Clean Science and Technology Limited

i n n o v a t i o n a t w o r k

Date: 13.08.2021

To,

BSE Limited
Phiroze JeeJeebhoy Towers,
Dalal Street,
Fort,
Mumbai – 400 001
Scrip Code: 543318

National Stock Exchange of India Limited
Exchange Plaza, Plot no. C/1,
G Block, Bandra-Kurla Complex
Bandra (E),
Mumbai - 400 051
Trading Symbol: CLEAN

Dear Sir/Madam

Subject: Transcript of conference call on the Company's Q1 FY21-22 Earnings.

Ref.: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations. 2015 ("Listing Regulations")

In terms of the referred Regulation 30 read with Schedule III - Part A to the Listing Regulations, we are enclosing herewith the transcript of conference call on the Company's Q1 FY21-22 Earnings held on 9th August, 2021.

You are requested to take the same on record.

Thanking You.

For Clean Science and Technology Limited

Mahesh Kulkarni
Company Secretary

Clean Science and Technology Limited

Clean Science and Technology Limited

Q1 FY2022 Investor Conference Call

August 09, 2021

MANAGEMENT: MR. SIDDHARTH SIKCHI - WHOLE TIME DIRECTOR
MR. PRATIK BORA - CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to Clean Science and Technology Q1 FY2022 Investor Conference Call 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 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. Ankur Periwal from Axis Capital. Thank you and over to you Mr. Periwal!

Ankur Periwal: Thank you. Good evening friends and welcome to Clean Science and Technology Limited's Q1 FY2022 conference call. The call will be initiated with a brief management discussion on the earnings performance and the overall company overview followed by an interactive Q&A session. Management will be represented by Mr. Siddharth Sikchi - Whole Time Director and Mr. Pratik Bora - Chief Financial Officer. I will hand it over to Siddharth now for his initial remarks post which we will open the forum for Q&A session. Over to you Siddharth!

Siddharth Sikchi: Thank you Ankur. Thank you Axis team. Very warm welcome to all the investors who are attending this call. Today is our maiden call and in case of any issues or errors please excuse us as we are also learning as we go along. I first want to thank the entire investor community for showing such great confidence in us and we believe that going forward as well we would be coming up with interesting innovative chemical processes where we can create more value for our shareholders. Since it is our first call, I am sure there would be some new investors whom I have not met before, so I would just give a very quick brief on the growth story of Clean Science and Technology. As the name goes Clean Science, we are a company where we focus on innovation, and creating clean green innovative chemical processes using catalytic chemistry. We are one of the very few companies who work on developing a catalyst and then using it for our own commercial production. A catalyst is also a chemical, but if it is made properly and selectively it has the ability to give you a desired product, reduce byproducts, reduce side reactions, reduce effluents, and hence increase efficiencies in the process and thus you can see lower raw material costings. The journey all began in the year 2006, the name was decided as Clean Science and Technology. The first plant came up in the year 2009 where we started commercial production of product called as MEHQ and Guaiacol, the first company to have commercialized this technology on global platform. In 2011 second product came up called as para methoxyacetophenone, again a very interesting catalytic process and only company doing this globally. In 2014 came the third product, which was forward integration of our own MEHQ into BHA and again catalytic process, only the second company globally doing this. In 2018 we came up with a very innovative vapor phase Anisole process, which is our own raw material and again the only company to be doing this globally. In 2020 we started another product, which is used for pharmaceutical intermediate called as DCC i.e. dicyclohexylcarbodiimide. The company really focuses on R&D, we have a very solid team of 40 odd people working in three shifts and all the processes have been developed totally in-house using our own laboratories.

Going forward let me speak on the quarterly result of Q1 FY2022. I am very pleased to announce that this has been our highest ever revenue for the quarter which we concluded in Q1 FY2022. The revenues of Q1 FY2022 stands at about 145 Crores against 111 Crores last year, a 30% increase year-on-year. The export revenue stands at 109 Crores whereas domestic stands at about 36 Crores, showing a ratio of about 75:25, 75 export 25 domestic. The company's EBITDA has been 71 Crores as against 56 Crores last year, year-on-year, an increase of 27% odd. The company has posted an EBITDA margin of closer to 50% odd as against 50% last year, flat on year-on-year basis. Here I would like to highlight that despite steep increase in our key raw material prices particularly phenol where the prices increased by 70% over the last one year, the company has still been able to post healthy margins. Profit before tax PBT levels increased to 72 Crores as against 57 Crores in Q1 FY2021 showing a healthy growth of 26% and the net profit improved to 55 Crores against 42 Crores last year, an increase of 30%. The company has a very strong balance sheet with no debt.

