Transcript

Conference Call of Laxmi Organic Industries Limited

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Presentation Session

Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY21 conference call of Laxmi Organics hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is recorded. I now hand the conference over to Mr. Ankur Periwal. Thank you and over to you sir.

Ankur Periwal: Yeah hi, good afternoon friends and welcome to Laxmi Organic Industries Q4 and FY21 Earnings call; the first earnings call of the company. The call will be initiated with a brief management discussion on the earnings performance for the quarter and for the full year, followed by an interactive Q&A session. The management team here are represented by Mr. Ravi Goenka, Chairman and Managing Director; Mr. Satej Nabar, Executive Director and Chief Executive Officer; Mr. Harshvardhan Goenka, Executive Director, Business Development and Strategy and Mr. Partha Roy Chowdhury, Chief Financial Officer. Over to you Mr. Ravi for the initial remarks.

Ravi Goenka: Dear shareholders, good evening and a very warm welcome to all of you to the maiden earnings call of your company, Laxmi Organic Industries Limited. As Ankur mentioned, on this call I am accompanied by Satej, Partha, and Harsh. Although we may have had some fruitful discussions during the pre IPO roadshows, this is our very first interaction after the successful listing of Laxmi. We are overwhelmed by the trust the investing community has placed in us and this makes us even more responsible to create value for our shareholders and live up to their expectations. As the proverbial saying goes, we are the new kid on the block and in the capital markets arena; we will take each step as an opportunity to learn while we share our experiences and views with you. Slowly but surely we will get used to the subtle and the technical nuances of a wider accountability and trusteeship. To say the least it has been an unusual year. From the gloom and doom when our honorable Prime Minister announced the national lockdown on March 23rd to the boom, specifically the chemical sector in particular has seen in the last financial year. From disruptions in production and supply chain to the high traction in demand of the pharma and agrochemical markets, it has been quite a year. I can confidently say that it was only due to a committed and capable team that we could have achieved the near 100% production and sales volume. I truly believe that the true heroes of our company are our workforce at the factory sites. They have worked tirelessly and fearlessly inspite of all odds, many kudos to them. Let me now shift gears to our financial performance.

Our company has returned very healthy results, both on account of the market dynamics and the value growth in our Speciality Intermediates business despite the continuing challenges of the pandemic. On our standalone results, year-on-year the revenue grew by 18% to 1616 crores and the EBITDA grew by a handsome 69% to 212 crores. On a quarter-on-quarter basis the revenue grew by 37% to 471 crores and an EBITDA of 59 crores. EBITDA margins year-on-year moved from 9% to 13% and quarter-on-quarter it moved from 8% to 13%. Year-on-year our profit after tax grew by 56% to 123 crores on a standalone basis and our EPS grew to Rs.5.4 from Rs.3.21 per share of a face value of Rs.2 each.

On the cash flow and capex, standalone cash flow from operations which is the profit after tax plus depreciation for the year has been a healthy 168 crores. The total capex spent by the company during the year is of the order of 88 crores. The project in both the SI and the AI are progressing well and we are hopeful of capitalizing some of them during the current financial year. Although there has been some slowdown in the recent month, due to the uncertainties and restrictions around the current resurgence and escalations of the pandemic.

Let me come to the consolidated results. Year-on-year our revenues grew by 15% to 1773 crores and EBITDA grew by a handsome 87% to 221 crores. On a quarter-on-quarter basis, the revenue grew by 34% to 521 crores and the EBITDA grew by 211% to 65 crores. EBITDA margin year-on-year moved from 8% to 13% and quarter-on-quarter it moved from 5% to 13%. This has been a year during which both the company and its subsidiaries returned strong top and bottom lines.

Year-on-year the profit after tax grew by 81% to 127 crores and our EPS grew to Rs.5.59 from Rs.2.86 per share of Rs.2 each. We now have a much stronger balance sheet than ever before with a near zero debt giving us a solid foundation for future growth.

Today we can see some light at the end of the pandemic tunnel. The cases have plateaued, and the vaccination drive is catching pace. Assuming that this trend will continue, we expect a strong recovery in the macroeconomic activities than we previously assumed. It is my belief that the chemical sector will witness a huge capex cycle over the next decade and I can assure you that Laxmi will play a significant role in this space. Our capex for the current year are progressing fairly well and inspite of the pandemic restrictions in Europe and in India, we hope that these investments will realize significant benefits during the next financial year.

In a nutshell, we have had a good year despite the challenges. Today we have a robust business plan for the current financial year, and I am confident that our team will achieve and deliver results that are expected of them. I will now open the house for questions and answers, me and my colleagues will be happy to take them. And last and not the least, I take this opportunity to wish you and your families a safe, healthy, and a prosperous year ahead. God bless, thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question, may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 1 again. And participants are kindly requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

First question comes from Madhav Marde from Fidelity Investment. Please go ahead.

