"Galaxy Surfactants Limited
Q2 & H1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Galaxy Surfactants Limited Q2 & H1 FY2021 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on the 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 and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Unnathan Shekhar – Promoter & Managing Director of Galaxy Surfactants Limited. Thank you and over to you, Sir!

Unnathan Shekhar: Thank you. Ladies and gentlemen a very good morning to all of you and it gives me immense pleasure to welcome you all once again to this Galaxy Surfactants Quarterly Investor Concall.

Let me begin by extending on behalf of Galaxy Surfactants warm season's greetings to you and your families, may the festival of lights bring immense joy, wealth and happiness and safety in your lives. As we begin the final chapter of the year 2020, I can just say the year 2020 shall stay etched in our memories for years to come. A year which has seen the world speaking just one language focus on and worry about just one thing and work together towards finding just one simple solution to cure the pandemic finally seems to be coming to an end. As the world opens while fears of the second wave slowing economies and life in the post COVID world era dominate their lines green shoots have started reappearing. Normalcy seems to be slowly coming back and the home and personal care industry, which has yet again remained resilient barring discretionary categories, seems to be getting its mojo back.

Ladies and gentlemen this quarter two of FY2020-2021 has been a stellar quarter for us. It gives me immense pleasure to share with you that the Galaxy Surfactants has registered its highest quarterly volumes, EBITDA and PBT in this quarter. Our consolidated PBT has crossed the Rs 100 Crores mark for the first time in this quarter. Before I get into details I want to specially like to acknowledge my team at Galaxy for this acheivement. The grit and determination demonstrated by the entire team has been impeccable. I thank one and all Galaxites across all geographies and all our stakeholders who have played a pivotal role in helping us achieve this feat despite the numerous challenges and difficulties.

Ladies and gentlemen, as India opens up and have distributors and retailers stock up demand for home and personal care products is slowly and steadily inching up. While the demand for the essentials has remained strong, the Masstige category now seems poised to make a comeback. With the rural economy firing and discretionary spending picking up we believe we are at the cusp of a fresh upcycle as far as the home and personal care consumption is concerned. Improving demand/supply dynamics, restocking of inventory by channel partners, which had got disrupted due to the pandemic and opening of the economy clearly play a key role in our outperformance. Our India business grew 27%YoY by volumes for the quarter and 12.5%YoY for the first half driven primarily by the essential performance surfactants. We see this positive momentum continuing. While volumes do have an element of pent-up demand, which got carry forward from the first to the second quarter the overall performance is very encouraging.

Africa, Middle East, Turkey continues to grow ahead of the market wherein absolute volumes the local Egypt market has yet again registered growth it is the performance logged in by rest of AMET excluding Egypt comprising of Turkey despite the COVID and currency situation, Saudi Arabia, Morocco and South Africa, which has been encouraging. Overall the Africa, Middle East, Turkey region registered a 6.1%YoY volumes growth for this quarter and the same stands at 8.1%YoY for the first half. While performance surfactants have been the key growth drivers for the India and AMET markets the growth registered by some of our Masstige specialty products in these markets has also been satisfying. Specialty segment has made a strong come back in this quarter while year-on-year the growth is 2.1% sequentially the same has grown by 39.4%. With our new age preservative and mild surfactant solutions gaining traction these are exciting times for our new age specialty products. The capex for our new age specialties remains on course and they should become operational by Q1 of FY2021-2022. The rest of the world has logged in a decline of 4%, supply chain challenges with respect to availability of shifts, hampered volumes in this quarter, demand visibility has improved significantly versus Q1 FY2021 and sequentially we have grown 25% vis-à-vis Q1 barring any operational challenges we remain confident of growth returning in the ensuing quarters.

Before we move on to the question and answers, some key parameters we rank our performance on our volume growth, which stood at 10.4%YoY for this quarter and 2.8%YoY for the first half driven by performance surfactants, which grew 15.3%YoY in this quarter and 11.7%YoY for the first half. The EBITDA growth stood at 41.1%YoY for this quarter and 16.3%YoY for the first half. EBITDA per metric tonne touched Rs 19,992 per metric tonne for this quarter and Rs.18,900 per metric tonne for the first half a growth of 13.2%YoY driven by improving share of new products, improving specialty mix and better capacity utilizations. Our PBT grew by 57.1%YoY for this quarter and 22.2%YoY for the first half and our ROCE stood at 25.1% as on September 30, 2020. Before I conclude ladies and gentlemen, consistency is what defines us and despite the volatility operational challenges and difficulties yet again we have ensured we deliver a consistent performance. Thank you one and all. Thank you over to you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Couple of questions. First on the margin side more importantly gross margin, which has come in at 36% we were at 30%-31% run rate how sustainable is it and is there any one-off or inventory gain or anything of that kind in this margin or it is purely because of the new product, which is delivering a strong growth is driving the margin higher, so that is my first question, second on the EBITDA per tonne, now we are touching Rs 20,000 our guidance is Rs 15,000 to Rs 17,000, so we are way ahead of a guidance and probably it also warrants a relook at our guidance, so just wanted to get your thought on the EBITDA per tonne guidance so these are the two questions?

