"Galaxy Surfactants Limited
Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Galaxy Surfactants Limited Q3 FY2019 Earnings Conference Call. 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 Mr. Shekhar. Thank you and over to you Sir!

U. Shekhar: Thank you. A very good afternoon to all of you ladies and gentlemen, thank you for being with us on this fifth investor concall. I am here with Mr. Ganesh Kamath, our Chief Financial Officer and Executive Director, Mr. K. Natarajan, our Chief Operating Officer and Executive Director.

As I look back ladies and gentlemen, it has been a year since we have got listed. Sustainable growth driven by strong customer focus and innovation has been our motto and we remain committed to it. 2018-2019 has been a year of resilience where on the one hand we have added one of our key markets Egypt, which makes up 45% of our AMET and 19% of our total business, that is in volume terms FY2018 facing a major slow down. The other end of business that is India and rest of the world have performed remarkably. It is this outperformance that has not only negated the impact of Egypt, but also led to 7% volumes and 20% PBT growth for nine months ending December. Of course, these numbers are on a consolidated basis.

As we have always maintained the long-term picture remains intact. Various initiatives are being taken, which I shall highlight going ahead. The initiatives taken over the last three years have started bearing fruit, which is clearly reflecting in our YTD December numbers. Before I get into the finer aspects of the business let me brief you on the overall macro as well as the end use industry scenario. As highlighted previously the HPC industry has got its growth mojo back after tepid three or five years. While overall industry has been growing in 10% to 11% zone significant outperformance is visible in the rural market. GST implementation, innovations, premiumization have led to this double-digit growth. With all the segments like hair care, skin care, fabric care, personal wash performing well. We expect this momentum to continue going ahead and remain optimistic as the same shall reflect in our performance. Globally while the home and personal care industry growth in the developed markets has been sluggish in the 1% to 3% zone; major portion of the growth being driven by price growth rather than volumes. Some parts of emerging markets like African, Middle East excluding Egypt of course Latin America particularly Mexico and Brazil and Indonesia have done well.

Coming to our business ladies and gentlemen we shall evaluate the numbers on a YTD basis. Quarter aberrations due to destocking, restocking and procurement by our customers tend to inflate and deflate the numbers at a quarterly level, but the same when viewed over a wider span of time gives the real picture. Of course, I do presume that you have had a look at our earnings release through stock exchange on Friday.

Let me talk about the domestic business. The domestic business has done well for us, we have grown 13.3% on volume terms for this nine months period approximately 2.5% to 3% over the industry growth rate driven by a strong pickup in the end use industry, share gain with our existing customers and new customer acquisitions. The home and personal care consumption remains buoyant and on back of that we expect our growth momentum to continue in the coming quarters.

Coming to the Africa, Middle East, Turkey region, Q2 saw a significant macroeconomic turmoil across the Africa, Middle East and Turkey. Sharp currency depreciation, pickup in inflation and overall broad-based slow down in consumption affected the end use customer demand, which resulted in a subdued performance.

Coming to Q3 while Egypt continues to be slow, rest of Africa, Middle East and Turkey markets are showing signs of gradual recovery and pickup in demand. Egypt as stated before makes up 19% of our total volumes of FY2018, the slow down that this market is facing is primarily due to two factors, one, broad-based slow down in the end user demand and secondly downtrading by consumers wherein local players have gained share at the expense of multinationals. While on YTD basis, AMET has degrown 8% on volume terms; the same excluding Egypt has grown at 9% for us. Another positive which has emerged for us in the quarter gone by has been the pace of recovery in these markets. Excluding Egypt, the AMET market degrew by 8% in Q2 the same as grown at 11% for us in Q3. While some of the recovery can be attributed to the wait and watch approach resorted to by our customers due to the macroeconomic turmoil in Q2, which resulted in shift of demand from Q2 to Q3. Most of it is due to new customer acquisitions, consolidation and share gain in the existing geographies and better performance reported by the new locations we have added in the last couple of years. To conclude Egypt remains slow, but green shoots are slowly emerging in the remaining parts of Africa and Middle East. While AMET performance has been subdued, the rest of the world has taken up the mantle for growth in the coming year.

