



Valiant Organics Limited

November 15, 2022

To,
Listing/Compliance Department
BSE LTD.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

Scrip Code-540145

To,
Listing/Compliance Department
**National Stock Exchange of
India Limited**
“Exchange Plaza “Plot No .C/1,
G Block Bandra –Kurla Complex,
Bandra (E), Mumbai -400051.
Symbol- VALIANTORG

Sub: Transcript of Earnings Call

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of Earnings Call held on Thursday, November 10, 2022, on Audited Financial Results of the Company for the quarter and half year ended September 30,2022.

Kindly take the same on your record and acknowledge.

Thanking You,

Yours Faithfully,

For Valiant Organics Limited

Avani D. Lakhani
Company Secretary
ICSI M.NO.: A47118



“Valiant Organics Limited
Q2 FY ‘23 Earnings Conference Call”

November 10, 2022



MANAGEMENT: **MR. ARVIND CHHEDA – MANAGING DIRECTOR – VALIANT ORGANICS LIMITED**
MR. MAHEK CHHEDA – CHIEF FINANCIAL OFFICER AND EXECUTIVE DIRECTOR – VALIANT ORGANICS LIMITED
MR. MIHIR SHAH – SENIOR FINANCE MANAGER - VALIANT ORGANICS LIMITED

MODERATOR: **MR. NIKHIL SHETTY – EDELWEISS BROKING LIMITED**

Moderator: Good day, ladies and gentlemen, and welcome to the Q2 FY '23 Earnings Conference Call of Valiant Organics Limited, hosted by Edelweiss Broking Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Shetty from Edelweiss Broking Limited. Thank you, and over to you, Mr. Shetty.

Nikhil Shetty: Thank you, Michelle. Good afternoon, everyone. On behalf of Edelweiss, we welcome you all to the Q2 and H1 FY '23 Earnings Conference Call of Valiant Organics Limited. We have with us today Mr. Arvind Chheda, Managing Director, Mr. Mahek Chheda, CFO and Executive Director, and Mr. Mihir Shah, Senior Finance Manager of the company. I would request the management for the opening remarks, post which we will open the floor for Q&A. So thank you, and over to you, sir.

Arvind Chheda: Thank you. Good afternoon, everyone. It is a pleasure to welcome you all at our Earnings Conference Call for the Second Quarter of the Financial Year 2023. We welcome, everyone, to this earnings call, and I would like to request our CFO, Mr. Mahek Chheda, to take you through the financial and operational highlights of the quarter. Thank you.

Mahek Chheda: Thank you, and good afternoon, everyone, and welcome to this earnings call. I hope you had a chance to study our financial and earnings presentation, which have been uploaded on our website and exchanges. Let me start by briefing you on the company's financial performance on a consolidated basis for the second quarter of the financial year '22, '23.

The revenues from operations degrew by about 1% on a quarter-on-quarter basis and around 3% on a year-on-year basis to around INR 264 crores. The EBITDA was reported at around INR 42 crores, which grew by around 31% quarter-on-quarter and degrew by around 11% on an year-on-year basis. Our EBITDA margin for the quarter was 15.87%. The net profit reported was around INR 25.6 crores, which grew by about 52% quarter-on-quarter and decreased by 15% year-on-year. Our PAT margins for the quarter were 9.69%.

For the half year ended, the revenue from operations stood at around INR 530 crores, which grew by around 2.5% year-on-year with EBITDA declining by around 25% year-on-year to INR 74 crores and EBITDA margin of 13.91%. The net profit stood at around INR 43 crores, declining by 27% year-on-year, and PAT margins for half-yearly financial year '23 stood at 8.02%. Coming to the operational highlights for the quarter under review.

Despite several challenges, quarter 2 of financial year '23, closed on a positive note compared to the previous quarter, although the revenue declined marginally, profitability improved over the previous quarter. Revenue degrowth was primarily due to the decline in chlorination revenues because of the fire incident at Sarigam and quarter 1 financial year '23. EBITDA margin improved on a quarter-on-quarter basis due to raw material prices stabilizing. With regards to the PAP plant, production output on average was about 365 metric tons in quarter 2

financial year '23. And currently have crossed the 400 metric tons mark, and we are on track to achieve the targeted 500 metric tons per month in the batch process by year-end.

