"Galaxy Surfactants Limited
Q2 and H1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Galaxy Surfactants Limited Q2 and H1 FY2020 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 the date of this call. These statements are the guarantees of future performance and involved risks and uncertainties that are difficult to predict. As the 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 "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Unnathan Shekhar, Promoter & Managing Director of Galaxy Surfactants Limited. Thank you and over to you Sir!

U. Shekhar: Thank you. Ladies and gentlemen, I am delighted to welcome you all once again for our quarterly investor call.

The last 12 months has seen a shift in momentum, change in business environment and growth. Consumption in rural India fell to a seven year low in the September quarter. The overall FMCG space grew at 7.3% in this quarter as compared to 16.2% a year earlier. Clearly reflecting the broad base slow down in the FMCG space driven by the home and personal care segment. Globally too, the business environment remains muted.

The demand for home and personal care segment products is undergoing a change in composition. Premiumization, naturals and sulfate-free are three trends that are at the cusp of breaking out. Consistent double-digit growth reported by our specialty segment is a testimony of that. While the demand for premium product is on the rise, mass and masstige segments are slowing down. Rising trade restrictions and geopolitical tensions have increased the uncertainty taking a toll on the business confidence, investment decisions and global trade.

Recent restrictions imposed on trade with our neighboring country, resulted in an adverse Rs 1.1 Crores impact on the EBITDA in Q2 FY2020 for us. While Q2 FY2019 marked the pinnacle of buoyancy, we believe Q2 FY2020 marks the culmination of tepidness.

Ladies and gentlemen, this has been a mixed quarter for us. Mixed as despite the slowdown, Galaxy has logged in a 10.2% volume growth driven by both the segments, performance surfactants, which grew at 11.2% and specialty care segment which maintained its moment registering a 8.4% growth. Across regions, we have seen volume growth.

As stated in our previous concall, the EBITDA per metric ton will remain in the range of Rs.15000 to Rs.17000 per metric tonne. The same stood at 15,654 per metric tonne for this quarter registering a year on year decline of 8.7%

Following are the reasons for the same,

- Product mix
- Forex gain at EBITDA level of Rs.3.75 Crores in Q2 FY2019, which contributed towards the rise in EBITDA per metric ton, which was not present this year.
- Incremental new plants startup and setup costs, which was not present in Q2 FY2019. This refers to the commissioning of our new capacity at Jhagadia.
- This quarter we have also taken certain calibrated business calls in response to the business environment.

Quickly getting into the finer aspects, as far as the AMET region is concerned, the overall home and personal care space grew in the 2% to 4% zone for the quarter. It has gone up in volume terms. The Africa, Middle East, Turkey market had been showing a decline for the last four quarters primarily driven by our local Egypt market. The trend that began in Q2 FY2018-2019 finally has been arrested.

Egypt, our local market contributed the most towards this decline. We are pleased to share with stabilization in prices and the economy, Egypt is slowly but steadily getting back to normalcy. We saw a 29.8% year-on-year growth in Q2 FY2020. The year-on-year growth for the first half stands at 5.4%. AMET excluding Egypt towards maintained its momentum logging in a healthy 9.7% growth for the quarter and 8.4% for the first half. Overall, the AMET region grew at 7.3% for the first half of the year. We remain confident of maintaining this momentum going forward.

If you come to India, while the overall demand remains subdued, we remain cautiously optimistic with respect to the second half. Yes, the festive upside which usually drives the Q2 volumes as seen in Q2 FY2018-2019 was not visible. But the fact that we have grown by 2.6% sequentially despite the overall home and personal care segment declining sequentially makes us cautiously optimistic. We believe this is a temporary blip in the long-term optimism that we share for the Indian home and personal care industry. The steps being taken by the Indian government to kickstart our consumption in the economy should start yielding results in the coming months.