Coming to the rest of the world. The rest of the world has been an outperformer and continues to be an outperformer for us. We have clocked in a year-on-year growth of 29.5% on volume terms for the period ending December and have nearly met the last year's volumes in just about nine months. This has enabled us to not only negate the adverse impact of Egypt, but it has also given us a significant boost to our specialty care portfolio, which itself has grown 20% YTD December. It has only been possible due to the positioning of our products, new locations we have added in the last couple of years, new customer acquisitions and consolidation of our existing customer relationships. Galaxy's basket of products are perfectly positioned to capitalize on the emerging consumer trends in the home and personal care industry namely nontoxic preservation, milder surfactants, etc., but this outperformance has been the result of efforts, which have been put in by our innovation, business development and marketing teams over the last three years working closely with customers that has yielded the desired fruits in the current year. We expect the momentum to continue not only in the ensuing quarters, but also in the coming years.

Foresightedness has been a key strength for us, as stated before a lot of developmental work is happening at Galaxy to ensure we are future ready. Some of them are as follows: As informed earlier for our Performance Surfactants, we have undertaken Brownfield expansion at our Jhagadia plant. This will enable us to capitalize on the emerging growth in India and Asia pacific markets. The plant is expected to commence operations from April 1, 2019. For our specialty care portfolio, we are currently evaluating fresh investment for our new products, which will aid us in maintaining the current momentum going ahead. We are in the process of expanding our R&D facility at our corporate office, a stronger innovation pipeline shall ensure robustness and diversified growth. In order to capitalize on the emerging opportunities in the North American market, we are setting up a whole new premise for our subsidiary Tri-K work is underway and shall be completed in the next six months. We have recently won the best process innovation award at the ICIS innovation awards for our novel, environmental friendly process to produce acyl amino surfactants, which find application in the premium hair and skin products. We have also won two process patents with respect to the same.

Ladies and gentlemen to conclude Galaxy believes in consistency, safety, health, sustainability, stakeholder responsibility, innovation, manufacturing excellence, growth and profitability. We remain optimistic about the future prospects of our business and remain committed to the bigger picture, the long-term story remains intact. Thank you very much ladies and gentlemen, thank you for your patience. Now I would open the floor to questions from you and we are here, I am accompanied here by Mr. Natarajan, our Chief Operating Officer and Mr. Ganesh Kamath, our CFO and Executive Director. Over to you ladies and gentlemen.

Moderator Thank you. 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: Good afternoon and thanks for the opportunity. First on the AMET side, P&G in its earnings call said that they have taken a price hike of around 50% to 70%. That is a significant amount of price hike in countries like again wherever devaluation is happening so these kind of inflation to get absorb will take a significant amount of time in my sense. So how do you see AMET volume improving from here anytime soon and how do you see it next year and we said that except Egypt, we have grown around 11% volume in other countries, can you give us some insight in which countries are we doing here and which are the new countries we are now targeting in terms of placing this lower volume in Egypt, these are the three questions from my side?

U. Shekhar: Thank you Sanjesh. For YTD December excluding Egypt, volumes have grown by 9% for the nine months and we grew by 11% for the third quarter. So taking it to account the Egypt situation, we have ventured into other countries and these volume increases have come from other Africa Middle East countries, Turkey of course has more or less been flat for FY2018-2019, but we have grown in countries like Kenya, Libya, Lebanon, UAE and Jordan. So these have been countries where we have taken, but apart from that we have also added countries like Ivory coast, Qatar, Zambia and Palestine of course though they are at a very preliminary stage, we have made our entry into these countries. So I mean we do see our performance in these countries other than Egypt has been interesting and significant. We remain committed to grow at higher than the markets. The markets on overall basis had remained more or less flat as far as the America, Middle East, Turkey region is concerned and at best it has grown in the 1-2% zone

Sanjesh Jain: That is helpful, but the inflation on the price side looks significantly high as highlighted by P&G, do you think this will hurt us for some more time before this price get absorbed in this market?