The pharma intermediaries project is completed with trial runs also done. The project is awaiting approvals from the government authorities, and we expect it to close by the end of quarter 3 financial year '23. With this, we can now open the floor for a question-and-answer session. Thank you.

Moderator: We have the first question from the line of Varun M from Skaniva Capital.

Varun M: I just wanted to know the asset turns that we can expect from the recently commissioned OAP as well as the pharma intermediates plant.

Mihir Shah: Yes. So I was saying that we haven't commissioned it yet, but once we commission the asset turns would be somewhere around 1x, and that is what we are assuming as of now, but we'll know better once the operations start.

Varun M: And my second question is, like, historically, we like to aspire to grow 20% to 25%. So beyond the OAP and pharma intermediates. So like in a two to three-year horizon, what are the avenues that we are looking to get into or grow? So I just want a three-year perspective on there?

Mihir Shah: So I don't have a three year perspective, but giving an immediate one year perspective, we expect that we'll, so we had an incident in Sarigam because of which our top line also has been affected. So we believe that by year-end, we would somewhere grow by 5% to 10%, somewhere in the INR 1,000 crores to INR 1,100 crores standalone basis. And the year after that, somewhere around 30% is what we expect to grow once PAP fully comes online as well as OAP and pharma intermediaries.

Varun M: So next year, you'll be able to give a better view?

Mihir Shah: Correct. Thank you.

Moderator: We have the next question from the line of Aditya Khetan from SMIFS Limited.

Aditya Khetan: Sir, my first question is on to the margin side. So on a quarter-on-quarter basis, there is an improvement in the margin. So for the current quarter, they are at 17%. However, our half-yearly margins are somewhere around 14%. So with the raw material prices now stabilizing, can we expect the full-year margins to be around 18%, 19%?

Mihir Shah: Yes. So we are definitely expecting an improvement in the margins. And like Q1, Q2 was better, and we believe Q3, and Q4 will also be better. Having said that, on a full-year basis, we may be dragged down by the Q1 margin overall on average, but we are expecting to be somewhere around 17%, to 18%.

- Aditya Khetan:** And how is the trend of the raw material prices like the phenol and the PNCB? So considering, so they have stabilized now or they are still in declining mode?
- Mihir Shah:** They've softened by now. They have also been stabilizing. So we don't expect it to reduce further. We are probably that close to the bottom pricing.
- Aditya Khetan:** And on to the hydrogenation business, so we were planning some sort of INR 150 crores of capex into OAP and expanding some of them and so for the backward integrated capacity. So that has been completed or still we are incomplete?
- Mihir Shah:** So for OAP, it's still, we are still doing trial runs and there is some bit of capex that will still further get into it. So that is still ongoing. Pharma intermediaries, which are again in the hydrogenation plant itself, that capex is done.
- Aditya Khetan:** And apart from OAP, we were also planning some sort of other products,
- Mihir Shah:** No, I think you're referring to OA and PA, that was already done and commissioned 1.5 years back.
- Arvind Chheda:** They have been already commissioned. Yes, yes.
- Aditya Khetan:** Okay. And on to this pharma intermediates business, so this would be completely so given as a captive to Aarti Pharmedicals?
- Arvind Chheda:** Yes, that's correct.
- Aditya Khetan:** And on to the PAP front, so is there any update? So like is there any plan to now shift from batch process to continuous process? Anything has been like so we have achieved some success over there?
- Mihir Shah:** No. So the trials are going on for that. But currently, we are focusing on getting to the full capacity of the batch, which we are almost close to achieving that 500 target we've crossed 400 in the current month. And going forward, by the end of the year, we'll reach 500 also. Simultaneously, there will be trials to increase that capacity and make it continuous. But as of now, we are more focused on getting to the maximum capacity in the batch process.
- Aditya Khetan:** So this 500 metric tons per month, so this would be achieved by the year-end. Is thereafter we can shift to continuous process.
- Mihir Shah:** We are trying to achieve that. I will not make a definitive statement on that, but that is what we are trying to achieve.
- Aditya Khetan:** And the Sarigam incident, so wherein we had lots of volume
- Moderator:** We have the next question from the line of Manish Jain from Moneylife Advisory Services.
- Manish Jain:** My first question is, what has been the capacity utilization across our plant this quarter?

