



Clean Science and Technology Limited

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

Date: 14.02.2022

To,

BSE Limited
Phiroze JeeJeebhoy Towers,
Dalal Street,
Fort, Mumbai – 400 001
Scip 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 Q3 FY21-22 Earnings.

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

Further to our letter dated 03.02.2022 and in terms of 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 Q3 FY21-22 Earnings held on 7th February, 2022.

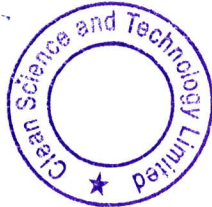
You are requested to take the same on record.

Thanking You.

For Clean Science and Technology Limited

Mahesh Kulkarni
Company Secretary

NK



(Erstwhile known as Clean Science and Technology Private Limited)

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Clean Science and Technology Limited Q3 FY2022 Earnings Conference Call

7th February, 2022

MANAGEMENT:

Mr. Siddharth Sikchi,
Promoter and Executive Director

Mr. Pratik Bora,
Chief Financial Officer

Moderator

Good evening, ladies and gentlemen. I'm Moumita, moderator for the conference call. Welcome to Q3 FY2022 Earnings Conference Call for Clean Science and Technology. 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 * and then 0 on your touch-tone telephones. Please note this conference is recorded. I would now like to hand over the call to Mr. Ankur Periwal from Axis Capital. Thank you and over to you, sir.

Ankur Periwal

Thank you, Moumita. Good evening, friends and welcome to Clean Science and Technology's Q3 FY2022 Post Result Earnings Call. As usual, the call will be initiated with a brief management discussion on the 3Q and nine month's performance, followed by an interactive Q&A session. Management will be represented by Mr. Siddharth Sikchi, Promoter and Executive Director and Mr. Pratik Bora, Chief Financial Officer. Over to you, Siddharth for the initial comments.

Siddharth Sikchi

Good evening, everyone. I trust all of you are safe and healthy amidst this new Omicron variant of COVID. Let me begin this discussion by first telling you all that, we had communicated last time about a certification called as GreenCo, and we are very pleased that after a work of about a year's time, Clean Science and Technology has now been awarded a GreenCo rating certificate with a Silver rating, which is very prestigious, and I think we are the only specialty chemical company in India, to have received this GreenCo certification. This proves our emphasis on cleaner, innovative and sustainable chemical processes and thus the name Clean Science and Technology.

During this quarter, we have launched two new products, one is called Para benzoquinone (PBQ), which finds application in agro and monomer industry. This product was typically made by Chinese companies, and we are the only company in India, to start production of PBQ, with a very innovative catalytic process. The second product is called TBHQ, which is used as a stabilizer in edible oil and the most important reason to start this product is, all our customers who

buy BHA and Ascorbyl Palmitate from us, need TBHQ to complete the basket and hence this will increase our wallet share with the customer.

Going on quarterly financial highlights, we are pleased that the company has recorded highest ever revenues and profit after tax during this quarter. The total revenues for Q3 has been at 181 crores, which increased 18% on quarter on quarter basis, and 44% on year on year basis. The domestic sales for the quarter were 52 crores and export revenues were about 129 crores, which shows a very strong revenue build up in our existing product portfolio.

The company's EBITDA increased to rupees 76 crores as against 63 crores, an increase of 22% on year-on-year basis. In this quarter, the raw material prices further increased, the shipping freight prices also increased dramatically and also the power and fuel costs increased. However, despite of very steep increases, we have been able to marginally pass on price increase to customers because we were contracted until December and the new contract which will start from January has seen further price improvements. Our balance sheet continues to be very lean. We are a debt-free company and sitting on a cash of about 280 odd crores.

Capex has been very timely. We have commissioned two new plants in Unit 3 for manufacturing PBQ and TBHQ, which I just mentioned, and we have also increased capacity of our product called as BHA by about 50 odd percent. The capex during the last nine months has been 110 odd crores, which is all funded through internal accruals and the estimate for the entire FY22 stands at about 150 odd crores.

More new plants are going to come up by September or October 2022, that are the HALS series. Construction is on its way, and we are very hopeful that two of these lines called 701 and 770 should begin by September/October 2022. Apart from this, we are adding additional line of MEHQ and Guaiacol, which will increase our capacity by almost 30% to 40%, and these lines will begin by mid of March, so almost about one and a half months from now.

