# "Chemcon Speciality Chemicals Limited Q2FY21 Earning Conference Call"

**November 09, 2020**

**MANAGEMENT:** **MR. KAMAL AGGARWAL - CHAIRMAN & MD, CHEMCON SPECIALITY CHEMICALS LIMITED**
**MR. NAVDEEP GOYAL - DEPUTY MANAGING DIRECTOR, CHEMCON SPECIALITY CHEMICALS LIMITED**
**MR. RAJESH GANDHI - DIRECTOR AND CFO, CHEMCON SPECIALITY CHEMICALS LIMITED**

**MODERATORS:** **MR. RITESH GUPTA - AMBIT CAPITAL**

**Moderator:** Ladies and gentlemen, welcome to the Chemcon Speciality Chemicals Limited Q2FY21 Earning Conference Call hosted by Ambit Capital. 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 touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ritesh Gupta from Ambit Capital. Thank you and over to you, sir.

**Ritesh Gupta:** Good afternoon, everybody. Thanks for joining us on this call. Today, we have with us management of Chemcon, represented by Mr. Kamal Aggarwal – Chairman & MD, Mr. Navdeep Goyal – Deputy Managing Director, Mr. Rajesh Gandhi – Director and CFO to discuss Q2FY21 results.

I will now hand over the call to Mr. Kamal Aggarwal for his opening remarks.

**Kamal Aggarwal:** Thank you, Ritesh. Good evening, everybody. On behalf of Chemcon Speciality Chemicals Limited, I extend a warm welcome to everyone for joining us on the earnings call today.

On this call, we have been joined by the Deputy Managing Director – Mr. Navdeep Goyal, Chief Financial Officer – Mr. Rajesh Gandhi and SGA Team, our Investor Relations Advisor. We hope you and your near ones are healthy and safe in this environment.

Let me begin by thanking to our shareholders for their response to our recent IPO. We continue to strengthen the brand equity of Chemcon Speciality Chemicals and strongly believe we have a huge potential, huge opportunity in hand.

Since some of you may be hearing us for the first time today, let me give you a quick snapshot of the company and then our team will talk through the operational and the financial performances. We are manufacturers of specialized chemicals such as HMDS, that is Hexamethyl Disilazane, CMIC that is Chloromethyl Isopropyl Carbonate and other similar products. These products are mainly used in the pharmaceutical industry as a value-added intermediate. We categorize both these chemicals as speciality chemicals for pharmaceutical industry. We also produce inorganic bromide namely you can say calcium bromide, zinc bromide, sodium bromide and zinc. They are mainly used as completion fluids in the oil field industry also known as oil field completion chemicals.

Let us highlight more on this product segment. HMDS, as I said it is utilized in the pharmaceutical industry as a silylating agent in the process of manufacture of ARVs and Penicillin group medicines. HMDS are also used in semiconductor and electronics industries and also in rubber industries. Semiconductor industry for the coatings and rubber industry for manufacture of high value pharmaceutical rubbers particularly, not all the rubber. In CY19 we were the only manufacturer of HMDS in India and the third largest manufacturers of HMDS in the world. Globally, we have a market share of nearly 10% in terms of production. As far as the revenues are concerned, about 50% revenue is contributed from HMDS and out of the 50%, 85% is contributed from the domestic market and 15% from the exports.

We will turn to the next product, the main product that is (CMIC) Chloromethyl Isopropyl Carbonate is an antiviral drug intermediate. It is particularly used for Tenofovir that is an anti-AIDS drug and an anti-hepatitis B drug. The downstream products of CMIC as I said is Tenofovir. It is a Gilead Corporation US developed product and Tenofovir and its combination uses this CMIC. As per CY19, we were the largest manufacturer of CMIC in India and we were the second largest of manufacturers of CMIC in the world in terms of production as well as in terms of the capacities.

During the current calendar year, we shall become the largest producer of CMIC in the world by our production.. We are going ahead with larger productions of the same. CMIC is expected to contribute about 25% of the total revenue of Chemcon and 90% of this would be contributed from the domestic market and about 10% from the international market. Globally, our market share is expected to reach to about 25% of CMIC. In respect to the oil field chemicals, as everyone is aware the oil prices being lower our products are being used as capital equipment.. They are used in borewell after the drilling is being finished as a completion chemical to control the downfall pressure prior to and on completion of the well. Currently, we manufacture range of inorganic bromides, namely calcium bromide, zinc bromide and sodium bromide. As per CY2019, we are the only manufacturers of zinc bromide and the largest manufacturer of calcium bromide in India in terms of production. Globally, our market share stands to the tune of about 4% across all bromides in total.

