"Galaxy Surfactants Limited Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Galaxy Surfactants Limited Q3 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 on 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 the operator by pressing "*" then "0" on your touchtone telephone. 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. Very good afternoon to all of you ladies and gentlemen. Welcome to this conference call. Yesterday, the February 8, 2021, marked the Third Anniversary since Galaxy Surfactants got listed in 2018 and this Q3 performance adds to this momentous occasion.

Before we delve on the results I would like to take a few minutes to reflect on this journey. A journey which though began only in 2018 has been in existence and has been created brick by brick since 1980. Steve Jobs says, "If you really look closely, most overnight success took a long time." Since listing Galaxy's consolidated profits have grown from Rs 158 Crores in FY2018 to Rs 223 Crores for 9 months ended December FY2021.

Such has been the case this year that we have not only grown despite the challenges but we have nearly achieved the last year's number of Rs 230 Crores in just 9 months, while this may look like one off, let me assure you that this growth is sustainable growth that has been achieved on the back of sustainable volumes and margins driven by segments, customers, and geographies, but as Steve Jobs had said, what appears as overnight success in reality is a mixture of discipline, persistence and consistency; consistency which your company has demonstrated over the last 40 years. I would like to specially acknowledge my co-promoters, board members, all our employees past and present across all the geographies, stake holders and well wishers who stood by us at all points of time and enabled us to reach this level of consistency.

Moving on to our performance, if Q2 stood for recovery, Q3 stands for normalization, sustenance, and resumption of the growth trajectory. The robust momentum of Q2 has sustained in Q3. We are pleased to share that Q3 marks the first quarter in FY2021 where your company has grown in every area, be it segments, regions or each of the financial parameters we measure ourselves on. This quarter also marks the first quarter in FY2021 where our Specialty Portfolio has registered a year-on-year growth, arresting the decline it has reported in the last few quarters. Demand environment continues to remain robust thus clearly highlighting the resilience and underlying strength of your company's business model. Factors like the vaccination drive gaining traction, economies opening up, greater consciousness about health and hygiene should augur well for our performance, masstige and premium specialty products as well. While the demand environment continues to remain robust, rising volatility in raw material prices, supply chain disruptions pose the biggest risks in servicing this underlying demand. Despite the challenges and none bigger than the one seen this year, we remain confident and optimistic about our growth journey.

This confidence ladies and gentlemen emerges on account of several factors, one is our product mix which caters to multiple categories of the home and personal care space be it well-established ones like toothpaste and shampoos or the emerging ones like hand washes, premium laundry, face wash or baby care. To elaborate for Q3 our performance surfactants which forms the base of cleaning formulations grew 4.7% and year-to-date has grown at 9.3% on year-on-year basis. The specialty care products which impart functional features to the formulations grew 12% for Q3, the first quarter of year-on-year growth in FY2021 thereby arresting the decline of last few quarters and for the nine months ending December 2020 the specialty care products reported a decline of 4.4%. Secondly, our innovations that are new products emerging from our innovation funnel shall form the bedrock of our next decade growth. These are products defined to cater to the emerging trends of non-toxicity, sulphate free, green and natural solutions.

Our new products in the nontoxic preservation, sulphate free and proteins range accounted for 5% of the revenues in Q3. Our geographical spread and customer mix which comprises of presence in over 80+ countries catering to multiple tiers of customers, add to the robustness of the business model and enables risk mitigation. In Q3 all regions of India, Africa, Middle East region and the Rest of the World recorded growth. India maintains its momentum from Q2 and registered a 14.4% growth in Q3. The Y-T-D growth stands at 13.2%. AMET grew 2.9% in Q3, the nine-month period growth stood at 6.3%, rest of the world after declining for the last two quarters registered a growth of 4.3% driven by specialty care products, but on the Y-T-D basis it has declined by 10.1% in volumes. Post the lockdown smaller businesses were most impacted, however, post June we have seen a strong improvement in our business share with the non-MNC customers. The T1 revenue share stood at 63.8% in Q1 now stands at 50.4% highlighting the improving share of non-T1 customers which has aided growth, thus our overall volume growth for the quarter stood at 7.3% and for Y-T-D the same stands at 4.2%.