I would like to highlight a little bit on our capex, so the company last financial year did a capex of approximately 90 Crores odd, Q1 we did a capex of about 30 Crores odd and throughout the year the target is to do additional 70 Crores to 75 Crores odd ranging to about 100 Crores to 110 Crores in this financial year, which would be one of the highest capex we have done since the inception of the organization. All the capex will again be done through internal accruals. A little bit I would want to speak here on the facilities, so we already have two existing units based out of Kurkumbh. A third unit has started where the first plant got commissioned in Q1 FY2022, which is vapor phase Anisole and is on track, so here we have doubled our capacities of Anisole, which will suffice our captive demand and also will be used for selling in global markets, so now in short we have two Anisole vapor phase plants. Another plant, Plant 13 what we call is expected to commission in Q3, Q4 FY2022 this would be in our performance chemicals segment for enhancing production levels of our existing product lines and a new product will also be added. Earlier we had an Anisole liquid phase plant in unit one, which was making this liquid phase anisole, today we are using that plant partly to make a product called as Veratrole, which finds application in agro and pharmaceutical industry.

A little outlook I would like to give on the new expansions. We are trying to get into the segments which we really like, such as performance chemical, we like intermediates for pharmaceuticals and agrochemicals, so over the next year or so new products will come up in these segments. We see good demand for our existing products except for 4-methoxyacetophenone, which goes into cosmetics and as you can imagine cosmetic industry is little down due to travel restrictions due to COVID. Company is always expanding to newer segments, adding customers, wallet share and of course increasing or adding new product portfolio. With this I would like to conclude my call and we can open up for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: I got few questions, Siddharth, first can you just talk about how has been the performance across category on a Y-o-Y basis for all the three segments we report, which is performance pharmaceuticals and FMCG?

Siddharth Sikchi: Performance chemical has always been the biggest segment for us, so last year we did roughly 70% this year we did roughly 72% odd, pharmaceutical has been again similar 15% to 16%, FMCG has taken a small hit, so last year we did 15%, which is now about 11% and the major reason for this is because of travel restrictions due to COVID the product which goes into sunscreen has come down a little bit, so this has been more or less product split compared to last year.

Sanjesh Jain: Thanks that is helpful. Second question is on the gross profit margin and the phenol prices, have we been able to pass on all the inflation or are the margins we are maintaining through more of efficiency drive within better product mix or it is mix of all and how much the pricing has been passed to the customers?

Siddharth Sikchi: It is simple as I mentioned the phenol price has increased by roughly 70% odd, which is a steep increase and we were able to pass majority of the price to our customer, of course there has been process efficiency improvement but the majority has come by passing the price to our customers and since we do not have very long-term contracts, we are able to pass these price increase to our customers.

Sanjesh Jain: Can you just a little bit elaborate on our contract how long it is and it is more of a spot or we have a pricing adjustment built in our contract?

Siddharth Sikchi: So what happens Mr. Sanjesh is, there are two kinds of customers, 35% of our revenues comes out of China and again 30% comes out of India, so these markets are quarterly or a bi monthly price fixed whereas some customers who are large in Europe are based on a fixed monthly or an annual contract, so it is a mix of both, but in our case fortunately the long-term contracts are not too much of our revenues, it is still more on bimonthly or quarterly fixed prices and hence we are able to pass these price increase or decrease both ways to our customer.

Sanjesh Jain: Got it and one last question from my side, on the new product Q3, Q4 is when we should start expecting a new addition in the performance chemical and that should drive the incremental growth for us, are we expecting any material growth from the new product this year or the effects will be more visible from FY2023 onwards?

Siddharth Sikchi: So, Q4 is where I anticipate that these production lines will be operational, few are existing products, there would be two new products which we will also add, one is out of performance chemical and one is from an intermediate into agro segment. The new series which I mentioned will start in FY2023, so the construction will begin in the next month.

Sanjesh Jain: The margins in this portfolio will be ballpark the average margin of the company or because it is in a starting phase we will have a slightly lower margin?

Siddharth Sikchi: Absolutely, so whenever you start a business you cannot anticipate such margins, the margins built up will happen over a period of time when process improvement happen, efficiencies improvement happen, capacity optimization will take place, premium customers come on board, so it is a three-year process, but the revenues built up will start happening Q4 this year.

Sanjesh Jain: These are all Anisole based product or this will be a different chemistry?

Siddharth Sikchi: Some are Anisole based, some are new products.

Sanjesh Jain: Got it. Thanks for answering all my questions and best wishes for the future quarter.