K. Natarajan : Responding to your question one, one of the reasons in terms of the margins going up as you rightly said one is as Shekhar mentioned in the initial address the specialty products mix in terms of new products certainly has been one of the contributor, other thing also in terms of which obviously is going to be getting better as we commission our new projects on line next year. The other important factor also is the cost has got abnormally low in this particular corresponding year, so obviously that is something that we need to be looking at as things getting back to normal, and as regards the guidance that you are talking about obviously as the trajectory talks about it getting on better, but as of now things are not at, we would like to state that the guidance is something that would stay at Rs 15,000 to Rs 17,000, but we see the trajectory continuously looking up.

Sanjesh Jain: Just couple of followup on those things, one what is the contribution of this new product today in the specialty and what is the capacity addition we are talking of adding in 1H 2022 that is one, number two this Rs 20,000 and Rs 17,000 is way too far to maintain that margin guidance are we still fearing that the margins can retrieve to the older levels?

Unnathan Shekhar: Sanjesh as we have mentioned see EBITDA is a derivative for us, we are focusing both on performance surfactants and as well as specialty ingredients; however, a number of new product launches are coming on-stream, are happening and these are going to certainly impact our revenues as well as contributions as well as realizations. Now particularly in the last six months the new age preservatives have been launched and as you know we are setting up our capex, which will go on line in the first quarter of the next year and this will continuously add up to our topline as well as margins. Now as far as what are the various parameters, which will determine the trajectory of this EBITDA per tonne one is of course the mix of performance and specialty and as I said with our new innovative products the speciality ingredient percentages is suddenly growing year-on-year. For example in the last quarter the mix between performance and speciality was almost 61% and 39%, which was something like 70% to 30% in the first quarter, this will keep growing up. Number two our capacity utilizations also will grow, we did talk about commissioning of our Jhagadia capex for performance surfactants last year, now it has really come to our aid during this particular period of time and our capacity utilizations for the last quarter was almost 71%, which was something like 61% at the course of the last year, so the capacity utilization also is growing up and the third is for this particular quarter because of the pandemic certain costs have not happened, now we have to wait and watch all these cost whether they can sustain that we would go by what the industry wants, what the market wants, what the customer wants, if the customers want to travel I think we would certainly indulge in travel. There has been savings with respect to fairs, exhibitions, travel and so on. Then another important thing which has happened in this last quarter has been certain translation impacts, which have come from the various subsidiaries in terms of the depreciation of the rupee with respect to the dollar, which has happened, so to your question of let us say EBITDA per tonne this is going to the trajectories have been improving more this will only keep growing up, if you see our progress over the last so many quarters it keeps on growing and it will keep inching up this is a natural derivative of our strategy and you would see this keep growing up.

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

Rohit Nagraj: Congrats on good set of numbers. Sir the first question is whether there were any opportunistic sales during the quarter because of which the volumes have been substantially higher other than the pent-up demand and probably good margins on those opportunistic sales?

Unnathan Shekhar: No, the opportunistic sales contribution as far as this quarter has not been very significant at all; these are all non-opportunistic but regular sales. As we said the demand has been pretty, strong not only in India but across the world, all our subsidiaries have done well whether it is GSL India or the US operations or the Egypt operations all of the subsidiaries have done pretty well driven by our strong relationships, strong and robust demand across the various regions and of course introduction of the new products that has happened in the last three to six months or so.

Rohit Nagraj: Sir my second question is what was the capacity utilization for second quarter and a question to Ganesh Sir whether what was the reduction in terms of cost due to this savings from fairs, exhibitions, travel, etc., particularly for Q-o-Q?

Unnathan Shekhar: The capacity utilization for the second quarter was about 71.3% and for the full first half H1 it was about 64.4% and we have said that the capacity utilization by the end of last year was 61% so that is the number

Rohit Nagraj: Yes so you have indicated there were savings due to cancelation of these fairs, exhibitions, travel, etc., so what was that amount there and pertaining for Q-o-Q and how much of that can be sustainable in Q3, Q4?