The EBITDA includes export incentives realized in Egypt accounted for on receipt basis. The net incremental export incentives included in Q3 over previous year equals to Rs 14 Crores and adjusted for that our EBITDA per metric tonne stood at Rs. 18,630 per metric tonne. For the year-to-date the same stands at Rs. 18,515 per metric tonne. Given that we have been sustaining above the upper range of the band stated that is Rs 15,000 to Rs 17,000 per metric tonne, we would now like to upgrade the band to Rs 16,000 to Rs 18,000 per metric tonne.

To summarize ladies and gentlemen, businesses that stand the test of time and persistently deliver consistent performance year over year are the businesses that last for decades. At Galaxy, our forte is consistency and persistence and this performance yet again demonstrates that. Thank you, ladies, and gentlemen. I would like to open the floor for questions now.

Moderator: Thank you. 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: Thanks for providing this opportunity. Couple of questions from my side; first on the innovation funnel and Shekhar Sir you did mention that in Q3 5% of our revenue came from proteins and sulphate free. Just wanted to understand the outlook on these new products which includes protein, sulphate free, mild surfactant and phenoxyethanol which is our preservative portfolio. All put together what is the revenue contribution as on 9 months and in next three to four years what kind of revenue contribution are we expecting from these products plus the new product portfolio which we are seeding today. It would be great if you can give some outlook on this and the outlook on the new product portfolio seeding that we are doing?

Unnathan Shekhar: What I can only say is Sanjesh that these specialty ingredients have performed very well, and they are progressively growing as you know every single new product introduction particularly specific to a particular customer takes a period of time in terms of testing, formulating, stability and so on but what is significant and important to note is that there has been a secular trend of acquiring new customers and growing consistently. What is significant and important to note is that there has been a secular trend of acquiring new customers and growing consistently and as we retariate, the growth will be on proteins where vegetable proteins are a forte of innovation for galaxy, mild surfactants in their various subdivisions and of course the nontoxic preservatives and the Syndet and transparent bathing bars which have of late become much prominent and gained quite a bit of visibility.

Sanjesh Jain: What is the percentage of contribution here from all these products? I know last year we mentioned in our annual report upwards of 20% growth in lot of these products. Do you think that kind of a growth is sustainable over next four to five years?

Unnathan Shekhar: Yeah, of course these particular new products obviously are new to the industry and they are driven by the consumer trends where the consumers are seeking nontoxic products, sustainable products, natural products, vegetable products and these products are developed as a response to these consumer needs and trends. So these products will be the engine for growth as far as Galaxy is concerned and of course for performance surfactants as we said the engine for growth are the evolving geographies and emerging economies of Africa, Middle East and India which continue to remain the growth drivers

Sanjesh Jain: Good that you touched upon performance products I was just coming to that, AMET looks like the volume growth has somewhat tapered down versus what we have done in the first half, was there any impact of second wave because we have not seen lot of disruption in the Egypt which is our key geography and adjacent geography, it is more because of exports to Europe and Egypt which is hurting this growth.

Unnathan Shekhar: Sanjesh, you would have noted that performance surfactants grew by 4.7% for Quarter 3 and by 9.3% for the nine months of the year. There can always be some amount of ups and downs during the quarters. Particularly because there has been a huge amount of disruption on the supply chain so customers tend to stock in anticipation of the various disruptions that they could foresee so what is important for us to note is that the growth of the nine-month period and not of the specific quarter. The specific quarter of 4.2% this year does not indicate any sort of decline or anything.

Sanjesh Jain: Particularly on AMET what happened to AMET, those 2.9% Y-o-Y growth?

Unnathan Shekhar: Yeah, AMET is Africa, Middle East, Turkey region; see a large part of it is also due to supply chain disruptions, I mean given a very, very normal situation we would have always been able to sell more.

Sanjesh Jain: So there is nothing to read in this 2.9%?

Unnathan Shekhar: Nothing, logistical and nothing about in the AMET region.

