Jubilant Ingrevia Limited

Q2 & H1 FY '24 Earnings Conference Call

November 01, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Jubilant Ingrevia Limited's Q2 & H1 FY '24 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and anyone who wishes to ask question may enter star and one on their touch-tone phone. To remove yourself from the question queue you may enter star and two. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pavleen Taneja, Head of Investor Relations. Thank you, and over to you, sir.

Pavleen Taneja: Thank you, Rayo. Good evening, everyone. Thank you for being with us on our Quarter 2 & Half Year of financial year 2024 Earnings Conference Call of 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 results presentation that has been shared on our website.

On the call today, we have Mr. Shyam Bhartia, Chairman; Mr. Hari Bhartia, Co-Chairman; Mr. Deepak Jain, CEO and Managing Director; Mr. Prakash Chandra

Bisht, CFO, Jubilant Ingrevia Limited; and Mr. Arvind Chokhany, Group CFO, Jubilant Bhartia Group.

I now invite Mr. Shyam Bhartia to share his comments. Over to you, sir.

Shyam Bhartia: Thank you, Pavleen. A very good evening to everyone. Thank you for joining us on Q2 & Half Year of financial 2024 Earnings Conference Call of Jubilant Ingrevia Limited. We are pleased to announce a stable business performance in Q2 and H1 FY '24 amidst the challenging market conditions.

Let me first take you through an overall macro trends. Globally, we see following trends in the Life Science business.

In agrochemical sector, we have witnessed reduced volumes of the actives in the global market due to continued destocking of inventory. Globally, prices are depressed due to increased supply from China at a very low prices since the lifting of COVID restrictions. This has put pressure on our Agrochemical Intermediate business on both volume and prices.

In pharmaceutical end-use segment, demand remained stable, and we are witnessing a good growth in our segments aligned to this sector. In segments like food, cosmetic and FMCG, demand for our products remain strong. In these segments, we are present through our vitamins and other ingredients.

As we move ahead, our outlook and priorities are as follows:

Going forward, we strongly believe that the agrochemical segment should improve in H1 next year, with some green shoots in Q4 FY '24. We remain confident of serving agrochemical sector with international agrochemical companies trying to diversify their supply chain with China Plus One strategy. We are seeing many new inquiries and currently under discussions with a few of the agrochemical companies for meeting their long-term requirements.

We will continue to invest in this sector in view of the advanced discussions with some of our customers. Indian market fundamentals remain strong, with growth driven by domestic consumption across sectors, except for agrochemical sector, which is undergoing tough challenges in line with global trends. We continue to focus on pharmaceutical sector with both existing and new clients in order to increase our presence.

We will increase our presence for supplier of ingredients in food and cosmetic sectors through investments already underway. On input cost front, we have witnessed softening of coal prices during the quarter, leading to improvement in energy cost. We remain committed to deliver structured growth in future in line with our defined capex plan.

We are pleased to welcome Deepak Jain as CEO and Managing Director of the company, who assumed office on 1st October 2023.

I now hand over to Deepak to discuss about the business in detail and wishing all of you a very happy festive season and Diwali. Thank you.

Deepak Jain: Thank you, Mr. Bhartia. A very good evening to all of you. At the outset, I would like to thank you all for joining us today for the Q2 & Half Year FY '24 Investor Call of Jubilant Ingrevia Limited.

Let me now take you through the overall business and financial performance, along with key highlights of the company for the second quarter of FY 2024.

I'm happy to report that share of Specialty Chemicals and Nutrition & Health Solutions business in the overall mix of our revenue continued to increase at 53% in Q2 FY '24 vis-à-vis 43% in Q2 of FY '23. The demand traction for Specialty Chemicals business from CDMO and Pharmaceuticals end-use customers has been healthy. However, demand from agrochemical customers is facing headwinds due to continued excess channel inventory in the system.

The Nutrition & Health Solutions business segment performance was stable as we saw stable volumes and improved realization in both Nutrition & Health Ingredients business, and Animal Nutrition & Health Solutions business. In the Chemical Intermediates business segment, revenue during the quarter was lower due to lower price realization of acetic anhydride as well as ethyl acetate on the back of lower acetic acid prices.

On the customer front, we are getting good traction with several customers across acetyl and Specialty Chemicals business for long-term contracts. In the CDMO business, we have a healthy pipeline across pharma, fine chemicals, and semiconductor chemicals for long-term contracts.

Our major capex projects are on track. The new acetic anhydride plant in Bharuch has been stabilized and the agro active/intermediate plant is on track for Q4 FY '24 commissioning.

On the energy cost front, our plans to reduce overall energy supported by lower coal prices have started bearing fruits, both at generation as well at consumption funds. On the back of all of above, despite the challenging markets in the last quarter, our overall EBITDA and margins have improved sequentially.

As we move into Q3, we are also initiating Project Lean, which will help us in making the organization leaner and more agile by taking out any inefficiencies in our overhead.

