"Chemcon Speciality Chemicals Limited
Q3 FY '23 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Chemcon Speciality Chemicals Limited Q3 FY '23 Earnings conference call. This conference call may contain forward looking statements about the company which are based on the belief, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

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 star then zero on your touchtone phone. Please note this conference is being recorded.

I now hand the conference over to Mr. Kamal Aggarwal, Chairman and Managing Director, Chemcon Speciality Chemicals Limited. Thank you and over to you Sir.

Kamal Aggarwal: Good morning, everybody. On behalf of Chemcon Speciality Chemicals, I extend a warm welcome to everyone for joining us on our call today. On this call, we are joined with our Whole-Time Director and CFO, Mr. Rajesh Gandhi and SGA, our Investor Relations Advisors. I hope everybody has got an opportunity to go through the financial results and the investor presentation, which has been uploaded on the stock exchange, as well as our company's website.

We'll give you a quick snapshot on the recent development of the company and then Mr. Rajesh will walk through the financial performance. We are a leading manufacturer of speciality chemicals such as; CMIC and HMDS which are primarily used in the pharmaceutical business. All our products like; HMDS, CMIC and Bromide have delivered a resilient performance in Q3.

In total, we produce 2,323 metric tons in the third quarter of FY '23 with an operational income of INR 77 crores, registering a growth of 54% year-on-year basis. HMDS is widely used in the manufacture of antibiotics such as penicillin and other types of penicillin derivatives. Performance has continued to remain weak due to soft demand from the pharmaceutical producers in India.

Demand from end users, user products like penicillin has been sluggish and the same has been reflected in the business performance for the past few quarters. HMDS has contributed around INR 27 crores of revenue which is about 36% of the total revenue during the quarter. Revenue contribution from the exports and the domestic market has remained almost equal for the same period.

CMIC is mainly used in the pharmaceutical industry as a key intermediate for anti-Hepatitis B drug. There also are many other chemicals that are used for manufacture of antiretroviral, Tenofovir is regarded as a revolutionary drug for curing and preventing HIV. Demand for CMIC is showing up more from the international markets than the domestic market.

For the Q3 FY ‘23, CMIC contributed around INR 11 crores, which is about 15% of our total revenue. There has been a marginal improvement in the volume growth coupled with better realization. Demand from domestic pharma clients has remained soft for some months. Although we have received certain purchase orders from China, which will help us improve the revenue from the export market.

We have been able to see significant volume growth in the bromide business on the back of healthy demand and better sourcing of key raw materials. We produce inorganic bromide called, calcium bromide, zinc bromide, sodium bromide etc, which are mainly used as completion fluids in the oilfield industry.

For the quarter, we have registered a revenue of INR 29 crores in bromide business on back of robust demand which is around 38% of the total revenue. We are delighted to announce that with the expansion of bromobenzene, we have successfully added organic bromides in our product basket. We have added a capacity of 2400 tons per annum of bromobenzene at P9 facility. Since P8 unit is multipurpose facility, we also produce some volumes of bromobenzene in P8 unit depending upon the demand. For Q3 ’23, bromobenzene has contributed around INR 7 crores which is about 9% of the total revenue.

In the coming quarter we expect a very strong contribution from this chemical as we are receiving good inquiries from global agrochemical players. On the other hand, we have shelved the commercial productions of low volume 4 CBC and 2, 5 DHT products and the facility shall be partly utilized for CMIC, depending upon the demand. We have considered another product Guanine which will be added in P9. We already have healthy enquiries for this product and are awaiting the final approvals from the local authorities.

At P10 unit we will be adding few other pharma chemicals which are primarily imported in India. Expansion of P10 is on schedule and we expect to start commercial production by Q1 ’24. We have huge growth opportunities as we move deeper into the pharma market and meet the needs of chemical supply. We expect the business momentum of HMDS and CMIC products to revive in the coming period as we expect the pharma industry to recoup well.

Due to the demand supply gap, India imports, HMDS and CMIC significantly, being a global leader in this pharmaceutical chemicals we are well positioned to capitalize on this future opportunities. Our role in this growth opportunity will be to facilitate them to have a sustainable partner in the long term. We have done meaningful investments over the years to increase the product offerings and will continue to do so to create long term sustainable growth.

