Jubilant Ingrevia Limited
Q4 & FY21 Earnings Conference Call
June 07, 2021

Hemant Bakhru: Good evening everyone. Thank you for being with us on our Q4'FY21 earnings conference call. Please note effective 1st February 2021, the Life Sciences Ingredients business of Jubilant Life Sciences Limited demerged to Jubilant Ingrevia Limited.

I would like to remind you that some of the statements made on the call today could be forward-looking in nature and a detailed disclaimer in this regard has been included in the press release and Earnings Release that has been shared on our website.

On the call today, we have Mr. Shyam Bhartia – Chairman; Mr. Hari Bhartia – Co-Chairman; Mr. Rajesh Srivastava – CEO and Managing Director, Mr. Prakash Chandra Bisht– CFO, Jubilant Ingrevia Limited and Mr. Arvind Chokhany Group CFO

I now invite Mr. Shyam Bhartia to share his comments.

Shyam S. Bhartia: Thank you, Hemant. Good evening everyone. I hope you all are in good health and keeping safe.

We are glad to announce that we performed well during FY21. Despite the COVID-19 related challenges, we reported significant growth in our Revenue, EBITDA and PAT in FY21. All our sites remained operational throughout the pandemic and initiatives were taken to mitigate COVID-19 impacts. Supplies of raw material, availability of logistics were ensured for uninterrupted servicing of our customers and strict COVID protocols were followed at all our sites and offices for safety of our employees.

We also take this opportunity to thank all our employees who have worked tirelessly across all our plants and offices to ensure continuity in company's operations, while continuing to serve our global customers.

Demand scenario in all our business segments continue to be strong.

As communicated to you earlier during our last communication, all growth plans are going on track and our FY22 capex investment is estimated to be in range of Rs 300-350 Crore. The team is continuing to work towards meeting the plans.

I am happy to inform that during the last year company has reduced its net debt by Rs 594 Crore. The Company continues to focus on debt reduction over the coming year.

We would also like to inform you that the Board of Directors of the Company, at its meeting held today, has recommended a dividend of 35%, for the year ended March 31, 2021.

With this, I now handover to Rajesh to discuss about the business in detail.

Rajesh Srivastava: Thank you, Mr. Bhartia. A very good evening to all of you. At the onset, I hope you all and your loved ones are safe and healthy.

I would like to welcome you all for joining this very first quarterly investor call of Jubilant Ingrevia Ltd. It gives me immense pleasure to report a strong performance of Jubilant Ingrevia for the Q4 as well as FY21 performance in all parameters.

Revenue during the quarter was Rs 1,078 Crore, which is growth of 31% YoY driven by 17% growth in Specialty Chemicals, 22% Nutrition and Health Solution and 46% in Life Science Chemicals business segments.

EBITDA during the quarter was at Rs 203 Crore, up 101% YoY, led by significant growth in Life Science Chemicals business segment and also by Specialty Chemicals as well as Nutrition & Health Solutions business.

Now let me take you through the updates on all our three business segments.

Speciality Chemicals

During the quarter our Speciality Chemicals business has seen strong demand across all our products due to better demand from Pharma & Agrochemical industry segment.

Business continue to see higher demand resulting into Revenue growth 17% and EBIDTA by 9% during the quarter on YoY basis. Business has delivered strong performance during FY21 with Revenue growth of 2% and EBITDA growth of 13% along with improved EBITDA margin of 23.9% which is 243 basis points higher than FY20.

Input prices as well as logistic costs during the quarter have gone up sharply, which was successfully passed on by price increase of our finished products. Withdrawal of MEIS benefits on exports sale by the Govt have impacted our EBIDTA as well as margin during the quarter.

Due to Paraquat ban in Brazil and Thailand Pyridine, prices were lower however have stabilized during end of the quarter. On the other side, since Pyridine and Beta is produced as co-products, due to Paraquat ban, as expected we saw reduction in Pyridine Beta production globally and hence tightening of Beta availability in the market place. This has resulted into improvement in Beta Picoline prices.

During FY21 Specialty Chemicals business has commercialized Six new products and have more than 30 new products in pipeline to be launched in next 2-3 years Demand for our Speciality Chemicals Segment continues to be stable. Our first phase of Diketene project is on track and we expect to start our commercial production from this plant some time during Q3'FY22. Our CDMO business is getting better traction in demand of existing and new products. Business is working to maximize capacity utilization through de-bottlenecking.

Nutrition & Health Solutions

During the quarter, as the markets started opening in different parts of the world specially in Europe and USA, business has seen strong demand across all parts of the world. Due to strong demand, the business has recorded revenue growth of 22% and EBIDTA by 9% during the quarter YoY basis.