On outlook, a sizeable capex is underway towards existing and new products. The business as I look forward, looks very strong and the growth in terms of revenue is going to be robust. Also, as we have added new products to the basket, this will help us de-risk from our existing product portfolio. Elevated raw material prices, elevated freight prices and power & fuel prices remain a short-term challenge. But our focus is on continuous innovation and continual yield improvement, where we can offset these high prices. We will of course continue to increase our customer base, as we are adding new products to the basket and hence, adding newer customers in both Indian and overseas market. So, this is from my side, thank you.

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Our first question from Mr. Sanjay Shir from ICICI Securities. Please go ahead, sir.

Sanjay Shir

Yeah, good evening. Thanks, Siddharth, for taking my question. First on the PBQ and TBHQ, this will be again an export focused business because we are talking of import substitution even in India. So, one, what is the import substitution opportunity for PBQ in India and from TBHQ. Our portfolio in antioxidant looks like it has been very strong, we are covering more products, are there any more product you think will require to further strengthen your antioxidant portfolio?

Siddharth Sikchi

So, the first question to answer, PBQ has a very good Indian market. I mean, the whole reason we got into PBQ is because this is imported from China to India, and it finds application not just in stabilizer, but it finds major application in agro industry. So, this product which started at about \$20 odd is today being sold at \$30. Just two companies in China are making this product and there is a short supply of this product, so PBQ is majorly focused on Indian market, but I know as we get into these businesses, we have started receiving inquiries from Europe and US, and other parts of the world. But the focus is India.

TBHQ is an export potential market. The major reason is it will add to the current basket of BHA and Ascorbyl Palmitate, where similar customers also ask us for supplying TBHQ. So, this is more of an export market.

The second question which you asked is any other stabilizer which we could add, so the answer is we should definitely, I mean, Clean Science would definitely want to add another product called phenothiazine (PTZ). It is a very important antioxidant, but we have yet not been successful in developing this technology. We have been fiercely working on this product, but I do not want to comment whether we will be successful or not. But that is another product which I definitely want to add in our product basket.

Sanjay Shir

Just one follow-up on PBQ, what is today import India do on PBQ? So, in terms of quantity which India imports today?

Siddharth Sikchi

Seventy tons a month.

Sanjay Shir

So, 70 tons a month, and what will be our capacity for PBQ today?

Siddharth Sikchi

Right now, it's only 40, because it's a very tricky product. See, the problem is that this is an oxidation reaction, and the problem is the colour of this product is extremely important. Why nobody has been successful in India is because if this oxidation goes wrong, you tend to form a greenish product which is absolutely useless. So, we decided to do it in two phases. So, the building is set up, but we only put-up Phase 1 right now, which will be about 40 odd tons and I feel now we are very confident, we have already seen about a month of production. We are very good with our product color and all, so now we will be going for Phase 2 and doubling the capacity to 80 ton which will take about three months from today.

Sanjay Shir

Got it and this will be anisole value chain both TBHQ and PBQ?

Siddharth Sikchi

No, there is nothing to do with any anisole in these technologies. It has different raw material and entirely different chemistry. PBQ is an oxidation reaction, but the raw materials are different. So, it has nothing to do with our existing technologies. Of course, there is a different catalytic process here as our forte has been catalytic chemistry, so this is also a catalytic based oxidation reaction.

Sanjay Shir

No, my whole purpose was to understand how much we are backward integrated, are we buying a bulk chemical to start with in the TBHQ or we are buying an intermediate.

Siddharth Sikchi

Yeah, for TBHQ and PBQ, the major raw material remains hydroquinone, which is also a commodity chemical, and which can be purchased from US or Europe or China or Japan.

Sanjay Shir

Got it, that's fair, and TBHQ capacity will be?

Siddharth Sikchi

About 1,200 tons would be installed capacity per annum.

Sanjay Shir

Got it. Now, second question, more on the margin side, you said that the December contracts are over, we are getting into new contracts for the new year. How much price hike are we anticipating to take or we would have taken because we're already a month into it and will that take us back to the old margin or will it take few more months, quarters to reach that?

