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FAIRCHEM ORGANICS LIMITED

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Date: August 26, 2022

To,
BSE Limited,
Corporate Relations Department,
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai 40001.

To,
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (East),
Mumbai 400051.

Ourselves : BSE Code : 543252 and NSE Symbol : 'FAIRCHEMOR'

Ref. : Regulation 30 read with Schedule III Part A of SEBI (LODR) Regulations, 2015

Dear Sirs,

Sub. : Submission of Transcript of audio recording of Earnings concall on financial results for Q1 - FY 2023

Pursuant to Regulation 30 read with Schedule III, Part A, Para A, Clause 15(b) of SEBI (LODR) Regulations 2015, we herewith submit a pdf file containing a transcript of audio recording of Earnings concall held on Monday, 22nd August, 2022 on unaudited financial results for Q1 of FY 2023.

Please find the above in order and take the same on your record.

Thanking you,

Yours faithfully,
For Fairchem Organics Limited,

Viral Ranpura
Dy. Company Secretary

Encl. : As above.

Fairchem Organics Limited
Q1 FY23 Earnings Conference Call
August 22, 2022

Moderator: Good day, ladies and gentleman, and welcome to the Q1 FY23 Earnings Conference Call of Fairchem Organics Limited hosted by Valorem Advisors. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you, and over to you, Mr. Sonpal.

Anuj Sonpal: Thank you. Good afternoon, everyone, and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of Fairchem Organics Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings call for the first quarter financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's con call may be forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The focus of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now let me introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. First, we have with us Mr. Nahoosh Jariwala, Chairman and Managing Director; and Mr. Rajen Jhaveri, Chief Financial Officer and Company Secretary. Without any further delay, I request Mr. Jariwala to start with his opening remarks. Thank you. Over to you, sir.

Nahoosh Jariwala: Thank you, Anuj. Good afternoon, everybody. It's a pleasure to welcome you to the earning conference call for the first quarter of financial year 2023. I hope that everyone is keeping safe and well. This is our first earning conference call in a very long time and the interest of some of the people who are probably new to the company, in first phase, I'll give you a brief overview of the company after which Rajen Jhaveri, our CFO will brief you on the financial and operational performance of the quarter.

Fairchem Organics is engaged in business of manufacturing of oleo chemicals and nutraceuticals since last 25 years. Oleo chemicals means the chemicals derived from vegetable oils. The company's key oleo chemicals products include Dimer fatty acid, Linoleic fatty acid, Monomer fatty acid, and nutraceutical products include, mixed tocopherols and sterols. Nutraceutical falls in a broad guideline, which are part of vitamins. Mixed tocopherols is an antioxidant, which is used in actual consumption. It can be used as an antioxidant or it is used as a raw material to manufacture natural vitamin E. We have a state of the art manufacturing unit in Sanand, Gujarat and which was set up in the year 1995. And over the years, it has gone through various stages of expansion, backward integration, debottlenecking, technological advancements, energy savings, and in the process, we have created a world class facility.

Over the last years or so, we have expanded our capacities from 45,000 tons to 120,000 tons currently. Our expansion has got little bit bugged between 72,000 tons to 120,000 tons because of COVID and due to which reason, certain critical equipments were not able to reach us on time, but now, all the expansion is over. Please note that in our case, a capacity is measured in terms of input of raw materials and not based on the output of final product. This is something similar to Reliance's refinery, which is always measured in terms of input of crude oil. Same way, our things are also measured in terms of input of raw materials. We have done the capacity expansion utilizing minimum CapEx which was funded 100% through internal accruals. Fairchem today is manufacturing in India of Linoleic acid and Dimer fatty acid, which comprises major part of our revenues, and in fact in Dimer fatty acid, we are the only manufacturer in India, balance is being imported. And as regards linoleic acid, we are also the only manufacturer in India. A pseudo Linoleic acid is being manufactured by a couple of other players.

The products what we manufacture find application in paints, inks, amines, cosmetics, lubricants, etc. whereby our product portfolio, I mean main products has application in a large number of industries. The mix tocopherol concentrate and sterols of concentrate of nutraceutical stream is being used by the FMCG companies, which we are currently exporting to US based companies since last more than 20 years.

Company has also finished plans for forward integration, whereby we'll be further upgrading our mix tocopherol streams to manufacture tocopherol 50 and a product called sterol 90, which was in making of corticosteroids. At the same time, as an offshoot or as in byproducts, a product called methyl ester will also be getting generated. In generic name, on a common term, it is called biodiesel. And another co-product which is coming out of our Dimer fatty acid product stream called Monomer fatty acid is also going to get upgraded for manufacturing of stearic acid and isostearic acid. Isostearic acid will be manufactured for the first time again in India.