In FY20, oil well completion chemicals contributed about 33% of our total revenues of which 88% were contributed from the international market and balance about 12% from the domestic market. In Export, our customers are based at the US, Italy, South Korea, Germany, China, Japan, UAE, Serbia, Russia, Spain, Thailand and Malaysia and other locations we are just opening up. Our manufacturing facilities are ISO 9001 and 14001 certified for the manufacture and supply of pharmaceutical intermediates that is Silanes and oil field chemicals. Our facility is located at Manjusar. Manjusar is about 20 kms from Vadodara in Gujarat. Currently, we have 7 operational plants. Plant number 8 and 9 are under installation. We also have an inhouse laboratory and we are self-reliant in respect to the power and steam and other utilities also. In addition to the operational plant, we have started the construction of the two additional plants P8 and P9, within the enhanced premises of the manufacturing facility. The additional plants are to be used for the manufacturing of chemicals, again, in the same line of activity as pharmaceutical intermediates.

Post completion of the expansion, our volumetric additional capacities will reach to 625 KL against our present capacities of 375 KL. The IPO proceeds were taken by the company for this purpose.. Commissioning of the two new plants, that is plant P2 and plant P7, this was done during the current financial year and we have increased our capacities of HMDS. Plant P7 is a dedicated of mix of, interchangeability facilities for manufacture of 1800 tonnes of HMDS. Plant

2 has flexibility. It is a dedicated plant for HMDS, but it has the facility to manufacture high purity HMDS for the electronic industry as well as other industries.

We have executed the first sale of the new products, that is 4-chlorobutyryl chloride in the current financial year FY21 which are widely used in pharmaceutical and agro chemical industries. And we are in the process of commencing the production of the new product 2,5 DHT which is again a pharmaceutical industry intermediate. During the IPO period, we acquired 22,000 m square of land, adjacent land to our existing facility that is extension of the boundary and in the past we had 29,000 square meters of land. Now the total land available to the company is 51,000 square meters. The plant number P8 and P9 are upcoming in the new land that is 22,000 m square piece.. The company also received approvals of 44 new products which includes the 9 existing ones. We got the government clearances for them and with the production capacities of volumes we can increase from 2,500 metric tonnes per month to 10,600 metric tonnes per month.

The operations of the company were impacted due to the COVID 19 lockdown during Q1FY21. With unlocking taking place, we are back on track and gathered momentum for Q2 FY21. Pharma chemical products HMDS and CMIC reported a healthy growth for the quarter. In case of CMIC, there has been a huge volume growth coupled with the price increase on a year to year basis. For HMDS, the volume has remained stable with a slight decrease in the price on year-on-year basis. Our profitability on absolute per tonne basis of HMDS remain stable.

Now, I would like to hand over to Rajesh Gandhi, the CFO to walk through all the financial performance of the Company. Over to you, Rajesh.

**Rajesh Gandhi:** Thank you, Mr. Aggarwal. Good evening, everyone on our first earning call.

Q2FY21 has been a reasonable quarter for us as we continued to sustain a high growth trajectory for speciality chemicals of pharma industries and has witnessed marginal demand recovery from inorganic bromides. Total revenue for the Q2FY21 stood at 61.5 crores. Of the total revenue, domestic market contributes around 61% at Rs. 37.8 crores whereas balance revenue of Rs. 23.6 crores were contributed by export business. Our domestic market declined by 23% whereas international revenue grew up by 46% on YoY basis.

Production volume for Q2FY21, was at 1,788 metric tonnes as compared to 2,444 metric tonnes same period last year, decline was preliminary due to volume decline in bromide production. Segment wise revenue are as follows. HMDS revenue stood at Rs. 30.2 crores from the quarter. CMIC revenue stood at 22.9 crores from the quarter. Oil well completion revenues stood at Rs. 6.6 crores for the quarter. EBITDA grew by 19.3% to Rs. 23.3 crores in Q2 financial year 21 as comparison to Rs. 19.5 crores in Q2 20. Net profit for the quarter grows by 14.4% at Rs. 15.6 crores in Q2 21 as compared to Rs. 13.6 crores in corresponding year last year. H1 financial year 21, total revenue for the H1 stood at Rs. 107.2 crores. Revenue from domestic market stood at Rs. 71.2 crores for H1 21 whereas balance are 36.1 crores were contributed by export market. EBITDA stood at Rs. 37.4 crores whereas net profits stood at Rs. 24.4 crores for H1 21.