Let me now take you through the updates on all our three business segments individually. I'll start with the Specialty Chemicals business:

During the quarter, the Specialty Chemicals business segment witnessed sequential EBITDA growth, owing to better product mix, higher sales contribution coming from pharma, consumer and industrial end-use segments, including our CDMO customers.

Our CDMO business witnessed positive traction during the quarter. We added multiple new projects, which are currently in their early-phase pipeline. We are also getting inquiries from large global customers across pharma, agrochemicals and semiconductor space for strategic partnerships. We also launched two new forward-integrated derivative products. Pipeline of another seven to eight products are under advanced stage of development and commercialization.

We are also observing good momentum in our Diketene range of derivatives, wherein we also operated our Diketene plant at optimum capacity utilization during the quarter. Our expansion of Diketene derivatives is also in progress, wherein we are expecting the commissioning of the new Diketene derivatives plant towards the end of FY 2024.

Our agro active/intermediate plant is also expected to roll out as per schedule, and we expect it to be commissioned in Q4 of FY '24. Under our Microbial control solutions business, we are witnessing healthy traction in Pyrithiones business, coming especially from paints and coatings end-usage. Therefore, we have carved out Microbial control solutions as a separate business unit for focused growth. We are also expanding production capacity of Pyrithiones, wherein we augmented the ZPTO active manufacturing capabilities in our Ambernath production facility.

Finally, given the closure of plants from one of our competitors in pyridine and picoline, we have now become the only non-Chinese and world's largest producer of Pyridine and Beta globally. We have already started to receive a few inquiries from new customers due to this development.

I will now move on to Nutrition & Health Solutions business:

During the quarter, revenue and EBITDA within the segment grew on a year-on-year basis, primarily led by stable demand and improved pricing in major products. We observed the vitamin demand getting normalized after witnessing a pent-up demand in Q1 and also witnessed stable demand and improved pricing for niacinamide.

Our Animal Nutrition & Health Solutions vertical gain growth in volume and continues to focus on specialty products for future growth. Major traction was witnessed in premixes, especially in mineral premixes, emulsifiers and chromium and herbal formulations. We are continuing our focus on improving volumes and market share from customers in niche segments of cosmetics and food-grade end use.

Our capex for GMP-compliant facility for expansion of food-grade Vitamin B4 is in its final stages of planning. We are also planning to enhance capacity for Choline and Specialty Premix products to cater to the improved demand.

Finally, let me just take you through the Chemical Intermediates business segment as well:

During the quarter, revenue within the segment on year-on-year basis was lower, mainly due to lower acetic acid prices. The acetic acid price remained range-bound, hovering between $400 and $500 per metric ton.

During the quarter, business observed muted demand from agrochemicals and paracetamol end-usage customers, wherein industry is observed to be maintaining lower levels of inventory. This led to continuing pressure on realizations. Despite the challenging situation, the business continues to maintain its market leadership for Acetic Anhydride in domestic as well as international market.

Our newly commissioned global scale Acetic Anhydride plant at Bharuch was stabilized during the quarter. We are also evaluating volume-based contracts with global customers, which will help scaling up volumes in the future.

We are also happy to share that our new product, Bio Acetic Acid, is gaining its acceptance as a sustainable food preservative by major brands in India and is under approval with global customers, too. We have also received FSSAI and FSSC 22000 certifications for the same.

Let me move to the overall financials of the company. The overall revenue during the quarter stood at INR1,020 crore as against INR1,304 crore in Q2 of FY '23. The decline was due to lower revenue coming from Chemical Intermediates business largely. The EBITDA for the quarter stood at INR126 crore as against INR160 crore in Q2 FY '23. EBITDA margin was stable on a year-on-year basis. However, it improved sequentially.

The capital expenditure incurred during the quarter was INR126 crore and INR306 crore during the first half of the year. The expected capital expenditure in H2 is INR330 crore. Majority of this expenditure will be in Specialty and Nutrition segment towards agro actives/intermediate plant, cosmetic-grade Niacinamide, value-added derivatives of Diketene and towards new boiler and power plant at Bharuch.

The net debt of the company as on 30, September 2023 was INR701 crore, and net debt-to-EBITDA ratio was at 1.3x on the basis of trailing 12-month EBITDA. Increase in net debt was primarily due to steady capex expenditure and higher working capital. The net working capital percentage to turnover for Q2 FY '24 was higher at 22.6%, due to decline in payables for earlier purchases while the fresh purchases were rationalized. The company continues to remain under old tax regime, and the ETR for Q2 stands at 28.1%.

As we move forward, I would also like to share some updates on a few strategic initiatives undertaken by the company in recent times. On the green initiatives and sustainability front, we conducted biogenic carbon content study of our products through C-14 testing, and two of our products received 100% rating and several products are 80% and above. This will increase acceptance of our products further as our global customers work towards meeting their ESG obligations.