About 80% of the revenue of Nutrition and Health solutions business is from exports and withdrawal of the MEIS benefits on exports by the Govt has impacted our EBIDTA margin during the quarter. The business has delivered a strong performance during FY21 with revenue growth of 17.3% and EBITDA growth of 37% along with improved EBITDA margin of 20.7% which is 300 basis points higher than that of FY20.

Pandemic created some supply chain challenges in terms of less availability of containers and ships, which led to increase in global ocean freight costs for Europe and North America. However, due to strong relationship with shipping companies and container suppliers, the business was successful in placing the products to the global customers on time in full.

Though demand in Animal Nutrition segment was subdued due to pandemic especially in Poultry segment, the business has been successful in achieving higher volumes of Choline and Speciality premixes.

Demand for Nutrition and Health Solutions Segment continues to be stable. Raw material and Logistics costs continue to be higher and the business is trying to pass on this through prices increase of finished products.

Life Science Chemicals

We saw very strong performance in Life Science Chemicals segment with 13% growth in Revenue and 138% growth in EBITDA, along with margins of 13.6% in FY21. Business has seen strong demand of Acetic Anhydride in almost all the segments. In Pharmaceutical, we can see surge in demand of Paracetamol due to ongoing the pandemic resulting into a higher demand of Acetic Anhydride.

Due to higher demand, the capacity utilization of all our 5 plants and especially Acetic Anhydride in three locations (i.e. Gajraula, Nira and Bharuch) has increased. Our new capacity at Bharuch, which got commissioned in FY20 has come very handy in serving this increase in demand.

Though the business has faced significant input cost increases due to much higher price of Acetic Acid, utility cost and logistic cost, it was successful in passing on completely.

Business has achieved significant improvement in process efficiencies thereby reducing consumption norms of raw materials and utilities along with some capacity de-bottlenecking of capacity using lean six sigma tools. This has led to variable cost reduction and improvement in EBIDTA as well as margin.

During the quarter, global production of Acetic Anhydride has been impacted due to the pandemic and other reasons, while the company was able to offer higher volume to the market, which has created a favorable market condition of Acetic Anhydride leading to higher price realization and improvement in EBIDTA and margins.

Demand of Ethyl Acetate was also strong specially due to higher consumption of Inks and Adhesives used to manufacture packing materials, which is in high demand due to increase in on-line purchases due to pandemic. Higher input prices have impacted working capital of small-scale producers of Ethyl Acetate, which has resulted into creating a favorable market condition for us leading to higher price realization and improvement in EBIDTA and margins.

Business has demonstrated higher level of agility and resilience in serving all our loyal customers globally on time in full using its strong distribution channels differentiated supply chain during this unprecedented times of pandemic.

During the quarter sale of the newly launched product i.e. Propionic Anhydride has been impacted due to the pandemic and we would see better traction in the coming quarters.

In our Life Science Chemicals business, Acetic Anhydride market situation continues to be favorable on account of higher demand and lower availability due to restricted production out-put in certain part of the world

With this, I now hand over to Prakash to discuss the financials.

Prakash Bisht: Thank you, Rajesh. A very good evening and I thank everyone for taking out time and joining us on our first ever quarterly Earnings Conference Call of Jubilant Ingrevia Limited. I hope you all are in good health and keeping safe.

I would highlight the Company's financial performance during the quarter ended March 31, 2021. I would like to start with explaining the basis of preparation for Q4 and FY21 numbers on continuing basis, because during the quarter and for the year ended 31st March 2021, consolidated financial results of Jubilant Ingrevia Limited comprises results only for two months of operations, i.e. for February and March 2021, after the demerger became effective.

However, to provide the comprehensive picture of the operations of the Company on continuing basis the results for Q4' FY21 & FY21 has been presented in the Investor deck by combing the relevant portion of the LSI Segment results from published results of LSI Segment - Jubilant Pharmova Limted (JPM) and Jubilant Ingrevia Limited (JVL) in the following manner:

The results for 10 months of operations from 1st April 2020 to 31st January and previous year numbers has been taken from the reported discontinued operations for LSI segment of Jubilant Pharmova Limited, as disclosed in note 6 of the consolidated results of the Jubilant Ingrevia.

The results for two months from 1st Feb 21 to 31st March has been taken from the Audited Results of Jubilant Ingrevia Limited

As stated earlier on a continuing basis, Revenue from Operations during the quarter was at Rs 1,078 Crore as compared with Rs 823 Crore in Q4 last year. Reported EBITDA during the quarter was at Rs 203 Crore as compared with Rs 101 Crore in Q4'FY20 with margin standing firm at 18.8% vs. 12.3% in Q4'FY20.