I now hand over the call to Mr. Rajesh Gandhi to give you a glance of – at financial performance.

Rajesh Gandhi: Thank you, Mr. Aggarwal. Good morning everyone. Q3 ’23 performance are follows: total revenues stood at INR 77 crores as compared to INR 50 crores of Q3 ’22, a growth of 54% on year-on-year basis. Domestic market contributed around 40% whereas the international business contributed the remaining 60%.

Total production volume for Q3 was 2323 metric ton as compared to 1333 metric ton same period last year. As highlight by Mr. Kamal Aggarwal, there was lower volume uptake on some of our key products.

In terms of chemical wise revenue breakup, HMDS reported revenue of INR 27crores, CMIC revenue stood at INR 11 crores, bromide's revenue stood at INR 28 crores, Bromobenzene revenue stood at INR 7 crores. EBITDA for the company stood at INR 14 crores in Q3 ’23 with a margin of 17.6%. Net profit for the Q3 ’23 stood at around INR 11 crores with a margin of 14.9%.

Nine months ’23 performance as follow: total revenue stood at INR 224 crores for nine months ‘23 against INR 168 crores of 9M FY’22, a growth of 33% on Y-o-Y basis. Domestic market contributed around 42% whereas international market contributed around 58%. Production volume was at 5,799 metric tons for nine months ’23, against 4,182 metric ton of nine months ‘22.

In terms of chemical-wise revenue breakup for nine-month ’23; HMDS revenue stood at INR 99 crores, CMIC revenue stood at INR 39 crores, Bromide revenue stood at INR 72 crores, Bromobenzene revenue stood at INR 7 crores. EBITDA for the nine-month ‘23 stood at INR 57 crores against INR 54 crores for nine-month ‘22. Net profit stood at INR 45 crores for nine-month‘23 against INR 42 crores for nine-month‘22. With this we conclude the presentation and open the floor for the discussion. Thank you.

Moderator: The first question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Hi, sir. Thanks for the opportunity. So, sir, I just wanted to discuss with you on your expansion plans. So around IPO time, we had aggressively come out with an expansion plan and we have increased the capacity. But if we look at the numbers for last two years, there hasn't been much growth in line with how much you were expanding or how much you were planning. So if say for example, in HMDS, if I go specifically, between 2013 to 18 period, we were stuck around 1,500, 1,600 kind of volumes.

Then we expanded the capacity around 2020 and we saw growth, right? We almost doubled to 3,000. But then again, 2022, we see the numbers have started falling off. We are back to 2,000 kind of an annual consumption. So if you could share despite being, getting so aggressive in the case, we are not seeing this thing volume increase in numbers in terms of users. So, what is not going in our favour if you could share your thoughts there?

Kamal Aggarwal: Good morning. As far as HMDS is concerned, we were very clear from day one that we will not be expanding any further. We have maintained the capacities that we had generated. There is a demand gap that is going on in the market which has resulted into real time lower production. However, the capacities have been retained. We were very clear that we will be expanding into the intermediates for other products other than HMDS and CMIC which we are on line. CMIC, we had a partial expansion, we have done it. We have added the new product, Bromobenzene, we have added the new product Guanine and the expansion are for other products other than HMDS and CMIC. I think this suffice your requirement.

Yogansh Jeswani: Right. So sir, again on HMDS only if I have to get a little more understanding there. So the demand gap that you are seeing, why is that happening? Are we having challenges from the pharma segment? Because I think if I remember correctly, you are also trying for different applications also. So are those things not picking up? And also given our total global market share, in CMIC it's higher, but in HMDS it's quite low. I think we are less than 10% or 5% near about. So, and given our cost competitive advantage, isn't exporting an option? I mean scaling up there, isn't that an opportunity which we can try or what are the challenges there that you could share?

Kamal Aggarwal: The Indian pharma consumption is dropping. However, the exports of the product Mr. Rajesh has already updated you. It is nearly 50% of the HMDS is under exports. So we have opened up the other markets. When exports is not for the Pharma application, it is for other applications only. We have diversified. We have added the other areas successfully, which was when targeted.

