# "Galaxy Surfactants Limited Q2 and H1 FY2019 Earnings Conference Call"

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**MANAGEMENT:** **MR. U. SHEKHAR – PROMOTER AND MANAGING DIRECTOR**
**MR. GANESH KAMATH - CHIEF FINANCIAL OFFICER AND EXECUTIVE DIRECTOR**
**MR. K. NATARAJAN - CHIEF OPERATING OFFICER AND EXECUTIVE DIRECTOR**

**Moderator**: Ladies and gentlemen, good day and welcome to the Galaxy Surfactants Limited Q2 and H1 FY2019 Earnings Conference Call, hosted by ICICI Securities Limited. This conference call may contain forward looking statements about the company, which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode. 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 now hand the conference over to U. Shekhar, Promoter and Managing Director. Thank you and over to you Sir!

**U. Shekhar:** Thank you very much. A very good afternoon ladies and gentlemen, it gives me immense pleasure to welcome you all to our fourth investor concall. I am joined on this call by Mr. Ganesh Kamath, our Chief Financial Officer & Executive Director and Mr. K. Natarajan, our Chief Operating Officer & Executive Director.

Ladies and gentlemen, it is heartening for me to report that we have reported a noteworthy performance in both the product categories. We have continued our momentum with a volume growth of 11% in this first half of FY2019.

Ladies and gentlemen! before we get into business specific details, I would like to brief you about the overall macro as well as micro scenario that has paid out during this quarter, which shall lay the foundation and help us understand the performance better.

The Indian home and personal care industry has finally got its mojo back. Buoyancy visible in the Q1 has been sustained in Q2 as well. The industry overall is growing in 10% to 11% zone on the back of improving economy, pickup in consumption and growing aspiration desires of the end Indian consumer. This occurs obviously well for us, developed markets still are seeing healthy traction driven by innovation, new launches and a strong desire for milder surfactants and nontoxic ingredients. We do see this broad-based momentum continuing for the remaining two quarters.

Africa, Middle East, Turkey which is a key market for us, saw a visible slowdown in the quarter gone by while this was not the case in Q1. The second half of Q2 saw a significant slow down in end consumer demand. The inflationary pressures as well as depreciating currency in those countries were primarily responsible for the same. The decline has been broad-based, but we do see the situation slowly improving in the ensuring quarters. The surfactants industry, which have been growing in 5% to 6% zone, contracted in the quarter gone by in those markets driven by the broad-based slow down in the HPC industry.

The story for us in this quarter on a consolidated basis, mirrors the regional macro-trends described above. Firstly, our volume growth for Q2 stood at 7.4% and the same for H1 period was 11.2%, performance surfactants while they degrew by 2.8% in Q2, the overall growth for H1 has been 4.4%. This growth has been despite contracting Africa, Middle East and Turkey market which is a key market for us in terms of growth for performance surfactants.

The specialty care products continued to outperform for us growing at 13% for Q2 and 25.1% for H1. New launches shift towards nontoxic preservatives milder surfactants and pickup in the HPC demand have been chiefly responsible for this growth. India continued is Q1 momentum and Q2 growing 21.6% for Q2 and overall 17.7% for H1. While this growth looks exciting, I would like to highlight that H1 FY2018 that is previous year was not by GST, the number needs to be discounted for the base effect, but they do not see this momentum continuing an Indian logging in and above industry growth rate that is above 10% to 11% zone.

Africa, Middle East and Turkey market declined by 16.9% for the quarter gone by and 6.4% overall decline for H1. As stated earlier, broad-based slowdown has primarily caused this as stated in our previous concall. We continued to be optimistic about our Egyptian operations. At Galaxy, we look at a bigger picture, we do see the scenario improving slowly, but steadily in the quarters ahead. The traction seen in the India and rest of the world markets shall help us to recoup the last demand for this quarter and gradual pickup in H2 shall ensure the AMET performed better in H2 compared to H1. The rest of the world has been an outperformer for us growing at 43.1% for Q2 and 38.5% for H1, this has been on the back of growing demand for our specialty care products. While the market has been growing at 3% to 4%, this outperformance has been result of our new customer acquisitions ahead of our innovations and consolidation of our relationship with our existing customers.

The rising share of our domestic that is India and the rest of the world portfolio has a resulted in more diversified volume base for us. While the ratio was 35 India, 45 AMET and 20 rest of the world in H1 FY2018, today the same stands at 37, 38 and 25. Does not only making the growth more robust, but also margin accretive. The ratio performance surfactants to specialty now stands at 63 to 37 versus 67 to 33 in same period last year. As started earlier, the key parameters we look at to judge our performance are one, the above industry growth rate so volume growth for us stood at 11.2% for H1 well above the global growth rate of 4% to 5%. EBITDA growth stood at 18.4% this is despite adverse it on account of transport strike, which are adversely impacted the EBITDA by approximately Rs.4 Crores.

Our EBITDA for metric tonne has improved from 15827 per metric tonne to 16863 per metric tonne rise of approximately 6.5% on the back of improving product mix and higher capacity utilization compared to the previous year. Profit before tax growth stood at 25.2% and returned capital employed was at 25.6% as on September 30, 2018 as against 23.9% as on March 31, 2018.

Before we move onto the financials ladies and gentlemen, innovation and manufacturing excellence having the key pillars of growth for Galaxy, it gives me great pleasure to share with you all that Galaxy has been awarded, the ICIS, best process innovation award for green manufacturing process. This is a globally recognized award which is a revaluation of our commitment to the path breaking and ahead of the current innovation.

Our Jhagadia plant has one won the silver medal in the national awards for manufacturing competitiveness 2017-2018. This is solely based on the onsite assessment conducted by the International Research Institute for manufacturing, reaffirming the manufacturing excellence your company processes.