On continuing basis Revenue from Operations during FY21 was at Rs 3,491 Crore as compared with Rs 3,179 Crore in last year. Reported EBITDA during FY21 was at Rs 627 Crore as compared with Rs 409 Crore in FY20 with margin standing firm at 17.9% vs. 12.9% in FY20.

Depreciation & Amortization expense during the quarter was at Rs 32 Crore vs. Rs 31 Crore in Q4'FY20. Finance cost during the quarter was significantly lower at Rs 12 Crore versus Rs 24 Crore in Q4'FY20, a reduction of 51% YoY. Average blended interest rate for Q4'FY21 was @ 6.81%.

Reported PAT during the quarter was at Rs 95 Crore after adjustment of Exceptional items of Rs 13 Crore, as against Rs 48 Crore PAT in Q4'FY21 and reported PAT for FY 21 was Rs 316 Crore against 220 Crore in FY 20.

Company witnessed significant deleveraging in FY21, whereby its Gross debt reduced by Rs 747 Crore in FY21. Gross Debt as on 31st March 2021 Stands at Rs 548 Crore. The company's net debt stood at Rs 431 Crore as at 31st March 21, a reduction of Rs 594 crore as compared to 31st March, 2020. Net Debt to EBITDA now stands at 0.7 times. We generated healthy operating cash flow of Rs 708 Crore before Capex and Interest payments during the year. Capital expenditure during FY21 was at Rs 122 Crore.

With this, I would like to conclude our opening remarks. We will now be happy to address any questions that you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Veera from Abakkus Asset Management. Please go ahead.

Rahul Veera: Sir, just wanted to understand in terms of the subsidiary that they've incorporated what is the rationale there and are we going to incorporate the whole specialty segment within the LSI into the subsidiary?

Hari S. Bhartia: Rahul, in our investor call in March, we have informed that we are trying to get into Agro Active business and at Bharuch we had an opportunity to open this new company to start Agro Active business, so that's why we have incorporated, so we have already intimated that in this business we will be planning CAPEX investment decision and the business will be ready after 12 to 18 months. So, that is what this subsidiary will do and nothing else. So, all other business remains as it is.

Rahul Veera: The CAPEX that we have mentioned for Rs.300-350 Crore, by when it is expected to come on line?

Hari S. Bhartia: So, these CAPEX outflows are for this current year and there are various projects which are part of this CAPEX investment. So, any CAPEX which you take, it takes at least 12 months to 16 months, so I'd say some CAPEX will start generating revenue at latter part of this year and most of this which will come into the next year.

Moderator: Thank you. The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises. Please go ahead.

R. Jhunjhunwala: How much is the deferred tax you have in your balance sheet?

Prakash Bisht: We have MAT credit of Rs.160 Crore.

R. Jhunjhunwala: So, you will be continuing with this 33% rate?

Prakash Bisht: Yes, sir, at least for the next two years we will continue to have this whole tax regime till the time we utilize our MAT tax credit. So, during this period our P&L charge will be in the range of 30% but the cash tax will be only 17.5%.

R. Jhunjhunwala: What is your net debt as on 31st March 2021?

Prakash Bisht: Rs.431 Crore.

R. Jhunjhunwala: You hope to substantially reduce it this year?

Prakash Bisht: This year we have a good cash flow but we also have a CAPEX lined up for about Rs.300 Crore to Rs.350 Crore. After adjusting the CAPEX at least, we don't hope to increase debt.

R. Jhunjhunwala: In which areas you are incurring this CAPEX?

Rajesh Srivastava: We have informed this in the March mainly we are investing in Speciality Chemicals business which is Agro Active and CDMO business. We are also investing in additional anhydride plant which we had informed in March and some investment in our Nutraceutical business. So, these are the key investment plans which we have indicated in the March and that is what we are going to follow.

R. Jhunjhunwala: Working at full capacity or there is scope to further increase production from the existing capacity?

Rajesh Srivastava: Our plants currently are working in the range of 85% to 90% capacity utilization, but we continue to de-bottleneck and expand capacity of existing plants based on the demand. So, that goes on parallel to the new investment. With that only, we keep taking the increased demand scenario of various products.

