broad revenue break up between the 2 product lines?

**Ganesh Kamath:** The split between performance surfactants and specialty care products remains at around 65:35. So the actual numbers are Rs. 1553 crores and Rs. 813 crores.

**Amol Kotak:** Second question is sir I missed on the CAPEX numbers for FY 19…

**Ganesh Kamath:** It will be Rs. 125- Rs. 150 crores.

**Amol Kotak:** And how much was it for FY 18?

**U. Shekhar:** FY 18 it was around Rs. 30 crores.

**Amol Kotak:** Sir in your balance sheet I see other current assets have increased sharply year-on-year, so can you explain that thing?

**Ganesh Kamath:** There are 2 factors in this; our sales this year was more in favor of T1 customers. T1 customers that is basically MNC customers' sales were larger to whom we extend credit, that is one aspect. The other aspect is that there is a buildup of around Rs. 45 crores GST receivables.

**Amol Kotak:** You said build up of credit again so that should be part of debtors' right?

**Ganesh Kamath:** It is part of working capital. I am talking about other current assets is Rs. 45 crores of GST.

**Amol Kotak:** Yes, other current assets.

**Ganesh Kamath:** That is basically you are talking from Rs. 62 crores to Rs. 118 crores, am I right?

**Amol Kotak:** Yes.

**Ganesh Kamath:** In that, we have Rs. 45 crores of GST receivables.

**Amol Kotak:** Sir and what sort of volume growth should come in, in the next 2 years?

**U. Shekhar:** See as you know India as well as our target geographies are leaving behind a period of tepid growth and we are seeing buoyancy in these regions. I think India has been growing pretty well, I think this year as we told you we have grown at 14%. So, Galaxy will always grow better than the market. I think if the Indian market is expected to grow in this coming year by about 10% certainly Galaxy will be higher up the market growth.

**Amol Kotak:** But sir any number would you like to…?

**U. Shekhar:** No we wouldn't like to say any number, mention any specific numbers. What I would like to tell you is that we will certainly grow better than the market. This is what we have been doing in the regions that we operate.

**Amol Kotak:** Sir one question on the margins this quarter, we have seen some muted kind of this thing what are the reasons for that?

**Ganesh Kamath:** You are talking about the EBITDA margin?

**Amol Kotak:** Yes.

**Ganesh Kamath:** See EBITDA margins there have been certain expenses basically there are 2-3 expenses; one is relating to the actuarial valuation of gratuity which is about Rs. 1.4 crores or so. Then relating to CSR, then relating to repairs. These are the main expenses which come to about Rs. 7- Rs. 8 crores which has affected the EBITDA margins.

**U. Shekhar:** And which you know came in the line last quarter. It was period closure. Period closures…

**Ganesh Kamath:** And in the case of repairs generally what happens is that, during the quarter the job is taken it gets affected.

**Amol Kotak:** And other income was also down year-on-year.

**Ganesh Kamath:** Year-on-year other income was down because see in Egypt we account our export incentive on the basis of cash receipts. So last year we had a higher export incentive receive and this year the export incentive lower thereby around Rs. 3.5 –Rs. 4 crores.

**U. Shekhar:** And this receipt is given by the Government….

**Ganesh Kamath:** We account there on the basis of cash receipt to be conservative.

**U. Shekhar:** We are quite conservative there we don't account it accrual basis; we account it on received basis.

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

**Saravanan Viswanathan:** In terms of gross profit per tonne as our product mix improves would it trend up or, because in the current year it was either flat or trending downwards so how should we read into this?

**U. Shekhar:** See I would like to reiterate that Galaxy shall grow on both the categories that is performance surfactants as well as specialty care products. The performance surfactants get mainly driven by aspiration and affordability in the emerging markets like India. In India the penetration is still at a low level and there is good amount of headroom for growth. So, in both the, AMET as well as the Indian market the performance surfactants will continue to grow. As you know the HPC industry is expected to accelerate its growth in the coming years and performance surfactants will certainly grow. Now the specialty care products also will grow, we measure ourselves by growth on both the categories, the specialty care product primarily today are driven by the matured markets like USA and Europe and they go into high premium category personal care products especially high premium skin care and hair care products. So what we call the EBITDA margins will remain in that particular zone that we have talked about anywhere between that 12-13% or so.

**Saravanan Viswanathan:** So the other way to look at it is absolute growth in EBITDA will be more or less in line with the volume growth?