Ganesh Kamath: The COVID savings are essentially related to administrative expenses right, okay relating to travel, exhibitions as Shekhar has said now how much of this will the system require going forward and how much may not be required because now what is going to happen is that people are now got used to work from home also so what is going to happen is that the administrative level of expenses need not fully get restored to the past level, but some sort of restoration will happen and one thing for the logistics cost, personal cost and your depreciation they constitute the major of the expenses, they are driven essentially by your scale of operations.

Rohit Nagraj: Alright thank you so much Sir and best of luck.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Monarch Networth. Please go ahead.

Abhisar Jain: Congratulations for a great performance. Sir my question is related to the specialty care segment after the Q1 quarter and during our last interactions you had mentioned that specialty care segment could take some time given the scenario and the pandemic, but it has been a pleasant surprise seeing the volume in this specaility segment this quarter. So while you mentioned the new products driving that but still would want a little bit more colour of what drop is and would this number be improving from here on quarter-to-quarter?

Unnathan Shekhar: I want to say that right from the second quarter the demand has been pretty robust and pretty strong across the various geographies and we expect this tempo to continue, so we are pretty optimistic and we should be able to, we do see as I said a good feel as we go forward.

Abhisar Jain: On the rest of the world the volumes seems to be quite a bit not in sync with the other two markets while the opening up or relaxation of norms was largely across the world and now of course in the developed world we are seeing a little bit of a second wave so any colour in the rest of the world market of why degrew in Q2 if we compare with other markets and what you see for H2?

Unnathan Shekhar: See in general as we have said the discretionary spending has been impacted, but we do see things coming back and the rest of the world also was impacted because of certain supply chain challenges that we experience in the last quarter particularly on logistics and shipping and we would expect that this would slowly dilute themselves and get eliminated, but that was what impacted the rest of the world and we remain optimistic as far as the rest of the world also is concerned as we go forward.

Abhisar Jain: Thanks a lot best of luck.

Moderator: Thank you. The next question is from the line of Suraj Nanda from ICICI Prudential Asset Management. Please go ahead.

Suraj Nanda: I just wanted to understand on the gross margin front because when you say that it is a combination of product mix, but when I see specialty care volumes that has grown by just 2.1% and the gross margin change has been significant and when I see the P&L the changes in inventory has been significant at Rs 19 Crores, which have not been seen in the previous quarters, so is this change in inventory kind of sustainable or like I think it should come back to normalcy in the next quarter?

K. Natarajan: Yes, inventory of Rs 19 Crores is not a very significant term, so it is probably the turning situation so because we also have the inventory planning is done based on the way that we are looking at in terms of our imports and local buying so that keeps changing so the Rs 19 Crores is not something which is significant and so that obviously and there are also price impact so you would also have prices volatility that is there like for example here all the chemical prices have gone up significantly in the the last one month, so those will keep happening, but inventory to ensure that we are able to deliver best quality to our customers without compromising on our internal metrics as well as ensuring that they serve the costumers well so that was very clear. On gross margin when you look at specialty and all they have grown only by 2% the mix as Shekhar said earlier that we have had certain new launches that we did on our new age preservatives and our mild surfactants blends that obviously came in, in the last quarter and important also is that if you look at between specaility and this thing in the quarter two we were at about 62% performance and 38% specialty whereas we also had our Tier-III customers registering good increase in terms of the demand because they all came back in Q2 significantly so our Tier-III customer essentially were at almost 36% of our total sales as compared to 32% earlier so where they all came because lot of them are into launching products from e-commerce channel and we were well positioned with them in terms of serving the demand when they needed the products so that also helped.

Suraj Nanda: This Rs 19 Crores changes in inventory in the P&L and changes in gross margins are roughly 3% right, which also kind of then closes back to like your EBITDA per tonne which we are saying is sustainable right?

K. Natarajan : Inventory how does it impact them I did not understand.

Suraj Nanda: No in the P&L when you are calculating the gross margin includes the changes in inventory of finished goods right that is Rs 19 Crores negative.

Ganesh Kamath : See changes in inventory is done on opening and closing and basically to work out the material consumption gross margins so it is presented in an accounting phenomena but finally it is to arrive at material consumption.

K. Natarajan : It is only to arrive in material consumption so that I do not think is going to be individual behavior.

Ganesh Kamath : Inventory levels in the balance sheet will basically tell you what they are stockright, here it is just to work out the material consumption opening and closing will get adjusted right.

K. Natarajan : No one thing if you have a question essentially asking this to see whether there was any one off or something then that is not.

Suraj Nanda: Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Congratulations on very good set of numbers. Sir just two questions from my end firstly we have seen any phenomenal growth one of the parameters you attributed to is the new product launches could you quantify what would be the contribution coming in from this new product launches, which you have done in the last three to six months mainly preservatives and those mild surfactants?