- Mihir Shah:** And the next question.
- Manish Jain:** So next is, what has been the hindrance on shifting to continuous process from that particular PAP plant?
- Mihir Shah:** Sorry, can you repeat the second question?
- Manish Jain:** Yes. My question is, what has been the problem in shifting to continuous process from that process in the PAP plant?
- Mihir Shah:** So on the question one, we were at utilization of around 60%. But that is given that we've considered Unit 2 as 1,000 tons capacity and not 500. If I change that, then our overall utilization for the company is somewhere around 68% to 70%.
- Manish Jain:** The second question.
- Mihir Shah:** And on the second one, on the second one, we are facing the same problem that we faced initially, the product stabilization and the quality that we require is not coming through in the continuous one. So we are trying to resolve that. That is the issue.
- Manish Jain:** And lastly, I wanted to understand the rise in other expenses this quarter.
- Mihir Shah:** So other expenses this quarter, the raw material -- sorry, the other expenses, it has decreased to a certain -- it has increased to a certain extent. I think about a 5% to 6% increase, out of which major increase was in consumption of power, there was some bit of increase in labor cost and some freight and forwarding charges. So these were the major increases in the other income and ETP.
- Moderator:** We have the next question from the line of Gaurav Shah from Harshad Gandhi Securities.
- Gaurav Shah:** So Mahek, I have a couple of questions. Both are on PAT. So just wanted to understand the pricing environment for our pay product. And the second one, I think if you consider last two quarters, we are hearing the same like comments from you guys on the technical difficulty we are getting into PAP. So can you provide some like honest feedback so what's the exact thing. And do you think by quarter 4, we should be able to like solve problems as far as PAP is concerned.?
- Mihir Shah:** So on the pricing front, PAP prices have also reduced from quarter-on-quarter. It has almost reduced by 100 on an average. So there is a reduction. -- simultaneously, there's a reduction in our raw material costs also. So that's on the PAP pricing bit. On the second question of yours, I think I understand that we do have the same problem and we are repeating because that is the actual scenario. We are trying our level best to achieve the quality, but we are not being able to so far.
- So the statement is why it remains the same. We are trying. So like I said, I can't definitively say that we'll start the continuous in April, but we still have 6 or 5 months to go, we are trying

our level best to work things out and get that stability. We achieved it in batch. We are trying to do the same in continuous.

- Moderator:** We have the next question from the line of Sachin Kasera from Svan Investments.
- Sachin Kasera:** So in terms of the cost of manufacturing and the margins, what are the key differentiating factors between the batch versus the continuous process as far as PAP is concerned?
- Mihir Shah:** So it's the economies of scale that improves the quantity increases, and that's the only difference that we can achieve from continuous batch to continue and the time of the reaction. So there is more time that goes into batch than putting the other batch loading and loading, which in the continuous process it gives the time efficiency.
- Sachin Kasera:** So in the presentation, you mentioned that you're targeting 500 tons per month in the batch process. What is the type of in case we are commercially successful, what is the type of volume we can do as we move to a continuous process per month?
- Mihir Shah:** Around 1,000 metric tons.
- Sachin Kasera:** And the yield and the quality is the more or the same? Or there's some difference also in yield positive better this continuous.
- Mihir Shah:** No. So once we move to continuous, there's no difference between the yield of the final product, but the difference right now that we are facing is that we are not getting the yield and continuous. So we are not moving it. But once -- so I think your question is whether we make it by batch or by continuously -- does the product remain the same, then yes, the product and the yield remain the same.
- Sachin Kasera:** Second question was on this -- I think you mentioned briefly if you could tell us what type of utilization we can see in these pharma intermediates in the next financial year? Because I think this year, we are just starting FY '24 and FY '25, what type of utilization or is visualizing pharma intermediates? And do we foresee any challenges on the technical front, the way we face in PAP in pharma intermediates?
- Mihir Shah:** So I think we'll probably be at around 45%, 50% in the initial quarters. And then by the end of next year, we could aim at full utilization.
- Sachin Kasera:** And what is the revenue at full utilization you can expect from this point?
- Mihir Shah:** We are expecting it to be somewhere around INR 50 crores.
- Sachin Kasera:** And any sense you can give us in terms of your overall capex for the current financial year and the next national?
- Mihir Shah:** So for the current financial year, we are expecting to do a total capex of somewhere around INR 100 crores, out of which we are through by about 50% by -- in this quarter. And for the