R. Jhunjhunwala: You have now incorporated one subsidiary. What is that subsidiary for?

Rajesh Srivastava: So, I just replied prior to your question that this subsidiary is incorporated to do the business of Agro Active. As I mentioned, one of our investment plans is to enter into Agro Active because we are already producing lot of specialty value-added intermediates for agrochemical companies. Now there is a good traction for agro active business. So, we are going to launch agro active business through this subsidiary. So, we are going to invest in a plant which will be a multi-purpose plant where we produce agro active and also we will do some Agro Active CDMO business.

R. Jhunjhunwala: But why are you making a separate subsidiary?

Shyam S. Bhartia: Rakesh ji, because you get a lower tax because of the new plant benefit.

R. Jhunjhunwala: What is the investment envisage in the subsidiary?

Rajesh Srivastava: So, in let's say two to three years' horizon, this should be about Rs.150-200 crore investment.

R. Jhunjhunwala: Where are you putting up the plants?

Rajesh Srivastava: In Bharuch in our special economy zone.

Moderator: Thank you. The next question is from the line of Vinit Gala from Monarch Networth. Please go ahead.

Vinit Gala: Sir, can you please articulate on the pricing scenario on Acetyl, how long can the current pricing last and what percentage of our Acetyl business do we deal with our clients on a long-term basis?

Rajesh Srivastava: So, as I explained in the speech that the demand of Acetic Anhydride is continuing to be good today. So, we don't see any erosion in prices, at the same time input prices are also very volatile. So, I hope that the current scenario of pricing and also the demand continuing for some time definitely.

Vinit Gala: So, also like what you mentioned is that we'll start servicing Diketene to the clients in Q3 FY'22 onwards. So, from what plant are we servicing from?

Rajesh Srivastava: So, we have made an investment in the FY21. We have committed investment which will come in production by Q3'FY22. This is where we will produce the Diketene derivative at our Gajraula plant.

Vinit Gala: The CAPEX that we have already come for Diketene product is over and above the incremental CAPEX that we mentioned in our March presentation?

Rajesh Srivastava: This is the same CAPEX. The second phase will come after that.

Vinit Gala: What would be the peak sales in Diketene that we can do and also if you can articulate a bit on the opportunity and pricing in the segment because of our entry and already well contested as a segment, at least the domestic part of it, so can you please elaborate more on that?

Rajesh Srivastava: I have clarified this in our last call also that when we are looking at Diketene derivatives, India is one of the markets, but we are also looking at Diketene derivatives from global market. So, of course, India demand is growing, we will try to cater that as well as our value-added derivatives of Diketene will be focused for the customers' requirement outside India as well.

Vinit Gala: But in the domestic market, are we anticipating any kind of pricing pressure because of the incumbent?

Rajesh Srivastava: There are more imports than our production likely to be. Imports are higher than our production in Diketene is likely to be.

Vinit Gala: So, what we are expecting in exports?

Rajesh Srivastava: Local companies.

Vinit Gala: Last question is on this Pyridine. So, given that ADT was removed by China so what is the outlook on both EBITDA margins and growth front because some of the smaller players are reporting say very good EBITDA margins?

Rajesh Srivastava: As I explained in my speech that Pyridine prices has been under pressure but now Pyridine prices are stabilizing. We have seen in last couple of quarters the prices are getting better and along with Pyridine, Beta prices are also getting better. So, that's what you are saying is right, the overall situation of profitability in Pyridine Beta is better.

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

Rohit Nagraj: The first question is the current expansion that we are doing. In how much time we will be able to utilize the incremental capacity optimally? So, in this year you have already mentioned that we'll be doing close to about Rs 300 to 350 Crore of CAPEX. So, for how many years this particular CAPEX will be utilized from our plant capacity perspective?

Rajesh Srivastava: So, usually whenever we make any investment in CAPEX, mostly it is for the increased demand. So, within let's say 12 months' period or 15 months' period, we try to see the utilization of 60%-70% of our capacity. So, I would say in two years' time, in some cases it's valid, in some cases a little bit more but on an average one and a half to two years the capacities are utilized.

Rohit Nagraj: The second question is in terms of individual segment margins. So, we have seen that last year there's been increase in input costs as well as the product prices. So, on a sustainable basis what would be the individual segment margins that we are looking at?

Rajesh Srivastava: It is very difficult to give you specific comments on individual segment wise margin going forward because as you know that the input prices are really fluctuating and are very high. So, what we can only say is that we are trying to see how good we can pass on those input price increase so that we can maintain margin.

Rohit Nagraj: Just a concurrent question to that, how much time lag that we take to increase our product prices based on the input price increase normally?

Rajesh Srivastava: Depends on product-to-product. In some products where we don't have longer time orders, the pass on can happen fast, some products we have quarterly orders, the pass on can happen a little bit later but depends on product-to-product, but immediately we take the decision as soon as the price increases we try to convince the customer and try to pass on.

