“Galaxy Surfactants Limited
Q1 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Galaxy Surfactants Limited Q1 FY2022 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Unnathan Shekhar, Managing Director, Galaxy Surfactants Limited. Thank you and over to you Sir!

U. Shekhar: Thank you. A very good afternoon ladies and gentlemen. Welcome to this investor conference call of the first quarter of financial year 2021-2022. It is often said that the only certain thing about life is the uncertainty that it brings with itself. If FY 2020-21 was the beginning, Q1 FY2021-2022 has only added to this uncertainty. While the financial year bygone manifested the significance of resilience at Galaxy, the FY2021-2022 marks the dawn of acceptance, adaption, augmentation and action. Accepting the transformation of the world into a new normal, acquiring the flexibility and agility to quickly adapt to the dynamic phenomena, augmenting the value delivered to the customers by further enhancing our customers centric solutions and believing in target-oriented interactions. It is this approach that has ensured we face the multiple challenges on hand with confidence and emerge stronger. Our Q1 performance is a testimony to this; a quarter which not only adversely impacted each and every element of our supply chain, but also saw improved performance in multiple areas. Ladies and gentleman, while the demand outlook remains robust, our ability to service this is dependent on the supply chain scenario. We say this as, at the start of the quarter, we had the second wave impacting our people - the heart of our operations. While this had an impact on production, the major hit came in the form of delay; the delay in setting up and operationalizing our new capacities for our specialty products. The worsening international logistic scenario due to rising freight costs and unavailability of containers, compounded the situation. Rising input costs and unavailability of certain critical raw materials adversely impacted our ability to service demand, thereby impacting our performance. Ladies and gentleman, we may sound pessimistic, but we think it is important to convey to you the reality as it is. The international logistics scenario continues to worsen and we see the same continuing for the remaining part of the year. Despite the multitude of challenges our teams have responded exceptionally well. This quarter the company registered a 15.4% volumes growth lead by our specialty products. While the momentum continues to remain robust for our performance products, opening of the developed economies aided our specialty volumes. We see this trend continuing in the coming quarters. The rest of the world market has made a strong comeback on the back of a robust performance registered by our specialty products. While India has grown 32.1% in terms of volumes, we remain cautious due to two reasons - Signs of tepid demand and Missing pent up demand which was present in the Q2 of FY2021. The Africa, Middle East and Turkey region primarily got impacted in this quarter due to the supply chain constraints. Demand remains robust and we are confident of getting our mojo back from Q2 FY2022. This quarter also saw your company launching Galaxy Hearth a specialized home care brand based on the fundamental premise of sustainable everyday solutions for our homecare customers. We also launched 'Galaxy Hearth Mix Pods' under our Hearth range, a new age solution to meet the needs of the new age consumer, a ready mix concentrate for the preparation of laundry pods or capsules covered by plant based surfactant. The home and special care industry today requires innovative and sustainable solutions to power their brands; our recent launches ensure the same. Vaccination is critical. To ensure 100% vaccination for all eligible employees, apart from bearing the entire cost of the vaccination your company also organized vaccination drives at its plants and corporate office. We are pleased to share that all our eligible employees have been 100% vaccinated and have got their first dose. The company will ensure that the second dose gets completed and we hope to complete the same by September end. So, ladies and gentlemen, while things may appear uncertain, uncertainty breeds agility and ability. A combination of this ensures action and response. At Galaxy, we believe with the right mix of People, Solutions, Infrastructure and Customers, we are not only ready to ward off this challenge but also be ready for our future, the hallmark of a sustainable organization. So, thank you ladies and gentlemen. We will now welcome questions from you. Thank you once again. Be safe and stay safe.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We will take our first question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Thank you. Good afternoon everybody. A few questions. First on the volume growth, if I look at two years CAGR assuming that last year was an anomaly so if I look at two years CAGR, which gives me a better picture how are we performing. Performance has grown at 7.2%. The specialty chemicals segment is still flattish on a two-year CAGR, although we did say that developed market is coming back, but it is still not coming back as good as a performance so should we see a further acceleration in the growth for specialty and what has held onto the growth for the specialty in this quarter? This is my first question?

U. Shekhar: Yes, Sanjesh thank you. The entire situation today has to be looked at not from only the context of market, how buoyant it is but the ability of us and other members in this industry to respond to these requirements and the response to these requirements have been significantly and severely impacted due to supply chain challenges all across the world. So, it never truly reflects what is the potential of the market in terms of what it is capable of taking from us. So, the supply chain situation, which has been grave right from let us say October of last year, continues only to worsen and we are not very optimistic even for the balance nine months of the year with respect to the supply chain situation. We do hope that things come back to normal at least from the beginning of the next financial year.