Coming to Rest of the World, the Rest of the World markets continued its momentum in absolute terms, though percentage growth came down due to the base effect as stated in the previous concall. Overall, the business remains on track. We have locked in a healthy 12.7% year-on-year growth and 19.4% for the first half of the year. Growth in percentage terms as we go ahead will taper off given the base effect but absolute growth shall sustain going ahead. This will be on the back of our new launches where significant amount of work has been done or is being done.

While it will be too preliminary to state any numbers as these products usually have a gestation of period of two to four years but once finalized value accretion and customer stickiness is extremely high and this ensures consistent business and growth for us. Our new launches part of our portfolio of sustainable green products, are receiving very encouraging response from our customers. The emerging categories like baby care, naturals, face care and men's grooming, not only offer significant room for growth but also via the e-commerce channel are seeing the emergence of many smaller players. Galaxy through its wide product basket strong technical and formulation expertise is capitalizing on the same. Without capex funds in place, we do see this gaining traction in the medium term across categories.

Ladies and gentlemen before we move onto the questions and answers, I would like to state that the inherent robustness of our business model has been clearly demonstrated in the last few quarters underscoring of 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 to sustain the growth momentum quarter on quarter. Going ahead as well we remain committed and confident about our growth story. Over to you ladies and gentlemen for the question and answers!

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you Sir for the opportunity. Sir I have two questions. There has been a rise in our borrowings, so where do we expect that to stabilize as we progress in H2 or we expect the borrowings should remain at slightly elevated levels. The second question was on the volume growth in the India market, so how do we see the India market in the H2 and let us say over the slightly longer horizon in the next 2021?

Ganesh Kamath: As far as the borrowing is concerned, there is a rise it is about Rs.30 Crores is on account of two factors. Basically, one is on account of advance taxes where there was an advance tax payment of approximately Rs 6 Crores on account of change in the taxation rate. The other one is essentially on account of GST regulations, where GST refunds takes time. These are the only two factors and it is not of any other factor.

K. Natarajan: As regards to our outlook for the India growth for the coming second half, sequentially the growth has been say about 2.5% to 3% gives us the sense that the worst is over and we should see a pickup happening in terms of demand. But, we will have to wait for a month or two to understand whether this trend has firmly established. But things should improve moving forward that is the sort of sense we have.

Kaushal Shah: One question on the EBITDA, so we have seen in Q2, it was a sharp drop in EBITDA per tonne. So what is the kind of number that we should look for in the coming quarters and how do you think will the realization scenario pan out over the next two or four quarters?

U. Shekhar: Normally as we say, we will grow ahead of the market growth and our EBITDA growth will be higher than the volume growth. On the factors that I mentioned in my opening speech if you take out that those special factors, I think we would very much be on track with respect to our main philosophy of growing EBITDA more than the volume growth. As far as in a long term is concerned, we have always believed that our EBITDA will be higher than the volume growth and the PBT growth will be higher than the EBITDA growth.

Kaushal Shah: What is the kind of raw material price drop that we have seen?

U. Shekhar: Natarajan, our COO will take this question.

K. Natarajan: Raw material for this quarter has been pretty stable. But if you see the corresponding quarter last year to now, there has been a fall of almost $200. However, this quarter, see July, August, and September has been pretty stable.

U. Shekhar: Actually, as we said the raw material prices are possibly in their multiyear lows now. We have not seen such a low price possibly for the last maybe about six or seven years.

Kaushal Shah: Thank you Sir.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Bryanston Capital. Please go ahead.

Vijay Karpe: Thank you for giving me this opportunity. Sir can you just explain me the risk management framework. You have to manage the volatile RM prices. Do we retain any percentage of the risk on our books?

Ganesh Kamath: See basically what we do is in follow the ALM model which is followed at the Bank. Basically, you have buy side positions, you have sell side positions, which gets netted off and you maintain an acceptable or a set limit of open position. Therefore, we do not run open positions on the raw material. It does not impact our P&L account.

Vijay Karpe: So it is entire pass through, we do not retain any of the risk?

