Clean Science and Technology Limited
innovation at work

04.11.2023

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

Subject: **Transcript of the conference call held on November 02, 2023 to discuss Q2 FY24 performance.**

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

Dear Sir/Madam,

Further to our letter dated October 19, 2023 and in terms of Regulation 30 read with Schedule III - Part A to the Listing Regulations, please find enclosed herewith the transcript of the conference call held on November 02, 2023 to discuss Q2 FY24 performance.

You are requested to take the same on record.

Thanking You.

For Clean Science and Technology Limited

Mahesh Arvind Kulkarni
Digitally signed by Mahesh Arvind Kulkarni
Date: 2023.11.04 16:11:48 +05'30'

Mahesh Kulkarni
Company Secretary

"Clean Science and Technology Limited Q2 FY2024 Earnings Conference Call"

November 02, 2023

MANAGEMENT: MR. SIDDHARTH SIKCHI – EXECUTIVE DIRECTOR, CLEAN SCIENCE AND TECHNOLOGY LIMITED
MR. SANJAY PARNERKAR - CFO, CLEAN SCIENCE AND TECHNOLOGY LIMITED
MR. PRATIK BORA – VICE PRESIDENT, CLEAN SCIENCE AND TECHNOLOGY LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2024 Earnings Conference Call of Clean Science and Technology Limited.

We have with us on the call, Siddharth Sikchi - Executive Director, Sanjay Parnerkar – CFO, and Pratik Bora - Vice President.

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. Siddharth Sikchi for his opening remarks. Thank you and over to you, sir.

Siddharth Sikchi: Thank you so much. Good evening, everyone. I am happy to connect with you all of you again today to discuss the performance of our company for Quarter 2 FY24.

Let me start with giving you a little perspective on the business environment:

The market continued to remain a buyer's market rather than seller's market during this quarter. The overhang of destocking continued during Quarter 2. The overproduction in China has led to aggressive pricing of the products, thereby, putting downward pressure on realization during this particular quarter. The demand in Europe and to some extent in the United States was unusually low.

To summarize, in Quarter 2, we did not see a strong recovery in demand.

On financial highlights
Quarter-on-quarter comparison:

On Q-o-Q basis, the 4% decline in revenue was led by drop in realization across the key products. In fact, improved sales volumes limited the decline in revenue. The contribution of non-flagship products to revenue increased to 25% during this quarter. However, EBITDA margins continue to be strong at 42.4%. This leads to two important takeaways, one, product diversification and geography diversification has gradually started to reflect and second, despite that the EBITDA margins continue to remain healthy. EBITDA margins are higher on Q-o-Q basis by about 1%, led by lower consumption prices. PAT margins are lower on Q-o-Q basis due to lower non-operating income.

Year-on-year comparison:

Revenues for Quarter 2 FY24 declined by 27% to Rs. 178 crores against Rs. 245 crores during Q2 FY23. Volume degrowth and drop in realization both contributed to a 27% decline in revenue. EBITDA during Q2 FY24 decreased to Rs. 75 crores against Rs. 97 crores during Q2 FY23. Led by lower input prices and a better product mix, company reported higher EBITDA margin of 42.4% compared to 39.8% during Q2 FY23. We are pleased to report that PAT margins are higher at 29.1% during Q2 FY24 as against 27.9% during Q2 FY23. On standalone basis, PAT is Rs. 52 crores against Rs. 68 crores during Q2 FY23. Although the absolute PAT is lower, the PAT margin is higher, led by better gross margin and limited impact of negative operating leverage.

On Sales Profile:

Revenue contributions from Performance Chemical, Pharma and Agro Intermediates and FMCG chemicals were 67%, 19% and 14% respectively. Contribution from the Pharma segment was impacted due to lower sales of Guaiacol led by ongoing issues in certain international markets with regards to cough syrups. HALS 770 and 701 continue to demonstrate progressive improvement with revenue contribution coming in from the export market as well during this quarter. We are pleased to report that during this quarter, the sales contribution from non-flagship products increased to 25% despite that EBITDA margins were 42%. As we have been mentioning that every product launched will go through following life cycle, a) stabilizing the production, b) securing approvals with clients, c) increasing the utilization levels, d) continually working towards improving yields and production efficiencies in backdrop. Invariably, the outcome of above process is product stewardship which leads to better return on capital employed.