Moderator: Thank you very much. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Thanks for the opportunity. Sir we did around 77% gross margin in FY2021 and in the first quarter of this fiscal we are at around 71%, so although you said that majority of this inflation in the raw material cost was passed to the customer, so would this price hike extend to the next quarter, so what I mean to say is that does this come with a lag in your numbers?

Siddharth Sikchi: It does come with a lag but let me also tell you that raw material prices, say Q4 FY2021 if you are comparing where raw material costs were about 20% to 23% odd, which is currently at about 29% odd. The second impact was power and fuel cost, so the coal cost which is our major raw material for our boilers, the prices have increased as high as 50% hence if you see even our power bill has increased on 6% to 8%, so we have been able to pass majority of our prices to customers, but some part also we are absorbing in these abnormal times and of course I would also like to highlight here that sea freight has been a nightmare for all manufacturing companies and it is changing on weekly or biweekly basis and it is very difficult for us now to predict these prices few months in advance so if our order is booked we still need to honor that and hence there would still be a lag with the new prices coming in the future quarters.

Ashish Thavkar: Sir, in this context the crude price is also going up would you like to give some kind of guidance on where your gross margins would trend going forward?

Siddharth Sikchi: I do not want to talk on guidance I can only tell you as crude increases the benzene prices increase, phenol prices increase and in that tune all the end product prices. Be it Clean Science or any other competitor, will all have to increase price and customer will also have to accept these increased price in account of such increase in raw material prices.

Ashish Thavkar: Fair enough, one question on the capacity utilization so if I am not mistaken today we are at 70% and in the next one or two years since we are adding a lot of capacities where do you see our capacity utilization in the next 12 to 18 months?

Siddharth Sikchi: See what is happening is when you say 70%, in this some of our existing products are more than 80% and new products like we added, DCC as I mentioned in FY2020, which goes into pharmaceutical that was running at low capacity utilization. Now as these capacities built up in the existing plants the capacity utilization will cross 70% odd as and when new lines keep adding depending on the market scenario, but of course these plants will not start on day one, it will happen gradually and these capacities will again touch 50%, 60%, 70% over the next one year after we start production from these new lines.

Ashish Thavkar: In this context broadly in a bucket of next three years would you be having any kind of capex plan, so obviously we spelt it out for FY2022, but in the bucket of next three years you have anything in your mind?

Siddharth Sikchi: Yes, in fact we have taken a very large plot which is about 17 acres odd, which is the biggest plot we have taken, which we call as unit 4, we are now trying for environment clearance which I hope by December-January we should get environment clearance. So there will be a lot of capex in FY2023 as well as in FY2024 for that matter and I do not want to put an exact number, but capex will be higher than what we have done so far.

Ashish Thavkar: Everything will be through internal accruals right?

Siddharth Sikchi: Everything will be through internal accruals.

Ashish Thavkar: This is very helpful. Thank you so much and all the best.

Moderator: Thank you very much. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Thank you for the opportunity. I had two questions, this is the first time that I am attending a call with this company, could you guide us on growth path for the next three to five years, what kind of growth rate one should expect, what kind of margins, capex some broad idea on some mid to long term view?

Siddharth Sikchi: I would want to avoid future statements here, but I can just tell you that apart from adding more capacities in our existing products the company will enter into new product portfolios as well, again the application areas will still remain the same which is performance chemical or intermediates for pharma and agro, but a multiple of these products will be lined up for the future expansion in the coming three to five years and some of these processes which we have already developed, are products where we anticipate to be the only producers in India and probably top five or top six producers globally of these products.

Tushar Sarda: But in terms of growth rate can we expect 20% to 30% growth over three-to-five-year trajectory?

Siddharth Sikchi: Pratik you want to take?

Pratik Bora: As you must have noticed over the last four to five years we have witnessed a revenue CAGR of 30% odd on back of annual capex in the range of 35 Crores to 55 Crores, FY2021 we did a capex of 90 Crores, FY2022 also we will be doing capex as already mentioned in that range, so capex is increasing and asset turns would also increase so we are optimistic that the growth trend which we have seen on the back of 35 Crores to 55 Crores capex we would at least sustain that growth rate.

Tushar Sarda: My second question was your EBITDA margins are one of the highest that I have seen in chemical company even for similar products like MEHQ so what is the secret for this, what is your reason and probably your R&D strength, so if you can elaborate a little bit on how you are different from other companies in the same field?

Siddharth Sikchi: So, the major thing what is happening is that as I mentioned we are a company which focuses on innovating cleaner eco-friendly catalytic processes, the processes of MEHQ, which we have devised, we are the only company using this process till date and the efficiency is where we are able to use minimum raw material to make these products which is why our raw material cost in these particular products are lower than our competitors.