Ganesh Kamath: We do not retain. Because what happens is that, see in any market risk you have a buy side and you have a sell side as long as you are in a position to equate it, you do not run risk in your books.

K. Natarajan: The extent of inventory that you maintain, we need to have some inventory that be maintained but we ensure that risk position is so defined that even if there is a significant drop within a month, you do not have a significant impact in your P&L. There will be some impact because you will have some inventory in the system.

Vijay Karpe: Yes. So how much percentage will that inventory be of the total inventory?

K. Natarajan: Very insignificant depending on the open position that we have probably maybe a month inventory.

Vijay Karpe: **A** Month inventory, okay. Thank you.

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

Nilesh Ghuge: Good afternoon Sir. Sir normally EBITDA margin, if you look at first half of the FY2020, is 14% versus 12.5% for the first half of FY2019. So how much of this will be attributing to change in product mix the delta of 1.5% over year-on-year for the half year?

U. Shekhar: You should expect our EBITDA percentage as a percentage of topline to be anywhere between let us say 12.5% and 13.5%. So now that is in so-called steady state. Now in the raw material price goes down, it has an impact in terms of topline and when the topline is lower our percentage on EBITDA tends to be higher in terms of percentage terms. The raw material goes up significantly we would see the EBITDA percentage coming down. What is important be is that you need the measure us in terms of volume growth rate. How volume is growing, how well are we growing on volume vis-à-vis the market growth and how does our EBITDA growth vis-à-vis the volume growth rate. That is our measure.

Nilesh Ghuge: That means the jump in percentage, is not entirely attributable to the product mix. It is mainly because of the benign raw material prices, am I right?

U. Shekhar: There is a factor of that but even now on quarter-on-quarter its impact will be what I would call minimal. Over a long term, our percentage of specialty ingredients or volume of specialty ingredients will keep on getting enhanced and then we would see a progressive growth in terms of our EBITDA as a percentage of sales because as a component of specialty ingredients keeps on increasing. This is not going to happen in just one year or two years. It will happen over a period of horizon of almost five to 10 years or so.

Nilesh Ghuge: Yes that is why I am asking that how much is the because of the product mix?

U. Shekhar: Not significant as far as this time.

Nilesh Ghuge: Sir then my second question is on the contribution coming from the specialty, the margin contribution so it is in the same range or you get the better margin on your specialty compared to performance?

U. Shekhar: Better.

Nilesh Ghuge: So the difference is how much in terms of BPS or whatever?

U. Shekhar: Certainly high.

Nilesh Ghuge: Sir you talk about the volume growth if I compare the first half of FY2020 versus FY2019 the volume growth on total basis it is about 7.3%. So how much you will guide for FY2020?

U. Shekhar: Overall for FY2020, we expect it to be between 6% and 8%.

Nilesh Ghuge: Thanks a lot Sir. That is all from my end.

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

Sanjesh Jain: Good afternoon, I got a couple of questions. One on AMET, AMET volumes have come up phenomenally, there is some low base effect as well. But you mentioned that the industry has grown at 2% to 4% and we have grown by 17% odd. Whom are we gaining market share from and what led to this decision of chasing volume in AMET market?

U. Shekhar: Our sales in Egypt market is mainly due to our T1 customers, what you call the global multinationals. We do see them slowly regaining the lost share that they did for a better part of 2017 and 2018. So slowly but steadily they are coming back and this is reflecting in our sales to them.

Sanjesh Jain: It is fair to assume that your customer are gaining market share and so is Galaxy?

U. Shekhar: Slowly. It is not dramatically changing but slowly they are regaining because they have particular position. They lost their position and they are now slowly regaining those positions.

Sanjesh Jain: We are helping them in terms of better pricing the product and all because I can see our gross margins in India, which is standalone has only improved. So the gross margin compression has largely coming from Egypt and US market and I understand US is very small so basically we are aiding our customer in terms of them gaining the market share and hence we are also chasing the volume along with them. Is that right way to see?