We set up a new state-of-the-art R&D lab at Greater Noida with advanced fume hoods and analytical machines to provide world-class technological and developmental support. On the digital front, we have started a new initiative called 'Project Surge' towards enabling transformation of business processes across manufacturing, supply chain and sales through digital interventions. This initiative has started yielding early-stage results through innovative solutions like 'Digital Twin of Plants.

We have also implemented data analytics and visualization 'Project Insight' in our business processes to help more efficient decision making. We are working towards improving our efficiencies in the businesses and have targeted to improve our power mix towards renewable power, grid power, power purchase to exchange in addition to captive generation. We also have a target of increasing our share of renewable power to 4x by FY '28.

We have plans for implementing technological upgrades in existing as well as new production boilers to utilize biomass along with coal. Through our CSR initiatives, we have achieved significant milestones wherein in the field of healthcare, we have successfully piloted IVRS system for ensuring compliances for tuberculosis, monitoring and reduce the spread of MDR tuberculosis for over 3,000 patients. We also supported one lakh-plus patients for healthcare needs through our digital platform called 'JubiCare'.

On the education front, we created digital classrooms in more than 1,056 schools and have also created 70 micro science labs. On the livelihood front, we are supporting 20,000-plus farmers to improve their milk yields, create food orchards and good agricultural practices.

Finally, let me spend a few minutes to share my early thoughts on the future vision of the company. Despite the short-term market challenges, we continue to stay bullish on the long-term growth prospects in our core segments on the back of China Plus One macro trend. Given our strategic investments in recent years, we believe we are well poised to ride this growth wave in coming years.

Our vision is to transform into a global leader, providing innovative and sustainable solutions in our priority sectors such as Agrochemicals, Specialty Chemicals, Pharmaceuticals, cosmetics, human and animal nutrition.

As we embark on this journey, I see six pillars of our growth road map, namely customer centricity, safety, innovation and technology, world-class operations, ESG and people focus.

In the coming months, we will detail out our strategy further across our key businesses based on the above six pillars and start rolling it out.

With this, I would like to conclude our opening remarks. We'll now be happy to address any questions that you may have. But before I close, I would like to wish you all a very happy Diwali and rest of the festive season.

Moderator: Thank you. The first question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: Yes. Hi, good evening. First of all, congratulations, Mr. Deepak, and all the best for your journey at Jubilant Ingrevia. So, I have a few questions. First one is with respect to the capex and the related revenue and throughput, which is supposed to come. So, if you can just highlight in the last one year, what all capexes have been completed? And what are the progresses on each of those capexes? And over the next one year, which are the capexes which are going to get commissioned? And what are the expectation in terms of ramp-up of each one of them? That is my question number one.

Deepak Jain: Sure, Resham. Thank you for your wishes and good question on capex. If you recall, a couple of years back, we announced capex investment of about INR2,000 crore, spread over these three fiscal years, previous years, this year and next year. And the rough distribution was roughly 1/3, 1/3, 1/3. So, I'm happy to announce that we did spend 1/3 of that capex last year, and most of those capacities are in revenue-generation mode right now. And with coming quarters, we should be able to achieve a very high level of utilization on this capacity.

The second half, about INR550 crore to INR600 crore plus is planned for this fiscal year, of which half of that we have already invested in the first half of the year, and the plan for investing another half is on track for the second half of the year. In second half, most of the investments will be going into Specialty, not just in second half, but actually even next year, most of the investments will be going into Specialty and Nutrition businesses.

In second half of this year, the main investments are going to be in Diketene derivatives, our agro intermediate plant, as I said in my opening speech, which will be ready to be commissioned by Q4, and a few other derivatives that we are doing. We are also investing in a boiler to improve our overall power cost, which will also come up by Q4 of this year.

Resham Jain: Okay. So, in terms of, let's say, the unrealized revenue from capex, which has already been commissioned, based on the current, let's say, realization, if you can help that what kind of further revenue can come from projects which have already been commissioned? And whatever capex we have, we are planning, let's say, Board has approved, what incremental revenue can come from that?

Deepak Jain: So, I will answer that, Resham, by giving a couple of examples, of course, without getting into the specifics, which I should not. But the plants which got commissioned last year are already operating anywhere between 50% to 75% of capacity utilization. And we are very hopeful, obviously with a little bit of slowdown in the market, if we take a few additional months for the capacity to fill up. But we are very hopeful that by, let's say, Q1 of next year, most of those plants will be operating at a higher level of utilization.

The capacity, which is coming up this year, obviously, it is early stages, will take the normal ramp-up time, which any plant of these scales will take, let's say, six months to 12 months to get traction and then move to a higher level of utilizations.

Resham Jain: Okay. I was asking more from asset turn perspective, INR600 crore capex would be what kind of revenue, is what I was just trying to understand?