Tushar Sarda: Where does this strength of doing this kind of innovative research come from, do the company promoters have the strength or is it the team, I wanted a little bit of insight on that?

Siddharth Sikchi: All the promoters are technocrats and all have degrees in chemical, I particularly did my bachelors from UDCT Mumbai and I did my masters in North America in Synthetic Organic Chemistry and I am responsible for R&D function in the organization.

Tushar Sarda: So you are driving all this innovation in terms of catalyst?

Siddharth Sikchi: I have a solid team of R&D working with me, we have a strength of 40 odd people so the ideas are discussed on twice a week types and we are able to come up with cleaner processes and the beauty is that since we have done all this since the inception of the company so the passion for all of us is to come up with further better processes and also if you see our number 35% of our revenues come out of China and that gives us another level of passion. If you are able to come up with interesting process and make products in India you can focus on import substitution also wherever possible.

Tushar Sarda: Fantastic look forward to being an investor in the company and following you, I think this will be a very interesting story going forward.

Siddharth Sikchi: Absolutely, we look forward to have you as our shareholder as well.

Tushar Sarda: Thank you so much.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, as you mentioned our strength lies in the catalyst and the process chemistry, so our products are sold at the same rate as our competitor would be selling it and from a customer perspective would we be the only supplier of your product because of a certain purity or a certain quality level or you would be one of the suppliers?

Siddharth Sikchi: So, let me answer your second question, I think it is a right of any purchaser to always have multiple suppliers so that his lines do not get stuck if there is a problem with one particular supplier so I personally believe that it is always good for a purchasing guy to have multiple suppliers, so we are one of the suppliers, but our focus remains that we have the maximum market or maximum wallet share of that particular customer so for instance in some of our product like MEHQ we have a global market of about 50% to 55% odd so we try that in customers like that where we have about 55% of their wallet share, we would want to increase to 60% - 62% going forward. On quality I would want to say that it is not that our quality is better than our competitor or there is better than mine because the product are on B2B sales they come with a spec sheet and we all have to adhere to this particular spec sheet and the applications, of course what remains is since we have multiple lines and multiple units the customer gets a very high confidence that if one particular line is down Clean Science still has ability to supply from another unit, another line so we give that confidence to the customer that that there will never be disruption in our supplies and this is one of the reasons that our customers have been with us for the past 10 years.

Dhaval Shah: This leads to the next question that the rate of price pass on and the phenol prices were up so much and the other RM is also up and still you are able to broadly maintain the margins, so is it that the product in the end market gets priced, it is more like a commodity with the prices going up and down, but since you know the game best in terms of the production process you are able to make such large margins like how we see PVC prices changing on a weekly basis and couple of other commodity prices changing on a weekly basis, so does your end product fall in that category?

Siddharth Sikchi: If we would have fallen in those categories our margins will also be of those categories, so we are a specialty chemical meaning we take our raw material or commodity chemicals like phenol, but we transform them into specialized chemicals. For instance, MEHQ is only globally produced by two or three companies globally, so the technology, the quality needed is not easy to be produced by any bulk producer.

Dhaval Shah: So your high market share gives you the flexibility of passing mostly on an immediate basis basically?

Siddharth Sikchi: And because our raw material costing is 30%, but the other producers of MEHQ do not operate at such margins, their raw material costing could be 70% so when there is a steep increase in price of raw material it is for them to go to the customer first to ask for a price increase rather than me going to the customer and asking for an increase.

Dhaval Shah: Again the delta would be much higher?

Siddharth Sikchi: So, they have to increase the price or they have to go to the customer to increase the price because their margins would get wiped out, and in that whole process I am able to anyways get the benefit of price increase.

Dhaval Shah: My third will be in terms of looking at a three-year scenario in terms of the margin guidance so what gives you the confidence about maintaining this margins over a longer period of time?

Siddharth Sikchi: See, it is very simple, I will tell you if you look at our past historic data over the past few years the margins have steadily increased, this has been on account of increasing our efficiencies and product yields. For me to reduce margin is only possible if my competitors cut down the prices of finished product, but as I mentioned earlier as well, that I do not see a reason why my competitor who are anyways operating on wafer-thin margins would come and drop the prices and hence I think these margins should be sustainable.

Dhaval Shah: So, your new launches would also be in the same vertical or you will be completely venturing out in a different product category or chemistry and still confident of maintain the margin?