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This is the story about the company in brief. Now I'll hand over to our CFO to brief you on the financial performance, after which I'll give you the operational highlights of the quarter and then we can have question-answer, whatever questions you have in mind.

Rajen Jhaveri: Thank you, sir, and good afternoon everyone. Let me brief you firstly on the financial performance of the first quarter of financial year 2023. The operational revenue for the first quarter was about these Rs. 225 crore which grew by about 62% year-on-year. EBITDA reported was around Rs. 40 crore, a growth of approximately 22% year-on-year and the EBITDA margin stood at 17.77%. Net profit after tax reported was around Rs. 27 crore, a growth of approximately 21% year-on-year while the PAT margin was 12%. On the operational front, EBITDA margins improved during the quarter due to company's effort of containing raw materials cost and also to a certain extent, due to economies of scale seeking gain due to the higher volumes on behalf of higher capacity utilization of the new plant capacity. The company has completed its capacity expansion and the increased capacity in terms of throughput of raw material of 120,000 metric tons per annum was operational now as at end of June 2022. With this, Anuj, we can now open the floor for the question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Raj Shah from Statheros LLP. Please go ahead.

Raj Shah: My first question is I would like to know you have done from 36% to 38% of gross margin in Q1. So I want to understand that is it sustainable? And can we just grow forward from those kind of levels?

Nahoosh Jariwala: Can you repeat it, please? Your voice is getting distorted. If you can repeat the question again.

Rajen Jhaveri: What is sustainable? What did you ask, what is sustainable?

Raj Shah: So my first question is that we have done gross margins hovering around 36% to 38% and EBITDA at around 17% to 18%. So, my question is, is it sustainable and can we just grow off from the current levels in the coming quarters?

Nahoosh Jariwala: Yes. This margin, we feel will be sustainable, because of 2 reasons. One is the economy of scale, which will be kicking in and second thing is because of the forward integration of the 2 product streams. So overall, we feel fairly confident that these margins will be sustainable in long run.

Raj Shah: What proportion of our raw material is derived from soybean and sunflower oil as they are our major raw material source?

Nahoosh Jariwala: To be frank we can process multiple raw materials coming out of soft oil. Typically, soft oils are oils like soya, corn, canola, groundnut. So, I mean, soya and sunflower being major raw materials, we are always writing soya and sun, but we can also utilize other raw materials and which we are using.

Raj Shah: But even though if you could just give a sense on, let's say 60%, 50%, 40%, that will be really helpful.

Nahoosh Jariwala: Yes, you can say around 50%.

Raj Shah: Sorry, about?

Nahoosh Jariwala: About 50%

Raj Shah: About 50%. And now that we have completed majority of our CapEx, can we expect the capacity utilization to hit, let's say, 70%, 80% by let's say, FY 25? Is it a fair assumption?

Nahoosh Jariwala: Let me tell you one thing. I'll explain you one thing. Typically, in a specialty chemical industry, the time you think of capacity expansion, and the actual capacity comes in place is minimum 3 years. And as a company, we prefer a minimum 25% latent capacity. We always prefer to keep 25% latent capacity because of that reason. So currently, our utilization is around 65% to 70% and which, every year we intend to increase by 10% to 15%. Because the paint industry, which is our basic market paint and ink, is expected to grow in the range of 10% to 15%. And the top floor players in that segment are expected to grow anything above 20%. So overall, what we see is, in next 3 years, we'll be able to reach our full capacity utilization.

Raj Shah: So sir, is it fair to infer that you've given a guidance of the 10% to 15% of volume growth over FY23, FY24, FY25. Is it fair to assume that?

Nahoosh Jariwala: I mean, we'll obviously. That's what I'm saying, we'll strive our best. Everything depends on how the economy performs at the same time.

Raj Shah: Sir, because I must say that the company has done a commendable job, especially in Q1 with getting margins back to 18%. That's fantastic. My other question is, what sort of revenue and margin profile can we expect from the biodiesel project?

Nahoosh Jariwala: That's the biodiesel product, we'll be going in operations by the end of this year. And so this year, you won't see any major upswing of that. Next year onwards, you'll see the advantage coming out of it.

Raj Shah: And what sort of revenue or margin profile can we expect?

Nahoosh Jariwala: Certain things, it's basically what we have done is we have state of art plant here with actual state of art plant, which none of the companies in India is having. So based on which our manufacturing cost is going to be pretty low. But due to keeping in mind the competitive scenario, certain things, it won't be fair for me to divulge at this stage.

Raj Shah: And Nahoosh bhai, I can see that, our nutraceutical business has been just been scaling down from FY18, in the deck that we have shared on the BSE. What are the challenges either that has resulted, in such a result for the nutraceutical business?