Yogansh Jeswani: And going forward, what is the expectation for these two products in terms of demand, Sir?

Kamal Aggarwal: These two products demand is related directly to the pharmaceutical market. If there is any major change, then only straight impact. However, the Pharma industry is moving from China to India, has already moved and it is also moving. We hope we will have better requirements of the product.

Yogansh Jeswani: Okay, got it. And so, in terms of our other products that we have lined up, we see there are a couple of delays in the Guanine product. So, could you share what are our efforts there? And by when are we expecting those things to fall in place and start contributing to our numbers?

Kamal Aggarwal: We hope within the current quarter as well as the next quarter, the product should start giving the gross figures into the balance sheet. The figures shall start reflecting in the P&L accounts.

Moderator: Thank you. We'll move on to the next question that is on the line of Rajesh Jain from NB Investments. Please go ahead.

Rajesh Jain Thanks for the opportunity. Sir, my question is regarding HMDS and CMIC compared to Q2, still the volumes haven't picked up in Q3 also. So my question is, how is it expected to do in Q4 of this financial year.

Kamal Aggarwal: As far as the HMDS is concerned, the Q4 is better than the Q3 volume. This being a projected statement, I won't be able to give you the exact volume. But well, as things are moving, it is a better volume compared to the past.

Rajesh Jain With the slackness in the demand for these two products, are they still getting imported?

Kamal Aggarwal: The imports has come down.

Rajesh Jain It has come down, yes.

Kamal Aggarwal: So overall, the actual demand of the product has come down.

Rajesh Jain Okay. Second question. We have done very well in the oil field chemicals. Is this current momentum in sales is sustainable in Q4 as well as next year?

Kamal Aggarwal: We have done certain contracts for import of our raw materials for bromide. And looking to that, yes, it will be sustained in the current year as well as next year. That can be targeted. We are very confident on that.

Rajesh Jain Regarding the Bromobenzene, we have sold good quantity around 252 metric tons in Q3. So we are expected to achieve around INR 40 crores during this current year. So with the current, whatever the momentum, are you confident of achieving this?

Kamal Aggarwal: This may be marginally less than 40 crores, but yes, we are getting good volumes and we are getting good exports.

Rajesh Jain Then you had mentioned about doubling this capacity from the current 200 metric ton to 400 or so. So will that be done in P9 or P10?

Kamal Aggarwal: That won't be done now. In some time we will be adding certain areas and then it will be added to that.

Rajesh Jain So you will not be increasing that immediately?

Kamal Aggarwal: No.

Rajesh Jain Okay. So my last question is, would there be any delay in commissioning of Gunanine, like you have given this Q4? Would there be any more delay in commissioning of this product?

Kamal Aggarwal: No, within the Q4 we will be able to do it.

Rajesh Jain But we cannot expect any sales in FY23. Right?

Kamal Aggarwal: It will get initiated.

Rajesh Jain Initiated. But it will happen only in FY24?

Kamal Aggarwal: Yes, FY24. We can expect a better sales.

Rajesh Jain Okay. So in the last call, you had mentioned the value of this product around $23 or so. It has remained at the same level?

Kamal Aggarwal: Yes.

Rajesh Jain: And what is the margin we can expect, sir?

Kamal Aggarwal: Around 25%.

Rajesh Jain 25%. And how much capacity we have put?

Kamal Aggarwal: We have put 50 tons per month. 600 tons per year

Rajesh Jain 600. And if the demand picks up, there is a provision to increase the capacity.

Kamal Aggarwal: It is a modular plant. We can go for multiple plants. That has to be a new plant altogether.

Rajesh Jain Okay, sir. Thank you very much. And I'll come back in the queue if I have more questions. Welcome.

Moderator: . The next question is on the line of Ayush Agarwal from MAPL Value Investing Fund.

Ayush Agarwal: So my first question is on our HMDS, I'm just following up on the first participant, so like we have seen that you know, we are less than 5%, 10% of global market share. And right now, you're mentioning that we don't export for the pharma applications in HMDS, so if you can help us understand despite the cost competitiveness that we have, why are we not exporting aggressively or tapping into new markets for HMDS to increase our wallet share?