Siddharth Sikchi: If I look for only product with 50% margin then I cannot do anything. When we started this business in the year 2007-2008 the margins were not these, the margins were meagre 20% to 25% odd like any regular specialty chemical company, the margins built up happen over the period as you improve your yield, as you build up capacity, as you get better market share and you get premium customers on board. If you are an investor in a chemical company these margins are unbelievable and these margins will always come over the period of time, but what you should look at is whether we have ability to come up with newer product portfolio, come up with interesting technology that over the period these will replicate what we have been doing over the past 12 to 13 years odd.

Dhaval Shah: Got it, of course. That shows up in the way you have ramped up and one of the European clients also asked for the tech transfer which you refused.

Siddharth Sikchi: Absolutely.

Dhaval Shah: You said the capex will be higher than what you have done so you mean to say you did 90 Crores in FY2022, so you will spending higher than that or you meant some cumulative years capex will be higher than like FY2023-FY2024 will be higher than the cumulative year capex?

Siddharth Sikchi: We will have capex when you have products in your R&D, when we will have pilot R&D then only there is a capex plan made to make those products, fortunately for us we have several products going forward and hence looking at that I am able to very confidently say that the capex over the next three years will be quite high because we have a lot of pipeline of products in our R&D, which will see the light of production as soon as we get this new unit cleared from government and once we are able to start construction on that site.

Dhaval Shah: Got it, great. Nice talking to you and wish you good luck.

Moderator: Thank you. The next question is from the line of Ashish Shah from Polymer Capital. Please go ahead.

Ashish Shah: Thank you Sir for the opportunity. I had only one question it is slightly long how should we think about phenol pricing on the margins, so considering that the competition using a more inefficient phenol anisole process and on sitting higher on the cost curve and we will have to increase the prices much higher to sustain when the phenol prices increases does it indirectly help us in our margins, so does the higher phenol price in fact impact us positively over a longer period of time?

Siddharth Sikchi: I will let Pratik take this.

Pratik Bora: The fundamental difference is the starting point, so not all the competitors operating in this market start from phenol as a starting material, so some other players might be starting with some different raw material the cost of that raw material might be fundamentally higher from phenol as a starting material. Second is when we say phenol is one of a bulk raw material so phenol takes around 40% of our raw material costing so effectively it takes around 12% of sales and what that implies is even if the phenol prices go up by 50% mathematically it should have not more than 5% or 6% impact on my margin, so these two reasons taken together help us stand out when it comes to margin profile.

Ashish Shah: What I am trying to understand is that in MEHQ we used 30% phenol versus the competition using say 70% phenol what it means is that if the phenol prices goes up the cost of production for the competition goes up materially versus our cost of production then they will have to take price increases as you highlighted and which would positively impact us in a longer run, is that the right way to think?

Siddharth Sikchi: It could be a right way to think, but let me put it this way, it does not mean that if my competitor has made the price increase, that I go to the customer and again increase my prices to their level, I try to prove to my customers that we are a very consistent player, you look at us as a long term partner, so we do not want to increase what my competitor is always increasing up to, because today if I am at 50% market share and if I want to grow this wallet share to 65% odd there is only one thing I need to earn is confidence of customer that despite my competitor offering any price Clean Science is a very consistent player and not just increasing prices abruptly because the competitor is doing. So that is greed versus satisfaction and I think we believe in being satisfied in what we have and not want to just increase the prices just because my competition is doing so, I hope I am able to answer you.

Ashish Shah: Got it. There is a small followup, in that case a higher phenol price would indirectly help us on the topline of the margins, what I am trying to understand is higher phenol prices is actually helps us generating higher EBITDA if not higher margins or that is not the right way?

Pratik Bora: It is not like the higher crude oil prices will benefit me, we will have a benefit to start with, but eventually with market demand supply so then the spread also gets adjusted across the player, so it is not because always an inflationary environment continues and I will keep on getting the margin benefit, so somewhat theoretically it has to end, the spread will get adjusted for all those years, but again we will have a higher spread compared to my competitors because of the process

Siddharth Sikchi: But in your case it also means that when the oil prices decline and where phenol comes back to Rs.70 my margins will squeeze down.

Ashish Shah: Yes, that is what I am trying to understand.

Siddharth Sikchi: No that is not what happens because if you see last financial year phenol was at about $1000 per tonne which is about 1700 or 1600 today, but in specialized businesses the prices do not increase proportionately to your raw material nor do they decrease proportionately to your raw material, so if raw material has increased by 50% I cannot go to the customer and ask for 25% increase and vice-a-versa when the price goes down by 50% they do not come back to me to reduce by 25%.

Ashish Shah: Fair enough.

