"Galaxy Surfactants Limited Q2 FY2022 Earnings Conference Call"

November 11, 2021

Disclaimer:

This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader.

MANAGEMENT: **MR. UNNATHAN SHEKHAR – PROMOTER & MANAGING DIRECTOR – GALAXY SURFACTANTS LIMITED**

MR. K. GANESH KAMATH – EXECUTIVE DIRECTOR (FINANCE) & CHIEF FINANCIAL OFFICER - GALAXY SURFACTANTS LIMITED

MR. K. NATARAJAN – EXECUTIVE DIRECTOR, CHIEF OPERATING OFFICER – GALAXY SURFACTANTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Galaxy Surfactants Limited Q2 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectation 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 and Managing Director – Galaxy Surfactants Limited. Thank you and over to you Sir!

Unnathan Shekhar: Thank you. A very good afternoon, ladies and gentlemen. Welcome once again to our earnings conference call. Before we get to the business, I hope all of you had a safe and healthy Diwali. On behalf of all of us at Galaxy, we wish you a very happy and prosperous year ahead.

Ladies and gentlemen, this has been a challenging quarter for us. Since listing, we have never reported a decline and therefore it is critical, we understand the context within which the same has happened. As we had highlighted during the previous earnings call, the demand scenario continues to remain robust. While an inflationary scenario might push back purchases, we till now have not witnessed any permanent cut back in demand.

The challenge on hand is the supply led volatility. It is important that we understand the supply chain dynamics as this has significantly impacted our performance for this quarter.

Starting with our major raw material Lauryl Alcohol which constitutes 50-55% of our raw material cost. As all of you might be aware, our Lauryl Alcohol is sourced from South East Asia. The onset of pandemic in Indonesia, Thailand and Malaysia in Q2 impacted the raw material supply situation severely.

Much of the impact was felt in August and September due to increased delivery times, unclear schedules and increased volatility in the Lauryl Alcohol prices. To give you all a perspective, Lauryl Alcohol prices corrected from the highs of $2100 per metric tonne in May to $1800 per metric tonne in July-August and since then have rallied to $3000 per metric tonne in October.

The pandemic not only disrupted the feedstock value chain but also disrupted the entire supply chain. Freight costs from Southeast Asia to India have risen nearly 500-700% in the last one year and approximately 10-15% in this quarter. Increased supply led volatility impacted our production schedules, enhanced risk as well as adversely impacted our cost of operations. This is clearly visible in our Q2 performance.

One of our critical raw materials is Ethylene Oxide. The same is used for manufacturing performance Surfactants as well as our preservatives. While we had shared with you during our Q1 concall about the availability issues, the same continued in Q2. Rising crude prices along with availability issues, further impacted production and margins.

So, to give you an idea on the inflationary scenario upon us, ethylene oxide prices have risen nearly 40% in the last one year that is from July 2020 to July 2021. The Lauryl Alcohol prices have risen by 49% since July 2020 and zoomed by 2.5x if we compare it to the prices as on date. What I mean is that the July 2020 prices of Lauryl Alcohol were $1200. As on date that is in November 2021, the prices for Lauryl Alcohol is about $3000 per metric tonne.

Ladies and gentlemen, most of you might be aware of the disruption that has taken place in the shipping industry. Exports make up for nearly two-thirds of our business and raw material imports make up for nearly 70-75%.

While freight as a component for us is a pass on and entirely recovered from our customers, the extreme volatility which has resulted in freight rates rising 100-700%, with month-on-month increase to the tune of 10-40%, also increased our cost of operations. It adversely impacted the margins of our long-term businesses, primarily the bid and contractual businesses. While customers are not oblivious of this, recovery of the same in this quarter was not possible. But given the strong relationships we share with our customers, we do expect that we will be able to recover some of these over the next six months.

Unavailability of containers for long distance shipments impacted our specialty business as well as disrupted intermediate feedstock supply chain at our Egypt plant. This too had a major impact on our performance this quarter.

The objective of highlighting the entire supply chain dynamics, ladies and gentlemen is to help you understand the context of the quarterly numbers.

At Galaxy, we have always believed in giving our best and we do everything possible to ensure that we meet our customer’s requirements, service to the best of our abilities and maximize value. While our volumes might have declined 7% on a year-on-year basis, supply led factors impinged our ability to service the available demand.