Prakash Bisht: So, if you see our overall revenue, because the acetic acid prices came down significantly. And because of that, the chemical intermediate revenue is significantly lower. But if you would see, we are on the run rate to maintain the last year's level. So, we are able to do that because our all the new plants have started producing and adding to the revenue. So whatever revenue came down because of the lower acetic acid price, that has been led by the revenue generated from the new plants. This is how the revenue is balancing.

Resham Jain: Okay. One last question, and then I'll come back in the queue. This is with respect to overall margins. We have seen a sequential improvement in margins since Q4 now. So, should one expect to see the sequential improvement even in the coming quarters? Because our earlier margin profile used to be like 15%, 16%. How should one think about margins, let's say, going forward? Because Q2 seems to be the worst quarter from a demand perspective, for a lot of agrochemicals and all. So just your thoughts around it?

Deepak Jain: So, Resham, as you would have observed, the margin improvement, a lot of it is driven by increase in our Specialty Chemical business contribution into the business, which has reached 55% at EBITDA level in this quarter. We are hopeful that the Specialty Chemicals business will continue to increase. And given the product line we have, which are mostly on high-value product category side, we are hopeful that the margin profile for that segment will continue to increase and will contribute positively to the overall EBITDA margin.

However, on the Chemical Intermediates business side, as I explained, there is some volatility. So, the overall EBITDA profile will be dependent on that as well. But at least from Specialty Chemical contribution perspective, we expect the EBITDA margin to continue to increase.

Moderator: Thank you. We take the next question from the line of Nitesh Dhoot from Dolat Capital. Please go ahead.

Nitesh Dhoot: Hi, team. Good evening. Deepak, welcome on board and best wishes for the future. So, my first question is on the Pyrithiones business. If you could just elaborate, just give some more color on that and the investments that are being envisaged there and the business potential?

Deepak Jain: Okay. Thank you for the welcome, Nitesh. So Pyrithiones is to the buyer side, which comes out from a product where we are backward integrated. So, we have an inherent advantage in that product. And we believe, we are the lowest-cost producer of that product today in the world with all the optimization work that our teams have done.

We are getting very good traction in that product, both from companies which were earlier producing that product themselves but now want to outsource it to us, as well as some of the end customers of that product, particularly in the industrial and marine segment. And we have a facility in one of our plants in Ambernath, where we have expanded the capacity already. We are hoping as we fill up that capacity with the momentum and traction we are already getting, we may need to expand capacity further in coming years. But at an overall level, the traction is very good. And it's a reasonably strong and stable demand in the industrial and marine segment for Pyrithiones.

Nitesh Dhoot: That's helpful. My next question is on the power and fuel cost, which has come down, I think, because of the coal cost reduction around 13.1% of our revenues, our normal range used to be 8% to 9% of revenues earlier. So, while I understand that this might be a function of the product mix or the prices as well, but what I'm trying to understand is that if the power and fuel cost per unit on our pyridine business would have come back to normal or not yet?

Deepak Jain: Yes. So, you're right, the power cost has come down to 13.1% with all the efforts we have taken, and coal costs have obviously contributed to it. But if you compare the coal cost, it has not come down to the level, historical levels yet. So that's one of the reasons which is still keeping it relatively higher versus the range you talked about, which we have seen in the past.

Secondly, obviously, our product mix is also changing. And as a result, in some of the products, we may not use the same benchmark which we have used in the past, Nitesh. But at an overall level, as we mentioned on this call as well as in our investor presentation, we are working on several initiatives to optimize our power costs further, including having renewables in next couple of years. We are hopeful to bring the overall cost as a percentage of revenue further down in coming quarters and years.

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

Rohan Gupta: Good evening and thanks for the opportunity. So first of all, welcome to Mr. Deepak Jain, and many wishes and hope under your leadership the company will do very well, going forward, in reaching heights in terms of both profitability as well as stock prices. That's what is our expectation.

So, coming to question, so first, if you can give some reason for sharp increase in employee costs for the current quarter from the previous quarter?

Deepak Jain: Yes. Rohan, Thank you for the welcome. Obviously, that jumps out very clearly in the P&L the employed cost. There are two main reasons. One is as you know and as Resham also asked, we have been investing in the business and building up capacity for new products and projects. And we have been hiring in anticipation of demand on those projects and for those products.

So we have obviously built up an organization which is supposed to serve a certain level of revenue, which due to softness in demand in the market in the last two quarters has impacted our revenue, and revenues are below the projections we had in mind and as a result, on and percentage basis, the cost seems to be jumping up.

And one of the major difference there is the Chemical Intermediate business where revenues have come down in line with Acetic Acid prices, which obviously while the volumes have increased versus last year on Acetic Anhydride, that jump is purely price driven. So, these two factors from a denominator perspective, but also generally, in May, June, we do the appraisals for our employees, and that's when we have given increments as well. So, there is a onetime hit which has come because of that as well. So those are the two factors.