Nahoosh Jariwala: I mean, 2 things were there. One was that we were concentrating more on our fatty acid stream, that was one thing. Second thing was because of COVID, whatever expansion, forward integration project, when we were in the process of implementing for our nutraceutical division got a little bit stalled. Because I mean, the critical equipments were going to come from abroad. So that was 2 things. And third thing was there were one or two small players who came in market and started buying material and which created a little bit of a situation whereby it was unremunerative for us to do the business at that stage. But now, as our tocopherol forward integration plant is in place, we'll bounce back in the same scenario because we have been supplying this material to three US based giants who control among themselves around 80% of world's market. And again, once our products have also got approved with them, the new products thing also, so we expect to bounce back again.

Raj Shah: But what sort of volumes?

Nahoosh Jariwala: Volumes would go up.

Raj Shah: So there's a rock bottom that we have hit.

Nahoosh Jariwala: Yes, exactly.

Moderator: The next question is from the line of Trilok from Dymon Asia. Please go ahead.

Trilok Agarwal: So, this is on the expanded capacity that we have seen recently. Is it fair to assume that the historical asset turnover ratio will continue or do you do you think because of the recent increase in realization, particularly raw material, it is bound to go up meaningfully versus history?

Nahoosh Jariwala: Asset to turnover ratio is expected to go up because whatever the expansion we have done, we have done doing minimum CapEx. So, obviously, it's turnover ratio is expected to improve every year.

Trilok Agarwal: So, based on the CapEx that we did last, about from 90,000 to 120,000, what sort of peak revenue potential that can we generate from the project?

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Rajen Jhaveri: Peak revenue, as Nahoosh ji said in response to the previous question, we are likely to achieve the full capacity utilization in next 3 years. So, in the terminal year of the third year, we will be achieving the peak revenue. And at current prices, if we assume that whatever is the current price is we are presently at 65% capacity utilization and the revenue is Rs. 225 crore for this quarter and the utilization was 65%. And because we are processing this waste product, achieving approximately 92% of the capacity utilization of the installed capacity can be considered to be a fair utilization. So accordingly, we can work out that at 65%, if the revenue is Rs. 225 crore and if the present price is sustained over a period of next 2, 3 years at 92% capacity utilization, we will achieve that kind of a turnover.

Trilok Agarwal: And sir, with regards to the incremental, products that we sort of offer to our clients, so is the growth rates of 10%, 15% that you highlighted initially every year, 2 questions. One is new products introduction; how much does it play the role? And second is what sort of market share are we gaining into the products? Could you just talk about it?

Nahoosh Jariwala: See, as I explained, we are diverse, as if we are the only player in India. And both these products what we are manufacturing are part of the higher echelon of the society overall. Typically, India is expected to grow at 7%, the top strata of the society is expected to grow at much more than that 7%. So, based on that, our assumption is that we'll grow by around 10% to 15% every year. I mean that's the simple logic and based on that logic only we have created the new capacities.

Trilok Agarwal: And sir, what is the export sort of growth rates we may expect in the next couple of years?

Nahoosh Jariwala: Our nutraceutical product is the only thing which is getting exported. And as I explained earlier, we intend to increase our overall share of nutraceutical products in our total sales. So we expect improvement in export earnings.

Trilok Agarwal: Are we working at any further targets in the next 3 years our nutraceutical business should be expecting?

Nahoosh Jariwala: Already we have been exporting the nutraceutical products to 3 US based companies since last more than 20 years. So I mean, that is not new market development or anything to be done. No new customer development, both the things are not there, already they are there. So I mean, once our plan goes on stream, it will be a smooth sailing for us.

Moderator: The next question is from the line of Sunil Jain from Nirmal Bang Securities Private Limited. Please go ahead.

Sunil Jain: Sir, since you're the only producer of Dimer and Linoleic, is that you compete with import or is there any competing products out there or is that you're the only supplier for this product in India?

Nahoosh Jariwala: In Dimer fatty, our competition is from imports and which is majority coming from China, and we are competing with the Chinese shrewdly efficiently and are in position to increase our market share, which in itself shows that our process or our quality and everything is on fire. And based on that we can say that we are a competitively priced manufacturer of the same product. And as regards Linoleic fatty acid, we are again the only manufacturer. Our pseudo Linoleic acid is being manufactured by 1 or 2 players, which is sold more to the unorganized sector, which is present in paint industry.

Sunil Jain: So how much market share you have in this product and what is the scope?