But in the midst of this challenging environment, I would like to highlight some of the key positives of this quarter as well as the first half.

Our India volumes though remained flat on year-on-year basis, quarter-on-quarter despite the feedstock's availability issue, have reported an increase of 1%. Having said that for the past one year, we have now been clocking volumes of 22,000-24,000 metric tonnes for our domestic business clearly validating the structural uptick. Till 2019-2020, our volumes were in the band of 19,000-21,000 metric tonnes.

Our proteins, preservatives and mild surfactants businesses after a slow 2020-2021, have started gaining traction. We remain confident that going ahead, the specialty volumes, barring the supply driven constraints, should see a healthy uptick in volumes.

The Africa, Middle East, Turkey region too while on face of it might show a decline, is witnessing a good traction given the improving economic prospects of the crude exporting countries.

Ladies and Gentlemen, to summarize in terms of financial numbers, cumulatively the supply led factors adversely impacted our EBITDA by Rs 20 Crores. Before we move onto outlook for the coming six months, I would like to share a few positive updates with you.

Your company was awarded the Indian Chemical Council's Acharya P C Ray Award for Development of Indigenous Technology, 2020 in this quarter for Indigenously developing 'Galguard Lipo G', a patented, non-toxic anti-microbial preservative technology for personal care products. This is a new molecule which is slowly gaining traction in the developed markets and should bear fruits in the coming 3-5 years. Incidentally, we also bagged the Golden Peacock Award for Eco-Innovation in thelast month. The CAPEXs done for specialty products at Jhagadia, Tarapur are now being operationalized in phases and should be fully operational by January 2022. This will lay the foundation for our next leg of growth in the coming years.

Ladies and Gentlemen, moving onto outlook for the next six months. We retain the EBITDA guidance of Rs.16,000-18,000 per metric tonne. Despite the extreme volatility and inflationary feedstock scenario, in H1 our EBITDA per metric ton stood at Rs.15,917, which we believe should hold.

While freight rates are now showing some signs of tapering, container availability issues persist. We only see this normalizing in the coming 6-9 months. Managing supply chain and inflationary feedstocks in this volatile scenario will be a critical success factor and Galaxy is geared up to manage it.

As Southeast Asia gets back to normalcy, we do see the feedstocks availability scenario improving. With this, I would like to state that we retain our 6-8% volumes guidance.

Having said this, it is also important that we understand the emerging risks which can have a material bearing on our performance. One, sudden and significant downward correction in raw material prices can have an adverse impact. We do have a robust risk management system in place to manage this risk. The export support benefits we realized in Egypt and recognized on receipt basis in the second half of FY21, is not expected to be received in H2 FY22.

To conclude, as it is said, we do not grow when things are easy. We grow when we face challenges. This was one such challenge and the experience acquired from this will surely help us in maintaining and enhancing our growth momentum. Thank you, ladies and gentlemen. Wish you all a very safe and happy coming year. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rohit Nagaraj from Emkay Global. Please go ahead.

Rohit Nagaraj: Thanks for the opportunity and thanks for explaining this situation for Q2. The first question is on the availability, so you mentioned that there was an increase in pricing as well as availability. How is the situation shaping up and what was the particular reason because of which, this particular availability was in question? Thank you.

Unnathan Shekhar: First of all the reason was because of the scheduled maintenance activities in my supplier's plants getting extended because of the COVID situation that was there. It was also some pending maintenance that they could not completely fulfill in the previous year because of COVID. Having said that, we do see that things are normalizing over the last 45 days and we expect things to be normal going ahead as assured by our supplier. Our only objective is to see us to how we are able to ensure that we are able to catch up on whatever we lost in the previous 3-4 months.

Rohit Nagaraj: The second question is, In the initial comments, you mentioned that there was no permanent cut back in demand. Given that the pricing on the raw material side has increased and probably at some or the other point in time will be passing it onto the customers. How do we foresee the demand side whether if we get impacted or whether people will be able to absorb the increased prices and the demand will remain stable. What is your overall sense across the geography and our product stream? Thank you.