U. Shekhar: No. We certainly will grow with them because as I said these are all parts of long-term relationships that we share with them. We always pride ourselves in having a very, very long relationships with them and this is one of our key strengths. So we do work very, very closely with our customers.

K. Natarajan: See the other things, Egypt is predominantly performance surfactants mix whereas India has the mix of specialty & performance. So that enables you to properly balance it out. So in Egypt whenever you have this sort of costs are taken, this will get reflected way you are explaining now.

Sanjesh Jain: This kind of growth at least in next two to three quarters will sustain?

U. Shekhar: It should be a factor of the low base effect of the last year plus improvement in performance of our multinational customers

K. Natarajan: But whatever volume that we are seeing in this quarter will continue to improve. So that is clear.

Sanjesh Jain: The existing volume we will not sequentially see a dip but this kind of growth you are telling is not sustainable on a year-on-year basis?

K. Natarajan: If you are looking at one quarter phenomenon, then no. So that volume is going to sustain.

Sanjesh Jain: This is going to sustain. Now coming back to India, India if you see the FMCG company results, predominantly T1 customers, so MNCs are clearly gaining market share over unorganized sector which has been highlighted by FMCG companies as well as by media companies where they say that the local ads from the smaller players has completely now evaporated. So is our mix in India also going towards more T1 versus T3 and that is also hurting a little bit of a margin?

U. Shekhar: Not necessarily. Matter of fact, India, the smaller players, there are number of small players, further, the e-commerce players are really emerging very well. And we work very closely with those emerging e-commerce players as well as a lot of small customers across the country.

K. Natarajan: In India if you see I do not think it has churned significantly, Sanjay. The way we see the market, the market has not churned from the tier 3, tier 2 to tier 1. It has shifted marginally. So whatever they have lost earlier, they have regained something. But there is no huge churn in terms of market shares within tier 1, tier 2 and tier 3 players.

Moderator: Thank you. The next question is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.

Nav Bhardwaj: Good afternoon gentlemen. Thank you for the taking my questions. Sir more of a forward looking question, for the Q3 is it fair to assume that the 15 day drop in business that occurs usually in the AMET and the markets abroad. Is that trend foreseeable in the Indian markets as well or is that only outside India?

K.Natarajan: 15 days?

Nav Bhardwaj: What we had spoken for the last time in Q3?

K.Natarajan: See in India if you look, growth momentum picking up, I think then you will have inventory buildup because they are waiting for the things to look up. So this year if the growth starts picking up, we do not see a 15 day slash happening in December. But if the growth momentum does not pick up or the consumer pick up does not happen as expected, then people would obviously not want to be build up inventory. It all depends on how the consumer demand picks up, if the consumer buying picks up, we do not see the 15 day stuff happening in December.

Nav Bhardwaj: And like one month in the current quarter, how are we seeing?

K.Natarajan: We see momentum continuing from last quarter. Okay! But then it needs to pick up much more for us to make a clear statement that things have started looking good. So we have to wait at least for the next two or three months.

Nav Bhardwaj: But internationally the trend will continue. We expect that small 15 day blip to come in?

K.Natarajan: Yes but that is what people do is that they end up ordering something more earlier. They only want the material to reach them before December or Christmas holidays. They do not want any landing at their place when they are on holidays. So it is a question of how do they rejig their daily scheduling that is all.

Nav Bhardwaj: Fair enough. This is more than clear and also Sir on the cost of repetition in terms of whenever there is a large movement in prices, what kind of lag time can we expect for it to get passed on to customers?

K.Natarajan: Typically these are different sort of arrangements that we have with customers. So you can have some of it where its pass through, some of it where we may have long-term contracts where we have a back to back tie ups and in some cases where the spot deals have been done, lag is not significant. Typically if it is spot, it can be probably a month.

Nav Bhardwaj: A month, okay. Fair enough. Thank you so much and all the best going ahead.

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

Sneha Talreja: Good afternoon Sir and thanks for taking my questions. Sir just wanted to know is there any kind of a one off in this particular result like any inventory losses or any forex loss?