K. Natarajan: Sanjesh Natarajan here. There are two other aspects. One is our capex of our specialty ingredients at Tarapur that was to commissioned last year itself in June. It got pushed to this March because of COVID wave one. Again, when we were at the last leg of commissioning we had the COVID wave two and this is getting commissioned only in December. So had we commissioned the plants earlier as we had anticipated, I think we could have serviced more volumes of specialty ingredients. Second is, also in this quarter we had a sudden critical raw material constraint in terms of our availability. It also ensured that we could not service the demand in a very wholesome manner. But if these two headwinds had not been there, I think we could have certainly shown better growth in our specialty ingredients and to some extent even in performance.

Sanjesh Jain: To ship all the products it is not that we could not ship all the orders and there is backlog which can come in the subsequent quarter nothing like that? Is it just the raw material availability?

K. Natarajan: Not that. It is too complex Sanjesh. It is the combination because what has impacted is both incoming and outgoing. The issue is my supplies are ready with the material. They are just not able to find containers or if they find the containers, they are not able to find the space on the vessels. The other aspect is on my outgoing. If you look at US West Coast, it is the worst impacted. Latin America is the worst impacted because you just do not have sailing happening at the frequency that is required and that if the container is available. Forget the cost. The freight rates have gone up four times to the US West Coast. It has gone up by three times in Asia Pacific, so that anyhow is an issue. So, the ability for us to service our customers' requirements on time and for them to plan their requirements has severely got impacted and our team's entire objective is to see how well I am able to meet my customer requirements despite all these challenges. It has been absolute what I can say is that lot of engineer solutions being come up with. People are working 24 x 7 in my operations team to ensure that we do not miss on any single kilo of serving our customers. That is the situation we are in. It has been unprecedented. I have not experienced this sort of situation on the international logistics in the last 20 years. You see that being echoed by many exporters and importers over the last six months. FIU has been mentioning this time and again in all almost every fortnight.

U. Shekhar: So, the challenge for international trade as we see it for the coming year is going to be only this supply chain and logistics challenges and not just in India but across the world.

Sanjesh Jain: Got it. For us it is a dual challenge because we have to pay inbound higher freight charge and for us export is a larger contributor, so we have an outbound? Are we getting enough price increase to cover the rise in the logistic cost which will help us maintain the margin?

K. Natarajan: One of the important things if you look from when I engage with customers, I can make it real for you. So, I am talking to customers. The first thing is I should be able to guarantee a delivery to them on the date they want it and then I can talk about the increase. The issue here is the increase that I talk today by the time I dispatch it say three weeks from now, the rates have gone up because no one says that they gave me a rate today they will keep it valid when I want to ship it and also the shipping companies to do the booking you need to be paying some advance freight and if you do not take that sailing it gets forfeited. So now in this situation when I engage with customers, first is my ability to be able to pass on increases is determined by two aspects. One is my absolute guarantee. You want it on this date you will get it on this date. The second is what I say today as the freight cost is something that should stay valid when I ship it to them because I cannot go back to my customers every week saying that the rates what is told you last week is no longer valid. You need to be taking in a higher freight cost. So that does upset the rhythm in terms of my customer’s ability to source from me so it is very sensitive situation and we are ensuring that we keep our customers satisfied. We keep them giving reassurance and the only objective we have if you ask me today, only objective is to ensure that the material reaches to the customers on the date when they require. It may be there for the next nine months or 12 months but this is not going to be remaining forever, but I need to have my customer’s well entertained with me, correct so that is the sort of mindset with which we are working.

Sanjesh Jain: Got it. The related question on the margin so if I look at the margin in our two entities which is a standalone entity and then the remaining part of the consol it looks like standalone has taken a bigger hit in the margin which is 550 basis points whereas the non standalone which basically is your Egypt and US, the margin compression is much lower at 340 basis points? I thought India, because we have a larger exposure to specialty, the margin compression, has to be relatively lower, but there is a significant difference in the margin compression what we have seen in the India entity whereas other entity it is in the reverse order?