U. Shekhar: What we can say is that Egypt it will have an impact and recovery will be gradual and that is the reason why we are venturing to other countries to make up for this.

Sanjesh Jain: Okay thanks and now slightly on the India side.

K. Natarajan: To add my perspective, see, what is also important is the sort of product portfolio and the regional portfolio that we have, if you see before, the way we have grown in the rest of the world has actually given us good ability to mitigate this impact. This obviously is not something in our control, but it is actually a big plus. The sort of geographical portfolio that we have has been a significant plus rather than trying to replace the Egypt volumes and other margins within AMET and were also able to grow in the rest of the world in terms of volumes.

Sanjesh Jain: Thank you. On the India side, this quarter has been quite sluggish whereas actual has grown by 10% so over 11% last quarter, I know that we have grown very strong 21% last quarter, but this is significant aberration?

K. Natarajan: You need to know that sales from us to the end customer here results in sales for them at least with a lag of about 1-1/2 to 2 months because it has to go into the channel, the amount of inventory in the channel for all our FMCG customers is quite significant. So that is why it is important to look at the nine months rather than quarter-on-quarter.

Sanjesh Jain: But the next quarter we should be again back to the normal level right?

K. Natarajan: As you said our objective is to grow in India higher than the market growth and we have continuously maintained that we should be growing at about approximately let us say 2% to 3% points higher than the market growth.

Sanjesh Jain: On the specialty portfolio side, Q4 generally is very strong for us from sunscreen point of view where volume and profitability both get drive and this year again we have a positive in terms of US FDA being approved our plant, what is our plan for sunscreen in the Q4 and how do we see in terms of order book and volume playing out this year?

K. Natarajan: Sanjesh! Typically, sunscreen season begins in terms of people launching it for the summer in Europe is much later in August-September. So typically, you will see this volume of sunscreen towards the end of Q1.

Sanjesh Jain: In Q4, we do not see a significant part of sunscreen coming in?

K. Natarajan: We do not see that. It will be normal stuff, but nothing in terms of the seasonality that will actually start sometime in beginning of May.

Sanjesh Jain: Okay. So that is more of Q1 phenomena for us. On the cost inflation side this time around the cost looks significantly higher and the employee cost has gone up by some 16% odd percent, other expenses have gone up like 28% Y-O-Y this looked like again very high cost inflation what is going on there?

Ganesh Kamath: As far as employee cost is concerned there is a translation impact of around Rs.4 Crores coming in. If you adjust that the growth is in line with the normal growth. As far as other expenses are concerned there are two elements in this, one in terms of your translation impact and second in terms of India freight is concerned; the freight gets accounted in India at the exchange rate of the Q3, which is higher than the translation rate. So what happens is that the total impact coming out of this currency movement is around Rs.5 Crores in freight. This is one and then next what happens is that your Egypt also if you look at we have said that we have moved from domestic market to the export market correct. The shift is around 10% to 15% of the volume have gone into the international market, therefore naturally it will reflect in the freight because what happens in Egypt when they sell in the domestic market it is ex works, when you do exports it includes the freight and all the expenses, so these are the main reasons, which account for it.

Sanjesh Jain: Got it. That is it from my side. Thanks and best of luck.

Moderator: Thank you. The next question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: You mentioned Brownfield expansion project and can you give me some more guidance about it as and what capacities you are adding and what would be the capex?

U. Shekhar: The capex for this would be approximately Rs.100 Crores to Rs.110 Crores and this is coming up at Jhagadia for our Performance Surfactants, this capacity is coming up and it is go into commercial production on April 1, 2019.

Keyur Shah: Okay and one more capex you mentioned regarding your North American subsidiary?

U. Shekhar: Now that is where we are going into our own premises approximately 10 to 15 miles away from our existing these premises. So Galaxy is going into our own premises and this will go into commercial, this will get commissioned in six months say approximately by October this year.

Keyur Shah: You told me about capex earlier Rs.110 Crores, but what would be the capacity you did not mention?