Finally, before I hand over the mike to our CFO and Executive Director, Mr. Ganesh Kamath who shall take you through the financials, I would like to state the Galaxy remains committed to the bigger picture. Our consumer to chemistry approach, customer first attitude, sustainable business model and a strong emphasis on manufacturing excellent safety held on sustainability I mean cornerstone of growth and will remain the same going ahead, baring the headwinds in AMET which shall be negated. We remain optimistic and do see the momentum continuing in the ensuring quarters. Thank you ladies and gentlemen and I now hand over the mike to Mr. Ganesh Kamath.

**Ganesh Kamath**: Welcome friends. Revenue for H1 increased by 17%. As Shekhar mentioned for the first half of this year, the financial performance has been in line with our matrix of volume growth to EBITDA growth to PAT growth and your ROCE.

Our EBITDA growth was 18% against the volume growth of 11% and PAT growth was 20%. ROCE we were in excess of 25% it was 25.6% against 23.9% previous year. As far as EBITDA per tonne is concerned, it has increased from 15827 in H1 of previous year to 16863 of the current year.

H1 of the current year saw a substantial depreciation of the rupee and the exchange rates used vis-à-vis previous year are substantially higher. Now if you look at the P&L account rate, last year P&L account was accounted at translation exchange rate of INR 64.33 and this year it is at INR 68.48. Now when we look at the Indian exports what happens is that the gross margin realized on the Indian exports last year got accounted at INR 64.33 and this year it got accounted at INR 68.48. Now all overheads being incurred in INR, the rate difference in the value addition impacts the P&L account by Rs.5 Crores positively, which we have given in the presentation.

Now if you look at the Indian standalone results with the consolidated results, you will find in the Indian results, there is particular impact flowing out of the valuation of investments done by us in the subsidiaries, which is about on 45 million to 50 million. There is a gain of around Rs.32 Crores, which has gone into other income in the P&L account on the Indian standalone accounts.

In the consolidated, what happens is that this particular gain goes to the other income. when we do the balance sheet consolidation whatever difference is there between the previous year translation and the current year translation moves to the other comprehensive income. Therefore, if you look at the comparable other comprehensive income, the other comprehensive income in consolidated results is at around Rs.125 Crores. So this is the basic difference in accounting which happens because the balance sheet rate used last year was INR 65 against which this year INR 72 nearly some 10% to 12% higher than the previous year. So to the extent of investments done in the subsidiaries in the balance sheet of GSL standalone the gains go to the other income in standalone accounts whereas in consolidation it moves to the OCI, this one particular difference has to be understood while going through the financials at standalone and consolidated level.

This is the basic feature with I would like to tell. Rest of the things in terms of the exchange fluctuation, results have not been anyway affected because it stands fully hedged because for all the practical purposes our exports are more than the imports. Hence, we do not get affected much though it reflects in the accounting in terms of the conversion rates used.

With this I conclude we can now move to the questions and answers.

**Moderator** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

**Sanjesh Jain:** Thanks for the opportunity. First on India, what is such a strong growth much higher than what we were early anticipating is driving in India? and it looks like we are gaining significant market share in Indian surfactant business. And I know you do not share but how is the specialty care products doing in India per se or we gaining significant traction even in India market for specialty that is my first question?

**U. Shekhar:** Thank you Sanjesh. As far as India is concerned you have seen that the entire FMCG industry has been pretty, pretty buoyant. I think most of our customers have reported in a strong growth in this quarter as well as first half. So Indian FMCG particularly the home and personal care industry has been growing pretty well and there is a lot of optimism and confidence for the next half as well as coming years. Our growth has been on the back of this FMCG growth, you are right, we have grown with all the key customers, we have grown across the various customer segments including T1, T2, T3 and T4 segments. As far as the Indian industry is concerned, in terms of it is uptake of the specialty products, this is happening slowly more amount of uptake happens in rest of the world and more particularly in the developed markets. However, our efforts in terms of creating and developing new customers and working with them on the various formulation ideas and new product ideas continues across the various regions and that has reflected in specialty products performance in the last quarter as well as first half. This momentum should continue and as you rightly said, we have been growing ahead in all the markets that we operate and we continued our growth on both the products segment that is performance products as well as specialty products.

**Sanjesh Jain:** How is specialty panning out in India? Can you throw some more light as and how do we look at because I was looking this ad from Johnson & Johnson where they are saying no Paraben that also a great opportunity where us to sell nontoxic preservative so how do we see specialty panning out in India in next two to three years?

**U. Shekhar:** Specialty products will continue to grow in India as we said this is going to be driven by affordability as well as appetite for higher price products from the Indian population. See we are still under penetrated and that is why there is significant headroom available even for our performance products. They will continue to grow. However, the specialty products which from the premium and high priced segment, they again continue to grow driven by the growth in category such as dish wash, hand dish wash and body wash. This continue to grow again, as you specific question with respect to nontoxic preservation, this is a trend which is slowly getting adopted even in India, but it is much more in developed countries like USA and Europe. So we are obviously at the leading edge in terms of exploiting the growth of specialty care products in this countries concerned because we are the possibly the only player who are very wide product basket and able to address requirements of variety of customers whether it is mass customers producing for mass products or marquee products or prestige products.

**Sanjesh Jain:** My followup question on rest of the world, you touched upon customer acquisition of one of the reason why we have been growing so far any noteworthy customer that we have gain or noteworthy contract, which is driving such a strong growth and how sustainable is these kind of growth say in the medium term?