Production volume stood at 2765 metric tonnes for H1 21. Our CAPEX for H1 21 stood at 5.06 crores excluding land. Our total debts stood at 56.84 crores and debt to equity stood at 0.18 times.

With this, I conclude the presentation and open the floor for further discussion.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Priyanka Singh from Atidhan Securities. Please 9

**Priyanka Singh:** I have few couple of questions. The first one would be what are the market opportunities for our new products, the DHT and CBC**?**

**Kamal Aggarwal:** The new product CBC is a commercial product; it is manufactured by couple of other manufacturers also. We have a small capacity of 100 tonnes whereas the market size stands at about 7000 tonnes. 100 tonnes per month that is 1200 tonnes per year. We have the existing customers who use the product and we have good relationship, we have good entry to that. In respect to the other product 2,5 DHT, we have put up the plant for 1200 tonnes per year again and this product is not manufactured in India. About 2500 tonnes of this product is imported into India. So it is a net import product. We will be taking over the market as a replacement of the imports. So that stands as the future of these two new products.

**Priyanka Singh:** And also, what are the key properties of our products and why your pharma companies use these products?

**Kamal Aggarwal:** The basic products HMDS is a silylating agent and without the silylating agent, the the chemistry cannot proceed. As such, it is a compulsory chemical to be used in the manufacture of penicillin based and ARVs. So it is a mandatory product required to protect the chemicals while processing. In respect to CMIC, it is a side chain of the product. So, it is half molecule of the product. So, it is a compulsory one which forms a part of the medicine. So these are the two principal usages. In respect to 2,5 DHT, it stands identical to CMIC.

**Priyanka Singh:** And on the financial side, what kind of EBITDA per tonne are sustainable among these 3 segments?

**Kamal Aggarwal:** The EBITDA per tonne is in line. It is stable since last 1.5-2 years and it is proceeding, we anticipate the same EBITDA in the coming time also. It is stable, there is no change in that and we do not project any changes in that.

**Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment. Please go ahead.

**Ashwini Agarwal:** I had couple of questions relating to the balance sheet as of 30$^{th}$ September 2020. So basically, these lines relating to other financial assets and other financial liabilities and corresponding entries that I see in the cash flow statement. So you know, some of these I am not able to tally for whatever reason. So for example, if you look at your statement of assets and liabilities other financial assets have barely moved in the balance sheet side. But in the cash flow, you show a significant change in other current financial assets to the tune of about 17 crores. Similarly, if you look at other current financial liabilities, they have gone from 4.5 crores to 192 crores. But the corresponding entry in cash flow statement is somewhat lower. So I am not able to understand this. Could you explain it to what these items are and why are they moving so much?

**Kamal Aggarwal:** These 192 crores, I am taking the second question first. The 192 crores liability which has moved from 4.5 crores that is principally the liability of the OFS. That amounts were received; they were lying in the bank account and they were supposed to be given to the OFS selling shareholders. So that 153 crores plus the IPO related cost. That amount was lying in the bank. So, that is a liability. So, that is how it has increased from 4.5 crores to 192 crores.

**Ashwini Agarwal:** I got it. Because those appear in the investing activities now.

**Kamal Aggarwal:** Right. And in respect to the other question, can you repeat please?

**Ashwini Agarwal:** Sir, what are the other financial assets and why have they increased so much? Actually that has increased by about 18 crores. It is not much actually. I am sorry about that;

**Moderator:** Thank you. The next question is from the line of Nitin Boricha from Sequin Investments. Please go ahead.

**Nitin Boricha:** Sir, I have a couple of questions. So my first question is on the margin side. We have seen a superb improvement on margin on this quarter. So are these margins sustainable on the second half of this year, then what kind of margin is sustainable?

**Kamal Aggarwal:** Good evening to you. The margins are in line. They have not improved. In fact the sale prices have come down a little, however Chemcon works on per kg margin, not on revenue percentage margin. As such it looked, as the price come down, but the margins are retained, so it becomes higher percentage. We do not feel we have got any additional margins. On per kg margin they are been sustained, they are identical since more than 1.5 years and we project they will remain the same.