Sanjesh Jain: One on the margin now that we have raised the October guidance by Rs. 1000 per metric tonne both on a lower end and the bottom end and our guidance that we will keep seeing the new product growth inching up in the future as a contribution of these new product goes up is it fair to assume that there could be more upside in this guidance?

Unnathan Shekhar: Yes so there will be a progressive growth as far as the EBITDA per tonne is concerned in line with the increasing, whenever there is an increased share of the specialty ingredients in our portfolio but that will not happen in one or two years because as we have always said both these categories will grow.

Sanjesh Jain: Just last a book-keeping question on the dividend distribution policy now that we have announced Rs. 14 interim dividend and we are comfortable on the net debt levels and we do not see a large capex outflow is there any revised purposes for the dividend distribution policy?

Ganesh Kamath: Actually the dividend paid last year and current year suggests that we have been increasing the payout. We started with Rs 8, last year we gave Rs 14 and this year interim also we have given Rs 14. What we generally do is that we used to give 25% of the standalone profits now we may enlarge the base depending upon the growth requirement.

Sanjesh Jain: So have we relooked at 25% standalone profit as dividend now that we are already now at last year's dividend in terms of entry that means we can expect a little bit more in the final. Are we relooking at this 25% profit as dividend or are we looking at increasing this number?

Ganesh Kamath: The interim paid itself is Rs 14 now.

Sanjesh Jain: Sir that's what I am telling are we relooking at this policy of 25% standalone profit as a dividend are we planning to increase?

Ganesh Kamath: It depends upon the capex plan of coming years also; generally the percent is for growth we can increase the payout depending on the growth requirements.

K. Natarajan: What I can say is that although our bias is towards increasing the dividend payout but as of today we are not revising our payout policy so that probably should answer.

Sanjesh Jain: That answers the question. Thanks for all the answers and questions.

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

Keyur Pandya: To take the previous question forward, so if you can throw some light what are capex plans looking at the demand revival. Are we looking at accelerated capex?

Unnathan Shekhar: As you know we had initiated a number of capex's. One was the capex at Tarapur to take care of the new products, the second was our expansion of R&D center at our TTC R&D Centre that is in Vashi, Mumbai, and the third was for mild surfactants and nontoxic preservatives at Jhagadia. These capexes we had initiated in FY20 did get hindered because of COVID almost for about seven to eight months of this year but they have started in right earnest and we are quite optimistic that we should be able to commission them in the first quarter of the next financial year. So the capex continues to be an important part of our agenda, as a matter of fact we had intended to spend approximately Rs 150 Crores of capex in this financial year, I think we would manage to incur only what may be Rs 70 Crores or Rs 75 Crores and this will get pushed to the next year.

Keyur Pandya: Okay so all these are announced capex anything other than that for consideration?

Unnathan Shekhar: There are also some more capexes which got initiated this year and they are in the process of getting executed.

Keyur Pandya: What is the guidance for the 2022, 2023, two years a block, whichever you can share?

Ganesh Kamath : **Rs** 100 Crores to Rs 150 Crores. Earlier we had mentioned what happens is that we have one or the other production line where the capacity will get utilized and generally we have been investing around Rs 100 Crores to Rs 150 Crores in a year that shall continue.

Keyur Pandya: Second question as you mentioned it is better to look at year-to-date numbers than say particular quarter. When I see performance surfactant volumes Q-o-Q changing or reducing nothing to read in that right or is there any seasonality or any declaration?

Unnathan Shekhar: No, we should not read that because if you see only the break can happen due to any sort of disruptions like what happened with COVID otherwise the growth of performance surfactants should be secular as you know the growth rate in India has been around 8% to 10%, at a global level it has been about 2% to 3% as far as the personal homecare industry is concerned, so that should tell you the growth rate that this industry experiences.

Keyur Pandya: Okay when I look at the block, I am just comparing FY2019 year-to-date number maybe first three quarters of FY2019, I think we had similar mix between the specialty and performance first nine months of FY2021, so the mix has not changed between performances despite that per tonne gross margin as well as per tonne EBITDA margin have improved both, so what is without change in mix this has happened?