Having said that, given where the market is today, as I mentioned in my opening speech, we have launched a project called Project Lean which is focused on looking at every part of our overheads closely in coming weeks. And wherever we feel we can optimize our overheads or stagger it further; we'll do it and hopefully bring this cost in line with historical benchmark over the next couple of quarters.

Rohan Gupta: So, there is some element of one-off in the current quarter, which you mentioned. And can you further quantify a little bit, if possible?

Prakash Bisht: So, Rohan, what Deepak was explaining was that increments are effective from Q2 in our case. So, the impact of increment was there. And most of our new plants started operating towards the Q1, so the cost of those plants also started adding to the personnel cost.

Rohan Gupta: So, this is a normalization basically.

Prakash Bisht: Correct. It is also just time is constrained. Yes.

Rohan Gupta: Yes. Sir, second question, as you have mentioned, there definitely global AgCem industry is witnessing some weakness and you are expecting some green shoot maybe in Q4 and recovery in H1 next year. However, we are in a very critical time right now when many of our agrochemical intermediate plants were supposed to commission by Q4. I mean over the next two to three quarters, we are supposed to commission.

How our that business, I mean, agro actives or you can say active ingredient business is going to be impacted in terms of the commissioning of new plant? Any delays, any pushback from the customers on those intermediates?

Deepak Jain: Yes. So, Rohan, so one, at least from a plant capacity perspective, everything is on track, as I said earlier. So, our plant will come up in Q4. Secondly, even as per the original plan, there was a certain ramp-up we had assumed of that product. We have three or four products, which are going into production immediately, and we will start supplying to the customers in relatively smaller quantity. That was the original plan.

So, we have not seen any impact on those quantities as of yet. Having said that, there is a certain time which any new plant takes to fill up the capacity, and we are hoping that with time we will fill it up. And obviously, if markets go further south from here, there could be some implications, but we have not budgeted that as of yet because we are expecting a recovery by Q4 of this year and H1 of next year.

Rohan Gupta: Okay. Sir, third question is on Diketene derivative. Though the current plant you mentioned, that is almost at optimum level utilization, I think that margin and the money we were supposed to make from the value addition or moving upward or moving forward on Diketene derivative, which you mentioned is on track and commissioning by end of FY'24.

So if you can give some sense that how the Diketene business revenue would look like in next year, I mean, FY'25, and more so in terms of margin from the Diketene business itself because in earlier con call, we understood that the money will be made significantly or the margin profile will only improve and be moved upward in the value chain?

Deepak Jain: Yes. So, as I said earlier, the Diketene business is on track. We are getting very good traction on the derivatives. We already have two products coming out of it, which are going to the customers, three, actually three products, and we have two more which will get commissioned in the new plant in coming months. In fact, the business has grown significantly over the last one year, almost more than doubling up, and we expect to get continued traction in that business, going forward, as well.

Rohan Gupta: So, any sense you can give that the revenue contribution from Diketene next year and likely margin profile?

Prakash Bisht: So, Rohan, it's margin accretive only. And during the next year because our current plant will be operating full capacity. The new derivatives which are going to come, that will come only during the next year. So, the impact, if you are looking at in terms of overall significant specialty, it would not be high. But this business, as we have explained many times in the past, it was building. So, over the next one or two years, you will start seeing the impact, not in one of two quarters.

Moderator: Thank you. The next question is from the line of Siddharth Gadekar from Equirus. Please go ahead.

Siddharth Gadekar: Sir, my first question is on the Pyridine side. Just wanted to understand that with Vertellus shutting down with 35,000 tonne capacity, what kind of impact can you see on the industry, one? Secondly, any sense on was that capacity running at is still utilization? Or what was the capacity utilization? And can we see some pricing benefits because of that capacity going out from the market?

Deepak Jain: Yes. Siddharth, good question. So, one, as I said in my opening remarks, with Vertellus shutting down its plant in the U.S., we have become the world's biggest producer of Pyridine and Beta Picoline and the only non-Chinese suppliers. And on the back of most companies wanting to add non-Chinese suppliers to their portfolio, we are getting good traction from customers in the last few weeks since Vertellus announced closure of its unit. We have already gotten a few leads for our Pyridine Portfolio, including the other derivatives.

Now in terms of the capacity utilization, I don't think we have a full sense. But if it were running at full capacity, they didn't need to close it down that you can expect. So obviously, they were struggling. And whatever volumes they were doing across their product lines, be it pyridine, beta, alpha, gamma, we have mapped out that capacity. As I said, a lot of customers have already reached out to us, and we have also started to reach out to customers proactively.

Having said that, as we discussed, the agrochem sector is going through softness. So, it's not that people are reaching out and placing orders immediately. They are inquiring, we are getting a sense of their volume requirement in next few quarters. And wherever customers are willing to sign up, we are booking orders as well.

Siddharth Gadekar: So basically, structurally, we can see like over the next 12 to 18 months that we can grab a meaningful market share from the guys who Vertellus were supplying to, is that a fair assumption?