Ganesh Kamath: No. There are no one-off losses. Are you talking about the expenditure or in the terms of margins?

Sneha Talreja: Sir other expenses seem to be higher apart from that you also mentioned?

Ganesh Kamath: There are developmental expenses of around 3 Crores on specialty products, which basically does not happen frequently. It happens in between that is one impact. You have one expenditure where risk of chemical companies is getting rerated by IRDA, because of which your insurance premium has gone up by around 2 Crores. That is one and the third is your export content in the sales have increased in India because of which freight expenses have gone up.

Sneha Talreja: The 3 Crores and particularly the insurance expenses 2 Crores as a kind of non-repetitive?

Ganesh Kamath: 3 Crores what happens you will not incur it quarter on quarter. You will incur it as and when developmental expenses happen.

U. Shekhar: There are always developmental expenses every year.

Ganesh Kamath: The developmental expenses are need base. We do not capitalize it, we charge to the P&L.

Sneha Talreja: Right and despite the sharp fall in the lauryl alcohol prices, we have not seen any kind of inventory losses right.

Ganesh Kamath: No, not at all.

Sneha Talreja: Sir secondly coming on Sir you have of course grown at a very fast pace I think you mentioned that growth rate for Egypt, what would have been the growth rate for AMET apart from Egypt doing?

U. Shekhar: Yes. Overall as far as AMET region is concerned, we grew in the by 9.7% excluding Egypt.

Sneha Talreja: Excluding Egypt.

U. Shekhar: Excluding Egypt, we grew by approximately 9.7%.

Sneha Talreja: Sir just wanted to know one clarity of course you mentioned a lot about India and everything. Just wanted to have some clarity over you said that in Egypt you have grown by around 10%. Rest of the world we have grown by 13%. From where are these growths coming from? Are we gaining market share from someone, is it by new product launches or other products that we have already launched in one or two years seeing some traction?

U. Shekhar: See as we mentioned, it happens one by normal growth of the market. The second happens by taking share from our competitors. Third, particularly with respect to Egypt that as we have said has played a major part in this growth, where our end customers have regained their market share. Because after losing market share for almost something four to five quarters, they have slowly started regaining their market shares in the Egypt. So that also has enabled growth for us.

Sneha Talreja: Sir just in that context so if you are gaining we have already done around 7% kind of a volume growth for H1 and we are talking about almost double-digit growth for both AMET as well as Rest of the World market. So this guidance of somewhere about 6% to 8% I mean are we being conservative or there are some kind of slow down signs that we are seeing?

U. Shekhar: That is overall growth. If you see overall for the first six months, we have grown by 7.3% and that is where we have said you will be around in the same zone, 6% to 8%. Overall if you see India there has been a slight decline, for consolidated volumes the growth has been at 7.3% and that is what we are giving you guidance for the balance part of the year or overall it will be around 6% to 8% because we do see India possibly remaining a challenge for the balance part of this year.

Sneha Talreja: So that means India would remain largely flattish and you would see this shift.

U. Shekhar: Yes. We are being a little conservative there, we do hope that our assumptions are proved wrong.

Sneha Talreja: Right. Got that Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Bryanston Capital. Please go ahead.

Vijay Karpe: Thank you for giving me the second opportunity. Sir I cannot explain ALM model which you are referring to the risk? Can you explain me in detail?

Ganesh Kamath: You must be knowing basically what happens is that you create buy side positions and you create sell side position, okay. Your risk position is that of actually what net you carry in your books. So what happens is that in our case, we run that particular model because banks also do it on the currency side, substituted by commodity that is it.

Vijay Karpe: Okay. So the one month inventory which you are referring to one of this, , what is the base of this inventory because of our inventory days is 75 days.

Ganesh Kamath: No. you have basically separate the physical from the risk positions correct, okay. In case of risk position, it is 15 day risk position nothing more than that.