CAPEX update:

We have incurred capex of Rs. 165 crores during this quarter of which Rs. 155 crores were invested in our new subsidiary, CFCL. Total investment into CFCL till date is approximately Rs. 275 crores. The progress with construction activity at the subsidiary Clean Fino-Chem Limited is as planned. We expect the water trials to commence during this quarter, while commercial production to kick start during quarter 4. We are happy to report that we have firmly delivered on our commitment of approximately Rs. 300 crores CAPEX through CFCL to commission by Q4 FY24 with entire CAPEX to be funded through internal accruals. We are also in the process of erecting the state-of-the-art pilot facility, which is expected to commission over the next 4 weeks. This pilot facility will considerably strengthen the transition process from lab to pilot to commercial scale production.

Our R&D efforts are fortified by our strong in-house engineering and project teams, which help us create global scale and automated state-of-the-art manufacturing facilities at a very competitive price and in time effective rate. This boosts our return on asset and reduces our time to market considerably.

ESG:

We continue to work towards ESG actively through delivering products with low carbon footprint, continually evaluating use of alternative raw material fuels and increasing our share in green power. We are pleased to announce that we have successfully cleared the Responsible

Care audit. We are now a Responsible Care certified company. We will soon be publishing our Maiden Sustainability Report and would be happy to have your review comments. We have now set a next 5-year ESG target for ourselves. Details of same will be elaborated in BRSR report.

Outlook:

Regarding new product development, we recently performed Bhoomi Pujan at CFCL for construction of a new chemical plant for manufacturing pharma/Agro intermediates. We will be sharing further details in due course. We continue to execute our growth plans as committed.

Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Archit Joshi from B&K Securities. Please go ahead.

Archit Joshi: Sir, I have a few questions. Firstly, if you can explain the sequential increase you have seen in the power cost this quarter?

Pratik Bora: During this quarter, the production volume of our flagship products increased by over 25%. However, that increase in production did not totally reflect in the sales because of lower realization and that is the reason the power cost has increased considerably during this quarter. We expect it to normalize by over 100 bps in due course.

Archit Joshi: And secondly, sir, wanted to check on a few accounts you were working on, number one, the status of our backward integration initiatives in HALS through sebacic acid, any comments on that front, sir?

Siddharth Sikchi: So, far, we worked on R&D to establish a process to develop our own in-house sebacic acid using castor oil, however, the economies of scale do not permit us for the time being to invest into production of sebacic acid because the price of these products are currently quite subdued coming from the current manufacturer based out of India and China as well.

Archit Joshi: And sir, secondly, clarification on the challenges that we are seeing in Guaiacol, in the previous concall, you were kind of trying to qualify our products with some Chinese and Taiwanese customers to sort of divert our sales from China, has that gained any traction in our current business environment?

Siddharth Sikchi: So, we are one of the largest suppliers of Guaiacol to the China market from India of course. So, we are approved in the Chinese market. Taiwan customer is a little sticky customer with the competitor, and it might take a little longer to get our approvals, however, this year we would have shipped only about less than 10% of their annual demand, but we expect in '24 calendar year that should increase little bit, but not to the extent which I would have wanted. So, we would look at some other avenues to sell Guaiacol particularly in the vanillin market in China.

Archit Joshi: Sir, just one last if I can squeeze in, so the recent pharma/agro intermediate plant that you are working on, is this the same one that we had spoken of earlier with respect to Rs. 200 crores CAPEX that we had earmarked for some products, if you can elaborate?

Siddharth Sikchi: Yes, this is a part of that CAPEX. So, this is the first product apart from the HALS, which we had discussed of about Rs. 200 crores CAPEX, so this is the first molecule out of that.

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

Sanjesh: This is Sanjesh here. Sir, couple of questions, first on the Agro Pharma Intermediate that we have started, can you elaborate that in this Rs. 200 crores of CAPEX, I believe it will be a multipurpose plant, what kind of product are we working? Will it be sold in the domestic market? Or it is to cater to the exports market? Any number of products are we working on, more color around that will be really helpful and what is the asset turn, I think we have said two times asset turn earlier, do we stick to that?