Deepak Jain: We are hoping to do that. But part of it is also dependent on the recovery of the market and with the dumping happening from China right now, so we'll have to take those considerations into account. But in steady state, yes, we are expecting to get major proportion of that capacity or requirement that was served by Vertellus from its US plant.

Siddharth Gadekar: Sir, secondly, on the Pyrithiones capacity, we would be mainly catering to the FMCG sector, if I'm not wrong. In terms of our approvals, are we have all the approvals with all the vendors in place? Or there would still be some approvals that would be pending after the capacity increases?

Deepak Jain: Siddharth, let me correct you there, the Pyrithiones capacity we are building is not only for FMCG sector. Obviously, there is a requirement in FMCG sector, and we have been serving it, at least in India. But the segment we want to go after with Pyrithiones is the industrial, paints and marine segment. It's especially in the international markets, where there are no regulatory requirements or GMP facility requirements. So that's the segment where we're getting a lot of traction from.

As I explained in the beginning, in answer to another question, there are companies which were producing or serving industrial segment, and they want us to contract manufacture product for them. And at the same time, we also are reaching out to customers directly, end-users directly, where we are getting good traction.

Siddharth Gadekar: Okay. Sir, got it. Sir. And thirdly, in terms of our CDMO, you have mentioned that we are looking at multiple longer-term contracts in the CDMO business. Any color that over the next 2.5 years, three years, where can we see our overall CDMO revenue lag, like in a ballpark in terms of volumes or in terms of revenue?

Deepak Jain: So, I won't be able to share specifics, Siddharth. But what I can tell you, our CDMO business doubled up in last 12 months. And we hope to maintain similar kind of growth rates over the next three to five years. There are multiple discussions which are happening across pharma, biotech, agrochemicals and even semiconductor spaces. Many of them are in advanced stage. Of course, some of them are early stage and take time to build up in terms of volume. But our CDMO business, hopefully, will be one of the biggest growth drivers, going forward, in next three years to five years, not just growth but also profit drivers.

Moderator: Thank you. The next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: Can you help us with volume growth across all the three segments for this quarter and half year?

Deepak Jain: Harsh, you're asking about volume growth by businesses, is it? Your voice was not clear.

Harsh Shah: Volume growth across all the three segments.

Prakash Bisht: So Harsh, we believe that you are asking about the volume growth of three segments. To give you a sense, so niacinamide, which is our Nutrition, we have improved the volumes. Whereas in Specialty, we have improved the product mix, whereas the overall volumes have remained flat, but we have improved the product mix, which has led to the improvement in margin. And in Chemical Intermediates, our volumes have come down slightly because we have rationalized the sale of ethyl acetate.

Harsh Shah: Okay. And sir, just wanted to understand on the capacity utilization front. So, including the old capacity plus the facilities that we would have set up in the last 1.5 years, what would be the blended capacity utilization for us?

Deepak Jain: Harsh, your voice is very bad. It's hard to understand your question.

Harsh Shah: Yes. So, my question is, can you give us the data on capacity utilization across all our plants?

Deepak Jain: No. Harsh, we won't be able to share the utilization levels across plants. But as I said in the beginning, our existing plants anyway are running at high capacity, the new ones we stated last year have already reached 50% to 75%.

Harsh Shah: Well, the purpose I asked this question is since FY '22, when we entered to this capacity expansion plans, we have spent around INR1,200 crore, but since then, our revenue has remained almost steady in fact, has come up by INR600 crore. I partially understand that lower realization of acetyls is due to it. But back then, our target was to double the revenue from FY '22 base, but we have already incurred INR1,200 crore of capex and only around INR900 crore left from here on. Just wanted to understand, do we still stick with that 2x revenue guidance?

Deepak Jain: So Harsh, as I explained earlier, first of all, we haven't done INR1,200 crore yet. We spent INR600 crore last year. The full potential revenue that will come out of that capacity is INR1,000 crore-plus, adjusted for some of the decline in acetic anhydride price. And we are on track to reach there over the coming quarters as markets bounce back.

We are creating another INR600 crore worth of capacity this year, which again, as I explained earlier, in another 12 months, after creating that capacity, we should reach full potential now. The revenue will, of course, follow and got slightly delayed, given softness across, particularly, agrochemical sector and our Chemical Intermediates portfolio.

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

Dhruv Muchhal: Sir, for the anhydride business, you mentioned that you're looking for long-term contracts or probably contract in each of businesses there. So, is this a new trend or I mean, this such kind of contracts were already part of this business?

Deepak Jain: No. So, I think, yes, relatively and it's not that we have not been focusing on contractual arrangements there. Obviously, the contracts in acetyl business are very different from the kind of contracts we are doing in CDMO business, where we have pricing formula and there is still volatility in the market. But we have at least three to four big customers in Europe, with whom we have contractual arrangements now. And in India also, some of the paracetamol customers, we have long-term contracts with them, based on some pricing formula. At an overall level, I think 60% to 65% of our business is based on these long-term contracts in acetic anhydride.