Unnathan Shekhar: We would say that approximately 4% of the revenues came from these new products, which have been launched in the last two years or so.

Sneha Talreja: In last two years?

Unnathan Shekhar: Yes, these have been launched in the last two years and they contribute approximately 4% of the revenues.

Sneha Talreja: Sir given that, does not look very significant what would be the reason of the very, very strong growth apart from pent-up demand or if at all we can quantify that how much could be the pent-up demand for us seen 27% sort of increase in the Indian market?

Unnathan Shekhar: Yes, there is a pent-up demand, which is flow from the first quarter and we should expect approximately about 3,000 to 4,000 tonnes.

Sneha Talreja: Sir around 3,000 to 4,000 tonnes can be contributed to the pent-up demand remaining of which you can see as a structural growth which will continue?

K. Natarajan : As you see the results announcement by all our customers what happened in Q1 because many of them could not produce, the channels actually run tight and all of them started restocking in Q2 when everyone opened up so that essentially is what happening so if you see all of the customers also talked about good volume growth in Q2 year-on-year, so essentially it is making out for the last time of Q1 so the same thing holds good for us as well. Now the question that what we need to be now looking for is whether the consumption given that the rural demand is pretty healthy and even urban consumers are coming back because of the opening up as to how this sustains moving forward because what has come into as part of stocking up the inventory channel that would continue remain as inventory we need to see how the consumer demand is picking up and that essentially give the guidance moving forward as to what sort of volumes we can expect moving forward in terms of growth.

Sneha Talreja: Okay got that. So with the current increase that we have seen only the inventory in the system is normalized now it will be a normal growth which we continue.

K. Natarajan : That is our understanding obviously every customer of us reported a significant growth all of them are coming with double digit in terms of their volumes so it means that in the pipeline the inventory now has got restored, now if further growth will all be in terms of how the consumers now start picking up from the shop shelves that is broader and given that the economy now is in a better shape based on whatever we have seen in terms of the numbers that were coming out in terms of GST and all that and the rural demand that is pretty good we are possibly optimistic that this is a state in terms of the consumer demand.

Sneha Talreja: My second and last question was related to AMET so we have seen recovery again there what would be the increase in Egypt alone that we have seen during Q2 and what is the contribution of Egypt right now in our revenues from the AMET region?

Unnathan Shekhar: The local Egypt share is approximately one third of the AMET volumes.

Sneha Talreja: How much it has seen an increase Sir during the current quarter?

K. Natarajan : It is about 2% to 3%.

Sneha Talreja: Have you come back with the normalcy their Sir?

K. Natarajan : Egypt the operation never got impacted even in Q1 so Egypt operation is normal so there is no cause of concern there.

Unnathan Shekhar: Egypt has been normal for the last three quarters.

Sneha Talreja: Sure Sir that is done from my end Sir thanks a lot sir and all the very best.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.

Abhilasha Satale: Sir again taking little bit on the margin front would be, you said the impact of gross margin is also towards product mix; however, during the quarter our contributions from lower margin if I say performance chemicals has gone up as compared to specaility chemicals so do you see going forward as you passed on the raw material price decline to the customers and all, we will be getting back to around that 30%, 31% kind of gross margin on a normalcy basis or do you think that because of the consistent product shift towards better mix this margin is sustainable?

Unnathan Shekhar: See the various factors which have contributed to margin this quarter are one is let us say better capacity utilization one, number two the performance in specialty mix, which is about 61% to 39% this quarter versus for the entire half year, which is about 67%, 33% the third is reduction of cost for this quarter, which are very specific with our pandemic situation as we said the travel and exhibitions, etc., there has been saving of cost from that particular thing. The fourth is increase of T2, T3 customers as far as this quarter is concerned compared to the previous quarter, then we have also have as we talked about new launches of new products, which have again contributed to this particular market so all of these are contributed together and as we say going forward firstly the demand is pretty robust and strong across the various geographies, so we remain very, very optimistic for the quarters coming up and one another important thing is that our capex implementation is again got up and we are very optimistic that we should be able to commission sudden capex projects by the first quarter of next year we shall also progressively add to our margins on the EBITDA per tonne.

Abhilasha Satale: Sir my question was basically for the gross margin so like we are not expecting to pass on the whatever delta we are getting because of raw material and finished goods prices to the customers eventually over next H2 or so?