K. Natarajan: So, one is although the split between performance and specialty has not undergone a change compared to the corresponding period last year but what we need to understand is that within the specialty ingredients portfolio there has been change in terms of the product categories. So we have been able to do more preservatives, we have been able to do more proteins so that is one contributing factor and second also in the performance surfactants category we will be able to look at various opportunities where we are able to better our realizations so that probably explains.

Keyur Pandya: Okay understood and sir last question looking at the size of the industry which we are catering to and our portfolio of new product additions the way we have increased our guidance for EBITDA per tonne do you think is there a possibility to increase our revenue growth guidance or the debt raise that we can only talk about say mid or high single digit can that go or why we cannot grow say double digit consistently just your thought on that. That is it. Thank you.

K. Natarajan: We do not show hastiness on giving guidance on revenue growth because that is a combination of many factors like fixed prices and all that so typically what we say is that we will focus on Volumes, regions and our core segments of performance and specialty care products

Keyur Pandya: It's my mistake, basically volume growth I meant but I think it is a different thing. Volume growth can we accelerate? Our volume growth considering our size in the overall scheme of things as well as our speed of innovation.

K. Natarajan: If you look at our CAGR of our volume growth for about last five years has been about 8% and last 10 years it has been about 11% so we have always been saying that I think this 5%-8% is something that we would like to continue in terms of our guidance in volume growth. In terms of we growing in double digit I think we will probably come to that stage sometime later once we have.

Unnathan Shekhar: All of us would wish that our markets really grow at double digit, we would like to be optimistic about it.

Keyur Pandya: Thanks and it is very inspiring. All the very best.

Moderator: Thank you. The next question is from the line of Dhruv M from HDFC Mutual Fund. Please go ahead.

Dhruv M: Thank you so much for the chance. The first question was on the fatty alcohol. You give prices for fatty alcohol in your presentation as a share of total RM, what this would be?

K. Natarajan: Fatty alcohol is close to 60% to 65% of total RM consumption.

Dhruv M: 65%?

K. Natarajan: 60% to 65%.

Dhruv M: What I am trying to do is I was looking at the total cost of material in a per kg basis. The RM cost on per kg or per tonne basis as you would see if I see the cost has been flattish or has declined on Q-o-Q or Y-o-Y basis versus the fatty alcohol on a dollar basis that you have reported has increased, so is there something to read or is the mix changing? What is happening? How show I read?

K. Natarajan: First of all what we need to understand that the fatty alcohol price what is given in the presentation is in terms of what has been the quoted market price. Now the fatty alcohol price has started registering a significant jump post middle of November so the average that has been put there has essentially been in terms of what the published price is and that has majorly taken up the average – the average of weekly prices, what happened week on week, post middle of November so for this to be getting reflected in the revenue growth terms in terms of higher price of fatty alcohol going into, would probably happen more towards this quarter.

Dhruv M: Even on a Y-O-Y basis or even in the previous quarter there was a decline. Sir I was just wondering is there some efficiency change in some procurement model change or something else which is also probably flowing out and helping us?

K. Natarajan : What is important is that we ensure we buy competitively and ensure we price competitively. Prices move up and down, so our policy in terms of managing the risk on our feedstock is extremely robust and we ensure that within that framework we see as to what best job we can do in terms of maintaining a competitive sourcing of our feedstock.

Dhruv M: As the fatty alcohol starts reflecting in your RM cost in the subsequent quarters that will also reflect in our realization. So that way it gets offset largely?

K. Natarajan : What do you mean by realization?

Dhruv M: In your pricing in the final product, so basically I am trying to say the margins will not be influenced because of the change in RM cost?

K. Natarajan : It all depends on the company dynamics, yes logically the increased RM prices do get reflected in our realization in terms of the selling price.

Dhruv M: The second question, I was trying to split your consol profit between standalone which I believe is largely India and the subsidiaries. So the consolidated minus standalone I get subsidiaries number so there has been an impressive improvement in subsidiaries margins so India business, the standalone business, has also improved in margins but the subsidiaries are having a bigger improvement even excluding Rs 14 Crores of one off, so anything that you can highlight what is driving this and how sustainable this is?