Dhruv Muchhal: Okay. So, this was always the case? I mean 60%, 65% was always contracted for this kind of business?

Deepak Jain: It has increased over the years, particularly as we started expanding into export in European markets, where customers are willing to have at least annual contractual arrangements, if not two years or three years' long contracts agreements.

Dhruv Muchhal: Okay. Sure. And the second question was on the Nutrition business. So, it seems the revenues have recovered reasonably, but the EBITDA, on an absolute basis, still seems a bit low. So just trying to understand, is there's some pressure, some pricing pressure? So just some thoughts here, please?

Deepak Jain: Nutrition, as I think you guys will remember, last year was a bad year from a volume perspective. The markets have come back since then. Q1 was a lot of pent-up demand. Q2 has started to stabilize. But at the same time, there is pressure from China on pricing. One or two players in China have been aggressive in the market, especially in the last quarter and then even in current quarter, so because of which the margin obviously comes under pressure. But as market come out of it in coming one or two quarters, we hope the margins will stabilize.

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

Rohit Nagraj: Sir, first question is in terms of revenues, how much percentage of our revenues actually is derived from the agrochemical sector? And if you could bifurcate that in terms of how much from the Specialty products and maybe basic intermediates or solvents? Thank you.

Deepak Jain: Yes, just agrochemical, in our overall portfolio, is about 1/4. And sorry, what was the second part of your question?

Rohit Nagraj: So out of that 1/4, say, 25%, how much is catered through the Specialty products and maybe the basic intermediates or the basic commodity, semi-commodity chemicals?

Deepak Jain: Yes. I think almost 40, yes, you can assume a significant portion of agrochemical business is coming from Specialty, and that portion is only growing. Obviously, that will include all the derivatives we have coming from Pyridine and Picoline portfolio and some of the products which are coming from Diketene side as well.

Rohit Nagraj: Right. And this particular segment is likely to be relatively muted over the last couple of quarters. And as I hear from your commentary, the recovery will happen in the first half of FY '25, so maybe from April onwards, is that right?

Deepak Jain: Yes. You're talking about agrochemicals?

Rohit Nagraj: Yes, yes, right, right.

Deepak Jain: Yes. And that is true. And to your earlier question, almost 2/3 of our agro portfolio is coming from Specialty.

Rohit Nagraj: Right. Got it. Sir, second question is in terms of the current softness in demand across product lines. Is there any plan to rejig the capex that we had earlier envisaged and the one which is not yet put to on the ground? So, any thoughts on the same? Thank you.

Deepak Jain: No, I think as I explained earlier, we are on track. As per the original plan, we are on track to invest another 1/3 of that INR2,000 crore this year and the rest next year. In fact, there are other opportunities which are coming up on the horizon. As I explained, Pyrithiones could be one. There are others we are considering. So, there is no plan as of now to change any of the capex we already announced. And the other ones, which are on the horizon, we are evaluating them. And we'll -- as and when we decide on them, we will obviously come back to you and announce.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Aditya Birla. Please go ahead.

Naushad Chaudhary: A few clarifications. Firstly, on Project Lean. Can you talk specific steps, which we are taking here to get the result? And by when we should expect the benefit of this initiative on our numbers?

Deepak Jain: So Naushad, we are still defining that, this is a very recent initiative. In the last couple of weeks only, we have identified some areas. And given the nature of this initiative, obviously, I can't disclose the details. But the idea here is to focus on areas which can help us take inefficiencies out as soon as possible. So, we are hopeful that whatever actions come out of this, we'll see the impact of that in next two quarters itself and subsequently as well.

Naushad Chaudhary: Okay. Secondly, in terms of your overall revenue, what percentage would be coming through distributor channel? And what percentage is directly from the client?

Deepak Jain: Yes. I think, as a philosophy, we like to deal with customers directly, by and large. In India market, I don't think we're dependent on dealers anywhere. In international markets, there are some parts of our portfolio which are through dealers or distributors. But at an overall level, the percentage for the full portfolio will not be very high. I don't have that number right now. On the spot part of the business, might be two dealers.

Naushad Chaudhary: Understood. And lastly, on Specialty business. So, if I'm correct here, in last two quarters, three quarters, we have commissioned two, three projects Diketene, agri, CDMO and one Pharma CDMO. But in terms of the revenue run rate, I understand there is a pain here in this, but these two, three projects are sizable, and they have not helped anything in terms of the revenue run rate for this business. So, are we facing challenges to sell these capacities? Or these new capacities are being fine, and we have an issue in the old capacity of Specialty? What's exactly the problem area here?