Nahoosh Jariwala: As the Linoleic acid, none of the big paint companies ever share how much quantity of a particular type of decorative paints they have manufactured or they are marketing. It is very tough for us to really get the feel about actually what is the market size. But currently, we're at 65% whatever we are making we are able to sell and the paint industry is expected to grow in the range of 10% to 15%. And so, we are also expecting that our sales would be there, I mean we will be able to sell more than 10% to 15% every year.

Sunil Jain: So, since you had expanded the capacity very fast like from 45 to 90 and then now to 120, so that indicate that you must have captured a large market share from the competition. So is it fair to assume that or no?

Nahoosh Jariwala: Well, as I said that we have captured market share from the Chinese players in Dimer. And Linoleic acid, what has happened is once the GST came in the unorganized sector started losing the market to the organized sector. And you can look at the growth of what Asian Paints or Goodlass Nerolac or Berger are showing, that itself was gives an answer. And our product goes to them only. So I mean, that's that's proof of the pudding.

Sunil Jain: Sir, second question relate to earlier your raw material was somewhere you were talking like the waste of oil mills is your raw material. Is it that the same situation?

Nahoosh Jariwala: Waste products of the vegetable oil refineries are our raw materials. And we intend to remain in that space only because over the period, we have created capacities to process raw material, which doesn't have any product specifications. And we are able to manufacture products with stringent product specifications. And so we don't intend to change our raw material from byproducts to prime products.

Sunil Jain: I agree with you. But the availability of raw material is not an issue?

Nahoosh Jariwala: No, currently, it's not an issue as I explained that we have capability to process any and every soft oil waste products. And India is one of the largest markets for vegetable oil. So I mean, we don't foresee any major raw material constraints.

Moderator: The next question is from the line of Dhavan Shah from ICICI Securities Limited. Please go ahead.

Dhavan Shah: So I have a question on the volumes processed. So can you please share the data for this quarter Q1 '23, what was the volume processed and even in Q4 '22.

Rajen Jhaveri: Annually, we have been sharing the data. As far as this particular quarter is concerned, what we processed was in the range of between 14,000 tons and 15,000 tons.

Dhavan Shah: And what was the volume?

Rajen Jhaveri: Last year volume was 59,000. And this year during the first quarter, we have processed 1/4 of that last year quantity between 14,000 and 15,000 metric tons.

Dhavan Shah: I was asking about the quarterly numbers. So in Q4 '22 and Q1 '22, what was the number against this 14,000 tons, 15,000?

Rajen Jhaveri: I'm telling you this Q1 '22, '23 only, this number.

Dhavan Shah: No, I'm asking against this Q1 '23, what was the volume in Q4 '22 and Q1 '22, if you can help us? So we can get to know about the quarter on quarter and YoY basis.

Rajen Jhaveri: Q4 '21-'22 was the same quantity as Q1 '22-'23.

Dhavan Shah: And Q1 '22?

Rajen Jhaveri: Q1 '22 was much lesser at around 13,000 tons.

Dhavan Shah: And given that the edible oil prices were higher during the last quarter, so was there any inventory gains which lifted the overall gross margin for the quarter?

Nahoosh Jariwala: No. Basically, as a company, we have a philosophy in mind that we are a manufacturing company and we don't play around any way in commodity pricing. So, whatever we purchase, we sell. So, I mean, there is no gain or loss, we see to it that no gain or loss happens from inventory or finished product. We try our best. Marginally, plus, minus can happen.

Dhavan Shah: And at the end of Q1, I mean, what was the realization? Because I think oleochemical was contributing up to 99%, the contribution is the same in the last quarter also, correct?

Nahoosh Jariwala: Yes.

Dhavan Shah: And this includes oleo plus nutraceuticals, this 14,000, 15,000 tonnage volume.

Nahoosh Jariwala:	Yes, it includes both.
Dhavan Shah:	And sir, given that the edible oil prices are coming down, so do you still foresee that maybe this FY '23, we can end up with the higher YoY growth. But on that base, do foresee the growth can continue, because I think the volumes are growing at roughly 10%, 15%, but if the realization fell to around 30%, 40%, do you foresee this kind of growth continuing, maybe 10%,15% on YoY basis also continue over this year, in the next year?
Nahoosh Jariwala:	Basically, please don't look at quarter to quarter. Yes, end of the year, you'll see.
Rajen Jhaveri:	We will grow not only because of volume, because of the value also, because during the current financial year, maybe in the end of third quarter or fourth quarter, we will be through with our value-added products things also. So that will give us additional contribution in top line as well as bottom line also in last quarter of the current financial year. So we are quite hopeful that on an annual basis, we will certainly be better off in terms of top line as well as bottom line.
Moderator:	The next question is from the line of Niraj Shah from Exemplar Investment. Please go ahead.
Niraj Shah:	First of all, I would like to applaud the management team led by Mr. Nahoosh Jariwala for setting an exceptional example over last decade of how well a capable management can grow a company from just Rs. 57 core revenue to current Rs. 643 crore revenue and from just 10,000 metric ton volume to current almost 60,000 metric ton per annum volume without burdening balance sheet or profit margins. It's really commendable. Now regarding my queries, out of our 120,000 metric ton per annum capacity, how much is dedicated specifically for processing DOD?
Nahoosh Jariwala:	See, basically, the capacity creation what we have done has a swinging ability. So I mean we can swing our equipments from one raw material to second. So I mean we can process it. I mean much higher quantities of DODs, if it is viable. So based on that whichever business gives us more money something what we do and that is the beauty what we have created in the last expansion.
Niraj Shah:	So you mean to say that capacities are fungible, but as per your own estimates, because you must be having commitments for your oleochemical business clients also. So in this year, in coming two years, how much DOD you plan to dedicate specific these capacities too?
Nahoosh Jariwala:	See, I mean, currently you can see around 3% to 4%, which we intend to double up.
Niraj Shah:	So around 10% maximum DOD you will be able to produce.