Siddharth Sikchi: So, let me answer this. So, this block would be Rs. 30 crores of CAPEX. This is a single product dedicated line, and we expect a revenue of about Rs. 100 crores out of it and it is mainly a domestic market product.

Sanjesh: And it will be agro or pharma?

Siddharth Sikchi: Pharma segment. As the segment in our revenue is performance, agro/pharma and FMCG, so this falls under the intermediates of pharma and agro.

Sanjesh: Are we supplying? What is the end application, or does it have multiple applications?

Siddharth Sikchi: It has multiple applications, but pharma mainly.

Sanjesh: And the Rs. 200 crores of block that we have started now to work on, do we have a product portfolio over there?

Siddharth Sikchi: So, out of Rs. 200 crores, 30 crores in pharma intermediate, and Rs. 170 crores is remaining. So, we have some products in pipeline. So, you will have to give me one more quarter to confirm those plants.

Sanjesh: The second you earlier mentioned that we had seen a healthy volume growth, but couldn't completely offset the drop in realization to reflect in revenue, can you give us more flavor in terms of what is the kind of volume growth we have seen? That is number one and number two, can you also help us understand what is the contribution of HALS within the new product, we said that 25% of the revenue is new product, but can you help us understand where are we?

Siddharth Sikchi: I will give you that. So, let me answer the second question first. In that 25%, these are the new products apart from HALS, mainly TBHQ and DCC. So, these were smaller in contribution because these plants, at least the TBHQ plant just started about a year ago. So, all those qualifications with the needed customers were complete and now we see volumes pickup and same thing happened with DCC where we were competing with the Chinese where we had some further process improvement which has made us more competitive and emerge or enlarge our market share within India and Europe and little bit into Japan.

Sanjesh: And where are we in PBQ?

Siddharth Sikchi: PBQ we are still start tightening and we will still need some more time, but the efforts are still going on and we hope that in the next few weeks, we will have some decent outcome out of it, but we are working on it for sure.

Sanjesh: And HALS, we started booking revenues in the HALS as well or?

Siddharth Sikchi: Yes, we have started looking for revenue. We have done about, I think we are monthly about 40-50 tons per month we are selling and in fact, we are very pleased that today, we have got our first European container load order. So, we will be the first Indian company to export this product to the European territory and gradually we are seeing export market also showing some interest and Indian markets will keep continue to grow for us.

Sanjesh: And this will be what, 701 exports market or is it 770 only?

Siddharth Sikchi: So, of course both, but 770 is majorly what I am discussing, so that is the bigger market compared to 701. 701, we are happy to inform that we have got our first order from China and also from Taiwan. So, the validation time which took about a year, 6 to 8 months' time because this is a very specific application is now completed with large buyers and now these are trial orders and getting into bigger commercial orders.

Sanjesh: One last question from my side is on the China situation, I think for us to completely revive, I think China has to come back, we have a 64% revenue decline there, how are we reading? What are our buyers telling us in terms of Chinese situation? Do you think it will drag remain for another couple of quarters or do you think it will take slightly longer than that?

Siddharth Sikchi: See it will take at least 2 more quarters including quarter 3 and maybe a little bit of quarter 4 or maybe totally quarter 4, but now we are gradually seeing demand slightly picking up, but of course, China is also interdependent on Europe like we are because eventually their end products are also supplied to Europe and the Americas. So, since Europe is absolutely down and the US also is not at the best, hence we are seeing lower demand across all the segment globally.

Sanjesh: You don't see yourself getting replaced by any local vendor in China, that risk is completely ruled out, right?

Siddharth Sikchi: Not at the moment, but to the best of my understanding, not at the moment, there isn't any competition in China for this product.

Moderator: Thank you. The next question is from the line of Huseain from Carnelian Capital. Please go ahead.

Huseain: I just wanted to understand that Rs. 300 crores CAPEX that we have done in the Clean Fino-Chem subsidiary, so what will be the asset turns there and how fast we will be able to ramp up that part?

Siddharth Sikchi: The asset turn should be between 2.5 and 2.8 and the entire CAPEX to come to 80% capacity utilization will easily take between 2 to 3 years.

Huseain: So, this capacity cannot reach the max utilization will be at 80% or we can reach to 100%.

Siddharth Sikchi: No, typically in chemical plant 80%-85% is a very good capacity utilization. There are boiler breakdowns, there are equipment breakdowns, there are maintenance breakdowns. So, typically 80%-85% is a good norm.