Deepak Jain: No. So, as I explained earlier, all the new capacities we set up, be it Diketene or the GMP facility, CDMO, agro active, of course, is still coming up, is not commissioned yet; we are getting good traction, and we're filling up capacity as we speak. But what has happened is on the Specialty side, we also have our traditional Pyridine, Picoline portfolio, which goes into agrochemicals. So, some of the positive impact coming from these new product lines got offset by the decline in that portfolio. And that you can see in our numbers as well. Sequentially, our volume in Specialty has been flat, but the realization and margins have improved because the new products are getting more traction, while some of the traditional products, which were going into agrochemical sector, have taken a little bit of hit, at least till agrochemical comes back.

Naushad Chaudhary: So, our initial guidance of ramping-up of this capacity within two years to three years, do we maintain that guidance? Or is there any change in that?

Deepak Jain: By and large, years, of course, there could be one quarter or two quarters delay, given what is happening in the market. But by and large, we are still hopeful that we will maintain that revenue trajectory for these new assets. And hopefully, the older assets, where we are seeing some pressure, like I gave an example, will also start to come back by H1 of next year. So that you can start seeing that upside or upward blip in the revenue, which you mentioned.

Moderator: Thank you. The next question is from the line of Gokul Maheshwari from Awriga Capital. Please go ahead.

Gokul Maheshwari: My question is on the industry structure, where one of your products, you mentioned that you are the only non-Chinese player there. But if you can just give an overview in terms of what is really happening because in a tough industry scenario and you being the lowest-cost producer across your products, are you seeing more such pressures on your competitors and more industry consolidation happening?

Deepak Jain: That's a good question, Gokul. So, there is definitely pressure from China, especially in agrochemicals and parts of our Nutrition portfolio. And in some of the products, the Chinese companies are literally dumping products into markets at variable cost or at a marginal higher price and variable cost. So that pressure does exist right now.

And as you would have seen, the other results coming out, it's an industry-wide phenomenon right now. So, but we are hoping that this is a short-term and unsustainable situation, which is what we are hearing from our customers as well as we meet them and speak about the future growth scenarios.

Gokul Maheshwari: Okay. Secondly, I mean, your broader plan in terms of your capex plan of INR2,000 crore and moving the business more towards Specialty over the years, if it translates the way you are in envisaging, what does this lead to on a return-on-capital-employed basis on a steady-state basis?

Deepak Jain: So, Gokul, whatever projects we planned as well as approved in the past and even for future, we internally take a target of 20% ROCE on those projects. So obviously, with a little bit of blip coming in the market at given point you cannot measure ROCE properly, especially when capacity is still being filled up gradually. But in steady state, we expect the new capacity to give at somewhere around 20% ROCE.

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

Rohit Sinha: Some of my questions are already answered. But one is, when we are saying that Pyridine global capacity shutting down and we are getting inquiries about that, so I believe Chinese players would also be looking at this opportunity to cash in. So I'm just trying to understand that whether that would put a competition for us? And in order to get the market share on those customers, do we have to lose some margin on that front?

Deepak Jain: So, Rohit, if you are studying this sector, you would probably already know, Pyridine is a product where globally, there's already overcapacity, not just now but for probably decades. And still, we have been able to fill up all our capacity on the back of our lowest-cost structure and customer relationships. So, China had the overcapacity, they will continue to have the capacity. But still, even in the past, we have been able to utilize our assets fully.

Secondly, as I mentioned earlier on this call, now that Vertellus is closed, we are the only scale and world's biggest remaining non-Chinese player in this segment. And people want to diversify their supply chain. So, they're not going to go to China for 100% of their requirements. And anyway, we have been serving most of those customers in the past, and their requirements have only increased on the back of this closure. Secondly, there are new customers, which always had the requirements but were buying from Vertellus in the past that are now coming to us for those inquiries.

Moderator: We seem to have lost the line for Rohit. We move to the next question. The next question is from the line of Narendra from RoboCap. Please go ahead.

Narendra: Most of my questions have been answered. Just one question regarding the acetic acid environment that you are seeing. So, when do we expect that to normalize?

Deepak Jain: So, Narendra, it depends on what you mean by normalized. The price, two years back, some people believe, was abnormal, right? So, the current prices are $400 to $500. There was a one-time spike last month, but we believe $400 to $500 will stay for some more time. So, we don't expect it to change significantly in this environment.

Narendra: Yes, I was asking that, that segment is expected to stay under pressure for a little while, right?

Deepak Jain: No. So, as I said, we are not seeing pressure on the demand here. It's just a commodity cycle, and the price is range-bound in $400 to $500. We are not expecting any further pressure or any increase in near future.

Moderator: Thank you very much. That was the last question for today. I would now like to hand the conference over to Mr. Pavleen Taneja for closing comments.

Pavleen Taneja: We thank you all for joining on this call today. We hope we have been able to answer your queries. For any further clarification, I would request you to get in touch with us. Thank you once again for your interest in Jubilant Ingrevia Limited. Wish you all a very happy Diwali in advance. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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