Siddharth Sikchi

The contract we started was about in the month of October or so. And it was a very common thing during the Quarter 3, we were anyways seeing very high prices of raw material. So there was a real anticipation that 2022 would be a light year, I mean the raw material prices will subside a little bit or at least remain constant. To our surprise, the oil prices further hiked up and hence the raw material prices also inched up further. But what we have in this new contract is, we are not quoting anyone on CIF basis, meaning we are only quoting ex-factory.

So, because in Q3 alone, the prices of freight increased by 8% to 10%, depending on Europe or US. So, now all prices are only on ex-works basis and whatever is the actual freight will be accounted to freight. So hence that one hurdle is out, and we have been able to increase prices between 10% to 25% amongst the different products we have. So, I'm very hopeful that the

margins should recover back and the raw material prices should again come down to between 30% and 32%, which is currently 36%.

Sanjay Shir

So, we have taken this price hike across the category, so to that extent we should see some impact coming from the Q4, or will it take a quarter or so for fully implement it?

Siddharth Sikchi

No, I think it should come from Q4.

Sanjay Shir

It should come from Q4, that's great. Yeah, that's it from my side, I will come back in the queue.

Moderator

Our next question from Mr. Kishan Parvani from JM Financial. Please go ahead, sir.

Kishan Parvani

Yeah. Hi, sir, thanks for the opportunity and congrats on commercializing these new products. So, if I understand it right, I think you also mentioned that this is the catalytic process that we use, and you have this HQ and probably you can use this H₂O₂ as well, to do the oxidation. So, just wanted to check, I mean, do you plan to make HQ in-house just to have that phenol to TBHQ and PBQ kind of a whole chain or no?

Siddharth Sikchi

It's a very interesting question. See, the point is, hydroquinone sells like gold, so making a plant for hydroquinone is always beautiful, but the problem is, along with hydroquinone you get a co-product called catechol. And the biggest problem remains is how are you going to sell catechol, because any process you do, you get 50:50 or 55:45 ratio between hydroquinone and catechol. The problem is not hydroquinone, but the problem is how are you going to sell catechol and then

for catechol, you have to get into the entire chain of making vanillin which goes into flavour and fragrances where lead times are very high.

So as of now, we have not really thought of getting into hydroquinone and catechol because of this so-called bigger problem, plus people are announcing capacity expansion of hydroquinone and catechol. So, I think it will be interesting to see this market for the next six months, and if we feel that there is real need, we can consider. But if already it's a crowded market, it is better to just buy hydroquinone and make your end products and look at that.

Kishan Parvani

Understood, sir. Thanks for that and I think just one more question from my side is that, so I guess your capex for this year has gone up, I think from 100-120 crores to almost 150 crores that you're guiding. So, is the capex for 23-24 also going to go up?

Siddharth Sikchi

It will further go up, because Unit 4 will start, which is a Greenfield project and it's a 34-acre plot. So, I feel that capex will be furthermore than what we did until now. So, it will be one of the biggest capex in the history of company.

Kishan Parvani

So, can we say more like 200 crores per annum for 23-24?

Pratik Bora

Could be in the similar range, yes.

Siddharth Sikchi

Yeah, similar range absolutely possible. And this Unit 4 will be the unit where we'll house the entire HALS series and of course newer products for pharmaceutical and flavour and fragrances.

Kishan Parvani

Understood, sir. Those are all my questions. Thanks for your time, Sir. Thanks, and congrats.

Moderator

Our next question from Mr. Ritik Shrawak from Edelweiss. Please go ahead, sir.

Ritik Shrawak

Hi, sir, good evening. I just wanted to ask on the capacity utilization in this quarter.

Pratik Bora

So in terms of capacity utilization, DCC is the most underutilized plant at this stage. It's operating in the range of 30%-35%, rest of the products are operating north of 65%-70%.

Ritik Shrawak

Okay, and Sir, I just wanted to ask on this PBQ product, as you said that 40 tons is the current capacity of PBQ, right?

Siddharth Sikchi

Right.

Ritik Shrawak

And, after these 40 tons extra that we are adding in the coming three months, what kind of revenue potential it could give in next two to three years?

Siddharth Sikchi

If you see today, \$30 is the price, so \$30 becomes approximately 2,000 rupees. So when I say 80 tons capacity, assuming a capacity utilization of 80%, so about 65 odd tons into 2,000 rupees so it is 13-14 crores per month. Right, Pratik?