U. Shekhar: First we used to look at the positive side of it. Sanjesh because we have three engines and you see that all these three engines are firing pretty well, which obviously is a testimony to the sort of business model that we have and in terms of the products and the locations of subsidiaries where we operate. Having said that, the issue in the standalone in India was the specialty ingredients, the impact was in terms of freight rates and the raw materials prices as well because there are contracts that we do which obviously we will have to ensure that we deliver. Freight rates are also something that because specialty chemicals you cannot be changing the pricing every month. We need to ensure that the customers have a sense of certainty. And also, our ability to serve the specialty products was severely constrained in terms of the unavailability of certain critical feed stocks and we have to resort to importing certain intermediates paying a much higher cost to be able to fulfill the demand. So, this explains why the standalone despite the specialty ingredients and volumes being higher, we don't see a comparable margin increase.

Sanjesh Jain: Got it. One last question back on the margin. Despite all this we are still doing a very strong Rs.43.8 per kg kind of a gross profit per kg, which probably baring last quarter is our highest from the gross profit per kg perspective? Probably margin may not be right, do we think this kind of gross margin per kg we could sustain even going forward?

U. Shekhar: First is important for me is to ensure that we keep our customers within our fold, and we ensure that we support them in every possible way despite all the constrain that we have. Margins will obviously be a consequence. If I have customers with me and they have invested so much amount of effort and time in terms of buying portfolio in a strategic way, that is the utmost priority that we have, and the logistic situation and the feed stock situation is only compounding. So, our objective is that once we ensure that we are able to keep our customers satisfied well, I do not see any reason why we will not be able to maintain this momentum in terms of the margins.

Sanjesh Jain: Got it. Thank you, Natarajan, and thank you Shekhar Sir for all the answers and best of luck for the coming quarters.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Good morning. Sir a couple of questions. Sir the first is on our volumes on specialty chemicals, so if you see that it is almost fixated at 21,000 to 21,500 from the last four quarters? Though the pandemic era still continues, I think the specialty chemical as a product as a basket have improved significantly where the people focus on health and mainly hygiene factors? Somehow it is not getting reflected in terms of absolute volume numbers? Do you see that it is because of the external challenges like logistics and all or we are having some issues in terms of product approvals in the current pandemic era because of the restrictions on travel and because of those reasons?

K. Natarajan: As I just explained a few minutes back there are two issues. One is, in terms of the plans we have, we have signed off on a project commissioning last year on specialty ingredients. Obviously this has got delayed. Had it been commissioned; I think we would have been able to deliver better volumes. So, we do not see an issue on the demand side. There can be some sort of volatility over one or two or three months but that is not because directionally we see the demand situation to be robust. I think logistic scenario, it is only complicating it because we need to cart specialty ingredients to mainly Europe, LATAM, US and Asia Pacific and that obviously also is a concern in terms of how do we look at meeting the demands of customers on time and every time. We do not see any issues in terms of approvals getting delayed or whatever. It is more of a supply side issue both in terms of projects not getting commissioned on time because of COVID wave one and wave two and the second is international freight rate has only compounded the issue.

Rohan Gupta: Will we see the accumulation effect if these are the short-term issues definitely not today may be after three months to six months the issues will be sorted out and this supply side issues and logistics challenge will not remain forever. So will we see any kind of accumulation effect as you said that orders are coming and the clients are already coming and the product approval are already in place. So, can we expect that may be the next year or after three or four quarters when things normalize, you will see a bump up jump in the specialty products basket which can be roughly 15%, 20% to 30% kind of growth? I am not looking for any guidance from you, but I am just clearing my doubts that can we have those kinds of opportunities going forward?

U. Shekhar: Yes. We also want it to happen. I only hope that happens but yes that is something that we can probably aspire for. But one issue is that you have to be very careful and that is what I explained a few minutes back also that it is important that I keep my customers' demands satisfied on time. So that is one of the reasons why we are taking all sort of actions to ensure we keep them satisfied because one of the issues in special ingredients is if your customer is not going to be getting material on time, my only worry is that they should not look tomorrow saying because any how I am not getting material, let me look at reformulating. Now that is a big risk that you run, so it is not that when the supply chain situation gets totally back to normal and the customers, they have to still manage their business till the time the last correction in terms of his supply chain situation. It is not a straight-line answer that I can give you, but yes as we see these sorts of issues that have also happened, we continue to be confident in terms of engagement with the customers to be able to reassure them and keep the interest alive in terms of what they are doing. Because the customer certainly knows that we are doing everything that we need to invest in capacities, managing the extremely challenging logistics situation, the raw material situation and yes and that is something that we are doing pretty right with the customers. If you have logistic situation continuing this way because it is worsening by the week and that is the only thing and the best case situation for us is to what you said should happen and we hope that best situation pans out.

Rohan Gupta: Sir the second question is if you can give some comment on Africa and Middle East country market, which was almost minus 6% for the current quarter. I believe in volume terms it would have been almost – 20% so we got the market which has affected this African and Middle East?