Moderator: Thank you. The next question is from the line of Sujit Lodha from Birla Sun Life. Please go ahead.

Sujit Lodha: Thanks for taking my question. Sir, just a few things on the capex that you announced, the timeline of it being operation from, without getting too much detail on which are the products, etc., the capex when you say 90 to 100 Crores typically when would they come on stream and what would be the period when they will come on stream this products?

Siddharth Sikchi: Some of the lines will come on stream in Q4 this year and some of the lines will come second half FY2023.

Sujit Lodha: So typically 12 to 18 months is the period?

Siddharth Sikchi: The capex which we would have done, all those lines will start by July-August next year.

Sujit Lodha: The second question would be recently we have seen the Anisole prices have not actually risen so much in line with other commodity prices so what are your thoughts there, do you expect any inflation from Anisole prices going up?

Siddharth Sikchi: Anisole basically based out of phenol so if phenol goes up Anisole also goes up, but as I was explaining earlier too that these commodity chemicals and the specialized chemicals has a difference that if commodity chemicals go very high it does not mean that specialized also will rise to that percentage of difference.

Sujit Lodha: Was there any specific dynamics related to Anisole which kept the price subdued, was there any significant impact on the demand which led to lower price or subdued pricing in Anisole or it was just related to phenol prices?

Siddharth Sikchi: No, it is Anisole related to phenol, but maybe some of the contracts if you would have seen if the contracts were made in the earlier quarter then there is always a lag in getting these price increase so maybe in the next two quarter you will see the prices of Anisole also going up.

Sujit Lodha: Thanks a lot. If I have anything else I will come back on the queue.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Good evening and thank you for taking my question. While most of the questions have been answered I just needed one clarification, I just wanted to understand the 30% odd Y-o-Y growth that we have witnessed in this quarter can you break this up into volume growth and value growth, how much is because of volume and how much is because of increase in prices?

Pratik Bora: On Y-o-Y basis the growth is primarily volume driven rather than realization driven except for 4-MAP where we saw a degrowth, we are not comfortable sharing segment wise volumes, but the key takeaway is that on Y-o-Y basis the growth is more of a volume driven rather than realization driven.

Alisha Mahawla: That is helpful. Thank you Sir. My other questions have been answered.

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

Ranjit Cirumalla: Thanks for taking my questions and congratulations on a good set of numbers. Getting on to the segmental performance you did share a bit of more details on a Y-o-Y basis it would be helpful if it also shared it on a sequential basis, the contribution from performance in pharma and FMCG in Q4 and the second question would be is there any seasonality in our business with regards to the quarterly performance is it way the second half would be heavier than the first half or any anomalies in the quarterly performance that would be helpful? Thank you.

Siddharth Sikchi: Q4 performance chemical contributed around 78% of the topline, pharma 12% and FMCG 9% and on Q-o-Q basis because the raw material prices have witnessed a steep increase so there has been a benefit of realizations also, so realizations improved for performance chemical, also for pharma chemical, but for FMCG chemicals as we have already highlighted there was a low volume offtake so there we did not witness the higher growth and the revenue growth. The revenue is not seasonal so it is not that H2 will be better than H1 on a steady state business, but this year because we are undertaking a large capex, last year also we undertook a large capex, which we expected to go online by H2 of this financial year, so we estimate that the H2 would be much better than H1.

Ranjit Cirumalla: Thank you Sir and my last question would be on the capex front since you have alluded that going forward the capex would be the highest probably that you have taken in the history for the company is there any intimation of setting up any subsidiary company to avail the tax benefits that we have since we are also getting into new products?

Siddharth Sikchi: No, there is no such plan everything will be under Clean Science and Technology Limited and of course after the IPO the visibility which the company has received you would want to harness on this and get all the newer product portfolios under this company name only.

Ranjit Cirumalla: Sure, thank you, Sir.

Moderator: Thank you. The next question is from the line of Saurabh Asian Market Securities. Please go ahead.

Saurabh: Thank you for the opportunity. Sir my first question if you can give more color in terms of market size of the new products that will come in this Q4 and next year?

Siddharth Sikchi: In Q4 we are trying to enlarge capacities of our existing businesses only or existing product lines only, the newer products which will start in second half of next year would be the ones which will go into performance chemical where the market is closer to $1 billion and growing at about 10% to 12% odd CAGR.

Saurabh: Sir, how should we look at in terms of asset turnover for this 110 Crores capex for the next year whatever we will do?

Siddharth Sikchi: Typically we are at an asset turn of about 2.7 and I think it should be closer to that level only.

Saurabh: In terms of new product that has been developed so are those newer products also based on internally developed catalysts?