year after, we are still analyzing. We are waiting for PAP to stabilize and pharma and OEP, if they start, then we'll look at other opportunities or where we can put the capex. Otherwise, for now, the focus is there. So we've not gone into the analysis of where it will go. But we are looking at some new products that are on the drawing table as of now. That may not have a significant capex but could be somewhere around INR 40 or INR 45 crores odd, if at all, it does get successful.

Sachin Kasera: Sure. If I look at our track record, we always reported a return on capital in excess of 40%, closer to under 60%. It's only 21 and 22 that we saw from addition because of these new investments and some challenges of PAP. How do you see -- do you see that the way things are shaping up in FY '24 and '25, you can again start inching up to the 40% type of ROC level?

And secondly, when you are evaluating some of these projects, what type of IRRs or ROCs do you look at before you go ahead and to the project? So we definitely expect to improve our ROCs. Honestly, I don't know whether we get back to the pre earlier historic ROCs because.

Mihir Shah: We still have to analyze that because we are right now in the middle of many other capex, many other projects that are trying to complete. But we aim to reach there. And what was your second question, I'm sorry?

Sachin Kasera: What is the type of IRRs, we look at before we go ahead with any large project?

Mihir Shah: So we don't really have a threshold IRR. We generally look at two things. One is if the product is high in demand and there is an import substitution opportunity, there's an import substitute that we can replace by domestic production. That is one thing. And secondly, if there can be any backward-forward integration within the company, so those are the actual two main criteria that we look at, and then we build around it. But in terms of a threshold IRR, we don't generally keep that threshold to be flexible on that as far as we think that the opportunity is good.

Moderator: We have the next question from the line of Aditya Khetan from SMIFS Limited.

Aditya Khetan: So my question was on to the Sarigam incident. So for the last two quarters, we are witnessing that the volumes have been impacted. So this incident was for a period of six months?

Mihir Shah: No. So there are two things. One is that it got impacted because of the blast. Second is when the plant is not operational and then when you start, it doesn't really start, it starts also in a phased manner. So it takes a couple of weeks to really stabilize. And third is the order book also that there are certain orders that need to be fulfilled to the customer end also there's a bit of lag. And overall, the market demand has been affected in Europe, which is, so Sarigam is mainly our export. So global demand has also reduced. So we've not been able to do a full utilization in past, in the previous quarter.

Aditya Khetan: So what is the current status? So have we liked improved the utilization as compared to Q2? Or is it at a similar level?