**Nitin Boricha:** And my second question is on the CAPEX side. Sir, what amount we are spending on these two plants and what will be the asset turn on this?

**Kamal Aggarwal:** The CAPEX of 41 crores was taken by the company through by way of IPO. The plant number 8 & plant number 9, along with the other utilities and other plants it will take away the entire amount of 41 crores. That would be the input. In respect to the Asset turnover ratio, it is usually around 3.5 to 4 times.

**Nitin Boricha:** 3.5 to 4 times on the amount of 41 crores. We are spending total 41 crores, is that right?

**Kamal Aggarwal:** Yes, 41 crores.

**Moderator:** Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

**Agastya Dave:** Sir, one question I had about your past financials. If you have the gross block number for either 2016 or 2017 and last 4 years how much CAPEX has happened, just to get a sense how much capacity we have added over the last 4-5 years? And my second question was sir, that was a clarification. You mentioned that the market for CBC is 7000 tonnes per month or per year?

**Kamal Aggarwal:** Per year.

**Agastya Dave:** And one clarification sir, in the press release that you have come out with, that is page number 3, last paragraph, the 44 products, so could you describe what these products are going to be like, which chemistries are you catering from this products. Are they very closely related to your existing portfolio in terms of chemistries or these are different chemistries and the nature of this expansion, would you have like separate reactors for everyone or you will be like changing the batches, that would be the question, sir?

**Kamal Aggarwal:** In respect to the capacities increase, we have increased from FY-17 to FY-21, if you see. It is 3-fold increase of HMDS and 4-fold increase in CMIC identically. And we are further increasing the CMIC capacities by way of adding the plant number 8 and 9. Plant number 8 and 9 will be having multiple products. These 44 products are in line with the current activities. The chemistry has minor changes; however, the applications or the activity of working remains the same. We are manufacturing speciality chemicals and all these chemicals which we have taken the approval, falls within the line. We have the line of activity of working with pharmaceutical industries in India and overseas, we will continue to do that. The products are in relation to that.

**Agastya Dave:** Got it. Sir, in any product that you are making, generally how many steps are involved and what are your major raw materials? Are you starting from very simple materials like let us say benzene or toluene, I do not know exactly the pathways that you actually use? But are you going back to those basic level chemicals and then finally making CBC, DHT and the other two molecules or you are just 3 or 4 step manufacturers?

**Kamal Aggarwal:** We do not have startup from the base chemicals. We have got the products with single step, two steps, four steps all differently. Say for example, if it is calcium bromide, it is a 2-step; HMDS is a 3-step and CMIC is again a 3-step product; CBC or DHT stands as 4-step product. So likewise different products have got the different processes**.** Are we using the same reactor for the different purpose, yes? When we say it is a multi-product plant or the multipurpose plant, we have to utilize the very same vessels for the new products.

**Moderator:** Thank you. The next question is from the line of Arpit Kapoor from IDFC Securities. Please go ahead.

**Arpit Kapoor:** Sir, first question is on the oil well products. In your press release also mentions that you are seeing some bit of production starting from October. So if you can talk some more about how do you see these ramp up happening in the oil well chemicals that is there for the second half of this year and for next year, if you can throw some more color there?

**Kamal Aggarwal:** Oil well chemicals, the first half year has proved to be poor as far as the prices of the oil are concerned because it was down drastically. Our chemicals are used as capital equipment for them. After doing the oil well drilling, it is used as one time for the pressure balancing. So this is a chemical utilized as a CAPEX. As the prices went down below the cost of manufacture or below $40, the new oil well was not coming up. But now with the recent development in the last 1.5 months or 2 months, the new oil well drillings have commenced. We always were holding purchase orders from MNCs like Halliburton, and people like Steinberger and he likes. The supplies were under hold. In the recent last 1.5 months-2 months the supplies have been initiated. The supplies have been cleared, the products have started moving, we are on 100% production now. So that is how we are moving ahead. We project well. It won't be up to the mark compared to the last year. But major volumes will be able to cover up. However, this gap is being filled by the other products like HMDS and CMIC which stands for the volume as well as for value addition, both the places, CMIC is giving us a better advantage.

**Arpit Kapoor:** So incrementally what is the current CAPEX plan that we are embarking on? We don't foresee any capacity expansion to happen in the oil well chemical space, given the fact that we are yet to utilize the capacities to the fullest.