Unnathan Shekhar: What we are saying is price increases were being done in a judicious manner by our customers since May-June this year in a very phased manner and they are also cautiously optimistic that the demand should hold and till probably now, we are not seeing any significant issues on that front. But yes you are right, we need to watch in terms of how the consumer demand is getting impacted with this price increases, whether the customer demand still holds. Now, we do see around certain high end premium products, typically which have the high-priced SKUs, where some downtrading can be done by the consumers but yes we need to probably wait and watch over the next two to three months to have a clear picture of this. But having said this, as of now we do not to see any significant impact on that front. We will probably know in the next two months to three months.

Rohit Nagaraj: Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Bob from Falcon. Please go ahead.

Bob: If you could clarify a bit on how the pricing mechanism works with your buyers because you are a B2B supplier and consumer demand should be your concern. After all, you are supplying intermediates to the likes of Procter & Gamble and Unilever. If anyone should be taking a hit on their margin, it should be them who have much higher margins than you have, so how does this dynamic really work?

K. Natarajan: If we look at, based on varied contracts that we do, so depending on as the customers and the long term nature of the contracts, you have pass through contracts where the feedstock prices get passed on and we have various other cost variables that would be part of the price change mechanism. We would also have certain big contracts that we do for a period of anywhere from three months to one year on some products and with some customers. There obviously you need to manage the risk in a way that, once you tie up for this contract, you need to have back to back tie-up for feedstock contract as well. And obviously, there is some portion of the business where essentially gets done on a monthly basis in terms of pricing that we have sold out every month. So this is a combination of what we have, so as you rightly said with customers where we have longer term contracts, we have clear price change mechanism and place to pass on to feedstock cost increases.

Bob: Yes, I understand that but the concern is Lauryl Alcohol and all our major products as companies like Wilmar and from their perspective they keep it as high as possible, they do not care about your margin, so similarly since you are intermediate supplier, let us say lauryl alcohol goes to 5,000, what would you do, how would your intermediate prices increase because after all at some point the consumers who have to take a hit and the multinationals would have to take that?

Unnathan Shekhar: No, you are right as you said that is why we continue to maintain our EBITDA guidance of Rs. 16,000-18,000 per metric tonne. What we have seen the impact in this quarter has been entirely due to the sudden volatility in the prices as well as the freight costs which we have not been able to fully pass on during the last quarter, we will be able to recover that as we go forward.

Bob: Right, so you are confident of recovering it?

Unnathan Shekhar: Yes, as we go forward, we will recover it.

Bob: Okay and your contracts with your suppliers, right for a Lauryl Alcohol, are they all on the spot market or you have longer term contracts?

K. Natarajan: No, we have a combination there again where we do longer term contracts, we do three months to six months buying, we also do spot buying, so that is one way that we manage the risk, so there is a combination of that we do.

Bob: Yes, when the Lauryl Alcohol prices started going up from last year from 1800, why did not you get into longer term contracts as the trend was quite obvious?

K. Natarajan: Yes, if I had a crystal ball in front of me last year I could have done that but the fact is that when you manage your risk, we are not supposed to be also taking long-term call based on what we expect the prices to be one year down the line because your market has its own way of behaving. So we are very clear that when we have to take any long-term call, it needs to be not giving us an exposure.

Unnathan Shekhar: Clearly, we do not speculate on raw material prices. We do not make our profits from speculation on raw materials.

K. Natarajan: And in one year, we could not have foreseen the scenario of COVID impacting plantation and then in Indonesia, Malaysia, Thailand and also oleochemicals producers and the reducing supply both in terms of the vegetable oil as well as the oleochemical derivatives, so these are all lot of imponderables that we could have not known one year back.

Bob: I know I completely agree with that I mean in no way advocating speculation what I am saying was speaking up in your points where you said you sometimes have longer term contracts for Lauryl Alcohol. So suddenly has gone up to $3000 but if you had a three month even contract you would have used the contract pricing, that is what I meant?

Unnathan Shekhar: Those are always yes; those long-term contracts are always back-to-back. You will not keep open positions because if you keep open positions then the risk is going to be very significant.

Bob: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak Mutual Fund. Please go ahead.

Bhargav Buddhadev: Good afternoon team, my first question is, is there any loss in terms of customers especially our international customers given this is a must needed raw material intermediate for them or is there any market share loss which you are witnessing amongst your international customers?