- Mihir Shah:** We have improved over the previous, but we are also looking at the demand to work up. So once that increases, we'll again scale up our capacity. As far as the capability to scale up is concerned, that is fine. So that is behind us.
- Aditya Khetan:** So, the fluorination actually, so that is majorly used for the agro chemicals, pharmaceuticals, cosmetics and veterinary industries, so which set of industries are feeling the pain in terms of demand, as you mentioned?
- Mihir Shah:** Agro. Mainly agro. Yes.
- Aditya Khetan:** And for the last two quarters, this segment is actually contributing 17% of revenue. So previously, so when there was a normalized situation, this used to also contribute around 30% to 40%. So when the volumes would kick in. So can we expect it to again go to 30%, 40%?
- Mihir Shah:** So it will not go beyond because even PAP is getting scaled up. So that PAP will also come into the mix. OAP will also come into the mix. So it means, that hydrogenation as a chemistry will be on the top in terms of contribution of revenue. But yes, from the current '17, it will definitely be, it will go up.
- Aditya Khetan:** And just one last question. So now I believe onto the OAP front and the pharma intermediates also. So by next quarter, I believe, so we would be in a position to start the production from these plants. So now what is the next leg of capex, which the company is focusing on?
- Mihir Shah:** So like I said earlier, we are focusing on these three projects to really start and build up. Once that comes in, our next leg of capex will come. So probably another quarter or two, and I probably will be able to give you a better comment on this. But on a generalized basis, we do a capex of INR 80 crores to INR 100 crores on an annual basis.
- Aditya Khetan:** INR 80 crores to INR 100 crores.
- Moderator:** We have the next question from the line of Ashutosh Shirwaikar from Navi AMC. Ladies and gentlemen, the line of Mr. Shirwaikar is disconnected. May we move on to the next participant, and the question is from the line of Subrata Sarkar from Mount Intra Finance Private Limited.
- Subrata Sarkar:** Yes. Sir, can you share some light on the particular EBITDA margin of your three segments in terms of chemistry like chlorination, hydrogenation, and ammonolysis. So, like how to understand that, like is there a significant difference in these three chemical processes in terms of margin, this is the first question with you.
- Mihir Shah:** Your voice went away. So I heard your first question if you could give me a second question?
- Subrata Sarkar:** So what I was asking, like, if you can guide us regarding the difference in EBITDA margin in terms of profitability in our three main chemistry basically, like chlorination, hydrogenation and ammonolysis, like what is the difference in terms of margin in these three kinds of processes?

Mihir Shah: So we don't give out the margin for each chemistry. But just on the guidance side, chlorination is on a higher side as a margin, and then hydrogenation and ammonolysis are at a similar level.

Subrata Sarkar: So chlorination is essentially a higher-margin business?

Mihir Shah: Yes.

Subrata Sarkar: So like, sir, in that case, like if you see, if I track your volume, which you have shared, like on a year-on-year basis, like chlorination volume is down to, from 4,256 to almost 1,962. So is that like one of the major reasons for our drop in margin. And once this recovered, particularly after your plant opening, like we can improve some improvement in the blended margin from that respect?

Mihir Shah: Yes. So my Q1 margins were definitely impacted because of the incident at Sarigam and because of which the margins were impacted. But at the same time, raw material pricing was also volatile at that time. Now the raw material pricing is stabilizing, so that will have an impact, which will have a positive impact now on the margin. So it's multiple factors played a role. It was not only the volumes of chlorination going down.

Subrata Sarkar: Sir, can you like on a year-on-year basis, our ammonolysis margin, like volume is also stagnant or marginally, it has come down. So can you help on that respect like when we can expect a pickup with that? Or like which of the products when we will add so that our ammonolysis volume will go up?

Mihir Shah: So Dyes and pigments as an industry are also facing low demand. So because of that, volumes have seemed to stagnate or going down. But as and when the textile industry improves, dyes and pigments will also improve and that is when we'll see some improvement there. But it's market-driven. I do know, but I cannot comment exactly when that will happen.

Subrata Sarkar: So in that case, like ammonolysis will be basically a -- this is a function of our picking out of the textile industry and particularly in dyes...

Moderator: We have the next question from the line of Ankur Shah from Quasar Capital.

Ankur Shah: Congrats on the margin rebound. Just actually extending on the previous question, it seems like a demand problem because if I just think about the chlorination volumes, they have seen a significant, obviously, there is, I think, a 20 day, 25 day hit, which was there because of the plant closure. But for me, can you give us some volume guidance or a volume sort of a scenario because from 4,256 to 1,962, is it possible for us to scale back?

Mihir Shah: Yes. So by the fourth quarter, we'll be back to the original volumes for Sarigam.