Moderator: Thank you. The next question is from the line of Dushyant Mishra from SageOne Investment Managers. Please go ahead.

Dushyant Mishra: I just had a question that the previous participant just touched upon. You said that the CAPEX is due to increased demand. Should we assume that clients have already approached you about utilizing your Diketene outputs or are we going to be doing a lot of business development on that front before we can start to see revenues?

Rajesh Srivastava: Yes, so some of the clients have reached to us for the requirement and in some of the cases we have developed the value-added products and therefore the customers are very keen to look at us supplying those value-added products.

Dushyant Mishra: Second question is so on an incremental basis once all of this CAPEX is done at the end of the three-year cycle, what kind of captive consumption can we assume? Currently we're utilizing 25% for Speciality Chemicals and then 45% for Nutrition. How will this change going forward?

Rajesh Srivastava: After this CAPEX, it is very difficult to quantify right now but our endeavor is always to keep adding value to our existing products, but at the same time if there is a requirement of existing products we don't say no to customers. So, both we will parallely work and we'll see how it turns out.

Dushyant Mishra: Has there been more traction on the CDMO front, have you been able to see any more enquiries or customers coming that way?

Rajesh Srivastava: Yes, there has been better traction in CDMO side which I have mentioned in the speech also, both in pharmaceuticals as well as in agrochemicals segment.

Moderator: Thank you. The next question is from the line of Ritwik Sheth from One Up Financial Consultants. Please go ahead.

Ritwik Sheth: In the March analyst meet, you had mentioned that we're looking to do a CAPEX of Rs 900 to Rs 1000 Crore over FY22 to FY24. So, are we on track for that? And also, with the increase in demand, do we look at higher CAPEX going forward?

Rajesh Srivastava: I think chairman has already mentioned in his speech that all our growth plans are on track. So, whatever we have talked in March we are following in a very-very focused way. So, far we can say we are on track, and I hope we will be in a position to take it through the way we have planned.

Moderator: Thank you. The next question is from the line of Neha Agarwal from SageOne Investment Managers. Please go ahead.

Neha Agarwal: So, just want to touch upon a few points. One is for Diketene, while you did mention that there is some demand from the existing customers. At a broader level is it going to be the existing client base that you'll be leveraging on will be getting into newer markets, going for a new client acquisition there?

Rajesh Srivastava: I think I've already mentioned that we are looking global as a market. So, if there are existing clients who needs our product, we will be definitely very happy to supply there as well as we are looking at customers outside as well as we are looking at value-added products from Diketene. So, all the three areas we are working. We will see how the scenario turns out and we will take the direction accordingly.

Neha Agarwal: So, are the sales more institutional there or is it typically happens through say a lot of distributor channels?

Rajesh Srivastava: No, we mostly work with direct customers.

Neha Agarwal: One question on the Life Science. Margin expansion has been quite significant. Could you give a split between price growth part versus the value growth part, just want to understand how sustainable are these?

Rajesh Srivastava: So, in Q4 as well as in FY21, we have grown both in volume as well as in price. So, the result which you see is because of both. As I already said that our new capacity which we added in FY20 has also come very handy to service that increased demand. So, that volume also has grown as well as the price have been favorable. So, the result you see is of both.

Neha Agarwal: If I take the blended numbers for entire year FY21 from the pro-forma, then we expect similar margins to be maintained going forward while you did mention about passing on the prices and maintaining margins?

Rajesh Srivastava: So, it's very difficult to comment on quarter-on-quarter margin or EBITDA, but definitely we can say one thing that our overall FY22 performance should be better both in revenue as well as in EBITDA better than the FY21. That much we can definitely say but what happens quarter-on-quarter is very difficult to comment on.

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

Ashish Thavkar: Could you also comment on the ethanol blending program which is extended by the Government of India and how do we see this benefiting to us?

Rajesh Srivastava: So, as you know that we have the capacity of ethanol to produce some capacity which we are servicing to EBP as well as to our other customers, we have not taken up any capacity expansion there. So, I don't see that there will be any increased supplies of EBP volumes what has been announced from our capacity right now. So, we will be serving whatever we have customer and whatever volume we are currently servicing.

Ashish Thavkar: My next question is on this Diketene chemistry wherein Lakshmi Organics has a commendable market share in India. So, as you said there's a lot of import substitution to be played out, but on the international side of this business would you be catering more to the CDMO side of the business, or you feel it would be a normal B2B arrangement?