**U. Shekhar:** As you said, this nontoxic preservative trend has gained significant momentum particularly in the last year and year-and-a-half. So we see a lot of conversion of old preservatives to the new nontoxic preservatives. Ofcourse, the moment was started almost about 8 or 10 years back, but as you know every single customer before he onboards the new preservative, he has to do a lot of test in his laboratory and do test for every single SKU. This conversion has gained a significant amount of momentum. Particularly in the last one year and we see it continuing for coming years or so, now that is one. Secondly as far as specialty care products like let us say mild surfactants, proteins and other specific blends are there, this has been more in terms from the market where that we have been doing a lot of work has been done in the previous period may be we are seeing the results in these quarters. Our efforts to continue to create what the markets and create customers has been going on for the last let us say 4 or 5 years and the gestation period of adopting new products, it takes quite a period of time and we have seen a good result particularly in this quarter and being this half and we do see this momentum continuing.

**Sanjesh Jain:** This kind of growth probably in high double-digit or high teens is doable in the rest of the world and both in specialty because I think that is what is driving ROW growth?

**U. Shekhar:** We would say momentum will continue. Our efforts in creating a new customers and then increasing the value share with our existing customers participating not only the your normal growth of market as far as concerned also in terms of new launches galaxy participates very, very closely with our customers.

**Sanjesh Jain:** Customer acquisition we said so how many customers we added in this first half?

**U. Shekhar:** In the first half, approximately may be 20 to 25 customers.

**Sanjesh Jain:** That is a lot. Again taking back to AMET market, which has been quite challenging now, it was quite evident right because currencies were falling and everything, there was a perfect storm in making how prepared were we or we were taken by the surprise AMET performance and what are the measures are we taking to ensure that we see a significant and gradual movement into 2H?

**U.Shekhar:** The only way in this period of time is to be closer to the customer and continue to have a communication with him one. Number two is that focus on operational excellence, ensure that we take care of our inventories very, very properly and this is going to ensured only by a constant and close communication with customers. Because as you see in this type of market, customers tend to be very, very spot, nobody likes to be even three-month long or forget about being six months long, nobody would like to be even three months long. So people would like to work for month on month and it is extremely critical important that we remain close to the customers.

**Sanjesh Jain:** One broader question, LA prices have been falling consistently whereas you see benzene price which led by crude is rising significantly are we gaining in terms of shift to more Oleo based products rather than going towards crude based product?

**U. Shekhar:** Before Natarajan answers, as you know, Sanjesh all our performance products are based on natural based raw material since beginning. We have never as far as particularly performance product is concerned, we have never relied on raw materials from petro sources. Petro-based products constitute only 24% to 25% of our total purchases.

**Sanjesh Jain:** Yes Sir, I was talking more from the performance and we should be benefiting right now?

**K. Natarajan:** You have a very valid question, but then what we also understand is that when one is where you look at fatty alcohol is both through Oleo source and synthetic source. Please understand that all your synthetic fatty alcohol are all sourced on contractual basis. So if someone has to be looking at trying to reduce usage of synthetic alcohol and come to oleo alcohol, it is not something that they can do within the three to six months. It is a longer term call they need to take as to how do they see in terms of this oleo alcohol or we continued to be at the current lower level. So we do see that they can be opportunity this sustains where your crude petroleum is at high level, which moves ethylene higher. So synthetic alcohol continuing to be higher and oleo alcohol continuing to be lower in terms of prices. Opportunities may add going forward but if you ask me in the first six months whether anything happened I would not say nothing significant.

**U.Shekhar**: Only one correction Sanjesh sorry, when I talked about performance Surfactants I did not include the LABS, which we make & sell in Egypt that is only Surfactants, which is based on petro based, okay.

**Sanjesh Jain**: Got it. One followup question for Natarajan. Does it require entire process change for the customer to shift from the synthetic based alcohol to a oleo based alcohol?

**K. Natarajan:** If you look at it our manufacture, there will be some amount of changes that we may need to do, but if you look at our customer end when they need to be formulating, obviously it is not the same as if you formulate something with synthetic alcohol then they are not totally fungible in terms of performance of the end formulation. So they may need to do some tweaking of the formulation to ensure that the consumer does not see any perceptible difference in terms of performance.

**U.Shekhar**: Tell you Sanjesh, it does not instantly 100% fungible. It will take sometime in terms of further tuning and refining.

**Sanjesh Jain**: I guess I have taken a lot of time. Thanks for your patience. I will come in the queue for more questions.

**Moderator**: Thank you. The next question is from the line of Sneha Talreja from Edelweiss Securities. Please go ahead.

**Sneha Talreja**: Good evening Sir. My question was more pertaining to the contribution for performing Surfactants. We have seen this quarter performance Surfactants volumes and not grown that much and whereas we have seen a strong growth specialty product, can you specify what has been the reason for subdued performance from performance Surfactants?

**U. Shekhar:** Can you repeat the question please?

**Sneha Talreja**: My question was why have we seen subdued performance from the performance Surfactants?

**U. Shekhar:** The performance Surfactants primarily impacted by the AMET, Africa, Middle East, Turkey performance which we have mentioned in our opening remark. Because AMET market decline which was primarily cost by broad-based slowdown of the FMCG industry, particularly HPC industry in those markets. So we grew pretty well as far as India and rest of the world, we declined only in the AMET regions. So when we talk about the overall growth, performance Surfactants has been at 4.4% for H1 and in India it has been more than 18%.

**Sneha Talreja**: Indian growth for performance has been 18% right?

**U. Shekhar:** Indian growth for performance has been, overall has been 18%, which has been of course driven both by performance as well as specialty.

**Sneha Talreja**: Okay, can you provide the breakup in India, how much would be specialty and how much would be performance?