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Nahoosh Jariwala: Yes. But at the same time, what I explained, is my fatty acid business is giving me more money? I might not do that much in DOD then. I mean, it depends, what is giving us money. I mean, if it makes more sense. We won't take exit 100% from any product stream, that is all. We will keep our foot there.

Niraj Shah: With respect to our 50% topopherol product, by when exactly we will be able to produce the seed product in meaningful commercial quantities from current year or from FY24?

Nahoosh Jariwala: We intend to start the plant by December.

Niraj Shah: And trial runs, you mean to finish by December or after the trial runs go on after December.

Nahoosh Jariwala: No, I mean it won't take so much for us to I mean go in full production, much time, less than a month.

Niraj Shah: My last query was regarding our forward integration projects. So, what is the approximate market opportunity size in each of the value-added products we plan to manufacture apart from 50% tocopherol?

Nahoosh Jariwala: And the other is forward integration, what we are doing is a product called monomer fatty acid, which is a co-product coming out of our Dimer manufacturing process and forward integration we'll be doing and mainly making 2 products out of it, stearic acid and isostearic acid. Stearic acid has a huge application of more than 200,000 tons and isostearic acid is a tailor made product which we intend to export to US and Europe. Already we have started pilot plant, product approvals are already in place, and we won't see any issue as regards to exporting full quantity whatever we will be manufacturing because it will be very small part of global demand.

Moderator: The next question is from the line of Krunal Shah from ENAM Investments. Please go ahead.

Krunal Shah: My question is line with previous participant question. As in isostearic acid, what are the end application for that?

Nahoosh Jariwala: It finds application in cosmetics, aviation fuel, sunscreen lotions. I mean it's a product which is being consumed in a big way and the market is also expanding in a big way because it's a green product. Basically, it's been produced from vegetable oil sources. So that's the beauty of the product.

Krunal Shah: And the second question is in line with this tocopherol 50% and sterol 90%. How are these 2 products different from what we actually manufacture nutraceuticals right now because you also do tocopherol currently?

Nahoosh Jariwala: Currently, we are manufacturing and exporting products which is mix of both the products. So in future events or expansion, I mean, forward integration plant goes operational, we'll be separating both the product streams and making it into I presume whereby both of them would find application separately, like sterols 90 for corticosteroids and tocopherol 50 for animal feed and/or for manufacturing natural vitamins.

Krunal Shah: So you're saying that basically separating the good work increases the market opportunity for you in that sense?

Nahoosh Jariwala: Yes. We will be selling to the 3 US based players only to whom we have been selling since years.

Krunal Shah: And you said that we already have some contract with the US guys for these products. So have the samples been approved already?

Nahoosh Jariwala: Already. See basically, we started this company with tocopherol business, and we have excellent relations and all the 3 are fortune 500 companies.

Krunal Shah: Last question is in the RM side. So we have the capacity to process 1.2 lakh tons. What's the total RM available in India? Because as per my knowledge, there is a limited capacity for the RM to produce because only 1.5% of the total output from the oil refineries that we can use. So, if you can help me understand what is the total RM opportunity India?

Nahoosh Jariwala: I mean, currently, for whatever we want to sell, we are able to procure the raw materials. And the way finished product market is growing, I mean vegetable oil market is also growing. So we don't foresee any issues with regards the availability of the raw material per se. And we can use a huge basket of byproducts of different vegetable oils. So I mean, I don't see any issue regarding that.

Moderator: The next question is from the line of Aashish Upganlawar from InvesQ Investment Advisors. Please go ahead.