Madhav Marde: Hi, good evening. Thank you so much for your time and congratulations on very strong numbers. I just wanted to understand a very basic question. Our margins have moved up quite a bit in fiscal '21 versus fiscal '20, I just wanted to understand the reasons for the increase in the EBITDA margins and if you could also help us understand if the margins are… increase has come from the Acetyl Intermediates or Speciality or both, and if you could just sort of break it down in terms of which one is sort of helped the margin increase, thank you.

Partha Roy Chowdhury: Harsh, you would go in or I will go in?

Harshvardhan Goenka: Partha, go ahead.

Partha Roy Chowdhury: Sure. Madhav, there has been an improvement in the margins but the character of the margin improvement in both the verticals are different. While in the Acetyls, margins grew on value term, in the Speciality Intermediates business, the absolute margins grew on three counts, one is volumetric growth, two, change in the product mix, and three, the pricing benefit. That we have been able to achieve through the year FY20. Yeah?

Madhav Marde: Okay. And, the Acetyl, as far as I did understand, the value terms, means what exactly?

Partha Roy Chowdhury: The Acetyls in value terms means it is not that we had any volumetric growth in Acetyls, whereas we had volumetric growth in the Speciality Intermediates business.

Madhav Marde: So, in Acetyls, you are saying, this implies basically the pricing sort of helped the margin improvement basically, that's what no sir?

Partha Roy Chowdhury: Yes. That is the inherent nature of the business.

Madhav Marde: Alright. And just one other followup. I frankly do not understand this very well, but right now, like, lot of commodities are sort of benefiting some improvement, in our margin improvement is there any element of sort of margins for some of our products being at high level which can correct in the coming sort of one or two years, or these are sustainable margins going ahead?

Partha Roy Chowdhury: No. While the margins, see in the Acetyls Intermediates stood correct, but for the company as a whole, going by the trajectory we have chosen for ourselves, which is growth in the Speciality Intermediates segment, and the investments which are being made in that particular vertical, for the company as a whole the margin profile, our assessment and our objective is to keep on improving that margin profile. Yeah?

Madhav Marde: Understood, okay. I will come back in the queue. Thank you so much.

Partha Roy Chowdhury: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. Next question comes from Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Thanks for the opportunity sir. Sir, the first question is on our Miteni acquisition, so given that the current circumstances and in terms of the logistics and Covid related issues, what are the timelines that we are looking at from importing all the equipments, putting it on the ground, and probably starting the initial trial and commercial production. Thank you.

Partha Roy Chowdhury: I will take that Harsh. So, in terms of the progress on the project, the activities of dismantling, packaging, logistics, etc., at our Italian site has restarted. There is about a workforce of about 50 people on our Italian site who are working to this end. The first consignment will leave the Italian shores in the next maybe two weeks' time. So, that is in terms of the dismantling and the logistics, etc. In terms of the site work, which is going on, in India at our Lote, Parshuram site, today we have a workforce of more than 150 working on the site. Nearly 50% of the construction work of the infrastructure is already completed. So that they are ready to receive the equipment and there is no multiple handling of the equipment which come in, and the orders etc. for the long delivery items have been placed. In terms of our capitalization, we are still targeting a capitalization before the end of this current financial year. We are running that schedule. In terms of our R&D, the R&D activities have already started. Okay, I would like to quantify, but some of the products have already been approved with the customers with lab scale samples. We have sent the kilo lab samples, the kg level samples to the prospective customers, potential customers. The kilo plant has also been operational now.

Rohit Nagaraj: Understood. Thanks for the update on that front. Sir, the second question again on the Speciality business, so here in terms of the customers deadlines, what kind of customers are we targeting and how are the these customers comfortable to come to us, (not clear), so what is the overall philosophy from that point. Thank you.

Partha Roy Chowdhury: I will leave this for Harsh to answer please. Harsh?

Harshvardhan Goenka: So, actually just before the lockdown was announced we had some customers come and visit us from international places. So, they were quite eager to, but we have to now obviously continue work virtually. In terms of our customer segments, as we mentioned earlier as well, that our strategy remains the same. The agro and the industrial blocks will become the first target customers. The pharma will follow suit since that requires a slightly longer qualification period.

Rohit Nagaraj: Fair enough sir. Just a concurrent question to this. In terms of the validations, generally, once we start the plant operations, and we put out those initial batches, how much time does it take to stabilize the product and to get it validated from our customer. Thank you.

Harshvardhan Goenka: So, I will generally talk about pharma separately. So the agro part, we have already piloted products from a facility in India, that gives the customer a lot more comfort, and we believe that it will be a quarter to get all products qualified as they are produced at best and to then ramp up and reach full production on the agro side. The industrial side as well, we would say might be slightly longer depending on the detail of the exact product mix, that maybe three to four months, but the pharma might take even longer depending on the lifecycle, the documentation required, as those customers need to physically visit our site.