Unnathan Shekhar: Obviously, relationship with our customers, I can tell you very clearly there has been no loss of customers. But yes, customers always have the first right of refusal. If our inability to release the material to them on time that they require, obviously they would enter going and buying it from some others who can give it to them. Otherwise in terms of our strategic intent with customers and the long term relationship that we have with them and they are extremely positive where we have serviced and supported them despite these challenges, holds us in good stead in terms of growing the business with them.

Bhargav Buddhadev: Once these supply chain bottlenecks especially on raw material front stabilize, are you confident that the market share loss with your international customers would be more than offset?

Unnathan Shekhar: Very much.

Bhargav Buddhadev: Secondly you mentioned that on the India side despite large base of last year due to pent up demand, you have witnessed almost flattish volume growth, and you mentioned in your presentation there are some structural trends that you are witnessing which has resulted in this uptick in volume, is it possible to elaborate a bit on this?

Unnathan Shekhar: What we are saying is that when we say structural uptick, hygiene habits because of COVID have changed from Q1 of last year, it continues to maintain the momentum, so people have become more consciousness of hygiene. So it is ensuring that the volumes that grew last year they maintain the sort of momentum that was there. So last year same quarter, there was a huge pent-up demand that came up, so Q1 was obviously full of lockdown. So despite that not being there in this quarter if you look at H1, the volumes have grown pretty significantly as far as India is concerned. So that tells us that there is structural uptick in demand.

Bhargav Buddhadev: Okay and lastly on this Jhagadia and Tarapur facilities which are likely to be fully commissioned by January, is it possible to share which kind of products we will be manufacturing?

Unnathan Shekhar: I had already mentioned in Tarapur as well as Jhagadia, the products that we are manufacturing are mild surfactants and non-toxic preservatives, which we know are our new generation preservatives. So this is enhancing our capacities which initially we are setting up in Tarapur which we are expanding in Jhagadia. So this should hold us in good state over a horizon of next may be five years in terms of the requirements as far as the market is concerned. So to sum up, in Jhagadia as well as Tarapur, the capacities coming online are with respect to mild surfactants as well as non-toxic preservatives.

Bhargav Buddhadev: What will be fair to say that some bit of this portfolio would also be fairly new as far as your customer is concerned?

Unnathan Shekhar: Yes.

Bhargav Buddhadev: Okay, right Sir. Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Couple of questions from my side, just clarification on this lauryl alcohol prices you mentioned. It went up to 3000?

K. Natarajan: Yes, correct.

Rohan Gupta: Okay and we are still at same I mean at 3000?

K. Natarajan: Yes.

Rohan Gupta: Sir, you also mentioned that, we can recover some of the losses, which is about Rs 20 Crores in the current quarter, because of this volatility both in the freight cost and also RM cost. You mentioned that, probably in second half, you can recover some of the losses with the second half being normal margin profile or you just mentioned that it can improve only from current levels, but it will remain?

K. Natarajan: What is important is that let me explain, if the raw material price increase was the only increase that happened, I think we could have been in a much better position to pass it on. I could service them on time, guarantee deliveries to them and also have no freight cost increase. So if you see the last four months to five months have a combination of factors everything that is loaded against in terms of both us and our customers and consumers. So it was important that as we preserve our strategic ties with our customers and where we see this as continuity is dependable, it is important that we talk a language where we say what needs to done, how they can support us, how we can support them and come to a way that we are able to go through the situation jointly. It is not about us and them separately. So that is how we engage with customers because that is what makes us strategic and actually get demonstrated. As you move forward, like example when the freight rates are moving up every week like the situation was that the freight rate was moving every week and if we need to get a confirm booking we need to pay extra and if you need to be giving something that needs to be booked one month ahead, you need to be paying much higher. So that is what the freight market was, I cannot go back to the customer every week saying that by the time I am shipping, it has gone up to so many dollars please give it to me, we cannot be transactional. So that is how the recovery keeps getting pushed and now things seems to be stabilized so our ability to pass it on is higher because these takes along going up every week as it was in the last three months to four months.

Rohan Gupta: Sir in that way if I extrapolate what you are saying, I mean Q2 average of Lauryl Alcohol prices were somewhere $1800, now in October-January $3000 and it means that sudden increase has happened in Q2 to Q3 from $1800 to $3000 that is really sharp increase in RM prices and if you are not able to go to the customer again and again and we are already seeing in Q2 there is margin pressure, so should we be prepared that Q3 have sudden disastrous in terms of margin because we may not be able to?