U. Shekhar: In fact Africa, Middle East and Turkey was a very clear situation where the demand was there. We actually could not serve our customers well because of the logistics situation, constraining availability of feed stock into my plant in Egypt. It was severe. It started from January. It created huge amount of issues in April, May, June and our plant in Egypt could not run fully. The situation is only now improving, say towards the end of last month but for that, I think our volumes could have been much higher.

Rohan Gupta: The volumes are mainly because of the logistic challenge and more so in Egypt market?

U. Shekhar: No. If I do not produce I cannot even serve Turkey market. That is the issue.

K. Natarajan: Logistics is an international problem. It is not just India or Egypt.

U. Shekhar: Even from Egypt, the availability of let us say what is my incoming getting delayed leading to issues in terms of my production not being interrupted. Second is my outgoing from Egypt. If you look at Egypt into USA and Egypt into Europe, the situation of availability of containers, higher freight cost and availability of space on vessels continues to remain the same in Egypt as in India.

Rohan Gupta: Sir because the situation will be similar for everyone to all the suppliers. So, in that case the customers are taking a hit in terms of they are not able to get the product, or we are seeing some risk in terms of their changing the supplier or the source?

U. Shekhar: It is like this. The answer to your question is what we would do. From our sourcing side, if I have constraints in terms of availability of imported feed stock then we will look for sourcing of these in the local markets. If there is no opportunity to localize, because these sorts of things do not happen overnight, it needs to be in a very structured and a very proper way. So, there are some persons who have a local source, logically we will go to the local source. If there is not a local source, they still depend on import source. They will go for that import source that give them certainty in terms of on-time delivery. So that is the way it is. If I have an option for my feed stocks, I will localize them. In the current situation, we will localize as much as we can and wherever we are able to do it we are doing it.

Rohan Gupta: Got it Sir. Thank you so much. I will come back in the queue for follow-up question. Thank you.

Moderator: Thank you. We will take our next question from the line of Dhruv from HDFC Asset Management. Please go ahead.

Dhruv: Thank you so much. Sir following up with Sanjesh's question earlier. If I do a rationale of consol minus standalone entity, the resultant number will be basically the subsidiaries. And for US, the EBITDA there seems to be consistently improving. And in context of your commentary that you are not able to meet demand, Sir I am not able to reconcile that well so if you can help us understand it better?

U. Shekhar: If you look at our US operations that is not different because that is more focused to US market majorly and obviously US was not impacted majorly because they are majorly focused on market within US and US as you know has been pretty robust in terms of the demand that has been panning out. If you look at Egypt, because Egypt also gets into certain specialty care products that they do and the mix has been much better and that enabled them to be able to deliver a better EBITDA. Whereas as I look at India, which I explained to Sanjesh on the standalone side, I explained as to what are the reasons as to why the numbers got impacted both in terms of the extra cost we would incur in terms of getting some intermediates imported to take care of our customer requirements because there are certain raw materials not available within India and the enhance freight cost that happened and also the sort of volatile raw material scenario. So, it is a combination and my specialty ingredients I could not serve all the volumes that I could have served based on what the customer demand was.

Dhruv: Sir I am just focusing on the subsidiaries Egypt and US. So, this is only not in this quarter that there is an improvement. There has been a consistent improvement over the last many, many quarters now so if you can probably speak on what is changing there? Is it largely probably if it is driven by US any further thoughts on that?

U. Shekhar: As we have always said particularly with respect to the India and Egypt there will be a progressive improvement in terms of the product mix. So that will be an evolving scenario as we go forward. As far as the US is concerned, it is largely specialty ingredients oriented. So, US we can say it is a totally specialty ingredient oriented business which we address from our US subsidiary. And India and Egypt, there will be progressively evolving scenario where the ratio will move slowly upwards in terms of specialty ingredients.

Dhruv: Got it. Sure Sir and Sir one question on you mentioned some part of the volumes you lost probably because the specialty plant not coming up? Sir if I look at some of your earlier comments you say that we generally put a plant when we have already reached 60% to 65% utilization and we plan the next phase of capex. So, isn't there sufficient capacity within the existing specialty plant or is it some specific product that you were not able to sell?

U. Shekhar: Very good question and precisely we initiated this capex almost three and a half years back and we were supposed to commission this particular plant in June of last year. Now that is really getting extended by a period of one and a half years, which means this delay has certainly costed us with respect to servicing the specialty that is demand for our customers. You are very right. We always anticipate and then take capex calls very much in advance. So we had done that on time as far as performance ingredients is concerned. Whereas specialty ingredient as I said we had initiated this project almost three and a half years back and we wanted to commission it in June of last year, but that has really got extended.