Pratik Bora

Yeah.

Siddharth Sikchi

So, it will be over 100 odd crores annual revenue.

Ritik Shrawak

Okay, sir. That's all from my side, thank you.

Moderator

Our next question from Mr. Faisal Hawa from H.G Hawa & Co. Please go ahead, sir.

Faisal Hawa

What is our client concentration? How much is the top five clients contributing to our total revenue? I mean, how do you see the competition coming up? Is someone trying to really come up to our manufacturing best practices or the variation, even though we don't have a trade patent, but is there somebody still able to catch up with our technology?

Siddharth Sikchi

So, I'll first answer on the technology. So, we have been manufacturing or using this technology for the past 14 odd years. We are fully backward integrated from phenol to anisole, anisole to MEHQ & Guaiacol, from MEHQ to BHA. It's a long chain, I mean, we have worked very, very hard, developing these catalytic technologies, getting these current yields, quality of the products and of course, approval of these products across the world.

So, I don't think it is very easy for somebody to just come in and, you know, start all these lines together. So, I'm sure if somebody wants to do it, it should take a minimum of five to eight years to get the product right, to get the quality, to get the yield, to get the efficiencies, to get approval of customers. So, it's a long process, I mean, it is not very easy to just get into these businesses.

Pratik Bora

And in terms of client concentration, our top five clients contribute close to 35% of the topline during this quarter.

Faisal Hawa

Is it a fair assumption for any investor analyst to make that our internal target is to double the revenue every three years?

Siddharth Sikchi

If we grow at 25 odd percent, then we should be able to double the revenue every three to four years.

Faisal Hawa

And, any company internationally that you really respect and you know, where you feel that they have been able to build up the company which is beyond the immediate promoters or the management.

Siddharth Sikchi

See, the way global companies operate, and the way Indian companies operate, principally there are lot of differences. I mean, Solvay is our very big competitor, but we have very, very high respect on the way they operate, the way they have built this market over the last 15 years because when we are trying to penetrate the markets, where Solvay was present originally, you know, it was a task to replace them over the last seven, eight years. So, of course, there is a very high respect for Solvay.

Of course, companies like BASF who are our customers, the way they operate, the way they have systems in place, so of course, I mean, every company has some plus, and we definitely look at improving from each of these companies' little bit. To also add to this that Indian companies are also very respected for instance PI Industries or SRF are very well respected companies in their segment, and these are some companies whom we would like to follow as well. Thank you.

Faisal Hawa

Are you finding any difficulty in hiring personnel to man our marketing or production functions?

Siddharth Sikchi

Not really, I mean, of course with ESOP schemes it is helping us to retain good people, new people are also coming in. And you know, Pune is a hub, I mean, not many chemical companies are there, so people who are inclined to join chemical companies, the choices are limited, and we are one of them. So, I think it works in our favour.

Faisal Hawa

Thanks a lot for answering so well.

Siddharth Sikchi

Thank you.

Moderator

Thank you, sir. Our next question is from Mr. Ankur Periwal from Axis Capital. Please go ahead, sir.

Ankur Periwal

So, I have two questions, one on the overall competitive intensity, you know, given that our technology as well as the catalytic based approach gives us a very significant, you know, cost advantage there. And there has been a raw material inflation, you know, across most of the commodities and probably competition both in India and abroad, would be facing much higher, you know, margin pressure there versus us. So, given the RM inflation that we have, you know, already taken, how are we placed now, from a competitive positioning perspective? My sense is probably there could be much sharper volume growth for us going ahead, but your comments on that.

Siddharth Sikchi

Yes, you're absolutely right. We are adding capacities of our existing product line. Now, if we are approved at all the accounts, the question is what wallet share of business can we take from our existing customers. So if we are able to offer them right price, 2022 would be a year where we will be able to really grab a bigger market share across customers globally. And when I look at sales, I think this opportunity we don't want to lose because, if we are able to get a strong foothold, and if we are able to prove to the large MNCs that, we are able to deliver products right on time at a good quality, good price within Europe, I think it'll give us a very strong foothold for coming years. So, I think that's a very strong advantage for us for increasing our revenue growth by maintaining and having decent market price.