Rajesh Srivastava: So, both, I mean, there will be CDMO opportunity on agrochemicals side as well as pharma side, but also, we have a great opportunity on a lot of value-added products. So, that is what we are targeting also beyond the existing domestic market.

Ashish Thavkar: Given that there is some kind of a technology barrier to this part of the chemistry, how do you see the competition shaping up because if the space grows more profitable and obviously it's bound to attract more competition, but how do you read the market then?

Rajesh Srivastava: So, as we have mentioned this point that this chemistry is not easy to really any competitors to get in, there is not barriers to this technology and we being the largest producer of this technology that is heating technology, I think for us it will be easier to multiply in terms of capacity and that's why we have a plan for phase-2 as well. Having said so, we can't rule out any competition but it's not easy in this kind of technology to get in so soon. We are developing this technology in-house, so the value-added product we are developing in-house, the key team we are operating for many, many years. We have very high expertise in this area.

Ashish Thavkar: It's a very broad chemistry in the sense that there are so many products you can manufacture using this chemistry. So, what is the kind of a product bouquet that you are planning to start with?

Rajesh Srivastava: There is a broad chemistry, but you know the basic building blocks are hardly six or eight and then there are at least dozen of high volume, high value intermediates. Of course, I can't be specific. So, those are the products we are already developing which are required for pharmaceuticals as well as agrochemicals and that's our long-term plan.

Ashish Thavkar: On Vitamin B3, so primarily which are target markets, domestic or sizeable portion also comes from the international market?

Rajesh Srivastava: In Vitamin B3 I think you missed my point in speech, we have almost 95% of Vitamin B3 with export. Our domestic supplies are becoming B3 hardly 5%, very small value. Mostly export all across the world.

Ashish Thavkar: Are there any capacity expansions particularly in this Vitamin B3 category?

Rajesh Srivastava: Yes, we continue to do that because Vitamin B3 we have grown from very low level to this high level. We have already done debottlenecking last year and we plan to do it maybe after one year more. So, as the demand is growing, as we are entering into value-added segments like food and cosmetic and pharma also now we are planning I think we have to keep adding capacity which we continue to do that, I have mentioned that already.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Sir, in a recently published RHP, there was this mention that our top five products contribute 70% of sales and maybe top 10 by 80%. Would like your comment on the product concentration that we have?

Rajesh Srivastava: Our top 10 products contribute to I think 65%-70% of our revenue. That's the way it is.

Pratik Kothari: But going forward it will be as concentrated as this, I mean do you see any risk to this part or are we working on diversifying our shares from different products, how do we look at this number?

Rajesh Srivastava: So, if you see Speciality Chemicals business, this is not a very high value product base, but they are high contributing products. So, you will find the specialty product with the sales value of let's say Rs 10 Crore or 15 Crore, but we definitely have those technologies, we will strive to have those products. So, we are not hesitant to bring a new product which has good size revenue, and it fits into our technology base and existing facilities, we would like to take those products but there are plans to bring products like Diketene derivative etc., which are large value and agro active which are large value for future. So, we are having mix of that, large value growth products as well as small revenue generating products with higher margin from the same base technology. So, both are mixed which we are targeting for future.

Pratik Kothari: If we look at a gross margin on an annual basis, it's almost same as last year. So, a large part of our operating margin improvement has come via maybe leverage or lower cost. So, how much of this is sustainable, I mean, is a large part where we were able to cut costs due to COVID and some of it will come back?

Rajesh Srivastava: No, I think our margins which have improved in some segment of business which has come from better volume as well as better price.

Pratik Kothari: So, operating leverage largely?

Rajesh Srivastava: Yes.

Pratik Kothari: This exceptional expense of Rs.13 Crore if you can highlight?

Prakash Bisht: This is towards write-off of some older assets.

Moderator: Thank you. The next question is from the line of Rushabh Sharedalal from Pravin Ratilal Share and Stock Brokers Limited. Please go ahead.

Rushabh Sharedalal: Just had two questions both on the Diketene front only. So, the present revenue of FY21 as I see it is some 3,500 Crore. So, just wanted to understand what percentage of revenue do we derive from Ketene, Diketene and the Diketene derivative?

Rajesh Srivastava: It's very difficult to give that specific number as of today.

Rushabh Sharedalal: But any approximate ballpark number of revenue and margin?

Rajesh Srivastava: As we said, we will be bringing the product in Q4. So, I'm sure it is not going to be significant. So, again it's very difficult to give that specific number.

Rushabh Sharedalal: The second question is pertaining to the CAPEX of Rs.900 Crore that you plan for Diketene over the coming three years. So, what percentage of this CAPEX do you anticipate it is going to be funded through internal accruals and what percentage through borrowings?