Kamal Aggarwal: HMDS cost we are competitive in terms of international market against China. So we are exporting only to the market, wherein it is for other applications other than pharma. The pharma application of HMDS chiefly is in China only. The major volumes are consumed in China. So that the cost competitiveness gets nullified near to that, because of the import duties of China. So we are cost competitive, we can compete Chinese in India, and we can compete in the other part also, wherein the import duties are there.

Ayush Agarwal: What would be the non-pharma application market size of HMDS internationally?

Kamal Aggarwal: I won't be able to give that figure over here.

Ayush Agarwal: Roughly, if you have -- I mean, is it 2,000 metric ton is it 5,000 metric ton?

Kamal Aggarwal: No. It's not justified to give a rough figure like this.

Ayush Agarwal: My next question is on our P10 plant, which we plan to commission in Q1 FY '24, do we have regulatory approvals for that plant? Or does that also need to wait for some you know approvals?

Kamal Aggarwal: None of the plant require regulatory approval for Chemcon.

Ayush Agarwal: I think guanine was delayed because of regulatory approval, right?

Kamal Aggarwal: It was not because of regulatory approval, it was for approval from the Pollution Control Board.

Ayush Agarwal: So that is what I'm trying to understand. So P10 also will require that or do we already have that.

Kamal Aggarwal: No, that has already been done.

Ayush Agarwal: Sir, why there is delay in guanine specifically.

Kamal Aggarwal: That was not the product included earlier So we had to go for change of product for permission.

Ayush Agarwal: And my final question is on our inorganic expansion that we had planned. First, what are our updates on the inorganic expansion? And second, how do we ensure that you know the minority shareholders impressing the listed entity will be maintained when we go for a large expansion or what kind of understanding of the management is approaching this inorganic acquisitions?

Kamal Aggarwal: Inorganic acquisitions, we do not have to disclose anything as on date. We will update you when there is a concrete area when as we going ahead with that. And as far as the minority shareholders are concerned, yes, their investment shall be protected. And that will be an interested area for them also.

Moderator: The next question is from the line of Kiran Naik from Kiran investments.

Kiran Naik: Who are our apple-to-apple comparison in the listed peers? The same products which other peers manufacture?

Kamal Aggarwal: We do not have any listed companies manufacturing the similar products. One product is common, that is with Paushak Limited. But Paushak has got number of other products. CMIC is only the common product in between the two. Otherwise, we do not have listed apple-to-apple peers.

Moderator: The next question is from the line of Keshav from RakSan Investors.

Keshav: Sir, if I look year-on-year, we did higher quantities of HMDS and CMIC this quarter, and we have had a huge jump in bromide as well. But we have made a materially lower EBITDA margin as well as absolute EBITDA and all the reduction has come via gross margins were other costs are largely flat. So even if we forget the margin and just focus on absolute EBITDA, it has come down from INR 17 crores to INR 13 crores. So where is this margin pressure really coming from? Is it CMIC, HMDS, Bromide?

Kamal Aggarwal: It is because of the lower volume.

Keshav: Actually year-on-year, we have done higher volume in all the products.

Kamal Aggarwal: Productions are going up every day, and the volumes have not grown in proportion to that. That has resulted into reduction of the EBITDA. There is a marginal difference of the raw material costs also.

Keshav: Sir, I disagree because our gross margin is the source of all this reduction or other costs are flat year-on-year, so and we have done higher volumes in CMIC. We've grown by almost 20%. HMDS, we are somewhere in the range of -- I think 5% to 8% bromobenzene we have doubled. So all the reduction has come from gross margins. So there is some pressure in the pricing of the raw materials.

Kamal Aggarwal: There is the pressure of the pricing of the raw material as well as on the finished products. The differential margins, which used to work off has come down a bit.

Keshav: So that's what I'm trying to understand, where is it coming from? Because HMDS is cost-plus model for us

Kamal Aggarwal: Agree, but that is an area where it has affected us.

Keshav: Soon all the three products, margin pressure year-on-year has come?

Kamal Aggarwal: So margin pressure is principally on HMDS.

Keshav: So we are not forming, we are not anymore in the TMCS-plus conversion-based model?

Kamal Aggarwal: We are into that. But that plus model keeps on changing. It is not in fixed model. Most of the time, it remains consistent However, there can be changes. And this quarter, there has been a pressure on that.