Ankur Shah: So around 4,000, 4,500 per quarter. And like can you give us some idea what I understand from manufacturing of a chemical plant perspective is that the last 20% capacity utilization becomes a major chunk of your profit because of the operational leverage that the plant gives. So is it the fact that the utilization levels are so low because obviously, chlorophenol very

profitable and the main product as of now? So is it that the margins are severely distressed or, let's say, not severely, but you are distressed? In comparison, if suppose we run the plant at that INR 4,000 crores, INR 4,500 level.

Mihir Shah: So let me tell you, yes, that is true to reach the last leg on the capacity. It is difficult, and it is -- that is where the profitability lies. So just to give you some understanding, if you look at our previous years, chlorination has been 90-plus utilization even ammonolysis was somewhere around 85%, 90% utilization. So we have achieved those utilizations. But currently, because of lower demand, we are not able to achieve that utilization. So that is the reason. But once the demand stabilizes once the demand picks up, we'll be able to again move from 60%, to 65% utilization back to around 80, 85 type of utilization.

Ankur Shah: So in this particular product, because even if I see the volume at the, obviously, the revenue is slightly insignificant, but chlorination, ammonolysis, others, like is there a good -- like decent visibility that, let's say in two quarters' time, we will be able to scale back to decent utilization levels because that will solve a lot of problems for us.

Mihir Shah: Correct. So as far as chlorines are concerned, a lot of it is dependent on the export markets, and given the situation in Europe and the geopolitical issue, that is why the demand is not picking up now. I really cannot give any kind of comment on when that will improve. But it is mainly based on that. Once that demand picks up, we will scale up and meet those demands. And then it will be back to normal. But I really cannot give a definitive time period as to when that's going to improve.

Ankur Shah: So it's not particularly because of competitive intensity, right? It is just that demand has fallen and there's not that we are losing wallet share or anything of that sort, right?

Mihir Shah: No. You are right.

Ankur Shah: Then like coming to the financials, what I understand is because a large part of our volume is export related, at least in the chlorination part. What I understand is the freight cost and the container cost and everything has been coming down incrementally. So do we see any tailwinds over there, again, from a cost-saving perspective?

Mihir Shah: Yes. So they are improving, you're right. So that will be a tailwind going forward, it will improve. So that is why our margins have also improved because all these costs have gone down.

Ankur Shah: So that is already into the price for this quarter? And lastly, on the debt front, I understand that we have come down slightly come down on the debt front from the March level. But like still from a working capital annual and it's being -- it seems slightly uncomfortable or stretched. So what are your thoughts on that? Because it's not great to have this stretch for -- because again, with the volume increasing, this is going to go up again?

- Mihir Shah:** So yes, but we have improved from March to date. So we have come down on our short-term borrowing, but working capital was a problem because the incident that happened at Sarigam is also a good cash flow business. So that was an impact that we had and also the raw material costs were high at that time. So we face the issue of working capital. But with all that stabilizing, we believe going forward, the next two quarters will be an improvement.
- Moderator:** I'm sorry to interrupt, I request you to rejoin the queue. Thank you. We have the next question from the line of Dheeresh Pathak from White Oak Capital.
- Dheeresh Pathak:** On the slide, I'm seeing the ongoing capex, which is yet to commission of this OAP and pharma intermediates, where the capex is being mentioned as INR 15 crores plus INR 60 crores, INR 75 crores. And then if I'm reading this slide, then on the consol balance sheet, there is a CWIP of INR 135 crores. Other projects as per the slide have already been commissioned. So maybe I'm not able to understand properly, but can you just help me understand what the CWIP on the balance sheet is related to what fee?
- Mihir Shah:** So CWIP on this, so pharma intermediates is approximately 60%. It may be somewhere so there that there could be a little bit of an overrun there, but not anything significant. So that is a project which has the maximum part in the CWIP. So out of the INR 132 crores, I'm talking on a standalone basis, out of the INR 132 crores, about INR 65 crores or closed would be pharma intermediates. OAP and there are others. So there are other ETPs and some other small-small work that is being taken up. That is also playing a part in this. So...
- Dheeresh Pathak:** But pharma intermediates' total project mentioned on the slide is INR 60 crores, which is already INR 65 crores is already spent. So almost you've spent the entire capex on pharma intermediates is spent, right? So the OAP will be INR 15 crores, so this is...
- Mihir Shah:** OAP, its just plant and machinery is actually INR 15 crores. There is a building and other things also which come into, and it's not simply OAP, so that is the CWIP that is there.
- Dheeresh Pathak:** So maybe the numbers mentioned in the presentation, I'm not full reflection maybe next time when you present, you can present it..
- Mihir Shah:** Correct. So pharma intermediates will have some changes and OAP will also have some change.
- Dheeresh Pathak:** And because there's almost 2x difference between what is in the presentation and what is the CWIP. Coming back to the other question, sir, this, so chlorination products are lesser demand. Just on this, just for my benefit, if you can just help me understand, so on Slide 5, we have given the key products and end-user industries, the pharma, agro, cosmetics, and that, so on the face of it, don't seem to be like too much in distress, but individual products might have some demands in terms of its specific application. So within chlorination, what are the larger products? And what, where exactly is the end user industry having issues from a demand point of view, you can give a more granular, understanding?