**Kamal Aggarwal:** In oil well chemicals, we have a capacity of 14,400 tonnes and to the max we have utilized even up to 8,000 odd figures. So we always have additional available capacities and we do not have any plans of expanding that.

**Arpit Kapoor:** And sir, my second question is on the geographical split. So if I look at it in this quarter, current quarter, our export sales have, purchase of our sales contribution has come from exports which traditionally has been somewhere around 25-28 odd percent. So if you can throw some more color as to which geographies or which products, where have we gained, where is this export sales coming from and how sticky is this number going to be going forward as well?

**Kamal Aggarwal:** See, the bromide sales has come from UAE that is 6.6 crores for the quarter, oil field chemicals and the other HMDS and CMIC, CMIC we do not have exports during this period. However, HMDS has moved to different parts of the globe.

**Arpit Kapoor:** So that would not have been there previously? why?…

**Kamal Aggarwal:** In the quarter Q1, we were not having that.

**Arpit Kapoor:** So which is why the delta has came in this current quarter?

**Kamal Aggarwal:** Yeah.

**Arpit Kapoor:** And, so you see the traction continuing going forward in there?

**Kamal Aggarwal:** Yes, sure, very well.

**Arpit Kapoor:** And last bit, if you can throw in terms of realizations how is export realization? Are they any difference between export realizations compared to domestic realizations?

**Kamal Aggarwal:** The principal policy of Chemcon is that the export realization should be better than the domestic one, otherwise exports to be avoided. So definitely the export realizations are better. Because we have to compete internationally with the Chinese manufacturers.

**Arpit Kapoor:** And sir, last bit, so when we are building in, when we are expanding the capacity, is there any color that you can give on how much would it be, let us say for domestic supplying and how much you envisage would go for exports?

**Kamal Aggarwal:** Exports we are trying to concentrate on different sector of application other than pharmaceutical. We hope we will increase our the presence from around 15% of the product to more than 25%.

**Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon AIF. Please go ahead.

**Manish Poddar:** Two questions. One was data keeping. So would you be able to help me with what were the average prices let us say for HMDS as on October 20?

**Kamal Aggarwal:** October 20, the HMDS average realization is about Rs. 470 a kg.

**Manish Poddar:** Can you explain why working capital cycle is elongated in the first half. So what are the reasons for the same and what is the steady number to expect, sir?

**Kamal Aggarwal:** See, from the outstanding of company as at 30$^{th}$ September, it has come down to about 85 crores. Out of that, more than 25 crores has been recovered or more than 20% is been recovered. There was a delay in payments from our customers which resulted into increase of receivables per day. The delay has been sorted out, and now the flow has been inline and it has been taken care of.

**Manish Poddar:** What should be there, let us say if I look at your cash conversion cycle what should be a sustainable number up here? Let us say, inventory plus debtors minus the payable days for you?

**Kamal Aggarwal:** We will be able to achieve around 2 to 2.5 cycles in a year.

**Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment. Please go ahead.

**Ashwini Agarwal:** Sir, in your press release you spoken about commissioning plants P7 and P2 and launch of new products foresee this year in 2,5 DHT and also your commentary seem to suggest that the oil well chemical should see a rebound in the second half. So how should we think about second half. How quickly will production in P7, P2 4 CBC 2,5 DHT will ramp up, or this is something that is going to take longer? If you could provide us some sort of perspective of how you see the next 18 months rolling out?

**Kamal Aggarwal:** The plants number P2 is dedicated for HMDS. The P7 is a flexible plant. We can make CMIC in that, we can make 4 CBC or we can make 2,5 DHT or we can make HMDS in that. That is a flexibility available with us. See, in present era, the CMIC demand has been huge and the value addition being much better compared to even the 4 CBC or with 2,5 DHT. So, in the present era, we are utilizing that expanded capacities for the existing product CMIC. We had the capacity of about 1800 tons of CMIC. We are trying to take a production of more than 2200 tonnes in the current financial year which includes the COVID period Q1 loss of productions also. So the contributions being better, the market demand being much higher. So with that flexibility, we are attempting to utilize. We work on the per kg margin, we work on the value addition basis. We are not concentrating much on the new products on priority basis. The priority stands on the business, the value additions, the bottomline. So I cannot say unless we start up the plants number 8 and 9 and utilize the CMIC over there, we will be starting major productions in 2,5 DHT.