Huseain: Sir, this Guaiacol issue that is there globally, so how long do you see this pain to continue and when we see the demand reviving coming back, any understanding on that front?

Siddharth Sikchi: We are also regularly looking at the market and we still believe it will take at least another quarter or so for the problems which had happened with the cough syrup manufacturers from India. I think it will at least take a quarter more for all of them to clear of their names and their demand to again come back to India.

Huseain: And sir, lastly on this agrochemical intermediate that you said we are investing across Rs. 200 crores in this new agrochemical intermediate, so for any specific products that are there, will it be margin accretive, some color on that if you can share with us? How it will be in times to come?

Siddharth Sikchi: While Sanjesh asked the same question, the answer was it is not 200, it is Rs. 30 crores, it is the pharma intermediate. The revenue expected is about Rs. 100 crores and major market is Indian market. So, out of 200, Rs. 30 crores in this, and for balance Rs. 170 crores - the products are still to be announced to the market.

Moderator: Thank you. The next question is from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: My question is in terms of, what happened is our volumes have basically tipped off or had a steep fall from the past year and what I believe is our product goes into the critical application in super absorbent polymers which have various applications, so I expect that demand should be sort of stable in nature, but of course, as a steep demand fall. Now, I can see that China has markedly slowed down, there is steep increase in interest rates all over the world as well which is having an impact, but could you give us some more color as you spoken about in the presentation at two third is basically a volume drop, so what is the exact reason for this such a sharp fall in volumes, more color on that just I wanted some more color?

Siddharth Sikchi: The main issue is destocking. Similar to pharma industry, if you see the revenues or volumes have dropped, it is not that people have stopped taking medicine, but the reason is people had overbooked capacity or overbooked product from us in the past assuming there would be a product shortage or there would be logistics issue which that is what I mentioned in my starting remark that this destocking continued to happen during Quarter 2 and that is the reason why the off take has been lower than it was in the past.

Jason Soans: And sir, wanted just a clarification, this Clean Fino-Chem, basically whatever CAPEX you are putting into Clean Fino-Chem, is that particularly going to be only for HALS?

Siddharth Sikchi: No, sir. Basically Clean Fino is a very large facility, the land is about 35 odd acres. There will be at least 5 or 6 more facilities like HALS to come in there. HALS is just one part of the entire block, but because it is a Greenfield project, we have to invest in admin block, in warehouse, in ETP, in utility blocks, in solvent storage. So, the entire thing is building up, but like if you see the new facility, the new pharma intermediate which we are starting, the only production block cost is only about Rs. 30 odd crores which will give us the revenue of Rs. 100 crores because all the other ancillaries are made with the HALS. I hope I am able to explain you.

Jason Soans: So, HALS is only a part of it. You are of course, going to do more capacity expansion in that large piece of land, basically that is what you said?

Siddharth Sikchi: Absolutely, so there will be lot more products coming into that facility.

Jason Soans: And sir, lastly, I just wanted to know if you can share Guaiacol, sir, how much percentage of revenue does it contribute to?

Siddharth Sikchi: We don't share individual product wise contribution.

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

Ankur Periwal: First on the sales part, now Q-o-Q basis, you did mention that there is a volume recovery, just curious from a volume decline what we saw in the last quarter, how has been the improvement and any specific business segment wherein the improvement is more or less out of the three segments?

Siddharth Sikchi: So, in quarter, this is expectation right of quarter 3. So, we feel pharma should be good enough, but other we are still trying to understand because November and December months are typically slow because everybody is on the mode of reducing stock across the world. So, November and December are typically slower months for us. I think the best judgment we will be able to give you on the next concall where we will have Q4 picture more clear to us.

Ankur Periwal: My question actually was more specific to this quarter, so 4% Q-on-Q declined, right, wherein you said volumes have grown, so obviously there is a decline in realization here, but from a volume decline perspective, the volume that we were doing in the last quarter versus this quarter, is there any specific segment which is driving or it is pretty broad based?

Siddharth Sikchi: So, FMCG segment boosted, we saw volume growth in DCC and TBHQ also as we mentioned we have witnessed volume growth. So, volume led increase in sales during this quarter was Rs. 8 crores, realizations impacted by negative Rs. 15 crores and that is how we see a negative Rs. 7 crores quarter-on-quarter decline.