Ankur Periwal

Sure. And you know, in the starting, you did mention your focus not only to add new products, which we are adding, but also to add new customers, you know, across geographies. Any specific, focus here, or probably it's more of, you know, higher wallet share from the existing ones there.

Siddharth Sikchi

So, I can only say that we have increased our wallet share, for instance, with BASF. We have now secured a three-year contract, with almost 70% to 75% of their business. This business was not with us until now. I mean, we were always the minor share, but in the next three years, we will have got a majority share at BASF.

Ankur Periwal

Sure, that's helpful. And just lastly, you know, as you mentioned on TBHQ, wherein we are focusing, adding more products, trying to get more wallet shares from the customers, are there many more such products, which are supposed to be launched maybe over the next 12 to 18 months and adjacent to that, you know, are we targeting the existing customers or it will be a mix of existing for the new one.

Siddharth Sikchi

No, I'll give you an example, for instance of the first two products, which are going to come up. These are called 701 and 770. 770 is entirely new, I mean, all master batches in India are buying this product, so it's an absolutely different market. We have already started talking to different distributors or different customers in India. Currently, 770 is imported to the tune of 3000 to 4000 tonnes per annum to India, and our first set of capacity is only 2000 tonnes. So, absolutely new customer base, but these customers are currently only dependent on import for these products. And we will be able to offer them options.

701 is a product, which goes into water purification, apart from stabilizer in monomer industry, again, a very different application, but very similar chemistry as 770. So, very new customers, new geographies and a lot of interesting developments. We have also developed some products, which will go into pharmaceutical intermediate, perfumes and fragrances, which has both mixed domestic as well as export potential.

Ankur Periwal

Sure. Great to hear that. Thank you and over to you, Moumita. Thanks.

Siddharth Sikchi

Thank you, Ankur.

Moderator

Thank you, sir. The next question from Mr. Prasenjit Bhuiya from Kotak Institutional Equities. Please go ahead, sir.

Prasenjit Bhuiya

Hi. Thank you, sir, for the opportunity. I have one question regarding your new products, PBQ and TBHQ. So, normally, you are backward integrated for your existing products. For this product, since you are not backward integrated for hydroquinone, sir, will you be as cost competitive as your Chinese peers and secondly, in other products also, which you are really looking into entering next coming few weeks?

Siddharth Sikchi

I have not understood the second part. I have understood about hydroquinone. See, all the products which we manufacture, we never started with fully backward integration. And the backward integration always comes later, so first we establish these businesses and then, if there is a need or we feel we have a better chemistry, then we do backward integration. I mean Anisole plant was only started in 2017, whereas we started MEHQ and Guaiacol in the year 2008.

But of course, we are not going to wait for additional 10 years to decide if we want to go backward or not, but when you start a business, you would first want to focus on the end product, try and get those markets, grow that business and then, you start thinking whether there is a real need to go backwards depending on how the source of raw material is behaving. If we are able to work on a contracted price with any one of the large producers, then it would not make any sense for us to really make these products.

And in HALS, we are starting from acetone and ammonia, which are anyways the basic starting materials, so there, we are starting with fully backward integration.

Prasenjit Bhuiya

Got it, sir. And my second question was regarding the hydroquinone scene, so are there some other products also, which you may target to enter?

Siddharth Sikchi

No. So, hydroquinone based, we have only two products and I think so far that is what we have on our plate.

Prasenjit Bhuiya

Okay. And this phenothiazine is based on which thing?

Siddharth Sikchi

It is based on diphenylamine. And yes, if we get into that, we will definitely make diphenylamine.

Prasenjit Bhuiya

Got it. And finally, for your existing products, since you have expanded your capacity, so can you, give us some timeline of capacity to ramp up utilization for the next two years may be? For your existing products like BHA and MEHQ, so what kind of capacity ramp up can you expect for the coming two years?

Siddharth Sikchi

BHA, we have already done 50% ramp up. MEHQ and Guaiacol is closer to 40% ramp up.

Prasenjit Bhuiya

No, I mean the utilization, on new capacity?

Pratik Bora

So, Prasenjit, in terms of utilization levels, for the incremental capacity, we are looking at 50% utilization in the first year itself, except for the new products, which is HALS, PBQ or TBHQ. But for the existing products, which is MEHQ and Guaiacol and BHA, it will be in that range.