K. Natarajan : See pricing is a function of what the market requirements are so it is a question of how do we see and that is obviously a pretty dynamic stuff, so our objective is to ensure that we are able to serve our customers well, ensure that we make fair returns and ensure that we are able to keep up the growth momentum. Now with regard to your question whether these gross margins will sustain as Shekhar explained what is important what we would want for this to continue we need to say, we should not have any operational challenges coming in, in terms of this COVID rising again in India even it is a low probability event we want to keep our figures crossed, on the demand side it is pretty healthy as we would like to maintain and the mix that we talk about specialty and performance and our mix between our customers in number of Tier-II, Tier-III customers who require certain specialized products and blends and all that, that has come back pretty good in Q2 and we only hope that, that would sustain if that is the case we would continue to be on that particular growth trajectory.

Abhilasha Satale: Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Simran Bhatia from SMC Global. Please go ahead.

Simran Bhatia: Congratulations for the excellent set of numbers. Sir there are just two questions I want to take. First of all Sir I was going through your annual report of FY2020 can you explain your cost of raw material consumption you have mentioned there is a Fatty Alcohol is a part of your cost of material consumption so can you tell me is how much it is contributing to your cost of material consumed and secondly can you give some guidance on the EBITDA margins going forward like you have posted a very strong set of EBITDA margins this time of 16.85 % so going forward can we expect in the rest of the quarters?

K. Natarajan : Yes, I think the second question I will answer first because that I think has been answered at least three times before in terms of what was the reasons why we had a good EBITDA margin this year and what we expect in terms of the trajectory being maintained in terms of the increasing trend so that I think we have explained anything more you require on that then I will come to your first question because I think that we just recently answered so anything more insights you require other than what we already shared then I would answer that.

Simran Bhatia: No Sir you can answer my first question I just want to know what is the percentage of contribution from the Fatty Alcohol side?

K. Natarajan : Out of our total buying oleochemicals contribute to about 70% of our entire raw material consumption so that is where we are so and all the oleochemicals essentially driven by your palm value chain so that is where we are so it includes fatty alcohol, fatty acids and everything.

Simran Bhatia: How are you seeing the demand in the urban India especially because we all know rural India is firing all the cylinders so how you are seeing the upcoming demand in the urban India especially?

K. Natarajan : From the insights that we seek from our customers, it seems with the opening of economy, people moving out they do expect urban demand to pick up because even for urban consumers have uptick is getting better, but they have said most of the growth in last quarter was driven by the rural demand and being better and urban is picking up and we have all said they would only hope that this particular momentum in terms of the pickup in urban demand it gets sustained and we also look forward that, probably we will be able to give better statement when the Q3 numbers are seen and then we listen to their commentary so as of now everyone is only hoping that the momentum that was there in terms of urban demand picking up in Q2 continues into Q3.

Simran Bhatia: Sure Sir done thank you. Thank you for answering my questions and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Hearty congratulations to the team for great set of results. Sir two questions first just I want to understand how the sequence of inventory go for the broad timeline so when our customers give us the visibility about their demand or the production schedule so I am not looking for specific exact numbers, but only how long this entire timeline is where we get the visibility of our production schedule for the next one month or two months so that is first question?

K. Natarajan : Typically see the entire industry works on many of the larger customers. Tier-I customers have a better planning methodology with them so typically they would give you one month from clients and the directional plan for the next month and then they will keep on rolling it in terms of new numbers so that is the way it is so you can take it as one plus one, and we have our own ways of estimating demand so that keeps us pretty much glued in terms of what we would expect demand coming in so it is typically a one plus one that we could do so either a context of demand or increase in demand would always give us clear two months notice.

Keyur Pandya: Second question is on if you can throw some light on what are the current capex plans going on right now and any such capex plans considering faster pickup than anticipated by everyone so capex plans in rupee terms as well as from capacity or capability point of view what are the current plans going and what are the future plans say for next year?

K. Natarajan : See two projects that we already briefed you at the beginning of the year in terms of what we initiate one is our multipurpose plant at Tarapur and one is our expansion of our specialty ingredients plant at Jhagadia so both of them together had an outlay, which we indicate about Rs 130 to Rs 150 Crores. Now to your question in terms of any new capex we are planning for basis the sort of demand that is picking up okay to answer that question yes we are evaluating and then we are very clear that it is our responsibility to our customers to be creating capacity to add up demand and those number continuously are happening and at the right time ensure that we move forward in terms of the new investments to ensure that we are able to well participate with our demand that we expect to see in the coming years.

Keyur Pandya: Just last one followup on this so whichever capex we are doing right now so both would get operationalized in Q1 and overall capex guidance for say 2021 and 2022 that is it? Thanks a lot and festive wishes.