**Ganesh Kamath:** Saravanan if you see even this year, in the FY 18 there were 2 adverse impacts – one was the local body tax and the other one was the average FOREX rates differential between the previous year and the current year. If you take both these adjustments into account, your EBITDA margins growth is almost in line with the volume growth. So this is something very specific to only the current year.

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

**Sanjesh Jain:** A couple of questions from my side; one, on the specialty care product side, this quarter around, we have seen a 10.6% sequential decline. Is there any particular reason for it or it is more of seasonality, there?

**Ganesh Kamath:** It is more of seasonality in terms of….

**U. Shekhar:** If you compare the H2 versus the H1, there is a growth.

**Ganesh Kamath:** There is a good amount of growth. A dispatch timing issue, so that is why, because it all depends on the…...

**U. Shekhar:** For examples, the H2 growth versus the H1 was almost 18%.

**Sanjesh Jain:** So it is more of seasonality and you're telling there is some dispatch related issue?

**U. Shekhar:** It is a dispatch related sometimes the customer can seek a bunched dispatch.

**Sanjesh Jain:** This is normal, general business nothing to worry about it?

**Ganesh Kamath:** No, nothing to worry about.

**Sanjesh Jain:** And employee cost jump of 29% you said it is more of an actuarial revaluation. Is that the reason for employee cost to sharply move up?

**Ganesh Kamath:** Q3 to Q4….

**Sanjesh Jain:** No, I am talking from last year to this year 29% jump.

**Ganesh Kamath:** Last year to this year, see in actuarial valuation when we go for the IndAS there is movement which happens between OCI and P&L account. So last year there was something moving to OCI to the tune of Rs. 2.4 crores which is reflecting there. Now this year when we close, there is something, Rs. 1.3 crores is moving from the P&L account to the OCI line. So what is going to happen is that if you add 2.3 which is negative and 1.3 positive Rs. 4 crores impact rose only from that between two periods. If you see the OCI line, it is there, which is given here, items that will not be reclassified subsequently to the P&L account. This is the one. Second is there was a Rs. 3 crores expenditure coming from TRI-K relating to some regrouping of the employees there in the PPD division which we had acquired. Now these 2 expenses accounted for nearly Rs. 7 crores and balance Rs. 2 crores is the normal increase which has come forth.

**Sanjesh Jain:** Okay so but now whatever we have reported, this employee cost this will be a new normal right?

**Ganesh Kamath:** Yes, see if you look at year to year also the increase is only Rs. 5 crores. The year to year increase if you see it has moved Rs. 141 crores to Rs. 146 crores.

**Sanjesh Jain:** Okay on a yearly basis?

**Ganesh Kamath:** Yearly basis, therefore it is not significant. It is just some accounting aspect of IndAS which has come into play.

**Sanjesh Jain:** And if I subtract the consol minus standalone so what is left is basically our Egypt and US business

**U. Shekhar:** Right.

**Sanjesh Jain:** Now this business has shown a sequential decline, why is it, on the revenue side?

**Management:** The revenue side, it has shown a….?

**Sanjesh Jain:** A decline.

**U. Shekhar:** This is for the quarter or the year?

**Sanjesh Jain:** For the quarter, Q4 has a sequential decline, so there is a sequential decline of 1.3%.

**Management:** I think that was again to do with, see in Egypt we had some of the dispatches that actually got pushed to what happened bunched them up in the previous quarter. So that is the reason the way it explains for you in Galaxy Surfactants in standalone. So, this typically is due to that, overall if you see the growth in Egypt there has been very significant, at about 11% for the year in terms of volumes.

**Sanjesh Jain:** And how do we see Egypt business hence forth because there is some pressure on the currency side and all those things?

**U. Shekhar:** No, see the one thing which was characteristic of Egypt was the local Egyptian market was challenging which was due to the Egypt devaluation. It is yet to recover fully though there has been a certainly a recovery and that is why we had to make up our volumes in regions outside of Egypt. But Egypt has had a very good year as far as last year was concerned. We have certainly grown on volumes as you can see by almost 11%. Yes, we have grown on volumes by 11%.

**Sanjesh Jain:** Coming back to our performance products, this quarter has been phenomenally strong a 15.7% kind of a year-on-year volume growth. Do we see these kind of volume growth sustaining at least for the next 1-2 years?