**Ashwini Agarwal:** Sir, you mentioned 2200 tons of CMIC for the year, what where these numbers in tonnage terms for Q1 and Q2 this year?

**Kamal Aggarwal:** CMIC in Q1 stands at 306 tonnes, we have done 784 tonnes in H1. Last year the total production of CMIC was 807 tons. So against a full year of 807 we have already done 784 in H1.

**Ashwini Agarwal:** Because you blanked out for a bit in the middle, so Q2 would be 784 minus 306, whatever 470 odd tonnes?

**Kamal Aggarwal:** Q2 was 478.

**Ashwini Agarwal:** And against this, you expect therefore the second half to be well over 1200 odd tonnes, close to 1200 tonnes.

**Kamal Aggarwal:** More than 1200 tonnes.

**Ashwini Agarwal:** And this number was 807 tonnes?

**Kamal Aggarwal:** The largest manufacturer of CMIC in the globe had a production of 1300 tonnes. As I said in my speech, we will be becoming the world's largest manufacturer that includes this volume, that is based on these volumes.

**Ashwini Agarwal:** And second half, should we expect some improvement in the oil well bromides as well and that capacity is separate, right? That is not fungible with or that is not flexible like your P7 plant or P2 plant where you can make anything?

**Kamal Aggarwal:** P7 plant I can make multiple things. P2 is a dedicated plant. Well, calcium bromide is a dedicated plant on all the bromide, no fungibility is possible in that.

**Ashwini Agarwal:** So that, if there is a recovery that would also contribute to second half revenues?

**Kamal Aggarwal:** 100%, because we had almost negligible contribution in the H1.

**Ashwini Agarwal:** And what is the order book looking like, sir?

**Kamal Aggarwal:** Order book we have about 2.5 months order book further.

**Ashwini Agarwal:** 2.5 months of how many tonnes, because that would give us the sense?

**Kamal Aggarwal:** I won't be able to give you that figure. I am sorry for that.

**Ashwini Agarwal:** So this launch of 4 CBC and 2,5 DHT while it is a technical launch, in the near future you don't anticipate making them because you would like to use your entire capacity for CMIC because CMIC is more profitable and obviously where the demand is very strong. Would that be the correct way for me to think about it?

**Kamal Aggarwal:** Not so. For CBC, we are on the verge of launching. For 2,5 DHT,, we are delaying a bit.

**Ashwini Agarwal:** I thought the P7 you will use mostly to make CMIC.

**Kamal Aggarwal:** No, mostly the 2,5 DHT is area that we have converted to CMIC, that we are utilizing over there. For CBC, we will be continuing to launch in the Q3 or maybe to the maximum of Q4. We have already started supplying CBC.

**Ashwini Agarwal:** What kind of revenue potential can this have, CBC?

**Kamal Aggarwal:** For CBC initially, you can consider about 50 tonnes a month as the productions and Rs. 300 a kg is the approximate pricing for that.

**Ashwini Agarwal:** And EBITDA margin would be similar in percentage terms as compared to the company, how would you think, how should we think about that?

**Kamal Aggarwal:** There are multiple manufacturers for the same. As I told, there is a market of about 7000 tonnes. So, that is a competitive product. We won't be having margins in line with CMIC or with HMDS. But well, there would be a handsome margin.

**Moderator:** Thank you. The next question is from the line of Srihari from PCS Securities. Please go ahead.

**Srihari:** In the press release, you have mentioned about quadrupling of your capacity from around 2500 metric tonnes to 10,000 metric tonnes. Is this a new project altogether or is this the 41 crores venture that you are talking about?

**Kamal Aggarwal:** This is the capacity expansion permissions have been availed with the expanded capacities by adding the two plants with 41 crores investment, plant number 8 and 9. We won't be able to utilize the 100% of the license capacity.

**Management:** We have the space for making the plant number 10 and 11 also within the newly added premises. So that will remain as a future expansion possibility; however, the licensing which I have are been already availed for that.

**Srihari:** It includes the proposed plant 10 and 11?

**Kamal Aggarwal:** Yes.

**Srihari:** So what is the enhanced capacity right now, if you add 8 and 9?

**Kamal Aggarwal:** 8 and 9 are the multi-product plants. So, it will have fungible capacities for many products. So we can take a call on the basis of the products that we manufacture. So we have worked out April volume capacity, the processing capacity instead of the product wise capacity.