Unnathan Shekhar: As we have said there has been a good robust growth as far as our Egypt operations are concerned so we have grown pretty well for the nine months as far as Galaxy Chemicals Egypt is concerned driven by good growth in local Egypt market. We have also grown pretty well on our specialty proteins from our USA operations. So all in all both the subsidiaries have done pretty well in the first nine months of this year despite a washout in the first quarter. The first quarter was very, very difficult, I think where all of us started with a lot of pessimism but I would say ending quarter 3 both Galaxy Chemicals Egypt and Tri-K have grown very well.

Dhruv M: The last question was on just to get an industry macro scenario. I am not very sure about how the dynamics in the industry plays out if you can help us if for example after this COVID, has there been any supply disruptions from the suppliers of surfactants, the products like you, which have probably gone out of the market and probably is benefitting us and will probably continue to benefit us in the future also given that these players are now probably because of some or the other reason probably financial stress or something else they are out of the market?

K. Natarajan: What I would like to state here is that nothing very significant, if there is something, it is in terms of supply going on and off in various regions, this keeps happening every year in terms of some stress here or there so that has not been anything significant but what has been significant this time has been in terms of the way the local global ocean logistic situation has played out, the last about three to four months has been pretty bad in terms of availability of container space and the way the freight rates have moved up significantly. They have moved up almost four to five times so these disruptions obviously then lead to the supply balancing very differently but we would expect this particular situation to continue in terms of the global logistics disruption at least till June as per what reports we read so other than that there has been nothing where we have had very significant rebalancing in terms of the supplier situation barring for these reasons.

Dhruv M: Thank you so much Sir. That helps.

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

Rohit Nagraj: Thanks for the opportunity and congrats for a good set of numbers. The first question was again taking from the other participant on the gross margins so just on the mathematical calculation basis if I think that 60% of our raw material price have increased by 10% and on a Y-o-Y basis have indicated 33% increase in fatty alcohol prices so if I do the math on a Y-o-Y basis our gross contribution or the cost of goods sold has reduced by about 7% which effectively means that there has been almost 30% decline in the rest of the 40% of raw material basket. So is there anything which I am missing or why there has been such a sharp decline in our cost of goods sold that was 7%/?

K. Natarajan : One thing I would like say Rohit is that what we give as fatty alcohol prices are the published prices and they are average of the published prices which gets published week on week so trying to compare that, because my actual buying does not happen on a weekly basis; so when you try to come to conclusions basis this, you may not to come to the right conclusion. What we give is what are the published prices, it is there for everyone to see, but my buying will not be in the line of the published prices.

Rohit Nagraj: Sir then I think this is a distorted number which you are saying because then we are absolutely looking at?

K. Natarajan : The objective of giving the fatty alcohol prices is because it is one of the major feedstocks for the community to know as to how the prices are moving, but giving my actual buying prices, well that cannot be expected, correct Rohit?

Rohit Nagraj: I am just saying that because the thing is that then probably from our side it is very difficult to justify why there has been decline in cost of goods sold despite being our revenues are at similar level and raw material prices going up by 33% Y-o-Y. It is a little bit difficult even if I put mathematically even taking 0% increase in 60% of my raw material. Then also just to say that my other raw material portfolio 40% of portfolio has declined on a year-on year basis.

K. Natarajan : First of all the fatty alcohol prices started going up significantly only post mid November as explained in the initial part of the call, so it will not reflect in the October, November, December numbers. The whole pipeline will almost take 1.5 to 2 months to correct so it will only start moving up significantly from mid November onwards.

Rohit Nagraj: Sir this is the exact rate we are talking about $ 1,588 dollars per tonne.

K. Natarajan: $1,588 dollars is the average so it is like the average of the first week of September, average prices quoted second week of December that way you have 12 numbers that gets averaged out, but the major increase in fatty alcohol prices in the last three months has only come in since November, where in the prices have gone up by almost 60% and all that has happened in the period from middle of November till middle of January. As on date, the fatty alcohol prices are as of today upwards of $2000.