Aashish Upganlawar: Sir, just wanted to understand there are a few things happening in our company. One is the expansion that is going on. Secondly, the inflation that we've seen in the raw material side. And third is the value added products basket that will be coming in as we go along. So in all of this, I wanted to break it up into what if the RMs come off, because last time when we I think interacted, you said that percentage margins is what we typically tend to look at, not the EBITDA margin, EBITDA rupees per ton achieved kind of numbers. So, would it mean that we will be having a lower EBITDA per ton because, if it's percentage margins criteria for us. Are the 17%, 18% EBITDA margins, the figure that one should look at on a sustainable basis for us.

Nahoosh Jariwala: See, as I explained earlier, because of economies of scale kicking in and forward integration of the product streams, we feel this margin would be sustainable in long run.

Aashish Upganlawar: So, 18% odd percent is the band for us, because historically we have done 20% plus sometime.

Nahoosh Jariwala: I mean obviously we'll try, because see, 2 things, economy of scale and forward integration, would obviously help us increase these margins too, I mean anything above 18%.

Aashish Upganlawar: And these value-added products, does it give us better profitability in that sense, that's what you're trying to say or it also expand the opportunity for the company to basically have a sustained 25% kind of a growth on sales front probably next 4-5 years.

Nahoosh Jariwala: See, obviously forward integration is going to give us price realization, because whatever expansion, I mean forward integration we have done is we have done in the same plant. We haven't created any new Greenfield facility for that. So, that is one thing. And second thing is forward integration would keep us ahead of our, I mean, future any competition, if currently there is no competition, but in future also, if any competition comes, we are way ahead of anyone else. So I mean overall, it's going to give us a good advantage.

Aashish Upganlawar: So that 20% plus kind of a number is it a fair assumption on the top line growth front for the company that way even after the current expansion is exhausted?

Rajen Jhaveri: We will certainly strive to achieve that number.

Aashish Upganlawar: After the current expansion is exhausted, maybe I mean, I'm trying to understand after 3 years what happens, after this phase of growth and capacity that'll come?

Rajen Jhaveri: See, EBITDA, Mr. Aashish you would be better aware because you are in this line, this EBIDTA as a percentage would depend on many things. Theoretically, if these raw material prices increase to 2x, and correspondingly our finished goods prices also increase on a pro rata basis, then on a percentage term one cannot expect that the same 17.77% would be there after both these are increased to 2x. But what we are trying to say is that on an annual basis, we will continuously improve on our top line and bottom line numbers.

Aashish Upganlawar: Sir, my question was on the top line growth since our capacity is now moving to 1.2 lakh tons, so clearly we have a visible path for the next 3 years. Beyond that, do you think that the growth of that trend is sustainable, maybe on the volume trends we might grow.

Nahoosh Jariwala: Recently, as you can see in last 10 years, we have increased our capacity from 8,000 tons to 120,000 tons. As a management, we are continuously working on different products. We have a fully-fledged R&D lab whereby which is manned by around 15 people and we are working on different products, we are a debt free company. So, obviously, I mean whatever

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	the cash flow which will be getting generated, we are going to utilize this in some way for growth. to
Moderator:	The next question is from the line of Ritesh from Girik Capital. Please go ahead.
Ritesh:	Sir, just wanted to know your input to output ratio. Is there any yield loss or you get nearly 95% output?
Rajen Jhaveri:	From this 1 page results only you can work out what is the raw material cost as a percentage to sales?
Ritesh:	I'm not talking about the raw material as a percentage to sales. If you process 100 tons of raw material, do you get the output of 95 tons?
Rajen Jhaveri:	Yes. In terms of quantity, it will be approximately 94% to 96%.
Nahoosh Jariwala:	It comes to 96%.
Ritesh:	And another question, you use the waste of the edible oil. So, what is the price differential between waste of edible oil to say edible oil? It would be 10%?
Nahoosh Jariwala:	No, much higher.
Ritesh:	So say, edible oil is Rs. 100 a liter. So, it would be something Rs. 50, Rs. 60 for you.
Nahoosh Jariwala:	Rs. 60, Rs. 65, Rs. 70, depending on which raw material we are using.
Ritesh:	Yes, sir, I just want to know the range of the thing.
Nahoosh Jariwala:	It is much, much, much, much cheaper. That's the advantage. And that's the DNA and that's the reason we are having this type of EBITDA margins.
Rajen Jhaveri:	That is the reason no one else is in this business.
Nahoosh Jariwala:	And it's because the raw material waste, having no product specification, and from there to make a particular product of acceptable quality, be clear, that's the challenge and that's the type of plant what we have created and the process what we have created and the people who are with us since last more than 20 years, have learned and mastered that. That's the DNA of this company.
Ritesh:	Absolute, sir. You do the magic. That's all from my side.
Moderator:	The next question is from the line of Prit Nagersheth from Wealth Finvisor. Please go ahead.