Ankur Periwal: Secondly, on a gross margins, now on a year-on-year basis or Q-o-Q basis, there have been a pretty decent improvement and this is when 25% of the revenues are coming from the non-core part right, the new products, the non-flagship products are contributing, so will it be fair to say that whenever the demand bounces back sharply, the margin jump could be even higher or are there efficiency that we have derived in the non-flagship product wherein the margin accretion of these products is also strong now?

Siddharth Sikchi: No, it is decent enough, but I think it will be wise to consider these margins only for these non-core products.

Ankur Periwal: On the HALS pricing, you did mention that and congrats for the new orders from China, Taiwan as well as 770 getting good traction, how are we pricing these products, vis-à-vis and presuming BASF will be the largest competition here, so how are we pricing our products vis-à-vis BASF?

Siddharth Sikchi: BASF is one of the suppliers, today the prominent pricing level guys are the Chinese. So, today, we have to mark our products at par with the Chinese prices and we have no choice, but to mark closer to them to grow our market share even slightly lower to China to get more market share within India.

Ankur Periwal: And from an operating performance perspective, I know it is still early days, but going ahead we should expect process led efficiencies and the pricing being the same or maybe the product mix itself will change and contribute better on the margin front?

Siddharth Sikchi: Both, I think one, even like I mentioned during my talk also that China has cut prices across all products and all segments which might improve in the future, which I am not very sure about whether it will happen in Q3 or Q4, but that should happen. So, once Chinese start raising their price, we will be able to also raise our prices number one and number two starting January when we will have the other range coming in that will give our customers more, they will be able to buy more products from us and that will help us to reduce our fixed cost by selling more volumes from our facilities.

Ankur Periwal: Just last bookkeeping question on the working capital bit, the inventory days have short of a bit, any specific thing to read over there?

Pratik Bora: Ankur, if you see our Balance sheet, actually value wise inventory remains closer to the March number. Because you are calculating it on the COGS or on the raw material purchase that is why optically the number of days look higher, but if you look value wise it is almost in line with the March number.

Ankur Periwal: So, volume wise, the numbers would be higher because the raw material prices have come down as well so?

Siddharth Sikchi: Yes, so it is essentially the WIP stock, which has gone up.

Ankur Periwal: Because of the dispatches that we have been doing now that explains.

Siddharth Sikchi: Yes.

Moderator: Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Just with regard to the outlook for the second-half of FY24, given that it is likely to take another couple of quarters almost for demand to come back, should we sort of expect that volumes gradually pick up from the levels of 2Q over the next 2 quarters or should we continue to work with these volumes and pricing also remains around these levels, how would you sort of expect things to shape up in the next 2 quarters?

Siddharth Sikchi: This would be forward-looking statement. We will see as it comes because we are also amidst trying to understand where the markets and where the world is leading to.

Abhijit Akella: Then just on the 2Q results, I am sorry I wasn't exactly able to understand the reason for the increase in power cost on an absolute basis, I guess you were mentioning maybe that percentage terms it has gone up for some reason, but why the absolute increase quarter-on-quarter and also if you could please just share the breakdown of volume versus price on a year-on-year basis for 2Q if that is possible?

Pratik Bora: So, first on power and fuel cost, actually the production has increased for the key products by over 25%. However, that production increase is not reflecting in sales because the inventory has also gone up and also the sales realization has come down. But with the increase in production, the power and fuel cost shot up and as a percentage of sales it looks even little higher, as sales are lower.

Abhijit Akella: So, this also explains the increase in inventory in that case, is that right?

Pratik Bora: Exactly.

Abhijit Akella: And also the volume versus price breakdown for the year-on-year?

Pratik Bora: So, of 27% declined, primarily it is led by almost 50:50 volume and realization.

Abhijit Akella: And just one last thing from my side, I believe the Agro Pharma project that we had announced a couple of quarters back, right that for which we have just done the Bhoomi Pujan, if I am not mistaken the original schedule was maybe to start construction around July or August and then commission the plants around 2Q of FY25, so are we still on track for that commissioning timeline or this could take a little bit longer than that?