Rohit Nagraj: Sir the second question is on the capex so earlier we had indicated that major capexes are generally we are foreseeing every after three to four years and that has been our history but in the recent past couple of years we have been on a capex around Rs 100 Crores to Rs 150 Crores every year so has there been any change in terms of our product portfolio which requires a consistent year on year capex compared to earlier where we used to do it in a block of three to four years and then again wait for another next three to four years to come back to optimum utilization.

Unnathan Shekhar: See everything is in response to market situation and market needs, so our capex will be a combination of Brownfield projects, R&D investments then debottlenecking, minor expansions and so on. So, every capex that we undertake as we have already said we would like to create capex in anticipation of the market needs and so as and when we read the market we start responding to it by our own capex proposals.

Rohit Nagraj: That explains but just again slightly diving into it, in terms of volume growth the last couple of years our volume growth has been about 4% and this year for first nine months also the volume growth is about 4.5% so given that the volume growth is relatively pepped this incremental capex is going in for some specialized product which require a dedicated facility or is there something else or probably the new capex is coming at slightly higher cost than what we have been doing in the past?

Unnathan Shekhar: See as we have mentioned we have a big portfolio of products and we have already mentioned that whatever we are setting up in Jhagadia was for the specialty care ingredients. We have already completed the capex of performance surfactants which we mentioned because we have commissioned those in Jhagadia almost two years back and also in Egypt so when you talk about the growth rate, it is consolidated growth rate. Our p capex that is being undertaken right now are for specialty ingredients which is going on in Jhagadia and number 2, the major capex for our innovation of new products at Tarapur, these are all for new product R&D.

Rohit Nagraj: Thanks Sir. Just one last clarification, is there any plan of inorganic initiative which you maybe to enter into some new products or new category or we would like to go organic because our R&D is very strong? Thank you.

K. Natarajan : As we say, we are constantly scanning the external environment and if we do get an acquisition in line with our strategy we will evaluate and pursue it

Rohit Nagraj: Sure sir. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Sagarika Mukherjee from Elara Capital. Please go ahead.

Sagarika Mukherjee: Thank you for giving me the opportunity sir. Couple of things regarding your performance surfactants and specialty products, that you sell in the long run, do you expect specialty care products to become bigger than performance and why has it been that your pricing, growth or the total value growth in performance has been lower than the volume growth while it has been opposite in specialty? Secondly in terms of the flexibility that you have in passing on the inflation to your customers, end user industry, what kind of contracts you have and what kind of protection do you have against depreciation of the rupees, most of our commodities being imported in the country?

K. Natarajan: I think the way our business model is structured it says how we are able to pass on the fixed price increase and decrease because obviously we need to ensure that we are able to price our molecule competitively in line with the established market prices that serves the performance surfactants. We have very robust model in place which ensures that we are able to be competitively source in environment which is pretty volatile, so that has been demonstrated over the last about three to four years when feedstock similarly has been extremely volatile. With regards to the specialty care and performance care portfolio whether specialty will grow at a higher pace and it will be balanced in specialty products we have explained it earlier as well that we want to grow both the legs and the specialty ingredients are value delivery enhancers in the final combination but the major portion of any HPC formulation is all about cleansing and that obviously is all added to the performance surfactants so having said that the balance essentially would be in the 65-35, 60-40 range that is what we expect but within the speciality care portfolio our innovation efforts in terms of getting new products into the market, we will ensure that we keep churning specialty ingredient portfolio in a way that we are able to come up with better and better molecules in line with the consumer trends.

Sagarika Mukherjee: Can you give something like average realization that you have in performance and specialty basis and difference between that?

K. Natarajan : That is something which will not be giving the right indication because it is a combination of various products and various ingredients in its active level. So that is not essentially indicative and it will be misleading that is why we do not give it.