**U. Shekhar:** Yes, the only thing that I want to tell you is that, as I indicated in my opening remarks, this year, particularly this last quarter our volume growth included sales from an intermediate product, which is obviously a spot opportunity. Now this spot opportunity contributed almost about 1%, right, about 1% or so; 0.6% it contributed. And in the coming year also we expect it to be there so but we need to keep this aside when we talk about a volume growth. If we keep this aside, we have grown this year as far as the local market is concerned by approximately 13.5%, which is higher than the market growth rate. As I said, we will always be growing ahead of the market and the coming year certainly promises to be good for the home and personal care industry in this country and Galaxy will keep up its tempo and momentum.

**Sanjesh Jain:** These kind of intermediary opportunity which we have seen this quarter how often it is, how frequent it is or?

**U. Shekhar:** You can't really predict it. But whenever the opportunity arises, we certainly exploit it when I say exploit we use it, I will use the word exploit in the context of dictionary feeling of using it, certainly they responded very positively.

**Management:** For which we need to have capacity available and we need to be prepared with our capacities for such opportunities.

**U. Shekhar:** And because we don't create any capacities for these spot opportunities, but whenever they have these spot opportunities which are never strategic we will always let us say, use those opportunities.

**Sanjesh Jain:** And how many customers did we add this year, FY 18 and what is the plan in terms of geographical expansion for the next year?

**U. Shekhar:** I think the total number of customers was approximately 55, number of customers. I think last year we were about 1700. Now it may be about 1755 or so.

**Sanjesh Jain:** And any geographical expansion for the next year?

**Ganesh Kamath:** We have added 5 countries.

**Sanjesh Jain:** This year, FY 18?

**Ganesh Kamath:** Correct.

**U. Shekhar:** See totally, I mean when we, before we have mentioned in our RHP that we had a regular countries at 75 which has gone to this year, you know last we did with 82 countries.

**Ganesh Kamath:** Regular countries over 3 years 75.

**U. Shekhar:** Yes, regular countries for the last 3 years is 75.

**Ganesh Kamath:** Specific to this year is 82.

**Moderator:** Thank you. The next question is from the line of Rohit Nagaraj from Suniddhi Securities. Please go ahead.

**Rohit Nagaraj:** So in terms of TRI-K as I understand that we were operating at more than 90% utilization in last year, so, are there any plans of expanding the capacity and if so what would be the CAPEX that is envisaged for the same?

**U. Shekhar:** The answer is yes, and we are certainly increasing our capacity and the CAPEX should be approximately in the region of about $4 million or so.

**Rohit Nagaraj:** Okay and this is included in the guidance of Rs. 125-Rs. 150 crores consolidated CAPEX?

**U. Shekhar:** Yes.

**Rohit Nagaraj:** And will this CAPEX be completed in the current financial year and the effect of the same would be also coming in revenues may be towards the end of this financial year?

**U. Shekhar:** No, more or less, we should take that it will come in only from the coming year that is next year that is 2019-2020.

**Rohit Nagaraj:** And sir, are we finding any new products where in there is a significant potential maybe in any of our 2 segments, performance or specialty care, any color on that?

**U. Shekhar:** Let me sort of give you a very brief on our innovation. I would like to highlight certain significant achievements of 2017-2018. We commercialized 3 grades of products called Sodium Cocoyl Glutamate which is mildest of the all anionic surfactants and these were developed for baby care products and one of these grades was fast tracked to meet a customer's launch plan. So this is what is called as Sodium Lauryl Glutamate. So this can be used in body wash, baby care, face wash, shampoos etc. But these 3 were addressed to, one was addressed to a baby care product, one was addressed an end application of body wash and another application was for hair care.

Now all the 3 grades of these Acyl Glutamate we call it, generally it is called Acyl Glutamate they were manufacturing exploiting our patented green technology. That was number one. Secondly, we have already talked about our product called GMI 21, which is based on our patented technology. It is a synergistic surfactant, and this was adjudged as the best innovative personal care ingredient in the HPCI Exhibition which was held in January 2018 were the jury was awarded by leading international journal SOFW. So this is again a very interesting kind of product which gives consumer desired attributes of foam, lather, sensory and fineness and the manufacturing technology was totally developing fast. Then there is a product which is gaining more and more importance, consumer product across mature markets. This is called shower oil, so Galaxy developed world's first non-sulphate oil soluble surfactant called **(Inaudible) 30:53** Lauroyl Sarcosinate, which is for the shower oil category. Now this will be commercialized, of course in 2018-2019. It is under trial testing by our customers, and this is again a product which is very high premium product. During the last year, of course we also filed patents applications for 2 inventions with respect to highly substantive water-soluble UV absorbers and preservatives for personal care and home care products. Now last year, almost saw 17 patents getting granted for 7 inventions. Now apart from this, I also would like to talk to you about what has happened at our TRI-K. I think, TRI-K has again been coming up with innovations which get launched in the exhibitions like in cosmetics, now let me just outline these things.