U. Shekhar: So this capacity will add approximately about 10-12% of our existing capacity.

Keyur Shah: Which is?

U. Shekhar: Our existing capacity is in the region of 363000 MT

Keyur Shah: 363000 MT is your existing capacity correct?

U. Shekhar: Yes.

Keyur Shah: And how much would be your current utilization?

U. Shekhar: We are approximately today 75%.

Keyur Shah: Some ballpark figure for the full year or do you like to maintain the same?

U. Shekhar: I think it will remain around that.

Keyur Shah: Okay.

U. Shekhar: Our exact capacity is about 363,480 MT

Keyur Shah: Okay.

U. Shekhar: Existing.

Keyur Shah: Anything else you would like to guide for the next coming two, three years?

U. Shekhar: We are already committed to another Rs.150 Crores. We had mentioned there totally it will be about Rs.300 Crores over a period of about three years or something. So we are committed to another Rs.150 Crores in the balance one-and-a-half years or so.

Keyur Shah: Okay and it would be similar kind of expansion?

U. Shekhar: No, it will be for some expansion as far as R&D is concerned and also for certain specialty products.

Keyur Shah: Fine. Thank you very much. All the best.

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

Saravanan Viswanathan: Thanks for taking my question Sir. As regards the performance of Surfactants in specialty care mix, how do you see the mix panning out in the next two years, you would be at the same levels or you see better prospects in specialty?

U. Shekhar: Last year, it was approximately around 65 to 35. YTD December FY2019 our numbers show 63 to 37 and particularly in Q3 it was 59 to 41. Of course there can be always aberrations in quarter-to-quarter, but we would see a slow increase of the specialty portfolio as we go forward, but let me just tell you that our Performance Surfactants also will continue to grow, when we have set up this new capacity in Jhagadia, which is coming on line there again it is for a horizon of about four years or so. We would also see the Performance Surfactants going up, so I think this percentage will keep on fluctuating. What is important as I said is the absolute volumes growing for both of these categories that is what is important for us.

Saravanan Viswanathan: You had given the overall capacities in terms of speciality segment alone can you give us the capacity and the utilization breakup?

U. Shekhar: We have not mentioned that anytime, but for your revenue mix as I told you in YTD December it was 63 to 37.

Saravanan Viswanathan: Are the capacities totally different?

U. Shekhar: They are totally different.

K. Natarajan: They are not fungible.

Saravanan Viswanathan: But in both the segments, we have enough capacities to grow for the next two, three years?

U. Shekhar: Yes, as I told you our overall capacity utilization today it is about 75%, once our new capacity is come online that capacity utilization will go down, okay, and then slowly it will catch up.

Saravanan Viswanathan: Okay and with respect to India we always know that Performance Surfactants is the major market here and in terms of speciality when do you think it will kick start in the Indian market?

U. Shekhar: The growth is going to be gradual, now to give one example as I said, the face wash market which is a premium category has grown only in the last about six or seven years to a size of almost Rs.1000 Crores, let me what is called give you a picture of the various categories, which have grown from 2012 to 2017, the new categories like baby care, facial care, sun care, men's grooming, colour cosmetics and premium body and personal care categories have grown by cumulative average growth rate of 16% in the five years starting 2012 to 2017. This gives you a picture of what to expect as far as these new categories is concerned. The category called hand wash, again has grown by a cumulative average growth rate of approximately 15% over the last about five years. So these are small as far as the base is concerned, but in terms of growth rate they are higher compared to the bulk categories like shampoos or toothpastes. Now to also give you one another data, hair care in the same period grew by about only 9% and bath and shower grew by about 9% whereas these new categories have grown by almost cumulative growth rate of about 16%.

Saravanan Viswanathan: Are we present in all the subcategories that you had mentioned?

U. Shekhar: We are not present in colour cosmetics; however, we are present in baby care, we are present in facial care, we are present in sun care, we are present in men's grooming, we are present in hair care, we are present in bath and shower, we are present in skin care, oral care, but we are not present in colour cosmetics. Of course in colour cosmetics, there are certain products, which are not very significant, they do find applications there.