Keshav: And sir, if the CMIC demand comes back, can we be sure of going back to 30% margins, because like, again, the same project even at lower tonnage we had historically 30% margin, so is it something we can again aspire with the same products, not the new product?

Kamal Aggarwal: Yes, CMIC, we can move go with the 30% margin even in present era under the pressure.

Keshav: HMDS, we cannot commit. Is that fair?

Kamal Aggarwal: Yes. HMDS, the projections are for one or two quarters, we cannot bank up on that similar margin. There will be a lower margin in respect to HMDS for the current quarter or maybe one more quarter.

Keshav: And sir, for Guanine, so are we confident of not running into issues that we had with 4 DHT and CBC, of not being able to make engorged into the supply chain?

Kamal Aggarwal: Here, we have got multiple users, so we will not be facing that problem.

Keshav: Ok and we plan to optimize the capacities in FY '24 for both Bromo and for Guanine as well?

Kamal Aggarwal: Yes

Moderator: The next question is from the line of Rahil Shah from Crown Capital.

Rahil Shah: Just to give you a view on next year's revenue and EBITDA margin outlook for the business as a whole, considering the demand you are expecting and the volume growth. If you have any target inside or any numbers, even it's not just an outlook in general?

Kamal Aggarwal: Rahul, I won't be able to give you the projection.

Rahil Shah: How do you see it in the future ?

Kamal Aggarwal: We see good business volumes, we do see a good margin. That is the only thing I can update you. I cannot give you the figures or the projection.

Rahil Shah: Do you expect a good growth?

Kamal Aggarwal: Yes, sure.

Moderator: The next question is from the line of Rajesh Jain from NB Investments.

Rajesh Jain: Just wanted to know based on the current market demand as well as the company's capability to sell, how much time would it take to run the Guanine facility at full capacity?

Kamal Aggarwal Maybe maximum a quarter.

Rajesh Jain: So that means by the end of FY '24 both Bromo as well as Guanine, you should be running at the full capacity?

Kamal Aggarwal: Bromo Benzene, you can consider about 75% and about 85% to 90% of Guanine.

Rajesh Jain: Will there be any further delay in the commissioning of P10 plant, sir?

Kamal Aggarwal: P10, first quarter '24, no, there should not be any delay in that.

Rajesh Jain: I can see you say, it is a import substituted and it is both for agro as well as pharma, will there any time for getting the approval done or something like that?

Kamal Aggarwal: It is for agro as well as pharma. So approval timing won't be impacted, because the customers can be changed from one to another. And some of the pharma requires certain approvals, agro may not require that.

Rajesh Jain: Then how much is the capacity we are coming up? And is it fungible between these two products?

Kamal Aggarwal: No, it is not fungible with the products and capacities depend upon the product. if you ask me the capacity, the next question would be what would be the sales price? And what would be the top line and all that, please restrain me from all that.

Rajesh Jain: So I'll rephrase my question. So for these products, can we expect a good ramping-up of these capacity in FY '25?

Kamal Aggarwal: Capex to top line, you can expect 3.5x to 4x.

Rajesh Jain: So just running them to that whatever the maximum capacity can it happen in FY '25? That is what I am asking?

Kamal Aggarwal: FY '25, it will happen.

Rajesh Jain: That is good. Because '24, it will happen for Guanine and Bromo and '25 would be for this P10 product?

Kamal Aggarwal: Sure.

Rajesh Jain: Sir, my last question is, see HMDS and CMIC products had been driving our company sales in the past. So which products will do that in the next three to five years?

Kamal Aggarwal: It will be added. It will become a mixture of products. It will not become the dedicated coronet product. So we hope all together we'll be driving the company. But that are the targets. We don't want to concentrate on particular products. We want to dilute our concentrations on these two products in particular.

Rajesh Jain: Ok So not a single or two products will drive the future growth of the company?

Kamal Aggarwal: No, we want dilution of the concentration. So we will have all products to be working in line.

Rajesh Jain: Lastly, this new land that you have bought at around six kilometers from the existing place, what are the plans for that, when will you start the capex work and other related things?