K. Natarajan: So inventory means I will also have some contracts that will be flowing in. I am telling overall exposure, which can be opened to the maximum that is what we would say.

Vijay Karpe: Sir how much of the inventory will it be in percentage, if you could, that would be easier to understand.

K. Natarajan: One month is 8% correct.

Ganesh Kamath: Yes 15 days hardly 3%-4%.

Vijay Karpe: 3%-4% all right. Thank you.

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

Sanjesh Jain: Thanks for taking call again. One on the specialty chemical side, the realization continues to drop. Why is that? Is that product mix or raw material, what is happening on the specialty?

K.Natarajan: Essentially, product mix.

Sanjesh Jain: Essentially, product mix.

K.Natarajan: Yes.

Sanjesh Jain: Number two on the ROW side, I understand that now we are touching really high base, but we have also mentioned that we are in the process of launching new product and all I understand there is a gestation period and we would have launched some product few years back. So how to look at the growth from here for rest of the world?

K.Natarajan: For Rest of the world, this momentum should continue in terms the way volumes are growing.

U. Shekhar: As I mentioned Sanjesh what we are seeing is a change in mix as far as the home and personal care industry is concerned, we see an increase in premiumization, naturals and sulfate free products. Almost most of the developed markets including southern emerging markets, even in India, we do see a move towards premiumization. Here is where our specialty ingredients will play quite a nice role as far as galaxy is concerned. This is where we said there are number of new products aided by our innovation. There is continuous work going on with our customers across the globe on products which have come out of the stable let us say three years back or two years back or even this year. So this is something that we will continue. And we do see a specialty ingredients taking up more and more of the consumption space as far as our customers are concerned.

Sanjesh Jain: Correct but we have earlier said that if you see this kind of trend happening in India then we may see specialty actually accelerating more than what we are seeing today. Are we seeing any sign or specialty products getting adopted in Indian market?

K.Natarajan: Of course yes. But the base is small. So the growth rate, if you look at many of the high end cosmetics and products, you will find that they are growing at almost 30% but the base is pretty small and we are participating very well in this particular value chain with all our customers. So if and when it starts growing significantly and the base becomes bigger I think we are well positioned to reap benefits that is way I can put it.

Sanjesh Jain: Okay. So today what percentage of India volumes will have specialty in it?

U. Shekhar: See overall if you see the company, it is at about 65-35. India possibly could be anywhere from maybe…

K.Natarajan: 85:15 or 80:20.

Sanjesh Jain: So it is gaining a lot of scale, right. So probably a year or two, we will have this mix setting closer to like 70:30?

K.Natarajan: No. Not so fast. You also have to understand India's the major growth is still untapped at the bottom of the pyramid. So you will have a huge growth happening at the bottom mass segment. So ideally the base effect will again be denominator and that is going to be much bigger.

U. Shekhar: We would wish that it goes to 70:30 as you said, so yes but we need to be realistic as far as the growth is concerned.

Sanjesh Jain: Okay just one last book keeping questions, what will be your full year tax rate?

Ganesh Kamath: Full year tax rate around 25%.

Sanjesh Jain: Okay. 25%. That is it from my side. Thank you and best of luck again.

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 the volume breakup of geographical region, would you share that?

K.Natarajan: Essentially, it is almost I will say one third, one third between India, Africa, Middle East and rest of the world.

Divya Singhal: That is from my side. Thank you.

Moderator: Thank you. The next question is from the line of Sarvanan Vishwanathan from Unify Capital. Please go ahead.

Sarvanan V: Very good afternoon Sir. Thanks for taking my questions. This is related to the capex. When do you see the next stage of big capex for Galaxy?

U. Shekhar: We are already implementing those major capexes and by the end of this year I think we will be incurring.

Ganesh Kamath: See we have spent in H1 around 70 Crores on capex. We may expect the similar amount to be done in the second half as well.

K.Natarajan: There is a lot of discussion that happening on the drawing broad stage, whatever is going to be what have already committed for next year. We can get better clarity on what we will do in 2021 again probably a one year from now.