Rohit Nagaraj: Thank you so much and best of luck sir.

Harshvardhan Goenka: Thank you.

Moderator: Thank you sir. Next question comes from Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Hi Mr. Partha and has a good set of numbers. Just on the Acetyls business, right now, commodity cycle and the industry cycle is upturning the Acetyls cycle, any idea till what time the current margin is sustainable and when you expect the margin to fold down, in the Acetyl business?

Partha Roy Chowdhury: I will take this question Harsh. No Jignesh, howsoever much we would like to know this, it is just not possible for us to have a handle on that, but we are following the market very, very closely, closer than probably ever before. We are aware and we are quite alert to the impacts of these movements and we shall protect our positions and continue to perform Jignesh.

Jignesh Kamani: Fine.

Harshvardhan Goenka: I will just add. Jignesh, our overall strategy for Laxmi remains unchanged. The Acetyl business…

Partha Roy Chowdhury: Harsh, you dropped off…

Jignesh Kamani: Yeah, we missed you.

Partha Roy Chowdhury: Are you there Harsh?

Moderator: One minute sir. Harsh sir line got dropped, let me reconnect him sir. Participants stay connected. Yeah, Harsh sir, welcome back, please go ahead.

Harshvardhan Goenka: Yeah, sorry Jignesh, some issue there. We were saying that our strategy remain the same Jignesh, our Acetyl business is the cash generating business which will continue to perform and give cash irrespective of business cycle. We are not here to predict the cycles but what's in our control is the capexes and our growth in our Speciality business, we are on track to perform in our Speciality business and in our fluorinated business by investing capital and driving existing product mix and profitability, which is clearly evidenced from the numbers we have posted for March 31st.

Jignesh Kamani: Understood. And on the Speciality chemical, we were developing couple of new products, any timeline for that and how is the process of approval from the customer and the volume from the new product?

Partha Roy Chowdhury: Yeah. So, it is a continuous cycle as we mentioned during our last calls just before the IPO, we have already received some approvals at a pilot scale. One of the products will find a commercial impact in this financial year, one of the products will be the following year. But products that were piloted out in the last few years will be seeing a larger amount of sales already since they are reaching maturity stage. So, I would not call it an impact of one or two products, let's say, it is actually an overall cycle of product development, that is resulting in our growth, which is very evident as a lot of our new products are driven toward export oriented markets, like the US and Europe, our percentage of export share is already a 10% of our Speciality, and we will see that significantly go up in the future.

Jignesh Kamani: Sure. And my last question on the Miteni, you elaborated on their progress, is there a (not sure) that current lockdown mentioned or their plan of fourth quarter commencement might get delayed by three to six months?

Harshvardhan Goenka: So, Jignesh, I would say that if the lockdown continues and we are not able to mobilize people, I think that is the biggest risk we face, that's something not in our control. But, even for example during the current lockdown we have permission to operate and we have 150 people at site, we would want more people at site, but there are obvious localized restrictions and interstate movement restrictions, which sometimes curtails that possibility.

Jignesh Kamani: Thank you then, all the best.

Harshvardhan Goenka: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. Next question comes from Sachin Kaseria from SVAN Investments. Please go ahead.

Sachin Kaseria: Good evening gentlemen and congrats for a good set of numbers. I am new to the company so pardon me if I ask some basic questions.

Moderator: Sorry to interrupt Sachin sir, your voice is breaking sir. Can you please rejoin the queue sir?

Sachin Kaseria: It is better now?

Moderator: Yes sir, please go ahead.

Sachin Kaseria: Yeah. My question was (not clear) in terms of what type of volume growth we could see…

Moderator: Sir, sorry to interrupt again sir, your voice is still breaking, please join back in the queue for your questions sir. Thank you. Sir, next question comes from Siddharth Metha from Foremost Systems. Please go ahead.

Siddharth Metha: Yes. I had a question about the strategy that you are following. From what I understand that you want to focus on Speciality Intermediates and grow in that area, possibly because they seem to be higher margin and they probably give a longer lock in with customers. If that is correct, or either way, could you suggest what might be the growth percentage that you are seeing annually for the next two, three years in terms of sales and also what you expect in percentage growth in PAT annually over the next two, three years.

Partha Roy Chowdhury: Can I take this Harsh or you want to go ahead?

Harshvardhan Goenka: No, go ahead Partha.

Partha Roy Chowdhury: So, the way to look at this is, there are two businesses, in the Acetyls Intermediates, the growth would be linear, whereas in the Speciality Intermediates business, the growth is linked to the capexes that we put on the ground. So, therefore, there could be a sharp jump and then it could plateau, again there would be a sharp jump. It will move in…

Siddharth Metha: With the capex, okay.