Saravanan Viswanathan: And do you see the need for inorganic acquisition either to get more markets or get product portfolio?

U. Shekhar: As of now nothing very immediate.

Saravanan Viswanathan: Thank you.

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

Rohit Nagraj: One question in terms of when we are going ROW market, is there any margin contractions or are we taking some kind of price discount to push up the volumes?

K. Natarajan: Not exactly, so these are all speciality products that we are doing, so it is not that we are taking any margin contraction to do this business and get this growth.

Rohit Nagraj: Okay and if I look at last three quarters, cost of goods sold, the raw material cost, so all the three quarters we have improved our gross margin. So is there any specific effect of certain raw materials where the prices have got reduced or any other form of sourcing arrangement where we have got benefitted?

K. Natarajan: The way you must look at it is that the raw material prices have been coming down quarter-on-quarter basis. If you do not manage your risk well, recent fixed price is actually a risk that will remain in your books. So what is important is that despite these reductions in the raw material price, you have been able to manage your risk in a way that it does not impinge on your profitability. The reason why you see the cost of goods sold will come in is a sort of the mix that we are having in terms of specialty and performance in a way that we have grown in the rest of the world with certain product categories. And the mix has been responsible for this not in terms of any this thing in numbers of raw materials.

Rohit Nagraj: Okay and in terms of near categories like we are walking on the nontoxic preservative, any other category where we are currently thinking of walking from the R&D perspective and may be in one, two years from commercialization perspective?

U. Shekhar: Our innovation platforms continued to be mild surfactants sunscreens, proteins and nontoxic preservation. These are the key platforms for innovation as far as we are concerned. Apart from that of course we are also in the transparent bathing bars & Syndets. So these are the key specialty platforms for us.

Rohit Nagraj: Okay and in terms of Tri-K, how was the performance in nine months and what are the consolidated capacity utilizations for nine months?

U. Shekhar: Tri-K maintains its tempo as in the previous years, it continues to maintain its tempo.

Rohit Nagraj: Because in the first half if I am not wrong it grow by about 14% in rupee terms and 9% in dollar terms, so in the nine months what was the similar kind of number that we have looked at?

K. Natarajan: We have not said that. I am sure you would read it when our final annual report comes in.

Rohit Nagraj: Fair enough and Sir what is the total capacity utilization at the end of nine months for the consolidated?

K. Natarajan: 75%.

Rohit Nagraj: And you said about Rs.110 Crores will be spent on Jhagadia, so we maintain the guidance of about Rs.125 Crores, Rs.150 Crores for FY2019 and 2020?

K. Natarajan: Yes.

Rohit Nagraj: Fair enough Sir. Thank you so much.

Moderator: Thank you. We will move onto the next question that is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Thank you for the opportunity. Just wanted to know year-to-date our revenue growth is around 16% while our volume growth is 7%, so what extent the difference between these two in the context that are mix has not changed drastically, so this is only currency impact or there is anything else?

U. Shekhar: There has been a mixed impact certainly.

Ganesh Kamath: There is a mix impact. In sales, accounting is CIF sales. On CIF sales, there is a question of incoterms and domestic portion, which makes the difference in terms of inco terms that is one. Second will be the raw material prices and third will be the currency rates, these three influences your revenue side.

Keyur Pandya: Okay, but raw material prices have come down right for us?

Ganesh Kamath: But the exchange has also gone up.

Keyur Pandya: Okay that is more of exchange and not mix change because the mix has on the contrary?

Ganesh Kamath: No, mix will be there in terms of specialty and performance.

U. Shekhar: As we told you before our mix was 65, 35 in last year, in this nine months it is 63, 37.

Ganesh Kamath: Even if you look at in Egypt also, we have mentioned that there are more of exports and domestic volumes are lower that also has an impact.

Keyur Pandya: Perfect. Thank you and all the best.

Moderator: Thank you. We will move onto the next question that is from the line of Shariq Merchant from Quest Investment. Please go ahead.