Dhruv: So basically, currently your specialty will be operating at a very decent utilization?

U. Shekhar: Yes, you are right.

Dhruv: Got it and Sir the last question is on a per kg basis because I believe percentage margins are getting a bit abnormal because of the increase in raw material cost and others. So, Sir on a per kg basis on EBITDA even as gross margin which was highlighted earlier, we are doing still extremely well probably ahead of our guidance of Rs.16 to 18. So again, as I reconcile with your commentary, is it something that there is also something abnormal gain? For example, you added some abnormal impacts like for example you were not able to shape, or you were not able to produce. Was there also some abnormal gain which benefitted us or there is nothing if that is the cost and everything is normalized we should see for something better?

U. Shekhar: There is nothing called abnormal gains. It is the way that we manage the mix well and second is if you look at it moving forward the whole issue is in terms of the ability to meet the demand supply chain constraints so that is why we have always been cautiously optimistic and we guided to 16,000 to 18,000 from 15,000 to 17,000 and that is something we will probably want to look at sustaining at the higher end and then we can look at taking it upwards, but as of now we would to like to very much stick to this 16,000 to 18,000.

Dhruv: Got it Sir. Thank you so much Sir. Thank you.

Moderator: Thank you. Our next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Thanks for the opportunity. Sir my question is pertaining to the kind of a supply chain problem we are facing particularly in the specialty, delay into our new plant coming so how does that affect our long term relations with our customer because of which non-availability they may be suffering? So, if you can give some clarity what are their responses? How do we come out of this?

U. Shekhar: That is what sort of relationship we enjoy with the customer and the way we engage with them. They are also aware of what is the situation and we have also shared with them what are the plans and how we are going to be ensuring that we are going to have plans in terms of getting their requirements despite these constraints. So, that is something we are well engaging with them and they have been fully briefed and we do not see any issues on that front.

Bharat Sheth: Do you think low bottom that can affect our relation because in past we are enjoying good relation because of our sustainable and timely supply to them so which is missing from the last two to three quarters. So, over a period do you think that they may look for an alternative supplier?

U. Shekhar: Whatever our customer seeks is a transparent, open and timely communication, which is what we ensure that it does happen. These relationships with customers are long term and strategic in nature. Yes, there may be certain short term blips or short term uncertainties and pressures, but that does not impact the long term relationships. So, what is important for us is how do we ensure that we keep our customers satisfied and many times we try to solve any issues together. That is the quality of the relationship we enjoy. As a matter of fact, we discuss openly, and many times customers come forward in terms of enabling us to come with up with right solutions and optimum solutions particularly with respect to the logistics and supplies and challenges.

Bharat Sheth: I do appreciate Sir. Long-term I understand but can you elaborate a bit more on the strategic things what you are talking?

U. Shekhar: As I said strategic means that we talk about aspiring or we are business partners. Customers look at us in terms of their long-term business goals. As I told you we enjoy relationships with our customers anywhere from 10 to 40 years in the context of when the business or the relationships started. So, there are some customers with whom our relationship goes back to 40 years and there are some customers where the relationship goes back to 10 years. Now this relationship is built not only as a supplier who can promise and ensure delivery on time, but more important as a solution provider, as an innovation partner, and as a business partner. So, this has been the characteristic of the relationship that we enjoy with various customers that we have in various geographies and the way we have grown with each other and with some of the customers it is not only in India but across their various locations in various parts of the world.

Bharat Sheth: I appreciate. Thank you. That is all.

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

Ranjit Cirumulla: Thanks for giving me the opportunity. The question was more on the R&D and the new product launches. Recently we seemed to have launched the SLL which happens to be a completely biodegradable thing. So just wanted to get more sense about these products and the sea of launches that are expected to happen in the next of couple years and is this the direction that you are likely to take for the non-green or reducing the tech chem kind of a portion in our product basket? Thank you.

U. Shekhar: Yes, obviously our R&D innovation efforts are all centered around how do we make the product green and also how do we make the process green with reduced carbon emissions and that is something which is at the heart of our innovation efforts. So, if you look at the Galaxy Hearth, the solution that we have come up with capsules for fabric wash is one in that direction. SLL is also one in that direction and we have other products that we launched. If you look at nontoxic preservatives and if you look at our GLI 21 they are all emitted out of this thing to provide a green products solution to customers. At the same time whilst if we do that, how do you ensure that the process also is green in terms of the green chemistry principles. So that continues to be a very clear focus and we do see the way the consumers are also wanting more and more greener solutions. We are well positioned to be able to take part in this sort of a trend that is emerging.