K. Natarajan : I think we said Rs 150 crores so I think typically we have earlier said was for next year also the guidance can be about say again say Rs 130 to Rs 150 Crores which maybe estimated there is nothing that we have we would like to commit on but that typically is the trend that we are seeing.

Keyur Pandya: The operationalization of plants?

K. Natarajan : Both these plants as we said that they will be operational in Q1 of next year there is a delay of 6 months because of COVID wherein, we had no work happening for almost four to five months and the others what we will be doing in 2021-2022 is something that we are still discussing as I said, but then indicative capex somewhere incremental in 2021-2022 probably for the sake of giving you the number it can be about say same Rs 130 to Rs 150 Crores.

Keyur Pandya: Sir thanks a lot, thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Kishore B, an Individual Investor. Please go ahead.

Kishore B: I have a question on like most of my questions are answered so my question is, is there any capex plan for import substitutes that we are planning to go ahead?

K. Natarajan : No, we are already into, already means are essentially import substitutes so there is nothing that we are looking at in terms of so in fact we are majorly exporting as one of the vision by PM Modi has introduced Atmanirbhar Bharat, so almost 67% of revenues are exported and all that we made are essentially to serve the market in India in terms of our customers they are adding only to import so there is nothing new that we are looking at import substitute all products there are substitute imports is a significant way.

Kishore B: Like any new additions any new product portfolio is there?

K. Natarajan : See today we are not looking at import substitute what we are looking at is in terms of we call this as a B2B2C company, business to business to consumer so we come up with our new product innovative products based on what we see as a consumer trend and then coming out with products that are going to meet those customer needs and that is how our innovation process is structured so it is not in terms of import subsidiary more in terms of how do we come up with our innovative products to meet the consumer trends that is the way I will put it, it is quite possible if we need to upgrade new products but yes that we are coming up with, which are patented products so there is nothing that we can call as any, we do not focus on import substitution as one of the key drivers of our innovation exercise.

Kishore B: So like we basically take the inputs from the clients and then accordingly we will be…

K. Natarajan : Consumer I said B2B2C so we also monitor what the consumer trends are like what we came up with in terms of mild surfactants or nontoxic preservatives was in terms of understanding the consumers are looking for milder formulations, they are looking for formulations that are persevered with nontoxic preservatives and that is how we came up and then we launched it, so that is the way it will be and obviously then we take it to our customers so that they are able to fulfill this gap that the consumers have and our innovation numbers are driven both ways where there is a push and the pull, we push our innovations to our customers and there are also certain innovations that our customers depend to us in terms of what they see as a consumer trends, so it is both ways and that is pretty healthy in terms of the way we engage with our customers.

Kishore B: So what are the customer engagements that we have currently?

Unnathan Shekhar : We have the intense engagements across and the entire customer value chain; whether it is T1 customers or small customers we have a very, very closed interaction with all our customers.

K. Natarajan : The trend essentially is to be looking at and how we are able to serve the customer needs. The consumer trend is looking for something that is milder, something that is having preserved with absolutely nontoxic preservatives, people are looking for something that can meet their needs in terms of the latest trends in terms of either looking at anything to do with getting your skin more moisturized coming up with something that can take care of the issue that they have with wearing masks so there are lot of products that it will come up. so there are lot of such engagement that keep happening and then we come up with product solutions again that can take care of the sort of introductions into the consumers.

Kishore B: Thanks a lot Sir and like what is the R&D spend with respect to sales?

K. Natarajan : R&D spend is about 2% to our revenues.

Kishore B: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Dhruv Bhatia from BOI AXA Mutual Fund. Please go ahead.

Dhruv Bhatia: Couple of questions first one can you just talk about whether the growth that you have shown in this quarter has that momentum continued even in the month of October?

K. Natarajan : Obviously it is continuing so we do see that momentum continuing because as we said consequently say worst was obviously May, June was better than May, July was better than June, August was better than July so this is something that it is getting better and then we hope that this continues.

Dhruv Bhatia: Secondly have you gained market share from other vendors and if you have is it because of some supply issues from the other vendors?

K. Natarajan : We may not be able to make any comment on that but then what we know is that the way that we have been engaged with our customers 24x7 to ensure that we are able to fulfill their needs and we also say the changing needs because many of them are making products that the consumers want and how do we keep rechecking our planning and supply chain to ensure that we deliver their needs on-time every time is the way we are focusing and that suddenly is continuing at a much more intense level as the months are progressing and that is something we continue to do as regards whether we have gained share from other business or because of any supply disruption is there and we may not be able to comment on that.

Dhruv Bhatia: Lastly Sir because of the travel restrictions has there been any slowdown in terms of business development, adding new customers, new products?