Partha Roy Chowdhury: Yes, in a way. Right? And if you look at the PAT and the growth of the company and how the net worth has grown over the last 10 years, we would like to better that trajectory. But I repeat we would like to better that trajectory and as it is quite common, in Indian Speciality chemicals company, there would be some quarters, may be a year of flattishness and then you will see the realization of the investment that we put on the ground. Yeah?

Siddharth Metha: I understand. So, are you also seeing any traction because of the China Plus One strategy or is it independent of this that you are looking at the growth, and do see if you could suggest some numbers on what is the likely growth, average towards that 60 years with flat and then a certain jump and then flat again and then a certain jump because next capex, but let's say over three years or so, what could be expected sales and profits?

Partha Roy Chowdhury: So, I would like Harsh to take the first part of that question, Harsh, the second part I can come in or you can continue. Thank you.

Harshvardhan Goenka: Yeah. You know, the China Plus One strategy, I think the entire chemical industry, the spectrum industry is there to benefit, and we are no exception to that. We clearly see two coins of opportunities, one are direct products where we can make a product like-for-like, and two are where our customers are also getting that benefit. So, for example, a particular API or a particular Intermediate can only be made in China where we are seeing our customers now requesting that product as well. So the entire value chain is really shifting out to India. So, both of those benefits we are, we would definitely see a requirement of that, and we are seeing that every year increasing. Partha you can take the second one.

Partha Roy Chowdhury: Yeah. So, in terms of the trajectory, if one has to look at our revenue growth, our revenue has grown by about 13% to 15% CAGR. But we have been over the last three or four years, we have been also focusing on profitable growth. Therefore, we are trying to shift our EBITDA margin more towards say 15% plus, as a mix, as a basket. So, while we continue to focus on the topline, I think, we will focus more on the EBITDA line as well. Yeah?

Siddharth Metha: Okay. So, if you are suggesting that your sale will grow at roughly 15% a year CAGR, the PAT will probably grow at 20% or 25% CAGR because of the greater focus on high margin products.

Partha Roy Chowdhury: Yeah, but I wouldn't comment on that. That based on the conversation you will have to sort of take a judgment call.

Siddharth Metha: Alright, thank you. And I do appreciate your focus on the higher profit products, I think, that's really commendable. Thank you.

Moderator: Thank you sir. Next question comes from Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Yeah. Very good evening and thank you very much for giving this opportunity and congratulations for a very good set of numbers. So, Mr. Partha, this question is for you, like, you alluded in your opening remarks about growth in Speciality business, growth in terms of volume as well as value. So, would you be able to give the split in terms of how much growth was being driven by volume and how much with value?

Partha Roy Chowdhury: It is a mix, Manoj, okay, and there is a third element in this, which is change in the product mix. So, we have also moved in higher margin product. See, our base Intermediate is diketene and profit margins are determined by the basket of products by the diketene which goes into which type of products. Right? So, there has also been a third element and I would not really like to give further details on that, Manoj. We would like to sort of keep that…yeah?

Manoj Garg: Sure. Got it. So, it's volume mix as well as the value growth.

Partha Roy Chowdhury: Yes, in SI.

Manoj Garg: Yeah. The second question is on the fluorination, you guys have indicated that you have already started working on the pilot stage R&D as well as on the kilo labs and with customer validation now and customer approval, but in terms of commercializing of those molecule, is it that we have to have a plant level kind of commercialization or even like for some niche kind of products, even the kilo R&D lab will probably fit the bill initially till the time we will be able to commercialize the new plant in India?

Partha Roy Chowdhury: Harsh, I will take this question.

Harshvardhan Goenka: Yeah, sure.

Partha Roy Chowdhury: Manoj, given the current choice of products that we have taken for ourselves, getting commercial output of some significant nature, I don't see that as a possibility. But the question that you have asked is something which we have in our minds, at the back of our heads because we have a kilo lab. Maybe it will emerge in the next….probably one quarter or so whether it is possible or not possible whatever. We have also gotten some intermediates from Italy. Whether we can process and convert them into finished etc. is something which is under consideration. But I don't think we can really pin our hope on any significant numbers Manoj. Harsh do you want to add something?

Harshvardhan Goenka: I think answering the question more on can we crunch the piloting with respect to qualification with end customers? Of course that is an answer as product by product in our mind. Some products that are not as sensitive to the end customers, customers may be open to it depending also on the quality threshold we are able to reach. So case by case basis and much remains on our radar.

Manoj Garg: Sure that is the last question from my side. The general feedback which we have got talking to the other peers in the chemical sector is, scaling up of fluorine chemistries has its own challenges given this has a very notorious chemistry. While we understand what we are getting from Italy is obviously a four-decade kind of experience and even though there are people who are likely to help us in terms of scaling up of this chemistry going forward, but in terms of our preparedness we can understand how are we thinking about this, maybe if you can give some color in terms of our preparedness for the same?