K. Natarajan: The point here is, if you see last quarter the margins reduction was majorly on account of the production losses that we had because of the supply of the feedstocks which is what we explained. The 20 Crores that Shekhar mentioned in his concall remark was supply in terms of the inability to even produce and serve our customers. So our ability to pass on in terms of this is very much intact but it only comes to the lag. So the same thing will happen when the order goes up to $1800 to $3000. The reverse also will happen when it comes to $3000 to $2000, we do not know as which way the market is going to go, it is all in terms of how well our business is configured in terms of longer term contract, bid business and spot business and that is how the risk management framework gives us the strength to be able to tide over sort of volatile market situations.

Rohan Gupta: You want to say that loss in the current quarter and margin pressure is both due to unavailability of raw material and volume losses, not mainly because of inability to pass it on?

K. Natarajan: Yes.

Rohan Gupta: Okay, so should it be assumed that there is a large part of this $3000 pricing which is right now in the month of October, you have already taken the subsequent increase to match this $3000 costing on the raw material?

K. Natarajan: Obviously.

Rohan Gupta: Okay, so the price negotiation has already happened with the customers, the price increase has already happened. It seems that it would have led to almost 100% or maybe 70%, 80% price revision to the end customers. Are we in position to absorb that much price increase?

Unnathan Shekhar: Yes, but that is the way it is because increase is not something that is manageable by us it is so significant that obviously it has to get passed on. So, whether my customers take it and the consumer leave it whereas the consumer will do is only after my customers take this increase of price and put in the market shelves. That is what I said when I answered one of the questions earlier. We need to wait and watch what finally the customer decides. If the consumer is unwilling to take this, then certain alternatives have to be looked at. But as of now we do not see that happening. So important thing is how the consumers vote in terms of these price increases.

Rohan Gupta: In your experience in history whether these kind of sharp increase in such a short period of time like in just within six months Lauryl Alcohol increasing to almost $1000 to $3000, do you see that the customer downtrading is bound to happen or do you see that the customer can take these price increase in our shampoo prices and the baking food prices goes up by almost 50%, 70%, then do you see that there is chance of downtrading because we are not hearing that kind of commentary from the FMCG companies like HUL maybe P&G, but you can give some guidance whether they can be absorbed in such a short period of time or people will see the downtrading?

Unnathan Shekhar: First is my word of caution whatever you say history. It is very dangerous to be depending on history because what happened ten years back is not something that can be happening again in the similar situation two months from now. What is important is that with what our customers are saying is in terms of the increase it happened when you say downtrading, it is probably in terms of someone who is able to make a product which is cheaper and obviously there also is going to be issues in terms of consumers being freed as which product they want to buy. Downtrading can be if someone is buying a shampoo which is very high end say Sulfate free shampoo which is costing say Rs.500 a bottle, they may say I may buy a bottle that is Sulfate based shampoo which is Rs.300. But everything requires SLES, everything requires SLS. So it essentially means that you cannot make a shampoo without SLES. So, question of downtrading cannot be everything.

Rohan Gupta: More important in our business because we are also doing business with the small regional players like Wow and maybe the main companies and all who have benefited a lot from the e-commerce trade but we are catering to high end industry there the price ranges from Rs.2 per sachet or maybe per packet. In that case, MNCs who have larger baskets like P&G, HUL definitely may probably gain the market share because they have larger basket and lot dependence which is on tier-3 customers or a regional player or they may lose some market share if there is any risk to their business in such a short period?

Unnathan Shekhar: I think this question cannot be answered now. I think we will have to wait and watch because the way the customers like the multinational customers are going to respond to the situation and how they are going to take this on with the competition and e-commerce is something which is different subject. But while both of the customers would want to see how they retain the consumers that they have already on-boarded. So that is going to be interesting step that will pan out in the market probably we will know in the coming months as to who is gaining at the expense of whom or both of them have grown. So, the consumer finally decides so we will have to probably wait for some time to understand this.

Rohan Gupta: But as of now all the customers have accepted the price increase which you have taken?

Unnathan Shekhar: Yes, Sir.

Rohan Gupta: Okay, I have few more questions I will come back in the queue. Thank you so much.

Moderator: Thank you. The next question is from the line of Soumeet from Capitalmind. Please go ahead.