Kamal Aggarwal: That is a long term planning, we have taken the agriculture land, we have given it for conversion to non-agriculture. Once we get the permissions, after that we will start planning and it is a long term planning, maybe couple of years it is going to take. So, that is only to dilute the concentration on one location. This particular land we have taken up with that as an intention. So we intend to go for multi-location working and hence the other location which is as good as another location and which is just 5 km, 6 km.

Rajesh Jain: No sir, my intention was like once we commission the P10 project, so will there not be any more capex in next financial year, FY '24?

Kamal Aggarwal: Definitely, there will be there.

Rajesh Jain: But you don't have place at the existing plot, right?

Kamal Aggarwal: We have entered into an understanding for the Raichur land also.

Rajesh Jain: So the future capex will happen there?

Kamal Aggarwal: It will happen over there. So we will be expanding in the existing facility as we will be expanding in the place other than the location.

Rajesh Jain: So for this existing land, will the products remain the same or you are again going for some newer products?

Kamal Aggarwal: No, it will be added products only.

Rajesh Jain: New products?

Kamal Aggarwal: Yes, sure.

Moderator: The next question is on the line of Dhiral from Phillip Capital PCG.

Dhiral: Sir on the oil field side particularly, as you said, you have done a certain contract for bromide import. Sir, if you can share some color for how much quantity and what is the timeline of this contract?

Kamal Aggarwal: It is a one year timeline of the contract for purchase of raw materials. And quantities, it will take care of the demand of about 40% of my total requirement. So, 35% to 40% of the raw materials we have already contracted for supply in the next or in the current calendar year.

Dhiral: And sir what about the remaining product, sir?

Kamal Aggarwal: Contracts are not on financial year, they are on calendar year basis.

Dhiral: Ya I got the point sir and what about the remaining 60% sir? Where are we sourcing from?

Kamal Aggarwal: That is domestic sourcing only. That will be non-contracted on an ad-hoc basis.

Dhiral: But sir are we getting that availability? Because previously we find it very difficult to get the RM as they were exporting.

Kamal Aggarwal: Yes, definitely. We are getting some materials. There will be pressure for the domestic raw materials. We are working on contracting for that also.

Dhiral: And sir, if you can split the revenue of HMDS and CMIC for the quarter, for the nine month and for the last year?

Kamal Aggarwal: That separated figures, I think SGA will share with you.

Dhiral: No issues. And lastly sir, what are the prices of HMDS and CMIC currently as on date?

Kamal Aggarwal: CMIC is about INR 400 and HMDS is about INR 650.

Dhiral: So how is the movement on a quarter-on-quarter basis? Let's say, December quarter as to the current date?

Kamal Aggarwal: It is nearly stable.

Moderator: The next question is from the line of Ayush Mittal from Mittal Analytics.

Ayush Mittal: Sir, so in line with the earlier questions around the profitability of a company that as you can see that it is under a lot of impact, the gross margins have come down. So what I would like to also understand is that what kind of profitability are we aiming for in the new products that we are doing?

Kamal Aggarwal: New products again, we work upon 30% to 40% of the margins or we work upon the payback period of about less than a year.

Ayush Mittal: Ok. So apart from the issue that we are facing in the HMDS, we believe that as we scale up on the other products we will come back to a normal profitability level of 30% operating margins?

Kamal Aggarwal: Yes, it should be.

Ayush Mittal: How long do you expect these margins to remain low in HMDS?

Kamal Aggarwal: HMDS, cannot comment that the margins will remain consistent, because we have been enjoying this margin since more than five years. I feel now it should start reducing to some extent from maybe marginally.

Ayush Mittal: So as of now you don't have a visibility on getting back to good profitability on this as of now?

Kamal Aggarwal: No.

Ayush Mittal: Ok and as we scale up on like bromo benzene this product, you are seeing margins of more than 30% operating margins?

Kamal Aggarwal: Yes.

Moderator: The next question is from the line of Ayush Agarwal from MAPL Value Investing Fund.

Ayush Agarwal: My questions is on a P10 plant given that we are in the five, six months of commissioning time can you name some products that we are about to manufacture there?

Kamal Aggarwal: It's not the right time to disclose on that.