See last year TRI-K developed an innovative natural Peptide product called NaturePep the first of which was launched in Bangkok, Thailand in November 2016. Since then this has grown to 4 products including what is called as NaturPep Innova, NaturePep Amaranth. All these are from natural raw materials and these were launched In-Cosmetics in Amsterdam just last month that is April, last month. We are also developing products for as a natural alternative to Silicon and petrol item, these are synthetic products which get used in the personal care products and TRI-K is developing natural alternatives for these products. TRI-K grew last year in terms of revenue by almost totally, what 16% or so. So this again in a nutshell whatever innovation has done for us.

**Rohit Nagaraj:** Right sir. In terms of the product that you mentioned, innovative product what could be a probable size or potential for these products from a revenue perspective, any ballpark figure or number?

**U. Shekhar:** See all I can say is that these are products which go into high premium products. So they take, sometimes in terms of getting a critical mass even for our customers. These are products for emerging concepts. So these will have certain gestation period in terms of growth. But the beginning has been made and we are pretty in optimistically confidence that these products will grow in the coming years.

**Rohit Nagaraj:** Right sir, in terms of CAPEX, the entire CAPEX for the next year would be done through internal accruals. Is that right?

**U. Shekhar:** Entirely from internal efforts.

**Rohit Nagaraj:** Right and just a book keeping question, the effective tax rate for next couple of year would be again in the range of about 29-30%?

**Ganesh Kamath:** Yes it will be around say anything between 28-30% I would put it depending upon the mix of profits.

**Moderator:** Thank you. The next question is from the line of Bhawana Israni from Anand Rathi. Please go ahead.

**Bhawana Israni:** Can you please give the split of EBITDA breakup in between performance surfactants and specialty care products?

**Ganesh Kamath:** This is confidential information; we have given it at the revenue level. Revenue and volume level we have shared it but we have not gone beyond that.

**Bhawana Israni:** And another one when this CAPEX which we are planning like Rs. 125- Rs. 150 crores in FY 19 it is contributing to the revenue and EBITDA in FY 20 or after that?

**Management:** FY 20.

**Bhawana Israni:** And it is completely funded by internal accruals?

**Ganesh Kamath:** We have internal accrual of that order.

**Moderator:** Thank you. The next question is from the line of Amol Kotak from Max Life. Please go ahead.

**Amol Kotak:** Sir just one follow up, what percentage of your CAPEX for Rs. 125- Rs. 150 crores of FY 19 is for increase in capacity.

**Ganesh Kamath:** See whatever we spoke to you is for the increase of capacity.

**Amol Kotak:** The entire money, there is no maintenance required?

**Ganesh Kamath:** Yes, it will be over and above the normal CAPEX.

**Amol Kotak:** This would not come phase wise? Because in your presentation you mentioned about debottlenecking of capacity.

**Ganesh Kamath:** Phase wise only because it is spread over the year.

**U. Shekhar:** So various things will get commissioned at different points of time in FY 19.

**Amol Kotak:** So do we see that Q3, Q4 onwards of FY 19 some sort of growth kicking in or is it all FY 20?

**U. Shekhar:** No we are not very significant in this the coming year. Most of them will come only from the next year. Not very significant, there could be something.

**Amol Kotak:** What is your R&D spend as a percentage of sales?

**Ganesh Kamath:** It is about 1%.

**Amol Kotak:** And that would remain more or less.

**Ganesh Kamath:** Yes that would more or less remain there. I think it is exactly is about 1.17%. It will remain around the same.

**Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

**Ranjit Cirumalla:** My question is on the US FDA inspection front. Congratulations for you for getting this clear, how many of our products would be facing these kind of an audits and if you can share some…..

**U. Shekhar:** You see these are, there are only 2 products and the total amount of sales into USA is less than 1% not even 1%, it is high. It is less than 0.2%. Now what is important is that these FDA inspections when they came was indicated as per what you call voluntary action which means we are supposed to be do it by ourselves which we did. We totally responded, and it stands closed and throughout this period we have been continuing our business of sending it to USA. Because these observations are procedural in nature what is called they give some suggestions and we had to respond to them. So we have responded to them in just a matter of 1.5 months or so and then we have completed, and then it stands closed.