Partha Roy Chowdhury: Harsh?

Harshvardhan Goenka: We are very, very cognizant of this fact that scaling up fluorine chemistry products is challenging. So we are taking two approaches to secure ourselves on this. One we are only taking on existing products which are being produced at Miteni where the technology is absolutely sacrosanct and proven. So that will ensure that there is a regulated range of failure if at all. Two, we are busy developing or remaking those products at a lab scale and at a pilot's scale before it hits commercial. That again ensure that people the working eventually in the plant are already comfortable with it and get comfortable with the chemical, the reaction the technology etc. The third is obviously the people getting the Italians here is one of the current challenges we face which I am sure with the lockdown with time it will eventually open up.

Manoj Garg: Sure. Thank you very much for answering all the questions and wish you all the best.

Harshvardhan Goenka: Thank you Manoj.

Moderator: Thank you sir. The next question comes from Amar Maurya from Alfaccurate. Please go ahead.

Amar Maurya: Thanks a lot for the opportunity. Sir my first question is in terms of the diketene, or the Specialty chemical, what could be the current utilization level and by when can we see the next round of CAPEX given that now the CRAMS is an area we are targeting in a bigger way?

Partha Roy Chowdhury: I will take that. In terms of our specialty intermediate utilization as I mentioned that it is not really about utilization; it is about product mix optimization and how do you go up the value chain. So even if we have a weighted capacity of 100,000 tons, a 1000 ton improvement can actually have a larger multiplier effect given which part of the value chain we choose to play in. So that's the way we look at the business. The second part with respect to capex, I think the capex cycle is continuous. We have more than 200 crores of capex which we raised in the IPO for our specialty. So for the next 12 months there is clearly a large runway. More capex is coming up is part of our story and as products are developed we will give those announcements and that clarity to you all in the future.

Amar Maurya: Okay. If I can extend one more, related to the specialty, when we say that now we are targeting export primarily in the diketene chemistry and largely from the CRAMS side, so any early success which we got into this?

Partha Roy Chowdhury: So let me just clarify. We don't do CRAMS. CRAMS is contract research and manufacturing. Ours is more contract manufacturing. The research we do actually by ourselves, for ourselves. So, slightly different connotations. We have already had success or rather we've been seeding these markets over the last few years. So it is not last quarter or last six months' initiative. It was strategically done over time because getting access to international accounts has a own gestation period sometimes. Now we are able to trying to establish ourselves. So it has been an effort of that and as the products have now matured from pilot reach to larger ton-level production scale, we are seeing larger revenues come out and you will see that next year or the next quarters where our numbers towards export will continuously go up. Again, I would not say that's the only focus; focus remains contract manufacturing and of course domestic market is also available for us to take, it just depends on what we choose and how we choose to operate the business depending on the optimized product mix.

Amar Maurya: Okay and sir in terms of the SI, today 10% is export….down the line two years, in terms of the SI, barring the fluorine what could be the export and domestic mix?

Partha Roy Chowdhury: I can't give you projection of numbers of this overlooking regions but I would say, that we will have significant growth due to the factors I just mentioned.

Amar Maurya: Okay, got that. Thank you sir.

Moderator: Thank you sir. The next question comes from Dhruv Mucchal from HDFC AMC. Please go ahead.

Dhruv Mucchal: Thank you so much. A small clarification; on your presentation on slide 10, you have given the capacity utilization numbers for the acetyl business. I just wanted to understand this 84% for FY21, does it include the…..is it at the 161,000 ton capacity or is there a 201,000 ton capacity? I mean, I believe we have acquired this one CPL, so is this considering the through (not clear) capacity and after that this capacity number or….?

Partha Roy Chowdhury: No, it is only for us.

Dhruv Mucchal: This is only for 161?

Partha Roy Chowdhury: Correct.

Dhruv Mucchal: Okay, so that will come next year? Got it. My second question is related to the earlier one. Is it possible to say, like for example you have given it for acetyl business the capacity utilization number for the Specialty business also? I understand a bigger part of the growth is coming from the product mix improvement but just some handy numbers for our working.

Partha Roy Chowdhury: Harsh, should I take that?

Harshvardhan Goenka: Yeah Partha.

Partha Roy Chowdhury: The problem in this is we have common assets producing multiple products…what I would…

Dhruv Mucchal: Sorry sir?

Partha Roy Chowdhury: In this specialty intermediate business, we have common assets producing multiple products. But I shall give you some indications which is in the DRHP there are certain disclosures that is for about 3-1/2 years and that can give you some sense.

Dhruv Mucchal: Okay got it.