**U. Shekhar:** The overall ratio of 70:30.

**Sneha Talreja**: So 70 would be performance and 30 would be specialty?

**U. Shekhar:** Yes.

**Sneha Talreja**: Okay, Sir my next question was pertaining to revenue contribution from your customers as you mentioned that in H1 you have added close to 20 to 25 new customers. Can you specify that what would be the revenue contribution coming in from those particular customers than newer one?

**U. Shekhar:** It would be approximately 7% to 8%.

**Sneha Talreja**: And that is how it works I mean the contribution even last year from newer would be roughly around the same or this year we have seen it increased…

**U. Shekhar:** Yes, around the same.

**Sneha Talreja**: Around the same, because even Rohan asked some questions.

**Rohan Gupta**: Good afternoon. One is on that the outlook which you shared for the India growth which is mainly coming from the FMCG strong growth. So you remained confident that India growth will remain almost in a high double digit. So is that the performance surfactants which will be the driving factor or a lot of growth will be coming from specialty, because when at the time of IPO that I think that we have been guiding for that growth will be remaining similar almost in performance as well as in specialty, but looking at the first half the number, a lot of growth has come from specialty. So how the outlook will be now going forward.

**U. Shekhar:** Rohan, I will tell you that we have been a very significant player in this country. What is certain is that we will grow higher than the market growth. Possibly it can happen that in certain quarters, we may be significantly higher than the market growth, but the broad guidance that I would like to give you is that we will be higher than the market growth. As history shows that we have grown with every single customer, we have grown with the market growth in this country and we have significant share in the Indian market.

**K. Natarajan**: Your specific question whether India the growth would be driven more by specialty or the performance. Structure of the market is such that where you have most of the demand in India at the bottom of the pyramid, so it will be more of the performance Surfactants driven growth and then you also have segment where India you also see the premium segment is growing. So we are participating well in that segment. But if you have situation because the many headwinds we do not know anticipate now, you have contraction happening in the rural demand then obviously performance Surfactants is going to degrow or grow at a lesser rate. So India, the growth will be majorly driven by performance Surfactants growth.

**Rohan Gupta**: Sir you also mentioned that definitely we had base effect benefit in the first half number as well, so how much do you think that the India growth, which was roughly 18%, would have come because of the base, which was affected last year?

**U. Shekhar:** As we said the Indian FMCG market grew in this first half approximately 10% to 11% or so, you could say that in a normal course we would have grown at may be about 12% or 13% or so.

**K. Natarajan**: Rohan, you also need to understand that this 10%, 11% growth that the industry is talking about India is also with the base effect.

**Rohan Gupta**: Affected by the low base. In the general, we are talking about that we will continue to gain market share and 200 to 300-basis point higher growth we will be targeting above industry growth.

**K. Natrajan:** That is our intention, so more or less in that particular zone and we have been saying that so, that is what we have been saying in all the previous calls as well.

**Rohan Gupta**: Sir second question I think that though I am not expert in FMCG, but our FMCG analysts have shared that the first half number in the current year has been much encouraging than what it was anticipated especially coming from HUL, Colgate and all, so that has come as a surprise for industry. Is it like that unorganized segment has given that growth I have contributed to the higher growth of FMCG and which may stabilize or normalize going forward or just it is a structural change or a change in product mix or mix of Indian consumer is driving this growth?

**K. Natrajan:** If you see the investor calls of the FMCG companies who have declared the results earlier, our end customers, you will find that most of them have talked about the rural demand picking up. Now, that is what is contributing to this growth and they have also been saying that they want just to continue and they expect this to continue. So the growth is essentially driven by the rural segment which are essentially not growing that well for the last about two years and has started picking up momentum.

**U. Shekhar**: Rohan, also what you need to remember is that any market matures more and more small players, which means small customers for us will start emerging and growing. This is what we have been doing in terms of prospecting these new customers as they emerge, being involved with their early growth and then continuing to grow with them. So the market growth will be driven by both the big FMCG players as well as small players.

**Rohan Gupta**: Just last question, I will come back in queue. Definitely I mean lot of time we spend on discussing about the performance and specialty, the different segment volume growth and all, but as far as margins are concerned even with very strong growth in specialty care products in the current first half, we do not see that significant improvement in the margin, so you are earlier also mentioned that probably the margins are likely to remain in the same territory despite even if specialty growing at a higher rate, so do you maintain that stands that okay even if the specialty will grow higher, but the margins profile of the company will likely to remain here?

**K. Natrajan:** No, if you look at quarter-on-quarter Rohan, our overall EBITDA per metric tonne in Q1 of this year FY2019 was 16483 whereas it is 17144 in Q2. So there is an increase of 4%, essentially is the mix impact that is coming in. So it has been adding to the margins. So now obviously yes, this is pretty good, because you are talking about this 4% coming on the complete volume.

**U. Shekhar**: And the EBITDA margin has been at 12.9% in Q2 versus 12.5% in the previous years quarter and for H1 FY2019, the EBITDA margin has been at 12.5% versus 12.1%.

**Rohan Gupta**: And there is Rs.5 Crores currency impacted also there in the current year right?

**Ganesh Kamath**: Yes. We have the transport strike impact also which is negative in nature.

**Moderator**: Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

**Saravanan V**: Thanks for taking my question. In terms of our effective tax rate for the year. So first half what would also be replicated in second half 31%, 32%?

**Ganesh Kamath:** What happens is that comparing it with the previous year?

**Saravanan V**: Previous year it has been around 28%, 29%?

**Ganesh Kamath:** 29% and the current year it has been 32% okay.

**Saravanan V**: Yes.

**Ganesh Kamath**: This 3% is mainly on account of translation impact flowing through the holding company. What happens is the translation impact which flows to the holding company in Mauritius is not subject to taxation. So it directly comes and hits the PAT. Last year, if you see the other income was more by around Rs.2.5 Crores to Rs.3 Crores which is essentially the translation gain coming from the holding company. So if we adjust it for Rs.3 Crores, it was back to 29%.