- Mihir Shah:** Main issues are with Agro and textile. So chlorination is agrochemical, but export driven. So that is because of the global demand where the issue is with the chlorination product...
- Dheeresh Pathak:** So, which product within chlorination is agro and export-driven? There are four or five products you mentioned, PCP, OCP...
- Mihir Shah:** Yes, unfortunately, I won't be able to disclose that information as to which product goes where. But I can just give you a broad level that agro, which forms the most biggest part of chlorination, that is where the demand issue is.
- Dheeresh Pathak:** Is there will be some specific molecule issue within agro, but agro itself is doing quite okay globally.
- Mihir Shah:** And it's, like I said, the export market is the issue in chlorination.
- Dheeresh Pathak:** It'll be some molecule specific right?
- Mihir Shah:** It's proprietary, so I cannot tell you the specific...
- Dheeresh Pathak:** But is that a structural issue with the product that molecule has got market share?
- Mihir Shah:** No, this product, these products have been in the business Valiant. We've been doing this since 2000. So it's almost two decades back, and these are the same molecules and products that have been there so far. So it's not the molecules that are of the issue. Is that market demand that is of the issue?
- Dheeresh Pathak:** And which geography, is there a geography-specific issue?
- Mihir Shah:** Mainly Europe.
- Dheeresh Pathak:** Europe, okay. So that is agro. What is the issue with the domestic?
- Mihir Shah:** And the local issue is the textile, which is ammonolysis and hydrogenation, both the products. So with textile, the dyes and pigment. So our ammonolysis products, if you see for go into dyes and pigment and our hydrogenation also goes into dyes and pigments mainly. So both these two chemistries are affected because of the domestic textile. So our dyes and pigments are the textile dyes. So it's linked to the textile business textiles industry.
- Mihir Shah:** We have the next question from the line of Yogesh Tiwari from Arihant Capital Markets Limited.
- Yogesh Tiwari:** Yes. So, sir, my first question was on the raw material front. So just wanted to understand what would be our dependency on China in terms of raw materials.
- Mihir Shah:** Not at all. We are -- most of our key raw materials are sourced within the group. And then there is a phenol, which is a commodity product, which is standard globally.