Partha Roy Chowdhury: See you have the current numbers.

Dhruv Mucchal: Got it, so I will try to look from the DRHP. Just one last clarification on the numbers again. You have shared the quarterly numbers for the SI business in terms of revenue for the full year and for the quarter. If I just deduct the quarter four numbers for the last year and the current year from the full year numbers, basically you gave the nine months numbers for the SI business, the numbers look to be flat….not flat but the growth is about 8 odd percent versus the fourth quarter, the growth is about 39 odd percent. So is there something which comes particularly in the fourth quarter and is this some one-off year or how should we think of this? So the point is, 9-month growth in SI business is about 8% versus fourth quarter growth is about 39% YOY.

Partha Roy Chowdhury: You want me to take that Harsh.

Harshvardhan Goenka: You can start off…

Partha Roy Chowdhury: So Dhruv, the answer is, we actually got entry into certain accounts towards the end of the third quarter of the financial year and those businesses started clocking in, in a way in the fourth quarter. So when you compare quarter to quarter, this is from where the incremental growth is coming broadly. Now I leave to Harsh to complete this.

Harshvardhan Goenka: A few of our products that were produced in the third quarter got stagnated given Europe's own requirement and that got shifted and went on to the next quarter, so maybe that's just a shift of a little bit here and there. So basically what

Partha said is the primary reason where our new account openings and our calendar year sort of contracts had kicked in which is why you are seeing that increase.

Dhruv Mucchal: Okay, that's interesting. Should we expect a higher growth because the fourth quarter base gives a….the point is a significant part of growth has come in the fourth quarter which you suggested coming from new businesses, so…should we expect a strong momentum here for the next year also?

Partha Roy Chowdhury: See it would be a forward looking statement to comment on this, so in another two months you will be able to correlate. We will come out with the Q1 numbers as well right?

Dhruv Mucchal: Okay sure. Thanks a lot.

Moderator: Thank you sir. The next question comes from Sachin Kaseria from Svan Investment. Please go ahead.

Sachin Kaseria: Good evening sir and congrats for a good set of numbers. My question was regarding YCPL. Are you sharing the numbers for FY21 for YCPL?

Harshvardhan Goenka: No, we will get consolidated after we complete the aquisionton. So we will do the consolidation in the H2 of the current financial.

Sachin Kaseria: Okay but since it is our requisition for us, can you give some indication what type of revenue, EBITDA, profit does YCPL ensure us?

Partha Roy Chowdhury: It is doing well.

Sachin Kaseria: Okay. The second question was on the slide number 22 of the presentation wherein the asset turnover issue has gone down from 1.8 to 1.2 and in the call you mentioned that our focus is more on profitability and higher value products. So what could explain the fact that while we are moving into more specialty only the asset part has gone down from 1.2 to 1.25?

Partha Roy Chowdhury: See it is basically…the denominator is the total of the asset size of the balance sheet. That's how one looks at it. So our balance sheet is heavy because we have substantial cash on the balance sheet. That is point number one. Point number two is, capitalization is going on. Our CAPEX outflow is of the order of about 78, 80 crores during the year and it is going to continue. That is what is actually depressing the asset turn.

Sachin Kaseria: If we were to adjust this asset turn for cash on balance sheet and CWIT will we be looking at a stable number of 1.8 sort of numbers?

Partha Roy Chowdhury: You will see an improving number on a net block basis because we have about 45, 46 crores of depreciation load.

Sachin Kaseria: Sure. And sir, just one question on the margin front. Most of the chemical companies which are like you bring more of Specialty and value rate, over a period of time the market tends to be in plus of 20%, 22%....so over a two, three years journey once this indication of YCPL and flourination has to kick off, are you also in the journey wherein over the period of two to three years maybe your margins could be in the range of 20%, 22%....EBITDA margin?

Partha Roy Chowdhury: Harsh would you like to comment on that?

Harshvardhan Goenka: Yeah sure. Two comments. First is our specialty business and fluorine business are indeed on the top quartile of the Specialty industry profitability. So that is very clear. These businesses have about four to five hundred crores of capex going on between them and they would therefore de-grow and more capex will come later and we will talk about that maybe in the quarters to come. However on the acetyl side which remain the cash generating focus business of ours and does not require a lot of capital; it is an extremely capital light business model, that is the business where we are not saying we will de-grow, we want to keep up market share. So the balance of the two, you definitely come up with a much higher percentage since the capexes are being driven towards the specialty kind of product ranges and business types.

Moderator: Thank you sir. The next question comes from Prasenjit Bhuiya from Ambit Capital. Please go ahead.

Praesnjit Bhuiya: Thanks sir for the opportunity. Sir my question is on your presentation A where you have mentioned that you have developed 5 different chemistry platform. Could you elaborate what kind of chemistry platforms these are and what kind of growth opportunities we are seeing in this chemistry platform?