K. Natarajan: So, consumers are driven by safety, wellness, sustainability, green chemistry and the same is the case with customers. So as the world moves forward, we will see more and more products based on wholly plant-based ingredients and a slow substitution of petrol-based products and Galaxy's innovation will be tuned towards this particular trend.

U. Shekhar: In fact, we have sent out our annual report for the last financial year yesterday and the whole theme is on ESG. That contains a good amount of details in terms of how we are approaching this subject on sustainability and innovation.

Ranjit Cirumulla: Thank you Sir. We will go through it and lastly if you also can give us some sense about the revenues that we currently have from these products and likely to aspire in the couple of years? Thank you.

U. Shekhar: All these products evolve and the interesting thing about our industry is that the product life cycle tends to be even 40 and 50 years. What is important to know is that these are products innovated in the right context and customers do welcome it. Of course, there will be quite a bit of time in terms of formulation preparation, formulation stability and so on. And why we are very optimistic is that the incorporation of these ingredients will slowly evolve and then grow continuously.

Ranjit Cirumulla: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Abhisar Jain from Monarch AIF. Please go ahead.

Abhisar Jain: Thanks a lot Sir for the opportunity. Sir my question is on the long term growth strategy for the company from the current levels so if we see that we have a 7% to 8% kind of a volume growth and we of course are trying to increase the specialty product portion over time which can help our EBITDA per tonne to improve, but Sir just from a long term five to seven years perspective are there any more levers that are existing in this business where you can also increase your volumes a little bit faster and also your top line by the way of either a product expansion or geographic expansion of our business? Would like to hear from you on this aspect Sir?

U. Shekhar: We have always said that we measure ourselves in terms of how we grow higher than the market in the various regions and geographies that we operate. This is something that we have been consistently doing and we will continue to do that in the coming years. Number two, our innovation drives us in terms of coming up with new products and solutions required by consumers in the various geographies, more driven by the trends that the consumer needs. As I said the consumer today seeks above all safety, wellness and sensory and towards this he is even willing to pay a higher price and this is a trend that we have been seeing very clearly and this is what aids in terms of our growth of specialty ingredients in terms of our overall portfolio. At the same time, in performance ingredients there is a still head room available in the developing markets including India, other parts of Africa, Middle East and Turkey, which we want to capitalize on and we are rightly positioned and placed and we have rightly created the capex to be able to respond to these requirements. So the innovation output is a very regular and steady output from our innovation team to respond to the various consumer requirements and these are totally new products, new innovations and a lot of working together with consumers is involved, but we are knowing the customers and being in the industry for such a long time, we know that we can create a significant position for us in this particular industry as well as in the customers minds.

Abhisar Jain: Understood Sir. Just a follow-up on this so while I understand that our strategy right now is to penetrate deeper with our existing customers and in our existing geographies through better products and through innovative products but Sir given now that we are generating very, very cash flows and our balance sheet is much, much more stronger than what it was say four to five years back, I was just trying to figure out if there is also an opportunity now, not immediately, but over the next three to five years to also look at some inorganic expansions in either of the geographies that we are already there like say US where you would be comfortable or somewhere else which can accelerate the growth beyond the current range that we are in?

U. Shekhar: We do see that as a possibility so we would seek appropriate targets in terms of acquisitions for inorganic growth, but we will wait for the appropriate target.

Abhisar Jain: Right and Sir second question is on the export incentives so if you can just give a clarity on that because of the withdrawal of the MEIS, what is the export incentives situation right now and any expectations or guidance that you have on that front?

K. Natarajan: We have given all the RoDTEP data to the government. Now the government wants to come out with the rates at which the RoDTEP will be paid. It was expected to get released within three to four months, but it has got extended. I think we should have it in place with the trade policy. As per the government announcement it will be given from first of Jan because they have not withdrawn this scheme. The only thing is that they have moved it from MEIS to RoDTEP. They seek data from the various industries on the indirect tax component in the prices, which are not reimbursed on the basis of which they are determining the rates.

Abhisar Jain: Sir just to understand this correctly do you expect that percentages would be slightly lower than what we used to enjoy earlier?

U. Shekhar: Actually, if you ask me our expectation has no meaning because we have been expecting this to be announced in January, which got pushed. So, we have done our workings. Now the government has to decide what they have to do so till the time it is announced, no guess work is going to help.