Siddharth Sikchi: Absolutely these are developed in-house, but different catalytic processes are used to develop these new processes than for existing products.

Saurabh: What would be the end market will it be pharma or other markets?

Siddharth Sikchi: Three segments we like performance chemical so these are stabilizers or inhibitors or additives and then intermediates for pharma and agro.

Saurabh: If you can give some color in terms of number of products which are in R&D space?

Siddharth Sikchi: There are big segments of products which we are working on R&D, so we have some which are already working on a performance chemical where I mentioned the market is about a billion-dollar, others are working on intermediates into pharma and agrochemicals which are also large products coming into Indian markets, so I think there is a lot of potential going forward rather than giving you granular numbers I think overall view remains quite optimistic.

Saurabh: Sir, in the performance chemical there is 1 billion market size, so how is the timeline in terms of customer approvals from whether it is a short-term or approved or it will be a slightly longer cycle?

Siddharth Sikchi: It depends on customer to customer, so people who are absolutely price sensitive the approval time are very short and customers who are high paying customers but are looking at a long-term sustainable solution, sustainable manufacturers there the lead time of approvals could be longer, so short time could be one month and longtime could be six months.

Saurabh: Thank you.

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

Ananth: Compared to our production capacity in FY2021 and keeping in mind of the two new factories that are coming up in another one to two years' time probably what will be the total increase in the overall production capacity of the company is it like going to double or triple very rough numbers?

Pratik Bora: Ananth, our gross fixed asset for the year closed is in the range of 224 Crores to 230 Crores odd, so the capex which we have done in the proportionate way broadly the capacity should increase because the entire capex is going towards operating assets, we do not want to give a volume specific number so I am just trying to give you directional view.

Ananth: Understood and the second and last question is are we only looking at organic growth or are we also looking any acquisitions in the future?

Siddharth Sikchi: There are a lot of opportunities in our organic space, of course we will always be open for an inorganic acquisition, but there are certain parameters which we have in mind and until all are fulfilled we would not want to enter into any inorganic acquisition.

Ananth: Great Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Dhruv from HDFC Asset Management. Please go ahead.

Dhruv: Thank you so much Sir. Sir one quick question is on the freight cost, on a basket basis what would be the freight cost as a total basket as a percentage probably and do we sell on CIF or FOB basis and related given the price is so high and so uncertain, on a temporary basis can it have some risk in terms of supply chain rebalancing customers looking into optimize some cost probably some purchasing probably from some nearby sources or something like that?

Siddharth Sikchi: Dhruv, the split up, I think Pratik will answer, but I can only tell you that the freight we supply on CIF basis, very rarely people like on FOB basis, so it is all CIF basis businesses, these are all full container businesses, so what is happening is this is one of the very odd year I have seen over the last 14 years of my working career where shipping freight prices have been increasing on weekly, biweekly basis so going forward what is happening is we are also changing our prices to customer as and when the freight cost is increasing so up to a particular percentage increase we are able to absorb, but beyond that the customer is willing to share with us and for split up let me ask Pratik to answer that.

Pratik Bora: In terms of freight cost we have recorded a freight cost of around 14 million this quarter and last year same quarter we recorded a freight cost of around 8 million odd.

Dhruv: The output freight is recorded in the freight cost, right that is not deducted from sales?

Pratik Bora: No, it is in other expense.

Dhruv: I got it. Thank you so much.

Moderator: Thank you. The next question is from the line of Krishan Parwani from JM Financial. Please go ahead.

Krishan Parwani: Good evening, Mr. Siddharth and Mr. Pratik. Congrats on a good set of numbers. I had just one question, so for this new product Veratrole would you be starting from catechol or phenol?

Siddharth Sikchi: No, we will be starting from guaiacol, there is no technology from phenol, but yes we will be starting from guaiacol to make Veratrole because guaiacol is captively available with us.

Krishan Parwani: Got it, that is helpful Sir. That is it. Thank you.

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

Devaraju: Thank you Sir for the opportunity and congratulations for the good numbers. I would just want to ask about on the expenditure side, on the quarter-on-quarter basis I was seeing that the other expenses in the profit and loss account has been increasing quarter-on-quarter basis could you please throw some light on the detailed expenditure that is being grouped in the other expenditure?

Pratik Bora: So, other expenses on Y-o-Y basis has increased for a couple of reasons, first is power and fuel cost, so we have witnessed around 70% increase in power and fuel costs and the second is repair and maintenance where we have witnessed around 20% to 22% increase, so these are the big two ticket items in the other expense which have led to increase on Y-o-Y basis.