Siddharth Sikchi: You are absolutely right. We had announced a little earlier, but I think we got delayed because of these market situations and we were evaluating ourselves, but with Bhoomi Pujan happening on 20th of October, you can calculate about 9 months from today the plant should be up and running.

Abhijit Akella: And then the same timeframe for the subsequent products as well as when we announced them?

Siddharth Sikchi: No, we have not announced them, we are still under evaluating, but hopefully we should start announcing as and when we move forward with those.

Abhijit Akella: But it will again take 9 to 12 months is it to commission those as well?

Siddharth Sikchi: Typically, a block for us takes about 9 months.

Moderator: Thank you. The next question is from the line of Arun Prasath from Avendus Spark. Please go ahead.

Arun Prasath: Sir, my first question is on this destocking phase that you are talking about, in last 15 years, you would have seen this kind of a situation a couple of times, so from that experience, can you help us understanding this destocking to say restocking, what is the typical timeline in terms of, say months or weeks you have seen in the past?

Siddharth Sikchi: So, typically, to my understanding it should be anywhere between 2 to 3 quarters. See, this time it is also more as there have been two reasons, one, people have really overstocked because of COVID and assuming there will be logistics issues and all that and the second big problem happened was the demand collapsed when the world opened up. So, it has been two-sided sword.

So, we expect it should be anywhere between 2 to 3 quarters of this destocking depending on region to region, company to company and product to product.

Arun Prasath: When you see demand collapse that you are seeing across all your, say top three products or it is more specific to more like a Guaiacol situation or where there is an uncertainty where it will come back, or it is more like a temporary setback?

Siddharth Sikchi: It was more predominantly in the performance segment. It was more predominant in performance chemical segment, but unfortunately that accounts for the major portion of our revenues, which is about 65% to 67%. We did not see so much destocking issue in pharma, intermediates or in FMCG segment.

Arun Prasath: Because our understanding is if you see MEHQ, which majorly goes into super absorbent polymers, though there will not be any growth, it is more or less kind of a very resilient end consumer demand will be there, so is it really a demand setback or there is a market share loss that is a key question there?

Siddharth Sikchi: See if it was a market share loss, we would have known for sure, but I think maybe a little bit plus minus 3%, 4%, 5%, I am not able to gauge to that extent, but what had happened is because performance chemical becomes the lowest in the priority of a purchase manager, but it is one of the most important item. So, he doesn't want to stop his production or miss his production because of lack of performance chemical. So, I feel there is more stocking of these performance chemicals because these are the cheapest item in the purchase list, so when destocking happened, these items were far more in their warehouse than the major key raw materials is my anticipation of this entire situation. Hence we saw more problems in performance chemical rather than pharma intermediates or in pharma agro or the FMCG segment.

Arun Prasath: And looking at the October, November in terms of monthly volume, how far you are from say typically that you will see the volumes in this October, November, December quarter, how far we are from the steady state numbers in terms of volume?

Siddharth Sikchi: I think that I will be able to tell you in our February call.

Arun Prasath: My second question is on your commentary on the non-core products like TBHQ and DCC, we have seen fair volatility in the demand of these products or there is I would say some kind of a seasonality is there, so this what you are seeing in this last quarter, it is more sustainable or still you will be seeing some ups and downs on this?

Siddharth Sikchi: No, these are not cyclical products because TBHQ is used as a stabilizer in edible oil business and DCC is of pharma intermediate for Valacyclovir, which goes into ARV. It is a pharma product. So, these are typically decent volume, steady supply products, these are not cyclical at all.

Arun Prasath: So, that means what we are seeing the demand that we are seeing in this quarter that I think what you are saying is sustainable?

Siddharth Sikchi: You can take plus minus 20%, but these are not cyclical for sure.

Arun Prasath: And TBHQ, it can become potentially the major product, your dependence on HQ will also go up?

Siddharth Sikchi: Yes, we have dependence on HQ and all products manufactured are important products for us, we will never manufacture a product which is not important to us, right.

Arun Prasath: But do you have any process which can take care of the HQ production in case this becomes big opportunity?

Siddharth Sikchi: Today, HQ is quite abundantly available from India, China, Japan, United States, Europe, so today we have no issues in procuring these raw material and the prices which we are able to get these are also quite competitive compared to our competitors.