Abhisar Jain: Of course, whenever it comes, at least it will help increase our EBITDA to that extent right? You do not need to pass it through?

U. Shekhar: The question is whenever it comes. So that is the way it is, so we will wait.

Abhisar Jain: I am saying whenever it comes at least you can retain that? You do not need to pass it to customers?

U. Shekhar: Yes.

Abhisar Jain: Thanks a lot Sir and best of luck.

Moderator: Thank you. Our next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Good afternoon team and thank you for the opportunity. I have just one question. So clearly the pandemic has sort of come up with new challenges so the only question is what could be the key learning from this pandemic for us to ensure that going forward we sort of do not encounter the same problems that we have encountered especially on the supply chain side so just have a larger utilized manufacturing solutions or what could be the solution to ensure that we learn out of this thing?

U. Shekhar: As we said in the beginning itself, the learning is adaption, augmentation, and action. So obviously we anticipate and prepare ourselves to the best extent possible. I wonder if a different virus hits all of us and if the existing vaccine cannot protect us, we may go through the cycle all over again. We cannot anticipate and be ready with a vaccine for an unknown virus, but then what is important is that how do we adapt, how do we augment, how do we act in a way and how do we build a teamwork. What is important learning in the last one and a half years is the way that our teams have come together and have risen to the occasion. That is what is very, very significant and heartening. And as you know that last year we started on a note of pessimism but ended the year with a stellar performance and this year, I think we would like to look at with optimism in spite of all these challenges which are in front of us, we would like to end this year again on an optimistic note. So we pray and hope and let us see how it goes.

Bhargav Buddhadev: Sir where I was coming from is that are we looking at increasing our manufacturing setup in Africa or Middle East so that we can have more localized footprint which will mean that our reliance on supply chain international freight challenges will sort of reduce that I was coming from?

U. Shekhar: That is happening continuously. As a matter of fact, our Egypt location will have more and more in its portfolio of products. As you know Egypt started off with only performance surfactants, today it has a decent mix of specialty ingredients in its portfolio, which will further enhance as we go forward in terms of our investment with respect to the portfolio. So, this is continuously happening across our various factories. The same is the case with US where we put up a brand-new factory last year which certainly has aided us particularly during this year of difficult times.

Bhargav Buddhadev: Thank you very much and all the very best. Thank you.

Moderator: Thank you. We will take the next question from the line of Bobby Jayram from Falcon Investment. Please go ahead.

Bobby Jayram: How is the demand in India been compared to pre COVID time?

U. Shekhar: The India demand has been keeping up but COVID wave two, the difference between last year's and this year's wave one and wave two was that in wave one, rural India was not impacted at all and the rural demand actually kept the momentum on in the India market whereas this year I think the COVID virus in wave two has been pretty democratic. It has impacted the whole of India and rural has been impacted pretty much more. What we are seeing is that the demand growth is not as what we had expected but we see it as a short-term blip. Things should start improving as the festive season is starting shortly. We are keeping our fingers crossed.

K. Natarajan: What is also the reality that we need to get is that prices have been taken up by the various manufacturers which we feel does impact consumption and demand because the purchasing power of a large mass of population has suddenly reduced during the last one year or so particularly because of the localized or the temporary unemployment that the mass of people went through. So we do see tepidity in terms of demand at this particular point of time. We would look forward to the festival season because the festival season is starting now, how the festival season is going to impact demand and consumption we would see over the next let us say one to two months or so.

Bobby Jayram: Right but the festive would be more towards specialty chemicals where your performance is more for day-to-day use?

U. Shekhar: Largely performance should not be impacted there severely and so the only way the performance can get impacted is because of supply chain and logistics challenges. That is the only thing.

Bobby Jayram: Right thank you.

Moderator: Thank you. We will take our next question from the line of Hitesh Sharma from White Sky Investment. Please go ahead.

Hitesh Sharma: I just wanted to check up about the work in progress in your investments when it is going to get completed and the plants are going to get commissioned?

U. Shekhar: One of the capex I think it is in stage of commissioning and we are hopeful of commissioning it by the end of this month. So, it should start rolling out products from the first week of September. Similarly, another capex would be ready to get commissioned in another 45 days or so. So, these are two important capex, which have been delayed quite a bit, but we are hopeful and optimistic that they would be up and running in the next 40 to 45 days.

Hitesh Sharma: What sort of revenue will this add by March?

U. Shekhar: They should add to our revenue certainly as we did mention that the output from this particular plant we have been expecting now for quite a bit of time in terms of servicing our customers. So, we are quite optimistic in terms of running these plants at a good amount of capacity utilization. Let us see as we go forward.