**Ranjit Cirumalla:** Sir my question was more on the outlook front of would the product expansion or the geographic expansion would involve more of such products?

**U. Shekhar:** No, see only these 2 products what you call Octocrylene and Octyl Methoxy Cinnamate come under US FDA ambit and no other product comes under US FDA ambit.

**Ranjit Cirumalla:** And future product pipeline is also the same.

**U. Shekhar:** Yes absolutely. If at all maybe I don't know see and as I said this comes under the US FDA ambit only for sales in US. These products also get sold in other parts of the world. There they don't come under the ambit of US FDA.

**Management:** So Ranjit in suffice to say that based on whatever visibility we have any future expanse that we are going to do it will not involve anything more than these 2 products in terms of the US FDA.

**Management:** But all the same the kind of size standards that we are passed the scrutiny of US FDA speaks about our competency of quality and quality assurance.

**U. Shekhar:** And what is also important and significant particularly for us that it was a great learning experience, our people felt very happy facing this particular audit and in terms of the way we responded, so it was also a good bit of learning for our people.

**Management:** And this definitely talks volumes about our quality competency.

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

**Saravanan Viswanathan:** Can we have the production volumes for FY 18 sir between performance and specialty care products?

**Management:** What we are saying is that the capacity utilization Saravanan for the full year was about 68.6% to precise.

**U. Shekhar:** So totally our production was approximately 197,000, right?

**Saravanan Viswanathan:** That was sales volume, right?

**U. Shekhar:** Sales

**Saravanan Viswanathan:** No I was asking about production volume broken up into performance surfactants and specialty care.

**Management:** See Saravanan it is not that we have any great deviation in terms of opening and closing inventory.

**U. Shekhar:** Yes, what is important Saravanan for you to get it is that some of the production is also production provided for captive consumption. So totally for example, our production was approximately 248000 tonnes so the balance between this and sales, I mean order of magnitude will also used for captive consumption.

**Moderator:** Thank you. The next question is from the line of Rohit Nagaraj from Suniddhi Securities. Please go ahead.

**Rohit Nagaraj:** So what is the geographical breakup between domestic and export sales, if you can quantify it in terms of numbers?

**U. Shekhar:** So India contributed approximately 35% in consolidated, AMET region was approximately again at 36% and balance is rest of the world.

**Rohit Nagaraj:** And I understand in terms of expansion we don't have any significant headroom or scope at Taloja and Tarapur. So predominantly the next phase of expansion which you mentioned is coming in Jhagadia and Suez. Is that right?

**U. Shekhar:** See what we would do is that the so-called Brownfield expansion will come at Jhagadia and Egypt and some expansion is coming at USA also. And in our existing sites like Tarapur and Taloja, Yes, I am pleased to inform you that we got an environmental clearance for one of our sites at Tarapur called G50 where we are putting up a small plant that is particularly for specialties and in other sites like Tarapur and Taloja which are almost full, we will always have certain small debottlenecking.

**Rohit Nagaraj:** And sir is it possible to get a view on what could be the increase in capacity post this expansion, so maybe 20% or 30% increase in capacity which should be sufficient for the next…..?

**U. Shekhar:** We would like to sort of state it once it gets over. Once we roughly fully sort of implemented it, then we would like to state it

**Rohit Nagaraj:** Okay fair enough, but this capacity increase would it be sufficient for our volume growth for the next couple of years?

**U. Shekhar:** See you are right as such. As I mentioned before, normally the horizon for performances surfactants is the about 3-4 years, when we create capacities and for specialties, sometimes it can be as much as 7-8 years or so. That is the horizon. Why we do this is because you know getting clearances involves time, that is number 1. Number 2; also in the context of minimum economics wise in terms of these capacities. If you take substantial CAPEX it has to meet the economic size is the criteria. So when we talk about performance surfactants you can take it as a horizon of approximately 3-5 years or so

**Moderator:** Thank you. The next question is from the line of Rohit Nagaraj from Suniddhi Securities. Please go ahead.

**Rohit Nagaraj:** Sir what would be the revenue contribution from top 10 customers this year?

**Ganesh Kamath:** So the top 10 customers for FY 18 was approximately 55%.

**Rohit Nagaraj:** Okay, similar to what it was during FY 17?

**Ganesh Kamath:** Yes.

**Rohit Nagaraj:** And sir in terms of raw material prices is there any volatility which was observed in the recent times?

**U. Shekhar:** I presume Rohit that you saw our presentation that we have uploaded in the website, not in the website in the Bombay stock exchange also and website, it will be very interesting for you to have a look at it we have clearly given the graph.