Rajesh Srivastava: Rs900 crore entire CAPEX we mentioned earlier also that most of it will be from internal accrual because we have a good situation going forward.

Rushabh Sharedalal: So, by most of it can I assume that almost 60%-65% will be from internal accruals only?

Prakash Bisht: Difficult to put a number around it because this entire amount is not coming in one year. So, we have said Rs 900 Crore for three years. As you would also notice that for the next year we have said in the range of Rs 300-350 Crore. If you look at our operating cash, you would realize that we are generating sufficient cash. So, it appears that we will be able to do this from internal accruals but as the years go by then we will know exact situation.

Moderator: Thank you. The next question is from the line of Swarnabha Mukherjee from Edelweiss. Please go ahead.

Swarnabha Mukherjee: My first question is on your Nutrition and Health Solutions business. So, wanted to have at least a qualitative view from you on how the margins and the profitability has been in this business given the current scenario and the sustainability of the same going forward?

Rajesh Srivastava: In Nutrition segment business, our products demand is stable; however, as I mentioned that input prices are changing very drastically, you can see every 10 days, 15 days price change happening and as we explained in the earlier questions that our endeavor is to pass on the price as much as possible. So, it's difficult to say how much margins we will maintain quarter-on-quarter, but we try to meet up the demand and we try to pass on the input price increase. So, we see the demand is going to be stable or good and that we try to service the whole demand.

Swarnabha Mukherjee: Sir, if I rephrase the question in a slightly different manner, wanted to understand from you, given your historical experience in this Vitamin B3, B4 segment. Where has the profitability been in the last say one year vis-à-vis your history, is it on a higher side or is it at an average or lower than the earlier years?

Rajesh Srivastava: I think FY21, I would not say lower or better, but it has been good. We still expect the better pricing in future as we mentioned earlier also because of the raw material availability of Beta business.

Swarnabha Mukherjee: Is there a possibility of also better profitability coming from value added grade that you have mentioned like on the human health side?

Rajesh Srivastava: Yes, you're right, those segments give us better pricing and that is the reason we want to also have good product mix of those grades, but at the same time that volumes of those grades are limited. So, the feed is the major volume, but food, cosmetics, pharma, they are also growing. So, we have to take the major share there and we are working for that. Those segment gives better margins, you are right.

Swarnabha Mukherjee: So, sir, can you throw some light on how the approval cycles are on say pharma or cosmetic from your customers?

Rajesh Srivastava: So, in cosmetics and food, we are already there in the market, we are applying to many customers, we are approved with several customers. What we are trying to do is enhance our market there. In terms of pharmaceutical segment, we are working to make our plant USFDA auditable. And yes, there is approval process of almost I think 12 to 60 months. That's what is the timeline but we are working on that. Once we are ready, we will offer the products to the customers maybe in next one year and one-and-a-half-year time.

Swarnabha Mukherjee: Any color you can give over the next three, four years, any proportion in the overall Nutrition Health Solutions segment that you have in mind that will contribute the pharma, food the higher margin product?

Rajesh Srivastava: So, we are actually targeting all the segments. By targeting food, pharma and cosmetic, does not mean we are not targeting animal feed also. So, as I mentioned we are increasing our capacity because being a market leader we have to continue servicing all our customers. So, you will not see the significant percentage change because our overall volumes are good. But yes, these segments, our markets here, we are targeting to be improving going forward.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: One clarity, in your presentation you have mentioned that Life Science Chemicals business on year-on-year basis, price has been stable, yet margins have doubled. So, is it because we have increased the price of the product despite the raw material prices has been stable?

Rajesh Srivastava: Yes, wherever there is an opportunity of profit condition, we try to take price increase which has happened in the past. So, you're right.

Ranvir Singh: Apart from this, do we have other products also in this segment where we have seen significant increase in prices?

Rajesh Srivastava: No, Acetic Acid is a major input for these kinds of products. Of course, raw material prices across is going up as you know. But in this product acetic acid is the key raw material.

Ranvir Singh: So, this 18% kind of EBITDA margin should we take it forward for FY'22, '23 or better than this we can because this year we saw a lot of volatility due to some benefit of pricing, so in this scenario your input will be a question.

Rajesh Srivastava: As I have mentioned to an earlier question also that very, very difficult to give any guidance on our margin part because raw material prices are not in our control, market conditions are not in our control; however, we will definitely try to see that our overall performance as I mentioned it will be better than last year.