Arun Prasath: And finally on HALS, you spoke about the export market, can you give a little bit more color on where we are in terms of building relationship this end customer and distributor, what are the key push backs that you are getting and how we are going to make roads in these markets?

Siddharth Sikchi: We are actually in a dating phase with our customer. They are evaluating us, we are evaluating them, we are trying to show them what best we can do for them, they are not willing to totally believe us, they want to evaluate us more I think it will take few quarters for positive outcome.

Arun Prasath: And this is typically a direct relationship with the customer, no distributor involved in these products, or how it is?

Siddharth Sikchi: Both because say for instance in India we have direct relationship with large customers. We also have distributor models because lot of small customers prefer to get the product in a day's time, same as in the case with Europe, we have distributor model and also we are speaking to some large customers if they can.

Moderator: Thank you. The next question is from the line of Manan Poladia from MKP Securities. Please go ahead.

Manan Poladia: Sir, my question is firstly on the TBHQ HALS side, what I want to understand is you said that about 25% of the businesses this quarter is basically from the new products, which sounds quite interesting, if you could quantify that going forward for the next 3 or 4 quarters per se, how much you expect them to contribute to your topline in terms of absolute terms and percentage of revenue terms?

Siddharth Sikchi: See, this is the first quarter when we have non-flagship products have 75% and we have grown our new products to 25%. Of course, since we are not raising capacities of our flagship product at the moment, so all the growth which will keep coming would be from the newer product. So, subsequently in each quarter and quarter you will start seeing that our flagship product percentage to revenue will start coming down and these newer products will start contributing more and more. Now, I would not be able to give you exact quarter and exact absolute number, but typically if you see if you are able to start our HALS with an investment about Rs. 250 odd crores to begin the plant in January and so let us assume we will have that sales coming up. So, when these sales numbers start coming up, my flagship product numbers in comparison, the percentage of flagship will keep reducing and non-flagship product will start increasing.

Manan Poladia: Just a short follow up on that, so you expect this trend to continue even after your Guaiacol capacities come back to more utilization, right?

Siddharth Sikchi: Yes, Guaiacol is a one-off case, but we don't expect that will change the entire scenario and Guaiacol is still being produced because it is a core product for us.

Manan Poladia: Also, sir, just one last question on the CAPEX side, you said that you have done another Rs. 150 crores this quarter and we have about Rs. 250 crores on the balance sheet, right, what are our CAPEX plans for let us say the next 3 fiscals?

Siddharth Sikchi: So, there will be more projects which are coming up. We have anticipated or we have earmarked additional about Rs. 170-Rs. 180 odd crores which we will announce probably in the next one to two quarters for the products which we will start with that investment.

Manan Poladia: And so that will all be financed by internal accruals, correct?

Siddharth Sikchi: Absolutely and everything will be happening through our internal accruals. We are sitting on cash of Rs. 250 odd crores, so the new CAPEX will also happen through our internal accruals.

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

Krishan Parwani: Just one from my side, I think you mentioned that your HALS sales have reached 40-50 tons per month, so just wanted to understand what is your internal target by end FY24 and start off FY25?

Siddharth Sikchi: 200 tons per month. I don't know how much I will be able to achieve. By end of 25, so you are talking about say probably March 25, our target is to sell this product and new products of this series should also start selling. So, we have a big target in front of us.

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

Rohit Nagraj: Sir, in your opening remarks, you mentioned that there has been a pricing pressure across most of the products, so have we seen those prices coming down to the pre-COVID levels and what is your sense in terms of whether these prices will stabilize at these levels? You mentioned that once China comes back to normalcy, probably the pricing will move, but in the intervening period, what is your sense in terms of how the pricing will behave?

Siddharth Sikchi: To my sense and to my best of my understanding, the prices which we were offering in Quarter 2 were one of the lowest prices we have seen over the last several years, so I do not see further discounting of price unless something new comes up and the commodity prices further or the crude oil prices drops further and the demand is an issue, then the prices might have to further lower, but to my understanding the prices should not lower beyond this point is my sense of this business.

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

Siddharth Sikchi: So, thank you so much for your time and to understand the performance of our company, Clean Science and Technology. Again, wishing all of you in advance a very happy and safe and healthy Diwali. Thank you so much. Take care.

Moderator: Thank you, members of the Management Team. Ladies and gentlemen, on behalf of Clean Science and Technology Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.