Prasenjit Bhuiya

Okay. Got it, got it. Understood. Thank you, sir.

Moderator

Thank you, sir. The next question is from Mr. Rohit Nagraj from Emkay Global Financial Services. Please go ahead, sir.

Rohit Nagraj

Yeah. Thanks for the opportunity. The first thing is in terms of pipeline of products. So, just now, you indicated that we have been commercializing PTZ, similarly, generally, how many products are there in pipeline and given our experience in the past, how much time does it take to commercialize these products? Thank you.

Siddharth Sikchi

You know PTZ we have not developed. I mentioned it is on our wish list to develop that product. So typically, time depends on chemistry used, but when product development happens, I mean, when you start from scratch, it typically takes about six to 12 months timeframe depending on how many stages are involved in the product and how complicated it is and all that. And to set up a facility for us, it takes about 12 months to 15 months' timeframe and then, market share. So you can assume 1000-day plan from conceptualizing an idea and to be reasonably commercially placed, will take about 1000 days.

Rohit Nagraj

And does this also include the environment clearance, which is required for it? Or do we usually take it before once we start conceptualizing a particular product and you know, we take the environmental clearances beforehand itself so that the process does not elongate further.

Siddharth Sikchi

No, environment clearance is only taken once. So, we anticipate that these are the products, which will come up in the next five years or in the next 10 years. EC is obtained. It is very difficult for us to forecast what are we going to do after five years, so, whenever there is a product addition, we have to go to an MPCB board and ask for a product change or an addition of a new product.

Rohit Nagraj

Right. Got it. Second question is there is your unit four, once it is set up in terms of initial capacity and given the current momentum of investment, and you indicated probably we have the potential to double our revenue growth in almost three years, what is the potential revenue that can be generated from unit four?

Siddharth Sikchi

If everything goes well, I mean, it is going to be very difficult to answer, but see today it's about a 34-acre of plot.

Pratik Bora

Typically, the asset turn would be in the range of 2.8 to 3X.

Siddharth Sikchi

We would be investing between three to five hundred crores, into three times, so 1500-crore revenue is expected out of 34 acres when it is fully utilized, which will take three to four years' time.

Rohit Nagraj

Right. So, effectively for the next five to seven years, we do not need a more reliant plan based on our growth rates that we need to find out, you know, your location on the new land process.

Pratik Bora

No, not for next five to six years at least. Additional location is not on the cards for the next five to six years.

Siddharth Sikchi

Unless we get some interesting opportunity on inorganic growth, then it is a different case, but I think for the next three years, we are sorted.

Rohit Nagraj

Right, Sir. Any update in terms of the R&D teams or R&D investments that are going with the expansion of the R&D team. Anything on this, Sir?

Siddharth Sikchi

We have a very solid R&D team with about 50 to 60 scientists working with us. We have about six PhDs. And we are working extensively, on catalytic chemistry, which I mentioned. And we have constructed very recently a new R&D lab in our unit three, which is just operational about

one to one-and-a-half months ago. Plus, at unit four, we'll come up with another R&D center, so we will keep growing on R&D capabilities and capacities for sure.

Rohit Nagraj

All right. Got it, sir. Just one last question. We have quite ambitious plans in terms of investments and the growth. So, any new managerial positions, which are being added into different posts and senior levels?

Siddharth Sikchi

A lot of people were added, in different segments from HR to production to R&D, to purchase. I mean, there is a lot of addition as it's a growing organization. Plus, as newer units are coming up, newer production sites are coming up, each plant needs to have dedicated teams. So, it is a package, you know, as and when we keep on growing this entire team, we'll keep adding. We will keep adding in purchase, sales, accounts, production, maintenance, HR, and it's a very regular affair for us.

Moderator

Thank you, Sir. Next question is from Mr. Abhishek Panikar from Value Educator. Please go ahead, sir.

Abhishek Panikar

Okay. Can you help me with the margins hierarchy for the following products like TBHQ and everything, like how do they go in terms of market and different order?