Prakash Bisht: I want to add, we have said in last time also, in this particular life science chemicals business, it is better to see the absolute amount that we are making. So, it's always better to track the absolute amount rather than the percentage margins because here sometimes the value of the sales changes because of the acetic price, so it is better to track the absolute value of a product.

Ranvir Singh: Why I was asking on margin front because Rs.300 or 350 Crore kind of CAPEX for FY'22, I believe that Rs.63 Crore we have in work in progress, is it part of that Rs. 300, 350 Crore or Rs.63 Crore work-in progress is related to earlier CAPEX?

Rajesh Srivastava: It's part of Rs.350 Crore.

Ranvir Singh: On margin front even we see currently what kind of profit we are making every year and we have a long-term CAPEX plans also for Rs 900 or Rs 1,000 Crore, every year we are making Rs 300 - 350 Crore, so any risk on margin, any contraction in margin actually will affect our repayment of debt what currently we are talking about debt would be reduced. Am I taking it in a right way or you are confident that either volume or margin will improve further so we'll have enough cash for this program?

Prakash Bisht: Our net debt as of 31st March is only Rs.431 Crore. Our debt-to-EBITDA is of 0.7%x and debt-equity is about 0.22. So, from the balance sheet side if you see we are very-very comfortable. So, in the earlier part of the call also explained that currently the cash generations are very healthy, and we expect to meet the CAPEX from internal accrual.

Moderator: Thank you. The next question is from the line of Ronil Dalal from Ambit Investment Advisors. Please go ahead.

Ronil Dalal: My question was actually that compared to your large domestic competitor in Acetyl we have been able to perform significantly better on margins. So, is there any reason behind that in terms of pretty more backward integrated, better technology, larger scale of operations, is there any reason for that?

Rajesh Srivastava: All that what you said are the reasons. Our scale, our backward integration, our spread of customers, our spread of geography and our strength in securing the raw materials at right time, at right price, all that cumulative makes the impact.

Ronil Dalal: In terms of the backward integration, what level would you be backward integrated in your products like especially ethanol acetic acid?

Rajesh Srivastava: In terms of acetic anhydride, there's not much of backward integration there. So, the acetic acid is the key raw material but yes the scale of operation and the entire utility which is all in-house and the effectiveness of utilization of utility, cost optimization, those are the factors. As I mentioned about our spread of customers and geography, we place our products across the world.

Ronil Dalal: Sir, you were saying that the savings because you'll have some in-house source of power or something or…?

Rajesh Srivastava: In Gajraula, yes, we have our own captive power plant, but we use business excellence in Six Sigma tools and techniques to continuously working on optimization of efficiencies in all our products. And in large volume products even the smaller efficiency improvement makes a huge impact. So, that's the continuous process of improving the utility consumption, improving the norms, all those things are a continuous exercise which we do in all our products.

Ronil Dalal: On the ethanol part, you were mentioning…?

Rajesh Srivastava: We produce ethanol for EBP program and for some specialty ethanol. There we are already selling to blending program as well as facility ethanol and some portion of ethanol for our own consumption we import.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus Asset Managers. Please go ahead.

Rahul Veera: In terms of month-on-month changes that I have seen in the presentation on slide #27 to be specific, for example, if I see employee benefit expenses for one month is Rs.35 Crore, but for the subsequent two months is Rs.49 Crore, so sequentially something is a little bit off I believe and even the EBITDA if I see it's Rs.83 Crore for one months and for the subsequent two months collectively is Rs.120 Crore.

Prakash Bisht: It's a better way to see full quarters, month-on-month is not a correct indication and particularly the year end also. You must also consider that in mind that this one month was also the cut-off period for the purpose of the demerger. So, a lot of dual impact has come in this one month. So, actually this one month can be somewhat slightly abnormalities because till December business was carrying on, on a continuing basis, when the demerger came in this month of January, so certain true ups has taken place. So, this one month is not actually a very correct representation of ongoing business because at the time of demerger certain true ups has happened. So, they are more one off in the nature.

Rahul Veera: In terms of trade receivables, the number is quite big for us at the March ending. So, can you throw some light there, Sir?

Prakash Bisht: Trade receivable is higher this time because as we have explained earlier that in life science chemicals and all these segments, we are enjoying very good prices. Because of all these price increases, the receivable part has also increased. It's also reflecting here. But if you see the net working capital it has actually improved because it's also there in our presentation because on one hand you have a higher price raw material which allows you a credit, on the other hand when it is factored into the sale price and then you sell it, it also results in a higher receivable but net if you see is lower.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Hari S. Bhartia: We thank you all for joining us this conference today. If you have any further questions, we will be happy to reply for that.

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