Sagarika Mukherjee: The last question I have is what kind of contracts and arrangements do you have with your industry, like a spot contract or is it long-term contract or is the three-month contract and what kind of hedging policies do you have against because most of ingredients are imported I believe and also depending on the currency level?

Unnathan Shekhar: All our customers, we have a long-term understanding. When it comes to periodic contract based customers we have a very, very long term relationship with all our customers as we say our relationship with customer is anywhere from 10 to 40 years so we have long-term understanding and there are always periodic contracts.

K. Natarajan: Just to probably explain more on that so we have contracts, multiyear contracts for several products. We have contracts of one year, contract to six months and then obviously the multiyear contracts, we also have alignment in terms of price change mechanism which ensures that we are able to pass on the raw material and exchange that will be there.

Sagarika Mukherjee: Sir a small follow up, then how many different competitors are you competing with in the same specialty and performance along with yourself. How many different vendors are there?

Unnathan Shekhar: There are multiple competitors globally. Different competitors in different geographies and the major competitors across the globe are BASF, Clariant, Stepan, Solvay and in terms of mild surfactants we would have companies like Innospec, Schill-Seilacher and so on

K. Natarajan : Unlike our very worthy competitors, Galaxy is the only company that is exclusively focused on ingredients for the home and personal care industry so that is what differentiates us.

Sagarika Mukherjee: Sir, just want to understand such exceptional situations where your fatty alcohols I believe are also derived from palm oil?

Unnathan Shekhar: Palm kernel oil and coconut oil. They are not from palm oil but from palm kernel.

Sagarika Mukherjee: So this situation is a special situation where we saw a 50% kind of inflation and let us say I do not know whether it will settle down very quickly but let us say in another three to four months it settles down and then starts getting into distillation then you will probably have spent a whole year without any pricing changes and probably taking the dent on your margins is that the case you have in case of your arrangements with your customers or is there a kind of levy that you have that you can pass it on to your customers also?

Unnathan Shekhar: These are not exceptional situations as far as raw materials are concerned. These happen periodically and cyclically, we are quite used to this cyclicality and here is where Natarajan would talk about the way we source our raw materials.

K. Natarajan: First of all we need to ensure that we source competitively and given as to how the market situation pans out as we have very deep and long relationship with customers spreading over 10 to 40 years, the same we do with our key vendors as well. First is ensure that we have deep relationships and also ensure that we are able to have the right calls taken as to when we should buy, how much we should buy within this risk management framework that we have in place to ensure that our objective is always to be in line of the market, not to beat the market because we are very particular that we do not build unnecessary risk into the buying portfolio by trying to beat market so that is very clear.

Sagarika Mukherjee: Alright the last question, what is the ratio between the specialty and the performance ingredient that you sell? What is the ratio of the market if you could just highlight that how big it is going to be?

Unnathan Shekhar: As we said last year in FY2020 the split was 62% to 38%, current year it is 59% to 41% that is quarter 3 and YTD December 64% to 36%. So we have mentioned that you know this will hover around two-thirds and one-third and this will keep moving up and down in this band.

Sagarika Mukherjee: The industry is also in this ratio?

Unnathan Shekhar: No, it is very specific to us, we are the only company who are focused on the home and personal care industry. The industry will have different percentages as far as their split is concerned.

Sagarika Mukherjee: So the specialty ingredients could be a much smaller market than the 38%, 34%, 40% that are you highlighting compared to performance? Thank you.

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

Abhisar Jain: Congratulations for a good performance again in Q3. Sir just wanted to know that at the start of the call you mentioned that the new innovation based products forms 5 % of the volumes in Q3 and you have indicated that it should progressively keep growing, just wanted a little bit more color on this, in two things, one is that whether three to five years this 5% can go to a more meaningful number? Can you give, just give a sense on that? Secondly Sir on this volume is it safe to assume that we will be making a much higher EBITDA per tonne which can be higher versus our overall average by say more than 15% to 20%? Just wanted some guidance on this.