Sarvanan V: I mean do we have enough land bank to do in the existing facilities or it has to be a total Greenfield right from land acquisition and EC?

K.Natarajan: We have some land banks, currently. Projects are running on the existing land. We do have some land for us to put up additional projects. But yes, not every growth can come from brownfield expansion that we are looking at. We also need to be looking at Greenfield moving forward and we will see how to go about that. But as of now, everything is brownfield in terms of existing land that we have.

Sarvanan V: Anything you are reviewing on the inorganic side or any acquisition opportunities?

K.Natarajan: We are reviewing continuously. Anything that meets our strategy intent and makes economic and business sales, we certainly would move forward.

U. Shekhar: But nothing is there on the plate now.

Sarvanan V: R&D any specific guidance on R&D?

U. Shekhar: There is continuous creation of new products and innovations on both in the nontoxic preservatives as well as the mild surfactants.

K.Natarajan: We have three more patents that were granted since June 30, 2019. R&D expenditure is about 1.2% to 1.3% of revenues.

Sarvanan V: Okay so is that the normal range or would you like to R&D spends?

K.Natarajan: We do some capex but it is only revenue expenditure that we have stated as percentage of revenues, we will also need to keep doing some capex in terms of the equipments, our infrastructure. So as and when that happens it is going to go up. Whatever we are putting up in one of the projects, the multipurpose plant that is, is essentially will be more for the R&D requirement only. So sitting on all the capex, it can probably if I model it, it can probably even go to 2% of our revenues.

Sarvanan V: 2% of the revenue. Okay. Fine Sir. All the very best.

Moderator: Thank you. The next question is from the line of Nitesh Dhoot from Axis Capital. Please go ahead.

Nitesh Dhoot: Good afternoon gentlemen. My question is what was the capacity utilization for performance & specialty chemicals in Q2 that is what I am trying to understand is what was the percentage of captive consumption?

U. Shekhar: Overall our capacity utilization for quarter two FY2020 was about 63%.

Nitesh Dhoot: Overall was 63%. You have the breakup?

U. Shekhar: Normally, we do not give that it is a overall capacity utilization that we talk about.

Nitesh Dhoot: Sure. Thanks a lot Sir. That is it.

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

Rohit Nagraj: Thanks for the opportunity. Sir on the raw material you said that the raw material prices have been at multi-year low, so what could be an event in which the raw material prices will start rising again and probably a stabilized and say five years average or so?

K.Natarajan: Yes because I think it would be more linked to the vegetable oil value chain, so any disruption in the supply side, because of weather patterns, can take a turn and also in terms of sudden harvesting patterns that may emerge. So we do expect that things to now start going up slightly and then stabilizing.

Rohit Nagraj: All right and any update on our US plant expansion front, I am sorry if I am missed out during the earlier remarks?

U. Shekhar: That is on schedule so we will commission it before the end of this financial year.

Rohit Nagraj: Okay. Thank you so much. That is all from my side.

Moderator: Thank you. The next question is from the line of Rohit Shrivastav an Individual Investor. Please go ahead.

Rohit Shrivastav: Good afternoon. One of the you mentioned about the volume growth and it is here to stay so I think in Q2 we had a volume growth around 9% to 10 % so can we safely assume that in the H2 as well we will have similar kind of volume growth?

U. Shekhar: No. We have mentioned that for the full year, we expect the volume growth to be about 6% to 8%.

Rohit Shrivastav: 6% to 8%. Okay. So one of the gentlemen was mentioning about this growth is here to stay or whatever happened this quarter?

K.Natarajan: No. That we spoke about what has happened in Egypt because one of the question was about Egypt whatever has happened with that we said we had significant growth year-on-year this quarter, that explains because that is something sustainable so there I said it will be sustained.

Rohit Shrivastav: Thank you Sir. Thank you so much.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Shekhar for closing comments.

U. Shekhar: Thank you, ladies and gentlemen. Thank you very much to you again.

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