Hitesh Sharma: The question is like what sort of revenue we are expecting that it will add to sales in the next six months?

U. Shekhar: I think the new products share has always been around for about 4% to 4.5% and this will remain as far as this year also.

Hitesh Sharma: No can you identify?

U. Shekhar: We will not be able to give you that information.

Hitesh Sharma: Thank you.

Moderator: Thank you. Our next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Thank you for the follow-up. Sir my question is more on the pandemic period. We have seen that the peak of freight has picked up significantly and many small regional players are benefitting from that. We tend to do good business with them, and they also ask for the value-added services, which give us a better volume? Also, we see that there is a huge amount of money flowing through these startups and these kinds of companies in a current scenario which further has been helping this company with the growth prospects so do you see that these players or regional small players gaining in the market share? How has the business changed with them in the last one year? What percentage they are contributing now and how you see the scenario over the next two years with these changes happening?

U. Shekhar: Good. The ecommerce players are real bright spot as far as this industry is concerned. I think a number of good players have emerged in this space. They are steadily growing. We have been working very, very closely with them and they are continuously growing, and we see this particular space occupying a significant portion of the overall industry. So this is something very, very interesting for us and this is very important bright spot as far as this industry is concerned.

Rohan Gupta: Have we changed any in terms of revenue contribution? How much will it be coming from these players? We have seen that almost four to five years back, players like to whom we provide the customized services like WoW or Mamaearth who started only from online now have the retail presence. So if you can give some of these customers profile and how it has changed in terms of revenue contribution if you can just speak about?

U. Shekhar: As you known Rohan in terms of our overall portfolios, 62% to 65% will be contributed by the T1 customers and the balance 35% will be the T3 and T4 customers. Now I would say as of today, the ecommerce players will not amount to more than anywhere from 8% to 10% of the T3 to T4 components which means on an overall basis, they will be not more than 5% today as far as the whole country is concerned. So, they are growing, but they are evolving and they are growing, but they do not contribute anything more than 4% to 5% of the overall margin.

Rohan Gupta: But you see that this ratio like 30% in T4 which is right now 35% to 40% and ecommerce is roughly 10%?

U. Shekhar: The global level we have seen over the last something like 40 years. We would take the examples of the developed market. In a highly developed market like US and Europe, the split between T1, T2, T3 and T4. We define T1 as global multinationals and T2 as regional multinationals plus say private label players. It could be let us say a Walmart, Amazon, Cosco, etc., T2 and T3 are again local majors and T4 are the small customers across the world. So, the split between T1, T2 plus T3 and T4 is one third, one third and one third. This will be, you can say a long-term ratio between the T1, T2, T3 and T4 customers. As far as India is concerned today, the T1 and T2 still constitute almost 68% to 70% of the overall market. T3 is only 30%. But going forward, we should see the development of T1, T2 and T3 segment, and a lot of private label guys who are also emerging and in this private label think possibly you could add even ecommerce because the ratio was prior to the ecommerce emergence. Now ecommerce emergence has suddenly changed the face of this industry. If you would put the ecommerce place in the T2 plus T3 bracket, we should expect them to grow to something like one third in a long term. When I say long term it will be in the next 25 to 30 years.

Rohan Gupta: Right that is very helpful and Sir if you can just only tell our split in terms from T2, T3 and T4?

U. Shekhar: I have already told you that.

Rohan Gupta: I got them back? You are talking about the India market of the industry?

U. Shekhar: No, I am talking about the India market. It is 53 to 7 to 40 last quarter.

Rohan Gupta: 53% is from T1?

U. Shekhar: Yes. 7 is from T2. This is global. T1, T2 and T3 is 53 to 7 to 40. This is global.

K. Natarajan: Directional Rohan one thing that we need to be because if you look at all the ecommerce people who have come into this space, they started on online but then for them to really make it big they need to go offline. So, if you see many of them are talking about from online to offline. It is an interesting space to watch. How they scale because the scaling up will happen on the offline, so they are all preparing. It will be a good thing for us to watch and we are well positioned to able to leverage on this sort of growth.

Rohan Gupta: Great Sir. Thank you, Sir. Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand over the floor back to Mr. Unnathan Shekhar, Managing Director for closing comments. Over to you Sir.

U. Shekhar: Thank you ladies and gentlemen. A very good afternoon and I would like to bring this concall to a close. Be safe and stay safe. Take care of yourself and your family. All the very best.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Galaxy Surfactants Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.