Shariq Merchant: Thank you for the opportunity. Sir my question is on the working capital, can you talk about how working capital has changed during this quarter and the nine months of this year?

Ganesh Kamath: Working capital remains around the same level, it has not changed significantly.

Shariq Merchant: Okay and in terms of number of days how much would that be?

Ganesh Kamath: Number of days for us is approximately net current assets are two to two-and-a-half months sales.

Shariq Merchant: Okay and how does working capital differ between your different years of clients, so when you saw with MNCs or say smaller Indian companies or even companies across geographies?

Ganesh Kamath: In the case of MNC customers, basically we give credits there. In the case of non-MNC customers, we do not extend credit. It is basically sight documents therefore the credit is restricted to the transshipment period. Now coming to the question of MNC credit, it can be factored off balance sheet, we have not done this. If you do this it can be working capital cycle can contract.

Shariq Merchant: If I was to look at your overall working capital cycle on a consolidated basis, going forward how do you look at it in terms of number of days you believe that?

Ganesh Kamath: It is almost the same, it does not change significantly because the composition of the sales between T1, T2 and T3 does not drastically change.

Shariq Merchant: Right Sir because I was looking at your five year cycle and I think in the last five years it has shown a bit of a decline or the number of days have gone up?

Ganesh Kamath: Number of days have gone up because what happens is that if you look five years back we were essentially doing factoring.

Shariq Merchant: Okay.

Ganesh Kamath: Factoring of receivables therefore naturally the receivables are off balance sheet. Now what has happened is that the Government of India has introduced subvention benefit, which earlier was not available to us, now it is extended to us as well. Now if you avail the subvention benefit we get arbitrage on interest rates that is why we are not doing factoring now, which is reflecting in the receivables buildup nothing else.

Shariq Merchant: Alright Sir, if I was to adjust for the factoring working capital cycle would have been fairly?

Ganesh Kamath: It would have been at the same level as before. MNC customers receivables any bank is willing to buy and the risk can be made off balance sheet.

Shariq Merchant: Alright Sir. Thank you so much. Good luck.

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

Vihang Subramanian: Thanks for taking my question. I think you just mentioned somewhere that our consumers were downtrading in Egypt. So I just wanted to check like do we also sell to like local players in Egypt, so we can benefit from the downtrading in somewhere?

U. Shekhar: Not much, we do supply to very, very small customers in Egypt, but this player is a sort of local player who is fully integrated including its raw materials.

Vihang Subramanian: Okay and Sir in Tri-K like additional land that you are planning to take up, what products are those for is it the same product line?

U. Shekhar: It will be for the same products that is our proteins, which we are now manufacturing in the lease premises they will get transferred into the new premises.

Vihang Subramanian: Okay and do you have any expected revenue from that like any ballpark figure?

U. Shekhar: It is a growth capex. Normally these capacities are set up for a horizon of about eight years or so, as far as specialty products are concerned and again as far as proteins are concerned we have been growing in the US market. Growth with respect to these proteins, we will continue to maintain the tempo of growth there.

Vihang Subramanian: Okay and just last one from my side, given the steep fall that we have seen in palm oil prices like do you expect your gross margins do you like improve now going forward for the next one to two quarters especially all the sales to smaller customers where if I am not mistaken you do not pass through that impact?

K. Natarajan: That is what I am saying that if you have the raw material prices coming down, it is not that because what happens is that this is the business, which is having a lot of competitive dynamics, so it is not that if you are going to pass on your competitors will pass on, so the trick here is to how do you manage the risk, so in a falling price scenario managing the risk is of extreme importance and how we manage that is going to be critical, so forget about not passing on, if you do not manage the risk well it will come and impact your P&L. So that is what we have been saying as to how we manage the risk is what differentiates us.

Vihang Subramanian: Okay, like steep fall and peak your prices not like very beneficial for us or something it is more of a question of managing risk there then?

K. Natarajan: Correct.

Vihang Subramanian: Okay. Thanks a lot Sir for all the answers and good luck.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities Private Limited. Please go ahead.