Soumeet: Good afternoon. I just wanted to have an understanding on why there has been increase in trade receivables in the first half, any specific reason?

Unnathan Shekhar: First thing is the prices have gone up, raw material prices gets passed on so the receivables position because the sale prices goes up, that is one reason. Second is, with the raw material availability issues that we had, timely availability, we had to prioritize for our strategic customers who essentially have higher credit period as compared to others. So, this essentially means that on both these accounts the receivables go up.

Soumeet: Okay, that is it from my side.

Moderator: Thank you. The next question is from the line of Vijay Karpe from Bryanston Investment. Please go ahead.

Vijay Karpe: Thank you for giving this opportunity. My first question is what percentage does that top five products contribute to our revenues and what kind of market share do we have in SLS, SLES and Phenoxyethanol in various markets suppose like India and the Rest of the World?

Unnathan Shekhar: The top five products constitute approximately 60-65% of our turnover.

K. Natarajan: On market share, we do not disclose the market share information. For product wise market share also we do not disclose.

Vijay Karpe: My last question pertains to the volume growth; in the past we have grown somewhere close to 7% to 8% and we are guiding for the same. The market is growing, and our size is also small so why do we expect low volume growth?

Unnathan Shekhar: If you see as far as the Indian market is concerned it has grown in this year by approximately 4% or so. At a global level, the home and personal care industry grows at about anywhere from 1.5-2%. We have always grown ahead of the market but the entire situation this year has been vitiated by the supply chain issues and constraints. So, in spite of that we would like to maintain our volume guidance of 6-8% as far as this year is concerned.

K. Natarajan: So, if you look at in H1 this year compared to H1 last year our volumes in India grew by almost 14% which is much ahead of all the market has grown.

Vijay Karpe: Got it. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Good afternoon. My question is what is the capacity utilization in this quarter?

K. Natarajan: Capacity utilization in this quarter was 67%.

Shanti Patel: And the second question is, what do you think approximately return on equity as on March 31, 2022?

K. Natarajan: Approximately 22%. For the first six months it was about 20% and we expect to better it by the end of this year.

Shanti Patel: But approximately you can increase some?

K. Natarajan: We do not want to give you any guess because finally that is derivative. But we need to be ensuring that we manage the challenges pretty well and enhance our performance that will flow into return on equity going up and that is our endeavour. So, we do hope that our intension and capabilities are supported equally by the external environment, and we are hoping for the best. But our intention and capabilities are very much in line to ensure that we are able to deliver better in terms of return on equity.

Shanti Patel: Okay, thank you.

Moderator: Thank you. The next question is from the line of Nikunj Agarwal from White Whale Capital. Please go ahead.

Nikunj Agarwal: Thanks for the opportunity. I just wanted to know how do you see the China plus one strategy panning out since most of our revenues are from exports so, any sense there which you can give us?

Unnathan Shekhar: I think I have answered this earlier, China plus one essentially. We look at China in certain specialty ingredients that we are supplying into China, we do see that as something that can be an uptick for us but then because the recent issues that are happening in China we need to wait and watch. But most importantly we also need to be ensuring that the situation in India in terms of logistics needs to get improved significantly. But whether someone who has been sourcing majorly from China wants to be sourcing those products from India.

Nikunj Agarwal: Okay, and talking more about the specialty side we are manufacturing it from India, US and Egypt. On a longer-term basis let us say down the line three to five years how do you see this specialty chemical portfolio of our company growing as a whole and what will be the key drivers?

K. Natarajan: It will be growing. Our objective is that is how we are investing in capacities and obviously we want to ensure that we are going ahead of the market. Second is, in terms of what will be the key drivers. The key drivers will be the consumer trends that are moving more towards sustainable products.

Unnathan Shekhar: The key drivers will be safety, wellness, sustainability, and health. So, health and well being always comes on top, these will be the primary drivers which will drive the specialties in our Surfactants. Of course, one another very trend which will determine will be premiumization. So, all these will be the drivers with respect to the speciality products that Galaxy is investing in terms of setting up various capacities.

Nikunj Agarwal: Yes, and recently we are trying to focus more of our portfolio into green products and towards sustainability which is a very good move how is the demand now and what is the percentage of revenue from the green products as of now?