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Prit Nagersheth: I think most of the questions have been answered. But just 1 remaining question was that, sir, we were hearing about some kind of sluggishness in demand for the month of July and even for August. So how is it for you guys? Are you seeing any slowdown in volumes by some of the players?

Nahoosh Jariwala: No. Maybe see, this might be a cyclical. So that's why I said earlier also, maybe a particular month might be up and down, which might affect a particular quarter. I mean what we need to look at is year-to-year performance. And in that we don't see any drop anyways.

Moderator: The next question is from the line of Vipul Shah RW Equities. Please go ahead.

Vipul Shah: Most of the questions have been answered. Just 1 question which I had, sir, is in terms of our sales revenue, could you give a high-level sort of understanding of the industry segment from which our revenue flows, sir?

Rajen Jhaveri: Vipul bhai, these 3 prime products, our Linoleic acid which goes in paint, Dimer acid which goes in printing ink and epoxy, etc, and our nutraceutical. In terms of value during this quarter 1 of FY '23 in terms of value, their share was nearly 77% for these 3 prime products.

Vipul Shah: And so another question was, earlier in the call, we mentioned that basically, our volumes were more or less similar, in the last quarter of the previous financial year and the first quarter of this financial year. So the jump in the revenue quarter-on-quarter, could it be ascribed to the price?

Rajen Jhaveri: No, there are 2 factors in that, Vipul Bhai. What we said is that the quantity processed was same, but there is a composition of finished products derived from that quantity processed. So, though the quantity processed was same, the volume of the 2 prime products, Linoleic acid and Dimer acid, both the volumes showed a jump during this quarter vis-a-vis the previous quarter. So, the additional sales value achieved during this quarter vis-à-vis immediately preceding quarter is partly because of this higher volume of these 2 prime products also, apart from the higher per unit realization. So, it is not only per unit realization increase, which has resulted in this rise, it is because of the higher quantity of sale of 2 prime products also during this quarter vis-à-vis immediate preceding quarter.

Vipul Shah: So basically, sir, it's a mix issue. What I understand from you, sir, is that the mix was favorable in this quarter. And sir, last question is that, we've been operating at a pretty solid steady state range of margins barring, sir, the second half of last financial year. So could that be also ascribed to a mix issue? Or is there any specific reason you want to call out, sir? Although I understand this is the first quarter call, but pardon me for this question, sir.

Rajen Jhaveri: I will tell you. During that October March period, if you remember, there was a lot of volatility because of this change in policy. During the six month period at different points of time, there

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was change in policy by Indonesia and Malaysia, as far as their Palm oil export is concerned. There was this Russia-Ukraine war announcement or war between Russia and Ukraine, which disrupted the supply of sunflower oil et cetera, et cetera. So Indian oil demand, which comprises of many things, domestic production plus import of sunflower oil from Ukraine, Russia, import of palm oil from Indonesia, Malaysia, et cetera, when there is a perception that this import will not take place, the prices would be jumping. And when the price jumps, everything then is in a turmoil. And the end users of our products is paint companies, etc, then they would take their decision whether the use of their inventory or to create or maintain that level of inventory by buying fresh. So those kinds of things happened during that particular 6 months and that is how it was impacted. See, after this thing stabilized during the first quarter, we have again bounced back to our original level.

Moderator: The next question is from the line of Sanchit Agarwal from Littlemore Investments. Please go ahead.

Sanchit Agarwal: My question is like your top customer accounts for like 40% of your revenue. So, what has been the past track record like for 3-5 years, what's the growth in that customer?

Rajen Jhaveri: This 40% revenue is during the financial year '20-'21 and '21-'22. Before that, the top customer did not contribute 40%. So, this 40% is for last 2 financial years only and to an extent it will be there during the current financial year though it may not be 40%, it will be lesser than that. But once we are through with these our value added product streams, etc, and capacity expansion and focused on these other products also, this contribution of a top customer from 40% is bound to reduce substantially.

Moderator: The next question is from the line of Jagvir Singh from Shade Capital.

Jagvir Singh: I have only 1 question. Earlier, in the presentation you were talking of sustainable margins of 16% to 17%. So now, you are talking to the margins 18% plus. So what has changed in between?

Nahoosh Jariwala: Two things, capacity expansion which has kicked in the economy of scale and forward integration of products to things based on that we feel that we will be able to improve that.

Jagvir Singh: And 1 question, in Q4, we have held the lowest margin around 10% margin in the Q4 last year. So what has changed in these 2-3 months, 10% to 17.7%?