**Saravanan V**: For the year, it is going to be around 31% to 32%?

**Ganesh Kamath**: 31%, it will remain at the same level.

**Saravanan V**: In terms of working capital we have seen some as compared to March working capital requirements have gone up, is it because of the product mix or the geographic mix?

**Ganesh Kamath**: There are three variables, one is volume per se has gone up, so that will impact our working capital. Second is that as far as the subsidiaries are concerned, there will be a translation impact. Translation impact in the sense what dollar, net current assets you had in the subsidiaries got converted at around Rs.65 last year and currently it has got converted at around Rs.72 and now if you look at in terms of the impact that itself will give substantial impact.

**Saravanan V:** But current liabilities I mean trade payables have not gone up to that extent?

**Ganesh Kamath**: Trade payables are marginally lower correct I would not say it is substantially lower and third element is that compared to the last year T1 customer sales have been higher and generally we extent credit to T1 customers. These are the three drivers, but it is not that quite substantial because why I am trying to tell you is that if you remove the translation impact, because translation impact it is just an accounting phenomena, it does not affect the cash flows. That is the accounting phenomenon in the financial statements.

**Saravanan V:** We had 7 to 10 days of closure in the Taloja right in Q2?

**K. Natrajan:** Not 7 to 10 days. We had a closure of about 4 days.

**Saravanan V:** Only four days, any impact on account of that would flow in Q3 because some production?

**K. Natrajan:** No, as we have said we quickly came over it and then we have also put that particular communication on this site. So it did not impact our operations significantly, so that you will not see any of their impact either it happen in Q2 or coming into Q3.

**Moderator:** Thank you. We move to the next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

**Jasdeep Walia**: What has been the growth at Tri-K in sales for first half?

**U. Shekhar:** Approximately 14% or so.

**Jasdeep Walia**: And this is in dollar terms or rupee terms?

**U. Shekhar:** Dollar.

**Jasdeep Walia**: What is driving the strong growth in dollar term or Tri-K Sir?

**U. Shekhar:** It is in rupee terms.

**Jasdeep Walia**: Dollar terms it will be something like 6%.

**U. Shekhar:** The dollar term will be 9% or so.

**Jasdeep Walia**: What is the driving this strong growth at Tri-K, any new product breakthrough or any new client breakthrough?

**U. Shekhar:** No, firstly the US market also has been growing, one and number two, innovation pipeline which results in terms of creation of either substitution of existing proteins by our customers or creation of new customers.

**Jasdeep Walia**: Got it and your presentation mentioned that you have opened office in China, so could you tell us what kind of opportunity in China represent for you and how are you planning to approach it?

**U. Shekhar:** For the last many years, we have been focusing on niche specialty products in China. This setting of an office is to enable us to be closer to our customers and have intense interaction with them. So the Chinese market for us presence on opportunity with respect to niche specialty products which includes preservatives, which includes Mild Surfactants, which includes Sunscreen, which includes Proteins, etc, etc.

**Jasdeep Walia**: You do not have any existing clients in China?

**U.Shekhar:** Of course we have.

**Jasdeep Walia**: Got it.

**U. Shekhar:** We have been selling in China at least for last about 15 years.

**Jasdeep Walia**: Got it and Sir US market remains untapped for you as of now as far as Surfactants are concerned, so what are your plans for the US market?

**U. Shekhar:** We do sell Surfactants in US. As a matter of fact chosen performance Surfactants gets sold in US.

**Jasdeep Walia**: What proportion of sales would be in US?

**U. Shekhar:** As far as performance Surfactants is concerned in the US will account for approximately may be 5% to 6% or so.

**K. Natrajan:** In US what essentially we do is that we try to focus and we also have some specialty Surfactants in our specialty ingredients portfolio like we talked about Mild Surfactants, because there is no point selling of performance Surfactants in the US although we sell it to certain niche customers there which we choose our customers there whereas our major focus is not looking at Mild Surfactants into the US market.

**Jasdeep Walia**: Got it. Thank you Sir. That is all from my side.

**Moderator**: We will move to the next question, which is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

**Rohit Nagraj**: Thanks for taking my question. As I see last year's volume growth, we have grown in performance Surfactants there about 13% and specialty care product was about 8%. However, during the first half if I check the numbers, it mostly reversed, so is it just phenomena probably for this year wherein the performance Surfactants growth will be lower and which will be probably mitigated by specialty care products, because of the slowdown in the AMET region?

**U. Shekhar**: That is what has happened, AMET market has had a decline okay. However you see that we have grown very well as far as the Indian market and the rest of the world market is concerned. Now as far as the specialty products is concerned, the results that we see based on the work that we have been continuously doing over the last few years or so and driven by innovation. Now if you see the last year, India, we grew at last year 14% in H1, this year Indian growth was 18%. Last full year was 14% and this year H1 was 18%, again last year our AMET was 11.2% for the full year where it is -6% for the H1, so I just said AMET market has had a significant decline and rest of the world last year, the overall growth was at about 7% and for the first half it has been at 40%. The growth in the rest of the world has come because of the work that we have been continuously doing for the previous three, four years or so. Because as I said specialty care products have a long gestation period with our customers we need to take it to a lot of formulation development as well as stability work which has to be completed before they can launch the product.

**Rohit Nagraj**: Right, is it that this particular growth rate will be changed at least for this year and next year because of the structural shift that has happened in terms of product mix?

**U. Shekhar**: As far as AMET market is concerned, as we have said it has to slowly and gradually we feel that there will be coming back slowly and steadily. There will not be a dramatic reversal in terms of growth as far as the AMET market is concerned. Whereas the Indian market will continue to have its momentum and we do see the same momentum continuing as far as the rest of the world is concerned.