Unnathan Shekhar: The EBITDA per tonne on these new products is certainly higher compared to the average but as I said these new products will keep on growing and in our industry we are fortunate to have long product life cycles. What happens we define sort of new products as only products which have come in the last let us say three to five years or so what is a new product today will become an old product after sometime so that definitions will keep on changing, what is important to note is that these new products with long product lifecycles will continue to grow and make their mark in the industry.

Abhisar Jain: Okay understood sir. Just one clarification on book keeping point of view on the export in centers that you have mentioned that there was Rs 14 Crores additional in Q3 so sir what is the usual run rate and what were the nine-month number for this just to understand for which period did this Rs 14 Crores appear?

Ganesh Kamath: Basically what happens is that this is pertaining to Egypt. In Egypt what we do is export incentive accounting on receipt basis because the payment timing depends on the allocation of funds by the government, there are some arrears to be received right and those arrears were received during the year during this particular point..

Unnathan Shekhar: What is important to note is, what we received is not just belonging to last year, there was also component of belonging to the previous two to three years.

Ganesh Kamath: Basically these are arrears which had been accumulated.

Unnathan Shekhar: Arrears accumulated and since we are uncertain about the period of receipt, because it depends upon the government disbursement, we account it only when we receive it.

Abhisar Jain: Okay understood Sir. This Rs 14 Crores is for Q3.

Unnathan Shekhar : It does not belong to Q3, it belongs to the earlier periods.

Abhisar Jain: Okay Sir one last question, so since you know RM inflation now combining Q3 and in this point of Q4 since you mentioned that it is about $2,000, it is very steep so definitely in terms of the ability to pass through it will be constrained somewhere right.

K. Natarajan: I do not think so, this is not first time that we have.

Unnathan Shekhar: This is something that we are used to periodically and this is where the Galaxy's risk management comes over.

Abhisar Jain: Just asking from the point that any which ways we are sitting in almost one of the highest gross margins level in the last two quarters right which has improved our EBITDA per tonne, so from that angle I was thinking at least some kind of normalization may be on the cards.

Unnathan Shekhar: That is right.

Abhisar Jain: That is all from my side. Thank you so much and best of luck.

Unnathan Shekhar: Thank you.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Capital. Please go ahead.

Manoj Bahety: Thanks for taking my question. My first question is as you mentioned that there has been a steep increase in our raw material price which is to fatty alcohol just wanted to understand that because of this steep increase in price which has happened mid of November does our current quarter earnings also include some inventories because the raw material which we were already holding was at lower price raw material so once this inventory gains goes off whether we can expect some correction or some normalization of margins going forward?

Unnathan Shekhar: There will always be some inventory gains or some inventory losses which can happen. There will always be, because you have to run business keeping some inventory but then that is not basis of performance.

Manoj Bahety: But Sir like if we see in terms of accounting like once we do like FIFO kind of accounting for inventory would not it be correct that like one of the quarter because of the accounting implications can have like these kind of inventory gain but I understand over a long period of time it gets normalized but particularly this quarter we have seen such.

Ganesh Kamath : Basically what happens is that when you run an ALM market there is going to be a gap on the inventories that you carry right, the risk is managed that way and to that extent impact is all restricted. In fact, the inventories risk levels are not capped right. To that extent there is moderation in the accounting or the other aspects do not create such aberrations.

Manoj Bahety: Okay got it Sir. Secondly I missed that point in terms of margins you have up the guidance sir. What is our current sustainable margin guidance?

Unnathan Shekhar: We have mentioned Rs 15,000 to Rs 17,000 per metric tonne earlier.

Ganesh Kamath : Earlier, now we have raised it to Rs 16000 to Rs 18000 tonne.

Manoj Bahety: Now it is Rs 16,000 to Rs 18,000.

K. Natarajan: That also after observing for three quarter into four quarters we are above Rs 16,000 and sustainable number.

Manoj Bahety: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the Mr. Unnathan Shekhar from Galaxy Surfactant Limited for closing comments.

Unnathan Shekhar: Thank you ladies and gentlemen. Thank you for your vigorous and spirited participation. Looking forward to see you again in three months.

K. Natarajan: Thank you. Have a good day.

Moderator: Thank you. On behalf of Galaxy Surfactant Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.