- Yogesh Tiwari:** And -- like we import phenol?
- Mihir Shah:** We import phenol, yes.
- Yogesh Tiwari:** Which region basically?
- Mihir Shah:** Across countries. So it's a very standardized product. So wherever we get the best price, we do it. So it's not really an issue from which country it comes.
- Yogesh Tiwari:** And in terms of the earlier question on the continuous process on PAP. So when we tell that now, we'll get the benefit of economy of scale, do we mean that the capacity utilization of the plant will increase because of that?
- Mihir Shah:** No. So in batch process, at 500, we are 550, we'll be able to achieve 500 and continuous, which is 1,000 will be able to achieve close to 2,000. So as far as utilization is concerned, that will not be an issue. It's just that our volumes will increase and time will decrease. So from that aspect, we'll get the benefit of more production.
- Yogesh Tiwari:** Yes. But that will only come in the next financial year, right? This financial, we are targeting only for batch process?
- Mihir Shah:** Batch correct.
- Yogesh Tiwari:** And one more follow-up on the PAP. So it's like both PAP prices and raw material prices are declining. So just wanted to know about what is the pricing. Do we have a fixed spread between raw material and PAP when we price the product. Is there a specific spread between the raw material and the PAP prices?
- Mihir Shah:** So we are in that range. We try to meet our pricing for PAP at China level. And with that, we get to have that incremental a little bit of benefit. Apart from that, with both the raw material pricing going down, the margins more or less remain similar.
- Yogesh Tiwari:** And sir, lastly on the agrochemical and demand decline in Europe. So just wanted to understand, is it because some agrochemical molecules are being banned in Europe? Or is it more like...
- Mihir Shah:** No, it's the geopolitical issue. It's the energy crisis and Europe getting affected overall because of that, and that is why the demand is down.
- Yogesh Tiwari:** And sir, lastly, on the pharma intermediates, which we are coming up with, the margins of these intermediates would be in the range of the consolidated margins for the company? Or it will be margin accretive better?
- Mihir Shah:** It will be standard. It will be at the company level.
- Moderator:** We have the next follow-up question from the line of Sachin Kasera from Svan Investments.

- Sachin Kasera:** Yes. Just two questions. What is the type of revenue loss we had because of Sarigam? Or if you could quantify like from September to March quarter when you expect to come back to full production, what are the incremental revenues you can expect from Sarigam?
- Mihir Shah:** I think, so on the loss side, quarterly, we'd probably be somewhere around 15 to 20, of impact.
- Sachin Kasera:** On the EBITDA or on the top line?
- Mihir Shah:** No, on the top line. EBITDA, we will not be able to disclose, sorry.
- Sachin Kasera:** And you mentioned about some 17% margin that was for the second half of the financial year? That was the indication for the full financial FY '23?
- Mihir Shah:** We are hoping that it will be for the entire year. We are assuming that Q3 and Q4 will be better than Q2. And, but overall, on an average, we may stand somewhere around 17%.
- Sachin Kasera:** Because we have been growth around 12.5%, 13% in the first half, approximately...
- Mihir Shah:** The Q1 will probably bring us down, but we are hoping Q3 and Q4 would be much better margins than our current margin level.
- Sachin Kasera:** And you see what wherever improvement we will see in Q3, Q4 that should sustain going ahead, there will be more like a sustainable margin? Or are you seeing some one-off benefits coming in the second half?
- Mihir Shah:** No, that will be the sustained margin. So we'll be seeing improvement because of raw material costs that have stabilized and then that will continue.
- Moderator:** As there are no participants in the queue right now, I would now like to hand the conference over to the management for closing comments.
- Mihir Shah:** Thank you all for participating in this earnings call. I hope we were able to answer your questions satisfactorily. And at the same time, offer insights into our business. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations managers at Valorem Advisors. Thank you. Stay safe. Stay healthy.
- Moderator:** Sir, before we could disconnect, we have Mr. Nikhil Shetty, who is in the Q&A, wants to ask a question to you. Can we take it? I'm muting your line, Mr. Nikhil Shetty. Please proceed.
- Nikhil Shetty:** Just wanted to get some clarity on pharma intermediate. So pharma intermediates, we are doing capex of INR 60 crores. And you mentioned that INR 50 crores revenue was at a peak, which translated into asset turnover of less than 1x. So am I missing anything here, or is it because of the arrangement with the group companies? And what will be the margin in this?
- Mihir Shah:** No, arrangement. We're just being conservative on the revenue side. Even though I've said INR 50 crores, we see an upside having some benefit there. And as far as capex is concerned,

it's somewhere around INR 60 crores, probably a little more. So all-in-all, one-is-one is what would be, we believe that we will be able to have that turnover.

Nikhil Shetty: And how much margin we are expecting from this product?

Mihir Shah: Margins, sorry, we're not disclosing any margin level only company level margin is what we will be able to disclose.

Moderator: Thank you. On behalf of Edelweiss Broking Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.