Kaushal Shah: Thank you for the opportunity Sir. Little clarification on the RM pricing, so what you mention to your earlier replies was that though some of the raw material or the input prices have fallen, but we have not had a significant benefit because of the currency factor is sort of nullified that impact, is this understanding correct?

U. Shekhar: No, see in line with raw material price decline, the selling prices also go down because it is a globally competitive market. In various regions in line with the raw material prices which are going down, our prices also go down, so that is why we have said always our value addition is something we should always protect.

K. Natarajan: So this what you have understood was Ganesh explained in the context of expecting how the revenues, our sales revenues, so you have a raw material price coming down, but then you have the exchange depreciating so that particular thing nullifies the impact in terms of the sales value coming down getting mitigated by the rupee depreciation taking it up. It was not on the context of margins.

Kaushal Shah: Sir, coming to the Egypt plant, if I exclude the last few years, Egypt plant had very low unitization and it was making losses and then there was a phase of recovery where the capacity utilization improved and the plant was doing very well. is there a possibility that now with this a little bit of tough situation there the plant could again make negative numbers?

U. Shekhar: No, but what is important to know is that year-on-year, we have de-grown as far as Egypt is concerned Galaxy Chemicals Egypt by approximately 8% or so and this is where taking into consideration whatever has happened in Egypt we are venturing into countries of other markets and that is in Africa Middle East other than Egypt, we have grown by 9% year-on-year.

Kaushal Shah: Sir, what would be utilization level at the Egypt plant?

U. Shekhar: Egypt plant, I think almost in the zone of 70%.

Kaushal Shah: Alright. Thank you Sir.

Moderator: Thank you. We will move on to the next question that is from the line of Hrudhyam Verma from Augmen Catalyst. Please go ahead.

Hrudhyam Verma: Sir, I just have one question regarding other income actually, so last quarter we had 24 Crores of other income on the preference shares by revaluation and this year we have a loss, so what is that can you just give some colour on that?

Ganesh Kamath: You are looking at the standalone financials?

Hrudhyam Verma: No, standalone, I am talking about the standalone only right now.

Ganesh Kamath: In standalone, what happens is that it depends on the currency rates, the yearend currency rate has declined and so it is purely a function of currency rate.

Hrudhyam Verma: So, it basically non-cash, is not something like?

Ganesh Kamath: It is non-cash, when you go to consolidation it gets knocked off. So it does not have any impact on the consolidation that is why I asked you whether you are looking at consolidation or standalone.

Hrudhyam Verma: Thank you so much.

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

Saravanan V: I got disconnected for a few minutes, so I am not sure if you have covered this. My question is on Q3 numbers, gross profit seems to have grown at a very healthy rate of 18% plus, but in EBITDA terms the growth has been very muted, is there any specific reason?

Ganesh Kamath: See what happens is that if you look at the Q3 there are two to three factors, one the translation impact is there because what happens in consolidation, translation is shown as a difference over six months. So naturally the currency depreciation for the first half also gets translation impact on the Q3 and now if you look at this translation impact that alone accounts for around Rs.5 Crores, now you can neutralize this the EBITDA margins will be almost closing to that of the Q2.

Saravanan V: 5 Crores on account of translation?

Ganesh Kamath: Yes, various translation issues.

Saravanan V: Fine. Thank you.

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

Rohit Nagraj: Sir, how many new customers have we added during the quarter because I think we have expanded our market?

K. Natarajan: YTD December 26 customers.

Rohit Nagraj: And new country additions?

K. Natarajan: We have done about say close to about 10 to 12 countries.

Rohit Nagraj: Additional 10 to 12 countries?

U. Shekhar: Yes.

Rohit Nagraj: Sir, in terms of the nontoxic surfactants so currently?

U. Shekhar: Use the terms Mild surfactants and nontoxic preservatives.

Rohit Nagraj: So, in terms of mild surfactants currently out of the total products how much would be the contribution from the mild surfactants?

K. Natarajan: See this information obviously we do not share for reasons, but if you say that mild surfactants is a very significant portion of our specialty product segment.