Siddharth Sikchi

In any newer product when you add to the market, you'll always be with lower margins, you know, because you are working on it. There is a lot of work, which will still keep going into it. So, any new product margin will always be much lower than the products which have been manufactured over the last 10 years. So, it is a very difficult question to answer as these products mature as our people get hands-on experience on managing these things, their yield efficiencies and of course,

the costing improves as and when we move on. The newer product always has lesser margin, older products are always better on margins.

Abhishek Panikar

Okay, Sir. Thank you. That's it from us.

Moderator

Thank you, Sir. The next question is from Mr. Anubhav Sahu from NV Research. Please go ahead.

Anubhav Sahu

Hello. Yeah. Hi, thanks for the opportunity. Couple of questions. So, one, if I got it right for MEHQ and Guaiacol, in the next one and a half months, we would be increasing the category by 30 to 40%, is it right?

Siddharth Sikchi

Right.

Anubhav Sahu

All right. So, could you specify that post our expansion what would we be capacity in both these products, sir?

Pratik Bora

Sorry. We are not comfortable sharing product-wise capacity.

Anubhav Sahu

Okay. No problem and if possible, in terms of, you know, the broad categories like performance, will it be possible or?

Pratik Bora

Yeah. We will get back to you with this, but overall, the capacity expansion post this, the capacities would go up by around 50-60 odd percent. With all the three segments, yes.

Anubhav Sahu

Okay. At the base, I mean, taking the base of 30,000?

Pratik Bora

That's right. Yes.

Anubhav Sahu

60% on that. Okay, that's great. And a bit about MEHQ, you know, end market distribution, for example, how much comes from super absorbent polymers and so on, any approximate number? What is the end-market distribution for this product?

Siddharth Sikchi

Usually, the market is about 80% that goes into monomer Industrial Stabilizer and about 15% could be agro and 5% could be other applications.

Anubhav Sahu

Okay, okay. And in this 80%, which goes to stabilizer industry, I mean, in the monomer industry as the stabilizer, how much goes for superabsorbent polymers?

Siddharth Sikchi

I think out of that, 30% to 35% could be going in SAPs, that goes into acrylic acid and acrylic acid is used into a variety of applications including super-absorber polymer and super-absorber polymer is growing at 6% to 7% odd.

Anubhav Sahu

Okay. So, approximately, one-third would be going for acrylic industry, right?

Siddharth Sikchi

I am assuming that.

Anubhav Sahu

Okay. And China happens to be a key market for us, like about 40% comes from there right?

Siddharth Sikchi

So, you know, some of these MNCs have moved their operations in China.

Anubhav Sahu

Okay, okay. And is there any, you know, product differentiation, I mean, in terms of what is in demand in China compared to the rest of the world, as far as we are concerned? I mean, in terms of what is our pecking order? What kind of products we export to China, what kind of products actually are in demand in China as far as we are concerned?

Siddharth Sikchi

We are sending all the products in China. We are sending MEHQ, Guaiacol, 4-MAP. We are sending BHA, ascorbyl palmitate, all are going there. We are currently selling Veratrole. So all these products go into the China market.

Anubhav Sahu

Okay. Thanks a lot. It's helpful. Yeah.

Moderator

Thank you, sir. We have a follow-up question from Mr. Sanjay Shir from ICICI Securities. Please go ahead, sir.

Sanjay Shir

Yeah. Thanks for taking my question again. First, in the HALS Series, I thought HALS has also strong presence in the stabilizer category, we have a large portfolio and we have chosen to come up with master batches and the master batches have been selling the stabilizer production in the domestic market?

Siddharth Sikchi

HALS stands for Hindered Amine Light Stabilizer, so it is stabilizer series. That is the question for answer one and two is masterbatches in India is one very large market. I mean masterbatches across the world uses 770, but for us, the most-easy market to gain is Indian market because we are sitting right here, and it is imported to the tune of three to 4000 tonnes per annum. So, our focus would not be to export this product, but rather develop this Indian market.

Sanjay Shir

Got it. Got it. And whom will we be replacing this product, because it looks like quite a big product even from the international opportunity perspective.

Siddharth Sikchi

So, the bigger players in this would be BASF in Europe, Sabo in Italy and there is one in China. So, these three companies are exporting their products to Indian markets, so these will be the people whom we will replace. I mean today their duty is about seven and a half percent on these products, so that will be beneficial to us.