Nahoosh Jariwala: Last year, COVID thing was also there. Omicron and Delta variant thing, that's when things were topsy turvy. So I mean that also affected our thing whereby we had to keep plant shut for longer periods. And lots of things were kicked in. So I mean, I want put it as a quarter, which would be really, I mean, looked at.

Moderator: The next question is from the line of Sagar from Dr Sagar RV. Please go ahead.

Sagar: First of all, I just want to congratulate the management because we can see several costs, like power costs, they are still extremely high, but the management did everything perfectly. So really, thank you for that. I had these 2 questions. The first one was regarding suppliers and customers. Can you just explain how do these contracts work? Because we've seen in many chemical companies, they can't pass these increased costs to their customers. So can you explain how do we buy these raw materials first and then sell it to the customers? Like how do these contracts work? And can we pass the price hikes easily in 1 or 2 quarters?

Nahoosh Jariwala: As I explained earlier, that we don't play in commodity, we are a manufacturing company. That's what our belief is. So we typically enter in contracts for raw materials purchase, which are not beyond 1 month, and same way, we don't enter in any contract for sales beyond 1 month. Yes, as our raw materials our commodities and our finished products are sold on B2B basis, there can be some lag of transferring the increase of raw materials beyond that, beyond month or month and a half. Beyond that, nothing is there. So I mean, we are in position to transfer the price hike. But if for whatever reason there is sudden price hike of 20% or 25%, then because of keeping our long term relation with our suppliers, they might request us to stagger the hike and spread it over 2 months. Beyond that nothing.

Sagar: So 2 months would be the max. That's really helpful. And my second question was actually a bit more about the future, because right now we are waiting this one plant, because now we have more products coming in and let's imagine we come with a new plan, what would become the hurdle rate for you. So when you launch a new product, your focus is on margins, what's the payback period? Which is the metric you'd like to focus on? Just to understand how the company goes from here.

Nahoosh Jariwala: See, as regards the forward integration of the 2 product streams, one is in nutraceutical field, which product we are going to manufacture and are going to sell to the same customers, which has already been approved. So we don't see any hurdle in that. And as we got the new product called isostearic acid, initially I mean, the pilot plant samples are under approval and the results are quite encouraging. And in that case, we also don't see any big hurdle because it's a green chemical and world is going green. And we were saying, the market is also growing at a fast pace. So we don't foresee any major hurdle in that area also. And over the period we have created a name as regards quality soft oil manufacturer. And companies know about us. And so we don't see any major issues regarding that.

Sagar: if I can just clarify one thing, what I meant by hurdle rate was let's imagine we come up with a new plan, for example, you'd be focusing on the higher margins compared to existing products like that concentrated tocopherols you were mentioning, yes.

Nahoosh Jariwala: Obviously. The forward integration logic was that only to have better price realization.

Moderator: There is a follow-up question from the line of Raj Shah from Statheros LLP. Please go ahead.

Raj Shah: I don't really have any questions. But I'd like to wish all the luck to Rajen bhai and Nahoosh bhai.

Raj Shah: The question that I had was taken up by the previous participants, but I'd like to congratulate and wish luck Nahoosh bhai and Rajen bhai.

Moderator: There's a follow up question from the line of Niraj Shah from Exemplar investments. Please go ahead.

Niraj Shah: Just one follow up. What is the contribution of Dimer acid to our FY22 revenues?

Rajen Jhaveri: All these prime products put together were approximately for the financial year '21-'22, that contribution was around 73%, all the 3 prime products put together.

Niraj Shah: And particularly Dimer acid if you can share?

Nahoosh Jariwala: It would be approximately 30%, 35%.

Niraj Shah: 30%, 35%, okay. Rough estimate?

Nahoosh Jariwala: Yes.

Moderator: There is a follow up question from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Sir, you said that Q1 production was around 14,000 to 15,000. And you said that the capacity utilization was 65% to 70%. That doesn't match.

Rajen Jhaveri: Additional capacity was created by end of June 2022 during the quarter of April to June, the capacity was 90,000 tons only.

Sunil Jain: So this additional capital can be utilized in the current year?

Rajen Jhaveri: Additional capacity was in place in the end June 30, 2022 only. So for this quarter April-June, we have applied this percentage of 64% on 90,000 ton capacity because that was in place at that time.

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

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Nahoosh Jariwala: Thank you all for participating in this earning con call. I hope we were able to answer your question satisfactorily, at the same time, offer some insight in our business. If you have any further questions or would like to know about the company, please reach out to our Investor Relations Manager at Valorem Advisors. Thank you. Stay safe. Stay healthy.

Rajen Jhaveri: Thank you, everybody.

Moderator: Thank you. On behalf of Valorem Advisors that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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