Ayush Agarwal: I'm asking what amount are we planning to spend in P10, the capex amount?

Kamal Aggarwal: INR 22 crores.

Ayush Agarwal: My last question is on our HMDS exports. So if you can help us understand what would be the margin difference between pharma and non-pharma application of HMDS?

Kamal Aggarwal: It is nearly similar. Non-pharma, if it is a high purity one, then there are better margins, which is nearly double or maybe more than double. Otherwise, it remains at par.

Ayush Agarwal: In that case, then our HMDS' margins have come down drastically?

Kamal Aggarwal: Yes, it has come down but not drastically, marginally.

Moderator: The next question is from the line of Keshav from RakSan Investors

Keshav: Sir, would it be possible to give a year-on-year or quarter-to-quarter price change in TMCS as well as MCS and IPAs?

Kamal Aggarwal: That query you can give as far as the specific prices are concerned to SGA. We will provide you independently.

Moderator: The next question is from the line of Keshav Garg from Counter-Cyclical PMS.

Keshav Garg: . Sir, firstly I wanted to understand that between all our plants and all our products is the capacity fungible?

Kamal Aggarwal: No, the capacities are not fungible. They are fungible on unit direction for one product, not otherwise. Otherwise they are not fungible.

Keshav Garg: Right, so also if you see page number 29 of the investor presentation, so the volume in FY '19 were 11,118, which in FY '22 almost half to 6,065. Whereas the revenue fell only 15% from INR 303 crores to INR 257 crores during this period. So obviously the realization went up during this period and now maybe they are coming down. So firstly the question is that the Pharma demand has started falling in this financial year FY '23. So then, why did our total production volume decrease from FY '19 to FY '22?

Kamal Aggarwal: I'll need to go through that again once. But in principle the volume in the pharma requirements has come down. The total volume what has been provided to you, it includes the oil field chemicals also. There was a pressure on certain area of oil field chemicals and hence the volumes got have impacted. So we better not consider all the volumes, all the margins, everything to be in line with each other. So mixed volumes for different products will not give you the real idea for it. You will have to work up on individual product volumes only.

Keshav Garg: Sir so, I wanted to understand that our R&D expense is only INR 6 lakh last year. So, how are we managing then since we are a speciality chemical company? So, only INR 6 lakhs in R&D, 0.02% of revenue?

Kamal Aggarwal: See, we don't do R&D, we do re-engineering of the product. R&D is for the chemistry. We don't play with the chemistry. Chemistry remains the same. It is already pre-performed. Our engineering expenses are more, or re-engineering process, engineering expenses are more. We concentrate on that and not on the basic research in chemistry.

Keshav Garg: Right sir. Also sir, lastly I wanted to understand sir that till FY '17, our operating margin used to be around 10%, then subsequently for the next five years they jumped to around 30%, and now they are again decreasing in the latest quarter we have done 18%. So sir, I am trying to understand the direction. Was it that the past five years were an aberration and now things are coming back to normal or are these margins an aberration and margins will again go back to 30%?

Kamal Aggarwal: This period, in the present one or two quarters, if you see the margins, there have been a pressure that should not be considered as a base for the business deviation. We need to wait for a couple of quarters more to understand the line or the direction for the margins. In fact, what we expect is the margins should be maintained or there can be a marginal pressure. There can be a reduction from 30% to 28% or 25%, but then the volume should take care of that. Or the other products that we will be adding can take care of that. But don't expect one quarter result on the basis of that or two quarter resul,t you can decide a direction of the profitability. At least with Chemcon products or the Chemcon working, it is not fair enough.

Keshav Garg: Sir, basically for the next financial year, can shareholders expect the operating margin to be 25% and 30%?

Kamal Aggarwal: I should not comment on that. Let the time come and time prove on that.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was our last question. I now have a conference over the Mr. Kamal Agarwal for his closing comments.

Kamal Agarwal: Friends, with this, I conclude the call. If you have any queries, please get in touch with the SGA, our Investor Relationship Advisor. Thank you, everyone, for joining us today on this earnings call. Thank you.

Kamala Aggarwal: Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Chemcon Speciality Chemicals Limited that concludes this conference call. We, thank you for joining us, and you may now disconnect your lines.