**Rohit Nagraj**: Sir and my second question is on the capacity utilization in Q2 and our capex plan how is it going and when we are likely to see the incremental capacity addition coming in?

**U. Shekhar**: The new capacity will go on-stream only at the beginning of the next financial year for us and the overall capacity utilization in H1 FY2019 was approximately 75%.

**Rohit Nagraj**: Okay, so we are well placed for the next couple of quarters in terms of capacity?

**U. Shekhar**: Yes.

**Rohit Nagraj**: What was the capex number for this first half, how much have we spent?

**Ganesh Kamath:** For the first half we have incurred Rs.70 Crores of capex by way of outflow and Rs.50 Crores has been in India and rs.20 Crores has been in US where we have acquired a land for Tri-K.

**Rohit Nagraj**: Thank you so much.

**Moderator**: Thank you. We move to the next question from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.

**Nav Bhardwaj**: Followup question on the capex, do we maintain Rs.150 Crores guidance that we had given and is that for a single year or was that rolling capex guidance?

**Ganesh Kamath:** In the second half, we are expecting another outflow of around Rs.50 Crores.

**Nav Bhardwaj**: This should materialize, add to our gross block by?

**U. Shekhar:** By the end of this financial year.

**Ganesh Kamath:** Capacity should go on stream.

**Nav Bhardwaj**: We expect this to be rolling capex model as an Rs.150 Crores should be coming in next year?

**U. Shekhar:** We had mentioned that we are looking something like Rs.300 Crores of capex over the next three years or so.

**Ganesh Kamath:** We expect to be around that.

**U. Shekhar:** We expect to be around that.

**Nav Bhardwaj**: Rs.300 Crores for three years. About the customer acquisition that we made how many of them are long terms, is there any split that we can give long term versus short term?

**K. Natrajan:** All our customers would be developed relationship with are essentially with the long-term focus. This thing will be in terms of continuing on the long-term basis. If your definition of long term is do you have multiyear contract or whatever some of them or some of them or not, but the whole this thing how do we ensure that once we have started engaging with a customer and started doing business, how do you keep into the kitty for the long term that is the approach we have.

**Nav Bhardwaj**: Last question, the rest of the world you have shown some real promising growth which part of the globe are you actually getting this growth from?

**U. Shekhar:** Mostly it is US, Western Europe and some part in South East Asia and…

**Ganesh Kamath**: Thailand, Brazil.

**Nav Bhardwaj**: Which products, which product range are we getting this Sir?

**U. Shekhar:** Majorly for the specialty ingredients.

**Nav Bhardwaj**: You said US, Western Europe and mostly for the specialty?

**U. Shekhar:** Yes.

**Nav Bhardwaj**: Fair enough. Thank you so much. All the best.

**Moderator**: Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

**Saravanan V:** AMET is a very important component in our business. so what are the ground reports suggesting you now when do you see the recovery happening? For the Middle East market, crude prices have been high so, intuitively we would have expected the demand to be strong?

**K. Natrajan:** If you look at the growth in Middle East, if you look at all the call reports from various FMCG customers, there has been huge amount of tailwinds they have been facing as far as the Africa Middle East, Turkey region is concerned. So essentially our performance in AMET essentially mirrors this broad macro trends.

To illustrate all of us know what is happening in Turkey with respect to the currency, all customers like L'Oreal have reported a decline of 2.2% for the quarter, Unilevers volume growth has been about 2.4% in AMET region, then Henkel again has had a growth of just about 2.3%. So this has been for example for their beauty care business degrew by something like 2% or so and other Henkel global whereas for all of them, the AMET market has been pretty challenging. One another thing which has happened particularly in the Egyptian market is that the global majors have been required to see their market share to small local companies, because of the inflation as well as the depreciating currency, I think there has been down trending with respect to the various customer purchasing, consumer purchasing. So the local small players have gained.

**Saravanan V:** When you had mentioned that you have acquired 20, 25 new customers, does this also include some new customers in these regions like more gaining market share from the MNC?

**U. Shekhar:** There will be.

**Saravanan V:** Taking that into account what is your prognosis for the AMET market?

**U. Shekhar:** As we said we are pretty optimistic as far as the Galaxy Chemical Egypt as well as the AMET market is concerned. We have had a very strong play in this market for the last so many years, we have distinct in significant position in these markets and we will continue to grow with these customers.

**Saravanan V:** Okay and your specialty care products you had all along been mentioning that it is targeted towards the matured markets of US and Europe?

**U. Shekhar:** Largely.

**Saravanan V:** You said like performance products would continue to see volume growth inline with specialty, but we are now observing specialty is growing faster than performance. So is it because even other new geographies are using this or matured markets itself is contributing to higher volumes?

**K. Natrajan:** No. Saravanan it is like this. In performance, you are talking about where you are looking at the emerging markets or developing markets like India and AMET, you are talking about based on which you are growing a good base. Whereas if you look at specialty in the developed markets, you are talking about where you are running project with key customers and then you are actually getting into a mood where you are started doing it in terms of certain formulations getting our specialty ingredient into it and then you are growing with the lower base, so that will obviously continue. When you looking at the growth rates of performance surfactants then you are looking at growth rates on bigger base.

**U. Shekhar**: What is important Saravanan is to remember that are we growing at greater than market growth I mean that is how we measure ourselves. In all these regions as well as the product categories, are we growing ahead of the market that is what is important for us.

**Saravanan V:** But if you grow faster in specialty segment, it will also reflect in your margins right, there will be?

**U. Shekhar**: Natural, yes.

**Saravanan V:** So taking that into account, what sort of EBITDA margin can we expect for the next year?

**U. Shekhar**: We will continue to have an EBITDA growth as I said the key parameters of growth for us is volume growth then EBITDA growth higher than the volume growth then your PBT and the PAT growth and ensuring that we fulfill our requirement of return on capital employed which is at about minimum 22%.