K. Natarajan : Not at all, in fact our team has taken to work from home like fish to water, their engagements are become very intense in fact I would say that earlier when we do physical travel the customers would be busy traveling or they would be busy doing something else in their office, but nowadays you are able to get customers on virtual calls pretty much at a short notice even and customers also engage pretty much more than what they were doing earlier so this actually only has improved the engagement with the customers and new business development. There are a lot of webinars with customers; we have lot of virtual calls with customers, so it is more frequent and if the situation requires that we have more frequent engagements given how dynamic the situation is both on the supply and the demand side, we are able to do that.

Dhruv Bhatia: Lastly on the fixed cost for the first half that you have reported how much of it do you think is sustainable in terms of going forward whether it is on the employee side or on any other expenses side or the travel, SGA, how much of the businesses would exit like 30%, 40% of reduction is sustainable going forward?

K. Natarajan : See typically when this pandemic hit us in the month of February March and the planning that we do because always plans for the worst and hope for the best and that is how then the first thing that we start doing is that you say that the worst scenario can be demand significantly getting cut back and how do you look at scaling down all cost, but that we say are need not be incurred and we will incur it as and when okay it is required so what we would like to be probably waiting to see is now how the situation finally settles down and then this can be something that we will be able to make it somewhere next year so as Ganesh earlier said that it is not that the entire cost that we did not incur this is going to come back next year so we are taking the revenue in terms of what is it that can actually permanently kept out and what is it that would essentially be done more next year say like travel so we would know because it is you need to be traveling when the travel starts coming up how do we now make our travels more productive and how are we able to combine a virtual meeting with a physical meeting in a very effective way something that we will work on, but in terms of how much of it will come back and how much of it will not come back at all is something that we need to wait for some more time.

Dhruv Bhatia: Thank you good luck.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir when I looked at your performance surfactant revenue our revenue has degrown as compared to the volume and the same has been reverse for specialty chemicals we have seen 2% growth in volumes but revenue was at almost 8% to 9%, so do you now able to pass on the cost of raw material at least in performance surfactants?

K. Natarajan : If you look at performance products it is obviously indicator in terms of the raw material prices, in performance the raw material prices determine a good portion of the revenue component so if you look at compared to the previous year, the corresponding quarter last year if you look at every oleochemicals elsewhere petrochemical were obviously at a elevated level and post COVID these markets corrected significantly so obviously the raw material prices came down and that is how we see the revenue is being lower as regards as to why your specialty ingredients are higher in terms of revenue as compared to the volume growth is in terms of what we introduce in terms of new product launches obviously there it is linked in terms of pricing that particular application can afford and that is how you would see that there the pricing is much better in terms of the revenue being higher than the volume growth there was a mix itself in specialty would be very different in terms of the way in terms of the new launches that we did.

Dhiral Shah: Second thing when you say that T3 and T4 customers they have shown a good volume so normally by performance surfactants or they also by specialty surfactants?

K. Natarajan : They buy both so if you look at it most of them came back in Q2 because many of them did not even do much in the Q1 because all of them were significantly impacted in terms of the COVID lockdown. So they came back obviously all of them are pretty good to respond, Tier-III and Tier-IV in terms of looking at what to launch, any new launches and now launching on e-commerce this thing has become pretty much faster and what they seek from us is our ability to respond faster in terms of that they want us to deliver products to them and solution, so many of them engage with us in terms of what sort of formulations they want to launch and what sort of product solutions we have for that and that enables which will be a combination of both performance and specialty.

Dhiral Shah: Lastly what is our outlook for specialty for the rest of the year?

K. Natarajan : If you see quarter-on-quarter specialty grew compared to Q2 and we expect this momentum to continue although if you see year-on-year specialty was down by about 4% but we expect specialty to pickup well in the coming quarters.

Dhiral Shah: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Just one followup question on the new product launches can you just give some anecdotal understanding on how this product and where this products are based by geography, by customer whether it is Tier-I, Tier-II, Tier-III and how are you expecting this growth in these products to come in the future?

K. Natarajan : See essentially we want some anecdotal stuff so on the mild surfactants the GLI 21 that you spoke about is essentially addressing the segment of people wanting to be launching sulphate free formulations and transparent sulphate free formulations to put at it goes into baby care as well, so essentially if you see the segment that as we have been even in the last investor conference that we did, investor meet that we did we have talked about our R&D our direct institution of R&D we spoke about that, so as to what sort of solution will come up with keeping this consumer trend in mind and that is for which we have also putting up capacities at Jhagadia, which will be operational in first quarter of next year. Secondly. nontoxic preservatives where we have come up with a patented preservative molecule that is able to be as efficacious as the current preservative that are used which are obviously not all that good in terms of toxicity and so our product essentially meets the criteria of efficacy in the formulations as well as this delivering the performance without contribute toxicity of the formulation.