Partha Roy Chowdhury: Sure. So these chemistry platforms have actually…take a little bit of battling time and we have got the acquisition from Clariot. We were just manufacturing 8, 9, products. Now we have scaled upto 35, 37 products. To get to these and to move up the value chain, we had to add on different chemistries which allow you to make more complex molecules and some of these are already being commercialized as you are seeing them in the last quarter. Some of them are driving or they were putting up more and more capexes which will be driven in the next financial year. So that is how we are expecting this to grow. Given that your basic chemistry basket has broadened by definition your addressable market has increased, therefore the possibility has increased and it is more a question of what area of graded space you want to play in.

Praesnjit Bhuiya: Sure, sure and sir if I see your major focus is on Specialty intermediate. So just want to understand how the growth opportunities are coming, so since you already have 55% domestic market share, so are we moving to more new kind of products in specialty intermediates or the end market is growing very fast that we see a lot more opportunities in this particular segment? Can you throw some more light on Specialty intermediate growth opportunity?

Harshvardhan Goenka: Sure. So two basic trends. Of course the local market is available for us to take Praesnjit and international market as well you are seeing the China Plus One approach. So given that there are not many players of this chemistry range and this chemistry value chain or as integrated value chain as Laxmi, many companies are now….or many customers want to buy and secure themselves by partnering with us which is what is driving growth in both the ways and new molecule development or new product development is a parallel activity irrespective of these two previous ones.

Praesnjit Bhuiya: Sure, thanks a lot sir.

Moderator: Thank you sir. The next question comes from Ram Moti from Prabudas Liladar. Please go ahead.

Ram Moti: Hello can you hear me sir?

Harshvardhan Goenka: Yes you are very audible.

Ram Moti: I just wanted to know what would be your total outlay for this flouro Specialty chemicals segment currently?

Harshvardhan Goenka: So 250 to 270 crores is where we are expecting the flouro business capex to be at.

Ram Moti: As you guided this will get commissioned in the last quarter of this financial year?

Harshvardhan Goenka: That's right.

Ram Moti: Lastly, sir would the flouro Specialty asset turnover would be similar to our company's asset turnover or it would be better?

Partha Roy Chowdhury: So the flouro business at peak turnover would be between 1.3 to 1.1 in that range.

Ram Moti: But margins will be far more better?

Partha Roy Chowdhury: Yes.

Ram Moti: Last question from my side. What would be the capexd for this year sir, FY22 for us overall for the full company?

Partha Roy Chowdhury: Should I take that Harsh?

Harshvardhan Goenka: Yeah.

Partha Roy Chowdhury: It should be in the order of about 300 crores.

Ram Moti: And lastly sir will this capex intensity continue in the same pace as you said that our growth in both SI and specialty flouro is based on how much we invest into assets. So will we continue to maintain the pace or it will be a step up approach kind of thing.

Partha Roy Chowdhury: Yes it is going to be a step up approach.

Ram Moti: Okay, thanks a lot for answering my questions.

Moderator: Thank you sir. The next question comes from Bala Murali Krishna an individual investor. Please go ahead.

Bala Murali Krishna: I have one query in the the P&L….the employee benefit expense is quite high this quarter. Could you please elaborate on that one?

Partha Roy Chowdhury: Yeah. Employee benefit expense is higher because it has taken the ESOP cost which is being given to the leadership team and some of the other important members of our managerial staff. The second point is, given the strong results, the incentives or the year end variable pay for the entire company has been at a substantially higher level than the last year. They have all been booked in this quarter. So a better way to look at this expenditure line item is to see the year-on-year figure, number one and number two, going forward we shall try and equalize this number quarter over quarter in the coming years.

Bala Murali Krishna: That's it thank you.

Moderator: Thank you sir. The next question comes from Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Good evening sir and congratulations on good numbers. Sir, there is a trading purchase and sales also in that. Excluding that what could be the margin or how is the margin in trading business?

Partha Roy Chowdhury: The trading business has trading margin. So on an average if you take about 3% or so, on that trading purchase you will arrive at the trading turnover.

Sunil Jain: Okay so the flouro business could have higher margin?

Partha Roy Chowdhury: Yes.

Sunil Jain: Okay fine sir, good thank you very much.

Moderator: Thank you sir. The next question comes from Mitul Patel from IIFL Asset Management. Please go ahead.

Mitul Patel: Yeah, thank you for taking my question. Sir regarding the employee cost and stock option etc. which is 35 crores on a consolidated basis this quarter; if you can quantify this in terms of how much was the ESOPs so we can sort of do our adjustments which won't be recurring every quarter going forward. So is this the run rate that we should have given for the full year with some insulation? Can you throw some light on that please?