**Management:** Rohit I think your question was moving forward do we see volatility?

**Rohit Nagaraj:** Yes, and the predominantly I think Ethylene forms around 8-10% of our raw materials, if I'm not wrong and recently the crude prices have also shot up. So even that phenomena is there any impact?

**Management:** So the way we see, the way we look at it is that it will rise and fall in sympathy with the crude petroleum prices with the land and obviously, last year moved up, probably last 6 months we have seen them moving up all **(Inaudible) 47.34** oil based derivatives. With around oil & chemical derivatives we do see the volatility continuing and we are well geared to ensure that we are able to manage this volatility pretty well.

**U. Shekhar:** And Rohit this volatility has been a continuing phenomena, at least for the last 7 years in a very intense way and it is extremely important for us and then this is what we have done, we have to navigate this volatility very well and this is what we have been doing.

**Management:** So fiscally, we have mastered the technique of managing this volatility through our risk matrix management.

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

**Saravanan Viswanathan:** You mentioned the top 10 customers accounts for about 55% of your revenues. So, I presume in most of the cases you will have a sort of indicated annual off take plan from each of your customers, is that…?

**U. Shekhar:** Usually you are right and see that is how we make our budget for the year and so this is enabled by our long-standing relationships with them. So customers when we have a dialogue with them, they do talk about the growth plan and we have a fair idea of what will be the consumption on off take for the coming year.

**Management:** Yes, that is the beauty of strategy relationships

**Saravanan Viswanathan:** Yes, definitely. So, is it only the top 10 or the percentages slightly higher, like if we were to…..?

**U. Shekhar:** Normally see as a matter of fact, Galaxy almost markets 95% of its sales by direct marketing. So our people out there in the field meet our customers. So they have a close interaction with them so they have a pitch year what each customer books at his business for the coming year and that forms the basis of our budgeting process.

**Management:** Success is a function of preparedness, knowledge intuition and inability to create magic.

**Saravanan Viswanathan:** so given that kind of visibility when you have a can we not have some indicated volume growth?

**Management:** No one of the things that Saravanan, I would like to state here is that when the customers do share those volume with us it is also subject to, it is not subject to in terms of the how the market pans out. So what we would be probably when we report quarter on quarter we would be able to tell you that. But we do want to hazard any guess and although we know the number we don't want to come at that now because it is not right.

**Management:** Anyway Shekhar gave you an indication we will grow above the market growth, that is the indication and uniformly across geography

**U. Shekhar:** And in terms of the macroeconomic picture Saravanan we do see that India and the geography that we focus on our leaving behind a period of tepid growth and then we are moving into an era of I would like to optimistically say that I have a buoyancy. So let us hope that these trends will continue.

**Saravanan Viswanathan:** Okay because you have made an exhaustive presentation. In that if we see last 4 years, the volume growth has been at 9% CAGR, but EBITDA has grown at a 16% CAGR.

**U. Shekhar:** Right.

**Saravanan Viswanathan:** Going forward, it looks like we may, I mean, is there a scope to do a similar performance or EBITDA growth will mirror only the volume growth?

**U. Shekhar:** See what you need to know is that we are also setting up capacities; see we always believe in setting up capacities in anticipatory manner. So, Galaxy is growing as well as investing. So we would expect the EBITDA growth in that particular zone.

**Saravanan Viswanathan:** Higher than the volume growth?

**Ganesh Kamath:** Yes, higher than the volume growth.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question.

**U. Shekhar:** Before we sign of I would like to happily share with you that we recently got the Trishul Award from CHEMEXCIL for being one **of the** Outstanding export performance. So this is an award which is given through the CHEMEXCIL by the Ministry of Commerce, so we got this ward and we collected it from the hand our Commerce Minister, Mr. Suresh Prabhu.

So ladies and gentlemen, I would like to thank you all for joining this call. I do hope that we were able to answer all your questions. We continue to work on the strategies, including cross selling our products to existing clients, continuing our innovation, to provide solutions to our customers and penetrate both the high growing market like India and AMET and continues to focus on our specialty care products as far as the matured markets are concerned. So thank you very much for being with us and for any further queries kindly get in touch with us or SGA, we would be happy to address all your queries. Thank you once again and I think we will see you again in another 3 months. Thank you.

**Management Team:** Thank you.

**Moderator:** Thank you very much sir. Ladies and gentlemen, on behalf of Galaxy Surfactants Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

**End of file.**