**Srihari:** To get an idea, currently you are at 2500. So if we add 8 and 9 by how much percentage would that increase?

**Kamal Aggarwal:** You see, it depends up on the product that we manufacture. If it is a multistep product, the volumetric capacity will be utilized in a different way, output would be different. If it is a single step product, the output volumes would be different. So, it is better not to relate the two.

**Srihari:** So, what would be the optimal turnover in the 8 and 9 or from new onstream?

**Kamal Aggarwal:** Topline again will be dependent upon the product that we select, sir.

**Srihari:** We won't be able to factor that in. Can you give us some kind of an idea, what is the kind of increase…?

**Kamal Aggarwal:** I agree. Instead of revenues if we talk in terms of the PAT or the bottomline because there is where is the focus is.

**Srihari:** I think you mentioned that for the 41 crores, the asset turnover would be around 3.5 to 4 times?

**Kamal Aggarwal:** Yes, that would be 3.5 to 4 times.

**Srihari:** And then for unit 10 and 11 what is the kind of outlay you expect there?

**Kamal Aggarwal:** We do not have any plans for that as on date. The moment we will come out with any plans we will update the investor.

**Srihari:** In the IPO documents, you had mentioned about taking benefit of the PLI schemes. So have any plans been worked out there?

**Kamal Aggarwal:** Please repeat.

**Srihari:** For HMDS, I think what you are planning to scale it up. There is this particular PLI scheme which the government has floated where incentives will be given for…?

**Kamal Aggarwal:** Yes, in the IPO we have never mentioned that we will be taking.

**Srihari:** So, fine and visibly you have no plans of availing the benefit under this scheme?

**Kamal Aggarwal:** We do not.

**Moderator:** Thank you. The next question is from the line of Ayush Oberoi from Victor Delta. Please go ahead.

**Ayush Oberio:** Sir, I have a question regarding the oil well industry. why there is degrowth in the oil well chemical industry in the last 2 years and what is the current scenario in the industry?

**Kamal Aggarwal:** See, the degrowth is because we are manufacturing the chemicals that are used as oil well drilling, post drilling it is completion. So, it is not a consumable, it is a capital equipment. One-time usage in the new oil well. So, as the prices of oil will go down the new projects will not come up, the new oil well drills will not come up. So, that is the reason that has happened. I do not have the answer why the oil prices have gone down.

**Ayush Oberio:** And what is the current scenario in the industry?

**Kamal Aggarwal:** It has started moving, again the new oil wells have started drilling up and the products have started moving ahead.

**Ayush Oberio:** In FY19 we have clocked revenue around 100 crores. So, when do we expect similar kind of business momentum?

**Kamal Aggarwal:** I do not have any comments on that for the reason that is directly in relation to the oil well prices.

**Ayush Oberio:** So, can you explain the key difference between HMDS and pure HMDS?

**Kamal Aggarwal:** Pure HMDS will be say, it is for the electronic applications which is a very high purity HMDS and when we say HMDS, it is a standard 99% HMDS utilized in respect to the pharmaceutical intermediates.

**Ayush Oberio:** And another question is that, what is our current capacity across each segment, like overall utilization and segment wise utilization?

**Kamal Aggarwal:** We have the current capacity of 1800 tons of CMIC and about 4200 tonnes of HMDS.

**Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.

**Ashwini Agarwal:** Sir, I just wanted to understand, your CAPEX plan between October and March of this year and what you think would be the CAPEX over the next two financial years? How would have you thought about those numbers?

**Kamal Aggarwal:** October to March, within the financial year we will be about 20crores, we have the target to start at least plant number 8 out of the plant number 8 and 9. So more than 50% of the CAPEX we will be doing within the next 6 months and we intend to start as soon as possible, the plant number 8. We had given the timeline as 18 months required to deploy the finance for CAPEX of 41 odd crores. However, we are trying to implement it faster. We have phased out into phase 1 and phase 2.

**Ashwini Agarwal:** Sorry sir, you blanked out in the middle. You were saying that plant number 9 would be in the following 6 months?

**Kamal Aggarwal:** No, out of plant number 8 and 9, two plants, we are building up new plants. Plants number 8 we intend to compete within the next 6 months.

**Ashwini Agarwal:** By March?

**Kamal Aggarwal:** Correct.

**Ashwini Agarwal:** Then that would take up about 50% of the 41 crores that you outlined as CAPEX for plant 8 and 9 together, correct?