**Saravanan V:** Again volume growth, your broad guidance's you will grow 3% to 4% higher than the industry?

**U. Shekhar**: Higher than the market growth. Particularly in country like India, we already have leadership. It will be a few points higher than the broad market growth.

**Saravanan V:** Thank you.

**Moderator**: Thank you. The next question is from the line of Vihang Subramaniam from Ambit Capital. Please go ahead.

**Vihang Subramaniam**: Thanks a lot for taking my question. My first question is in India like all the standalone business revenue, how much of these revenues from exports for H1, could you please give me a percentage number?

**U. Shekhar**: India is roughly 50:50 roughly.

**Vihang Subramaniam**: This 50% that you export most of the products that you export are spec chem products of performance Surfactants?

**U. Shekhar**: There will be both performance as well as specialty chemicals.

**Vihang Subramaniam**: This 18% volume growth that we are witnessing in H1 FY2019 like do you think this is kind of the peak volume growth because like you said most of the customers are growing at 10% to 12%, so is this kind of the peak growth?

**K. Natrajan:** We would not want to be the peak growth, we wanted the peak to be something much higher than this, we only can say that the way the momentum is that we would expect that to continue and then we have been inline with that that is what I would surmise.

**Vihang Subramaniam**: Sir one last question is on the Tri-K protein products given the fact that these are specialty products targeting like premium customers and develop markets, why are the margins so low?

**U. Shekhar**: We have not mentioned anything there, where we have been mentioned about protein margins?

**Vihang Subramaniam**: No, in general, if you look at trend in the Tri-K business that EBITDA margins have been like they were earlier 4%, 7% and FY2017-2018 it is in the range of 10%, 12%. So I just want to get on a sense on whether these margins can improve in the future as more specialty chem products come or how is it?

**U. Shekhar**: As far as your Tri-K results are concerned, our combination of not just proteins, but broad basket of markets which also includes Surfactants.

**Vihang Subramaniam**: Okay, thanks a lot Sir.

**Moderator**: Thank you. The next question is from the line of Abhijit Sinha from PI Square Investments. Please go ahead.

**Abhijit Sinha**: My question was regarding the OCI of about Rs.19 Crores in this quarter Sir and even in the last quarter we had about Rs.16 Crores OCI, so could you just help me to understand that?

**Ganesh Kamath**: OCI comes from the conversion of the balance sheet. The subsidiary balance sheets, which are in dollars, they have to be converted into Indian rupees in consolidation at an exchange rate, which is the closing rate of the quarter. You had a depreciating currency both in the first quarter as well as in the second quarter. Now if you compare it with March 31, what is going to happen is that in March 31, we had an exchange rate for balance sheet of Rs.65.17, therefore the entire investment which was done in the subsidiaries got translated at Rs 65.17. Now for September 30, we are having the same thing at Rs.72.48. So what happens is that on an investment, which is about 40 to 50 million in subsidiaries that will get converted at Rs.7 higher than in March 31, to that extent Rs.33 Crores to Rs.34 Crores translation impact is there.

**Abhijit Sinha**: And those subsidiaries one the last year. These translation were in the last year, because last year it was only 0.51.

**Ganesh Kamath**: Last year there was no exchange currency remained stable. Whenever currency depreciates it will get added.

**U. Shekhar:** Currency appreciates it will go down.

**Ganesh Kamath**: It will go down this is the translation issue, okay.

**Abhijit Sinha**: I just wanted to understand your net current assets are around Rs.350 Crores your current assets are around Rs.900 Crores Sir with liabilities?

**Ganesh Kamath**: Current assets are approximately 20% of our sales.

**Abhijit Sinha**: Okay.

**Ganesh Kamath**: Though if our annualized sales is Rs.2800 Crores, we will have a net current assets for Rs.1400 Crores for six months, if you take annualized Rs.2800 Crores it is 20%, it will be – that will be the figure which will comes through nothing more than…

**Abhijit Sinha**: Are we using cash in the coming quarters?

**Ganesh Kamath**: Please repeat.

**Abhijit Sinha**: Are we are going to use any excess cash in the coming quarters for any?

**Ganesh Kamath**: We are having capex in the pipeline. The cash will get used for the capex.

**Abhijit Sinha**: And that is around Sir?

**Ganesh Kamath**: In the first half-year we have spent around Rs.70 Crores on capex and the second half we are expecting around Rs.50 Crores that is what we have discussed just now.

**Abhijit Sinha**: And just to understand, the interest cost have obviously come down, so how are we planning to reduce our Debt what is the plan?

**Ganesh Kamath**: Marginally it got reduced. Debt will not get reduce substantially, because we are doing capex from internal accruals.

**Abhijit Sinha**: You are mentioning that the other income is like you get it from the outside right from your foreign subsidiaries, you are getting the other income, so should they go up with the dollar increasing?

**Ganesh Kamath**: This is the dollar increase will go into the balance sheet level it will move into the balance sheet. If there is a currency other than dollar it goes through the P&L account. When we talk about P&L account entry, it is US dollar to Euro fluctuation, it is not US dollar in my account.

**Abhijit Sinha**: Is there a reason why the other income is down by 30%?

**Ganesh Kamath**: That is only translation impact. That is what we mentioned in the consolidated that there is a translation impact of Rs.3 Crores, which has gone to the PAT.

**Abhijit Sinha**: Understood Sir and another thing is as you mentioned about the new customers right, so you said it is about 7% to 8% of our additional revenue that will come in, but I just wanted to understand from which region are there customers from?