Sanjay Shir

Got it. Second on MEHQ, we said that the utilization itself is around 65 to 70%. And we're adding another 30 to 40% capacity in the MEHQ and Guaiacol, and we are guiding for a utilization of 60 to 70% in new capacity and I believe that we will be ramping up existing capacity, but that indicates a significant volume growth for a performance chemical in FY23, is my understanding, right?

Siddharth Sikchi

Absolutely right. We are, I mean the performance chemical business will increase. See MEHQ, the biggest advantage is that we are also using it captively to make our BHA, so we are already adding big quantities of BHA also, hence a part of this MEHQ will be used actively and the balance will be used for selling into the market.

Sanjay Shir

Fair enough. Okay. Because we're adding 50% capacity in BHA, certainly a lot of, lot of MEHQ which will produce will get consumed internally.

Pratik Bora

So, for instance, BHA, we have witnessed almost 50% YOY growth in volume terms.

Sanjay Shir

You're talking nine months?

Pratik Bora

YOY, Q3 versus Q3.

Sanjay Shir

Okay. Q3 versus Q3. Got it, got it. One last follow-up on the HALS. You said that we will be looking at a larger capacity in unit four, and unit four capacity or Capex itself looks like a huge, 300 to 500 crores. How many products in this are we planning to come up with?

Siddharth Sikchi

So, it is not just HALS. It is a 34-acre plot where we'll also come up with lot of pharmaceutical intermediates, we will come up with other products as well. HALS is one large segment, which will come up very quickly, but there are other products also which will come up. So, it is cumulatively that I mentioned between 300 to 500 crores and HALS, which you said, would be about six to nine products, I mean different numbers like 701, 770, 292 and 622. So, these will be about eight to nine products in HALS.

Sanjay Shir

Got it, got it. No, that's fair. In the pharma, we are looking for a long-term contract or it will, it will just be an intermediary, which we will sell in the market or we're looking at some kind of a tie-up, long-term tie-up for this product?

Siddharth Sikchi

See, the pharmaceutical intermediate, we are not supplying to one major customer. There are ample customers throughout, means globally. So, today, they are all happy with annual contracts or half yearly or quarterly. And typically it is not easy for a new entrant to come in these businesses because the validation and all takes a really long time, stability of the end APIs, etc. So, it's a very complicated business. I mean for us also; it took about seven years to get into big accounts. So, I think they are comfortable this way and we are comfortable that way and I think this is how it will work for us.

Sanjay Shir

And will it be a CGMP plant, or it would be N-2 to N-5, so it will be normal manufacturing plant?

Siddharth Sikchi

So, it is all Key Starting Material. So, we don't need any FDAs or DMS filing for our products.

Sanjay Shir

Okay, okay. So, that, that's not required for us, and will it be, will it be an import substitution kind of a market we are looking at India Generic Company or we are looking at Novel products globally?

Siddharth Sikchi

Yeah, like DCC is an import substitute, which goes into anti-retro viral. Again, we have large capacities of DCC.

Sanjay Shir

And I am just looking at it, because we have seen a lot of pharma companies coming under the pricing pressure and at the same time, we have seen a lot of API companies also coming under the pricing pressure. And then, this trend is predominantly towards the India Generic Company. I just wanted to understand what our larger segment will be. Will it be an import substitution, or we are looking at a much larger export market as well?

Siddharth Sikchi

No, no, no. It will be majorly import substitute for pharma.

Sanjay Shir

It will be major import substitute, okay.

Siddharth Sikchi

Yeah, because pharma is very, very concentrated in India. India and China have become the biggest producers of APIs globally, so I think it makes sense for us to focus on Indian market, which is a very big market for us right now.

Sanjay Shir

Got it. Got it, now. Thanks. That, that's answered all my question and best of luck, again.

Moderator

Thank you, Sir. I would now like to hand over the floor to the management for closing comments.

Siddharth Sikchi

So, I think we have been able to express our thoughts on how the business ran in Quarter 3. We are really hopeful and confident that we will have a good Quarter 4 as well. And if there is anything further, you can email us, to our team and we'll be able to answer those questions subsequently. That's all from our side. Thank you so much and be safe and healthy. Thank you so much.

Moderator

Thank you, sir. Ladies and gentlemen, with this, we conclude our conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good evening, everyone.