**Kamal Aggarwal:** Yes.

**Ashwini Agarwal:** And the balance would happen in the following 6 months or so?

**Kamal Aggarwal:** Yes. Should be in the following 6 months.

**Ashwini Agarwal:** And thereafter you will start working on your plants 10 and 11 etc.?

**Kamal Aggarwal:** 10 and 11 will depend upon the future policy of the company.

**Ashwini Agarwal:** So there is no visibility to the CAPEX beyond 8 and 9 right now?

**Kamal Aggarwal:** My dear, if it is not the visibility, we would not have acquired the land for that. We have already acquired the land, so you can understand that is the clean visibility available. However, we are not commenting anything on that at this moment.

**Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon AIF. Please go ahead.

**Manish Poddar:** Sir, just wanted to understand, is there any seasonality in the business as such or should we look at numbers let us say on QoQ basis going ahead?

**Kamal Aggarwal:** I am not clear on your question. Can you please repeat?

**Manish Poddar:** Where I am coming across is, if you look at your last year second half, your second half EBITDA is roughly at about 27 odd crores and the EBITDA which you have clocked in this quarter is roughly around 23 crores. So, just trying to understand given that this is the first quarter of reporting, so is there any seasonality in your quarterly numbers or one can look at the company or when you are looking at the business internally, do you look at the business from a QoQ perspective, that you know in this quarter let us say if clocked 23 crores, when we are looking at the next quarter, we are looking at a similar number going ahead. So, do you look at numbers on a YoY basis or on a QoQ basis internally is what I am trying to get?

**Kamal Aggarwal:** We do not have any seasonal products. All the products are stable, all the year, throughout the year. Second, we are substituting the imports. Even today if we see more than 50% of the consumption of HMDS is from imports, 40% of consumption of CMIC is from imports. So, we are just substituting that. So, whatever volumes we are creating we are able to sell it in the domestic market also. In respect to the growth in EBITDA, that is from 20.27 to 23.46 that is principally because of the volumes. We work on per kg margins and volume basis. We do not work on revenue percentage basis. So as the volumes will grow, the EBITDA or the contribution or the PAT, everything will grow, except the revenue. Revenue is market driven based on the price. And Chemcon work on the value addition basis, Chemcon do not work on revenue percentage basis.

**Manish Poddar:** Got it sir. It would be right to infer that incrementally as and when the domestic business and the oil well chemical business stabilizes, the EBITDA which we have done in this quarter is kind of the base EBITDA which one should work with?

**Kamal Aggarwal:** It will be giving an additional revenue from the oil field chemical. So when there is an additional revenue, there is an additional quantity, there is an additional contribution. So that contribution will be added to the EBITDA.

**Moderator:** Thank you. The next question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

**Vaibhav Gogate:** Can you please give segment wise revenue breakup for 1H?

**Kamal Aggarwal:** I won't be able to give you the segment wise breakup for individual. You are asking for H1 or you are asking the projection?

**Vaibhav Gogate:** I am asking product wise revenue breakup like CMIC, HMDS revenue breakup for 1H?

**Rajesh Gandhi:** HMDS revenue stood at 30.2 crores in quarter, CMIC 22.9 crores for the quarter and oil well is 6.6 crores for the quarter.

**Vaibhav Gogate:** And the first half for the year?

**Rajesh Gandhi:** H1, we have not ready with us as on time. SGA will share with you H1 figure also. I have the volume figure; I do not have the H1 revenue figures on individual product business. SGA will share it.

**Moderator:** Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Kamal Aggarwal:** Friends, India is currently a net importer of both HMDS and CMIC with about 40% and 62% respectively. So, even post productions of such higher volumes of HMDS still we remain net importer of 40%. Hence there is an ample room for the import substitution with our capacity strength and technical expertise. We are well equipped to garner these opportunities**.** We are penetrating the new clients and bring in more value additions for them. Our appetite for new products, new end application opportunities with the existing products, new capacity expansion, new geographic markets, ongoing cost efficiencies will make us well diversified organization. With this, I conclude the call. If you have any queries, please get in touch with SGA our investor relations advisors.

Thank you everyone for joining us today on this earnings call. Wishing you all festive greetings of Happy Diwali. Thank you.

**Moderator:** Thank you. On behalf of Ambit Capital that concludes this conference. Thank you all for joining. You may now disconnect the lines.