**U. Shekhar:** They are from the rest of the world, mostly rest of the world. We have been also acquired new customers in India. So customer acquisition happens in all the regions.

**Abhijit Sinha**: And because of this customer acquisition on, there is a 39% growth from there?

**U. Shekhar:** Both these existing customers which we talked about specialty ingredients growth. I will tell you I will repeat our broad strategy. The strategy is to grow both on performance Surfactants as well as specialty ingredients, one. Second is to grow both in the emerging markets as well as the developing markets. Three continue to focus on innovation and create new products and new solutions for our customers. Next is, increase of valet share with our customers, for example what we mean is if we are selling let us say four products to an existing customers, our efforts are to be how to increase the 4 to 5, 6, 8, 10, etc., etc. So this will be a continuing program for us, increasing the valet share with our customers and lastly focus on operational excellence to ensure that we continuously increase our competitiveness, so these are the broad legs of our strategy.

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

**Rohit Nagraj**: Thanks for taking my question again. Sir I have two questions. One is, on the new product introduction, so how much of our revenues are contributed by new products which have been launched in the last may be two or three years?

**U. Shekhar:** We said it was about in the last five years, revenues from new products have been about 8.2% of the total revenues.

**Rohit Nagraj**: Okay and where we launch new product, is it strategy that we face out certain products, which are probably low volume and do not give us margins?

**U. Shekhar:** There will be hardly anything Rohit, because very fortunately our product lifecycles are huge. To give you an example, all of us have been using the same foaming agent, every single toothpaste in the world, in every part of the world, in every region and every single brand has been using the same foaming agent for the last 70 years. So these products have a long lifecycle, which makes this particular Surfactant industry, very, very stable.

**Rohit Nagraj**: My second question is on the China front, so after opening our office, have you seen any particular traction because of our local presence over there?

**U. Shekhar:** We just started China office just about two or three months back. So we have been first selling in China for the last 15 years, our office just about started and this is to enable us to have closer interaction with our customers further intense interaction with our customers.

**Rohit Nagraj**: Thank you so much.

**Moderator**: Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

**Jasdeep Walia**: Thanks for taking my question Sir. Your annual report mentions two products which you were supposed to commercialize in 2018, one is Galsoft SCGL for one global major customer for using a body wash and second one was this non-sulphate oil soluble surfactant Galsoft TILS, shower oil category, so have these products being launched commercially by your client?

**U. Shekhar:** The initial supplies have gone through and I am told that they know they have been commercial launched by end customer is concerned, these are the early stages for our customer also.

**Jasdeep Walia**: Got it, so for these products to scale up, it will take some three to five years?

**U. Shekhar:** The full launch has to take place at the customer's end and they have to rollout across the various sort of geographies or region even in particular country.

**Jasdeep Walia**: Your customer has done limited launch possibly in limited to one region or something like that?

**K. Natrajan:** That is what we will do essentially because this is the new this thing, they will have to test the response, market response then if necessary tweak the formulation look at what the pricing should be and then based on the learning they start expanding into the other countries. So that will be the process that we will adopt and then obviously as that progresses our sales into for this product also we will start picking up.

**Jasdeep Walia**: Got it. Thank you.

**Moderator**: Thank you. We will take the last question from the line of Abhijit Sinha from PI Square Investments. Please go ahead.

**Abhijit Sinha**: Regarding the performance surfactants you mentioned that it was only 4% in volume growth because of the AMET right. I just wanted to understand the revenue over there has grown by 16%, so have we like increase prices or something?

**Ganesh Kamath:** You are talking about consolidated revenue.

**U. Shekhar:** Firstly, revenue is a function of the raw material prices okay and revenue also includes freight costs, as per the requirements of the SEBI, the topline has to be a CIA, it includes the freight cost also. Overall we are talking about, so they have not strictly comparable. Please do not look at the revenue numbers, because they can go up and down. What is important is that have been grown with respect to volumes.

**Abhijit Sinha**: But then profitability will be impacted from the revenue only right?

**U. Shekhar:** I am sorry.

**Abhijit Sinha**: Profitability will improve with the revenue only right not with the volumes itself?

**U. Shekhar:** With the volume, as I said, we look at growing ahead of the market in terms of volume and our EBITDA growth will be higher than the volume percentage growth and then our PBT and PAT growth will be higher than the EBITDA growth. That is what we measure ourselves and we ensure the return on capital employ will pass the minimum threshold limit of 22%.

**Abhijit Sinha**: Sir just one more question was rest of the world that we are talking about which kind of areas that we are actually referring to like where do we see that growth coming in from?

**U. Shekhar:** We operate in US, we operate in Europe, we operate in South America, AMET you very well know, we also operate in Asia Pacific apart from China we are there in Thailand, Philippines, and Indonesia.

**Abhijit Sinha**: The whole growth has come from balance, from all these countries Sir or is it from certain areas like America or Europe?

**U. Shekhar:** The specialty products largely the growth came from US, Western Europe, Thailand, Brazil. Now what I need to convey to you that we consistently supply to almost 75 to 77 countries, this is based on last three years data of course the countries which has been excluded from this list are Iraq, Madagascar, Syria, Uzbekistan, Senegal, Palestine etc, these countries are excluded from this list.

**Abhijit Sinha**: Perfect, sure. Thank you so much Sir.

**Moderator**: Thank you. As there are no further questions from the participants I now hand the conference over to Mr. U. Shekhar for his closing comments. Over to you Sir!

**U. Shekhar:** Ladies and gentlemen, thank you very much for participating this call. I hope that we have been able to answer all your questions. We continue to work on our strategy and we look forward to an exciting time in the years ahead. We would once again meet up with you in three months. Thank you ladies and gentlemen.

**Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Galaxy Surfactants Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.