Rohit Nagraj: And it will continue to grow going forward given the emphasis?

U. Shekhar: Yes, as you said our Performance Surfactants to revenue mix for the nine months was 63 to 37 against the previous year, which was approximately 65 to 35.

Rohit Nagraj: Right and any new snippets from representative office in China we understand that you have been to supplying to the China for a fairly long time, but any new things that we have come across?

K. Natarajan: The China office was opened because we wanted to walk the market and go deeper into China to leverage on opportunities. So right now what is being done is in the terms of assessing and mapping the potential opportunities I would like to see how we are able to map it and then understand the white space, so we are pretty confident in terms of leveraging on these opportunities in a significant way in the coming years, but as of now we have been about four months there, we have always been there supplying to China, but our office has been only there for last four months.

Rohit Nagraj: Alright. Thank you Sir.

Moderator: Thank you. The next question is from the line of Laxmi Narayan K G from Catamaran. Please go ahead.

Laxmi Narayan K G: Good evening, I have two or three questions, first is that what percentage of your revenues come from products where you are the single source supplier?

U. Shekhar: As a matter of fact, I think, we are hardly a single source supplier to anybody because the general practice is that we may be a significant supplier, but all companies as a matter of policy to ensure that they are able to do derisking to supply portfolio always have more than one supplier.

Laxmi Narayan K G: And you mentioned during the call that you have opened some geographies some products, if you can look at your entire revenue and break it down into the revenues from existing customers and new customers, how would that be, let us say existing customer of last year, which is FY2018 and existing customer that is what I defined as an existing customer?

U. Shekhar: See, our new customers have an approximately about 2% of the revenues.

Laxmi Narayan K G: And new products would be how much?

U. Shekhar: Approximately about 5% to 6%.

Laxmi Narayan K G: And what is your repeat customer thing, which means that your repeat customers must be in the order?

U. Shekhar: Our relationship with our customers are anywhere from 20 to 35 years, our relationships are very, very long-term relationships. So almost repeat business is on from those customers with whom our relationships have been that long, particularly the big customers the relationship has been 25 to 35 years.

Laxmi Narayan K G: Got it and coming to customer concentration you divide your business into three segments, which is AMET, India and rest of the world, so you just help me understand what is the customer concentration in each of this geography, what I mean by that is what could be the top five customers in each of these would represent?

U. Shekhar: For an overall basis, our top 10 customers constitute about 55%.

Laxmi Narayan K G: Sir, last question regarding what level of debt you are comfortable with and do you intend to be debt free down the years?

Ganesh Kamath: If you look at our dept equity, even now it is less than half, I am talking about including working capital, if I go only into term loans then it will be marginal or very negligible.

K. Natarajan: So, typically I think our finance policies we will not go above 1:1 debt equity ratio.

U.Shekhar: I am sure you know that the only time we raised money for our business was 23 years back in 1995, since then we have grown by way of equity.

Ganesh Kamath: In the case of the debt even now we can reduce this substantially by going in for factoring, which as I mentioned recently we have not done because of the subvention or the arbitrage available.

Laxmi Narayan K G: And your capacity you said you added in Jhagadia right, so what is the minimum capacity you add is it in terms of 25000 tonnes or what is the minimum?

U. Shekhar: There is always a minimum economic capacities, I think this varies from year-to-year but I do not think we would like to sort of share with you because again it comes under confidentiality.

K. Natarajan: But then it is sufficed to say that Shekhar did say that what we adding is about 10% to 12% of our existing capacity and this is not only one product, so combination of products.

Laxmi Narayan K G: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that is the last question. I now hand the conference over to Mr. Shekhar for his closing comments.

U. Shekhar: Thank you ladies and gentlemen. Thank you for being present here. As I mentioned to conclude Galaxy believes in consistency, safety, health and sustainability, stakeholder responsibility, innovation, manufacturing excellence, growth and profitability. We remain optimistic over the future prospects of our business and remain committed to the bigger picture. The long-term story remains intact. Thank you once again. Thank you very much.

Moderator: Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us. You may now disconnect your lines.