Devaraju: Sir, my second question is on the sales related, operating income is derived mostly from 70% is derived from one particular segment so will there be a diversification in the basis?

Siddharth Sikchi: Yes, progressively it will be, it is a segment, but the segment also has three products and as we progress the basket will become more diversified.

Devaraju: Thanks for the opportunity and congratulations for the good set of numbers.

Moderator: Thank you. The next question is from the line of Gaurav Shah from Kotak Wealth. Please go ahead.

Gaurav Shah: Sir, just wanted to check few things in terms of, what will be the average debtor days of the funds and what percentage of the cash from operations will convert into free cash flow, so what is the conversion of cash flow from operations to free cash flows?

Pratik Bora: The receivable days is in the range of 35 to 40 days and the cash conversion cycle is fairly healthy, our net working capital days is close to 30 to 40 days so except for that the EBITDA is converted into cash and that is why you see a cash balance of close to 230 Crores odd on the book.

Gaurav Shah: Thanks a lot.

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

Ravi: As you yourself said that these are quite unbelievable margins right you have been doing a big job, so can we expect that there is still scope in let us say further expansion in these margins in the future purely based on your process innovation irrespective of the raw material prices?

Siddharth Sikchi: It would be really killing a customer to ask for more margins, I think these are peak margins already so I do not think I should expect more than this.

Ravi: Right and these we are talking for existing products and as you said for new products the margins will evolve with time?

Siddharth Sikchi: Absolutely.

Ravi: Alright, thank you.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Sir, I just want to know what is the expected CAGR for us top and bottomline for the next two to three years and what is the opportunity size for each of the verticals? Thank you.

Siddharth Sikchi: Thank you for your question, but we do not want to put a number at this stage, but we are optimistic and our optimism is underpinned by the capex which we are undertaking.

Vivek Gautam: 10 to 15 range at least that we can achieve?

Siddharth Sikchi: At least yes, but you are trying to put a number there, but we do not want to put a number, but yes, the number which you have put, the endeavour is much higher than that.

Vivek Gautam: Thank you. Opportunity size of each of our verticals?

Siddharth Sikchi: I have mentioned so in performance chemical we have highlighted a space where the market is about a billion dollar, very few producers globally, no one in India so that is one very interesting space and in pharma and agro of course these are products between $50 to $200 million, but there are multiple products in the space and some of them are not even made in India.

Vivek Gautam: Thank you.

Moderator: Thank you very much. The next question is from the line of Ashish Singh an Individual Investor. Please go ahead.

Ashish Singh: Good evening Sir. Most of the queries have been answered, just one is left, I see 37% of our revenue comes from China and considering the current situation of India and China is there any plan to mitigate such situation which may arise in future?

Siddharth Sikchi: So, China has been a very extremely important customer for us and we keep hearing this, but India is more dependent for intermediates from China rather than China being dependent on us, so we have been hearing it, but the businesses between India and China on trade basis so far have been absolutely normal and I expect the same to be going on because all the main pharmaceutical which are made in India are totally dependent on Chinese imports.

Ashish Singh: Thank you Sir.

Moderator: Thank you. The next question is from the line of Manish Poddar from Nippon India AIF. Please go ahead.

Manish Poddar: Sir, I just have one question, can you tell me what is the status outlook for the next few years and the dividend policy that the company has?

Siddharth Sikchi: So, the dividend policy as we have mentioned in our DRHP as well, which is about 15% minimum and we have been a dividend paying company since 2012.

Manish Poddar: And i just want to understand capex outlay for the next three years?

Siddharth Sikchi: This year, last year the capex which we did it could be in that range, we do not want to put a number at this stage.

Manish Poddar: Thank you. Why I am trying to understand is because we will have a significant amount of cash flow so 15% is a dividend policy do you intend to probably acquire from company or what is the plan with the remaining cash on books?

Siddharth Sikchi: We would always want to retain one-year profit in the company because of any unusual times which we have seen in COVID or any such year so we always at the prudent policy always want to maintain good cash in the books of the company.

Manish Poddar: Thank you.

Moderator: Thank you very much. Ladies and gentlemen that would be the last question for today. I will now hand the conference over to Mr. Ankur Periwal for closing comments.

Ankur Periwal: Thank you everyone for participating into the call. Siddharth and Pratik will you like to add any closing remarks?

Siddharth Sikchi: I would want to thank all the investors for taking time out in the late evening to hear us and to study about the company and I look forward to a long-term association with all the shareholders and investors and stakeholders going forward. Thank you so much. Have a good week and have a good evening all of you.

Moderator: Thank you very much. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.