Unnathan Shekhar : For these surplus markets of US, Europe and the developed regions in Asia.

Sanjesh Jain: we are supplying it to Tier-I to Tier-III right?

K. Natarajan : We are servicing now entire across the segment Tier-I, Tier-II, Tier III and the projects in pipeline pretty much happening with all segments of customers.

Sanjesh Jain: So even the Tier-I are buying those patented products that is the way to look at it?

K. Natarajan : Yes.

Sanjesh Jain: How should we see the growth can we grow in this product like 20%, 25% for next at least three four years given that it is in a very, very low base project?

K. Natarajan : Firstly we need to have the capacities up because today what we are serving is in terms of what capacities we have based on the projects in pipeline that we have and the sort of interest we are seeing in customers we have reasons to believe that this can contribute significantly to the growth going forward.

Sanjesh Jain: Just one last book-keeping question, Ganesh what was absolute saving because of COVID in this quarter in terms of rupees Crores?

Ganesh Kamath: Because of COVID yes I think around Rs 4 or Rs 5 Crores is the savings we have that is all.

Sanjesh Jain: So Rs 4 and Rs 5 Crores that is the maximum saving you have

Ganesh Kamath: Yes, see for us Sanjesh major expenses are people expenses, your power and fuel right okay depreciation and all, administrative expenses are not that high, they pertain mainly to traveling and your exhibitions and all those expenses because of the COVID they are lower.

Sanjesh Jain: Yes, that is what I was thinking because in terms of run rate of cost we have surpassed the previous high in terms of the SG&A cost we were 897 [to be re-confirmed] in Q4 FY2020 we are already there so I think it is a very small number, which you are talking saving in terms of that. That is it from my side, thank you and best wishes to all.

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

Rohit Nagraj: Sir the investment that we have talked about for this year and next year in the past you have always specified that we have massive investment in a span of three to four years, but in the last two three years we have had again continuous investment of Rs 100 plus Crores so is this going to be a new normal given that we are expanding the capacities with newer products or we feel that this year investment and next year investment after that there will be a gap of surplus where before we gain for a further expansions pick?

K. Natarajan : If you see one is we have said we want to grow ahead of the market and we want to grow both the likes of performance and specialty ingredients and post COVID we are seeing that the consumer demand is coming up in very different areas and also in terms of the enhanced consumption is happening of the health and hygiene products. So if you see that like what we are talking about this year Rs 150 Crores next year about Rs 130 to Rs 150 Crores based on the growth aspirations we have and the way the market is present you opportunities we may not be wrong in saying that this maybe a continuing trend year-on-year.

Rohit Nagraj: Just one update on the US facility in terms of the expanded capacity and how things are moving from that facility? Thank you.

K. Natarajan : Which one I did not get you can you repeat your question Rohit?

Rohit Nagraj: Our US facility we had an expansion there also.

K. Natarajan : Yes, US facility has done pretty well that particular expansion they did was pretty timely and then the US market as all of you now has been pretty good in terms of growth and this expansion obviously is working very well and we are pretty happy with the way the progress has been made there in our high end specialties that we do in the US.

Rohit Nagraj: Thanks a lot and best wishes for Diwali. Thank you.

Moderator: Thank you. The next question is a follow-up from the line of Prasenjit Bhuiya from Ambit Capital. Please go ahead.

Prasenjit Bhuiya: So what is the timeline between raw material prices and final product prices changes and how it varies across different layer of customers?

K. Natarajan : No typically so as we said we have contractual customers wherein we have price change that happens every quarter, there are some bids that happen every three months and six months and there are spot customers where the pricing happens every month so typically you would say with contractual customers it can be every quarter in terms of price change with regards to bid products it will be depending on what sort of period we bid for three or six months and we ensure that once we get the bid allotted we end up closing the raw material positions pretty soon so we do not have any open exposures in terms of raw material covers and for spot customers if we do a monthly pricing so they buy monthly and there is a monthly price which is given that is the way it is.

Prasenjit Bhuiya: Thank you Sir.

Moderator: Thank you. As there are no further questions I now hand the conference over to the management for closing comments.

Unnathan Shekhar: Thank you all ladies and gentlemen and here is wishing once again all of you a very happy and joyous and safe Diwali.

K. Natarajan : Thank you all of you. Best wishes.

Moderator: Thank you. Ladies and gentlemen, on behalf of Galaxy Surfactants Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.