Partha Roy Chowdhury: Yeah, so the ESOP cost Mitul is going to continue over the resting period. The resting period is until 2024 March. So quarter on quarter the ESOP cost will get adjusted and depending on the performance of the company and strengthening of the management teams, strengthening of the workforce, it will actually experience some escalation. If you look at our employment cost it is very low compared to any other Specialty company. So this is an element or a line item which may continue to grow in future slightly ahead of the growth in the overall fixed cost.

Mitul Patel: Sure. Thank you.

Moderator: Thank you sir. The next question comes from Yash Raj an individual investor. Please go ahead.

Yash Raj: Good evening sir and congratulations on strong numbers. I also appreciate that the company is progressing looking at margin accretive products going forward. I would appreciate if you could please share the capacity utilization levels and its trajectory spread across the plant at (not sure) which is going to come in future over a two-year period, utilization levels and the existing plant 85% which is more or less stagnant for the last two, three years in the 80%, 84% range. So just from an investor call, Jubilant Ingrevia one of the competitors it has been highlighted that entered diketene derivatives, so any impact? These are the two questions I have.

Partha Roy Chowdhury: Harsh you may take them.

Harshvardhan Goenka: Sure. So Yash as mentioned the capacity utilization was really a bit impacted last year in the acetyls because of the lockdowns that were there. But we clearly have more capacity coming on stream with the acquisition of YCPL. With regards to the Specialty as mentioned before, its finally….we don't look at capacity utilization we look at product mix optimization to drive our strategy. The third part of your question on Jubilant Ingrevia, irrespective of competition coming into the market, our strategy remains the same. We are very, very clear on our position as value chain leaders, as product mix leaders in the diketene space. Our various kinds of businesses within this bucket enable us to continue to remain leaders as such. That's all I would like to comment for now.

Yash Raj: Thank you. I really look forward to maybe 20% appreciation in terms run rate going forward and the stabilization of 16% margins on a reasonable levels. Thank you, take care.

Moderator: Thank you sir. The next question comes from Devesh Kayal from Aden Capital. Please go ahead.

Devesh Kayal: Hi, I have two house keeping questions. First one is what are the power and fuel cost for FY21?

Harshvardhan Goenka: We will have to check that but my total utility bill should be of the order of about 70, 80 crores for the full year.

Devesh Kayal: I thought we had 98 crores.

Harshvardhan Goenka: Then it will be higher because of the capacity utilization.

Devesh Kayal: Okay. Second is on the tax rates, having 20% tax rate for the past two years. What's the run rate we are looking for on the tax side going forward for the next two years?

Partha Roy Chowdhury: Very similar. Maybe it can go up by may be 1% each of the year.

Devesh Kayal: Okay, thank you.

Moderator: Thank you sir. Next we have a follow up question from Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Sir we have mentioned that we have two R&D sites, one in India and Italy. So is it predominantly it will be nearer to the customer or probably just now we will be starting with the new commissioning of the plant and then probably it will take time to stabilize. Once it is stabilized, probably we will move back the Italy R&D to India. So what is the thought process in this?

Partha Roy Chowdhury: Harsh?

Harshvardhan Goenka: So Rohit, as you know getting R&D to a full profitable scale takes its time. We are actually looking at a deal between what goes on in India manufacturing and R&D startup in Italy. So R&D start up would actually happen maybe 3 to 6 months before the plant is fully operational in India and our Italian colleagues will continue working on what they were when they left. Of course refreshing and updating themselves with respect to market but with that caveat aside we are eagerly looking to start up our Italian R&D soon.

Rohit Nagaraj: Understood sir. Just one clarification; Partha sir mentioned that this year CAPEX will be around 300 crores. So this will be excluding the investment in Miteni which we have mentioned about 100 crores.

Partha Roy Chowdhury: No it is including.

Rohit Nagaraj: So already we have done 100 crores investment in Miteni and incrementally you have 200 crores invested during this year as an overall CAPEX, is it right?

Partha Roy Chowdhury: Yes.

Rohit Nagaraj: Okay thank you so much sir.

Moderator: Thank you sir. That will be the last question for the day. I would now like to hand over the conference to the management for closing comments.

Partha Roy Chowdhury: Thank you everybody, it has been a pleasure to be here with you today and answer to your questions to the best of our abilities. I do hope that we will continue to grow our businesses and definitely it will be our endeavor to ensure that your expectations of us are fully met. Thank you again for your patience and for your very insightful questions.

Moderator: Thank you sir. Ladies and gentlemen on behalf of Axis Capital Limited that concludes this conference. Thank you for your joining us and you may disconnect your lines now. Thank you and have a pleasant evening.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible

Moderator: Thank you sir. That will be the last question for the day. Ladies and gentlemen, this concludes the conference for today. You may disconnect your lines now. Thank you and have a pleasant day.

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