Unnathan Shekhar: These are progressively growing, and we have continuously grown year-on-year on all these products. Today as you know the speciality portfolio constitutes almost 35% of our total turnover and this ratio will only increase.

K. Natarajan: One of the things on green is that right now if you see the way everyone is looking at, they are looking at easing it in certain specific high end premium products. What the commitment, many of our customers have made is that how do they by 2030 and 2035 make their entire sourcing of products green. Now, that is where we are working on, and we are in a position to enter to be able to serve them both in our capabilities and our ability to be able to churn out those products. So, as of now if you see green products or whatever are into specific SKUs is high and that is how we are testing consumers and consumers are buying only green products. But how do we make it more democratic in terms of the way our consumers are committed to making their entire supply chain green. So, that is what we are working on with them.

Unnathan Shekhar: As you would have heard, almost all the major players of personal and home care products across the world are committed to replace their Petchem feedstock with natural feedstock. This is going to be very, very important trend going forward, and we are very well placed to be able to service this particular opportunity.

Nikunj Agarwal: Thank you so much. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Shubh Joshi an individual Investor. Please go ahead.

Shubh Joshi: What are the measures we are taking, and we are sticking in our products portfolio, we are taking any price hike or anything or any kind of precautions?

Unnathan Shekhar: Can you repeat your question, your line is not clear we are not able to hear your question clearly?

Shubh Joshi: We are taking any price hike in our overall product portfolios because of inflation, I know that to be it is very short time hike, but we are taking any price hikes?

Unnathan Shekhar: Yes, we are taking price hikes.

Shubh Joshi: Okay and you are planning any kind of capex or kind of any new patents?

K. Natarajan: Taking patents and planning capacities is ongoing exercise and there are certain capacities that they are already getting commissioned as we said by January 2022 and more capacity additions in line with what the market requires are already in the drawing board. So we will announce that as and when we firm up the plans.

Unnathan Shekhar: So, as for today the total number of patents that we hold is about 80 and we have applied for another 15.

Shubh Joshi: Okay, thank you. Congratulations for future.

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

Rohit Nagraj: Thanks for the follow up. The question is pertaining to Dr. Nirmal who has now resigned, how are we taking the R&D initiative further and any more substantial update on the R&D front?

Unnathan Shekhar: Dr. Nirmal continues to lead our R&D. He has only retired from the board of directors. In terms of what is called internal rules with respect to the age limit, but he continues to lead R&D in Galaxy.

Rohit Nagraj: Sorry my understanding was wrong. The second question is in terms of the recent rise in Lauryl Alcohol prices. I understand it is unprecedented and never seen before, any structural changes which are driving these prices because we have also seen that from close to about 1000-1500 odd levels, those prices have made up beyond 2000 odd levels. So, from the availability perspective are there any structural changes which will keep the prices on a higher level and given this particular event has occurred in the recent past any particular areas where we have taken a risk mechanism from working on a different perspective? Thank you.

Unnathan Shekhar: In vegetable oil prices as it be any commodity more so, with agricultural produce, main determinant is supply side because demand will be steady in terms of its growth but then the supply led stuff is what is going to determine how the prices go up and go down. So, if you see the supply side that we have challenges on the vegetable oil side and the supply challenge has led to lower production, lower inventories and that has led to the price increase. So, if there is a structural, the stuff is in the last one year the production has got impacted significantly for vegetable oils. Other than that, there is nothing structural change that has happened now. As production starts improving in terms of the plantations working to their full capacity. the supply should improve and that would start softening the prices the way it is.

Rohit Nagraj: Right and one just last clarification on new site for our incremental capacities. Do we need incremental EO given that there is only a single producer and constraint. With increasing the capacity if we need incremental EO how are we going to tackle this particular subject?

Unnathan Shekhar: First of all, the supplier of EO, they have four locations and for them there is a brief strategic molecule, and we have a huge strategy engagement with them. We do not see that as a challenge. So, our growth plans are very much intertwined with their growth plans in this particular molecule, and we do not see this as an issue at all. What has happened was something that was more situation specific in terms of the maintenance schedule should be excluded because of COVID, But last year where they could not do much of the maintenance properly and then they had to continue and complete that in this year and this year again when they started, they had COVID issues in the first quarter.

Rohit Nagraj: Right got it. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Bob from Falcon. Please go ahead.

Bob: Have you seen a similar situation historically for example in 2008?

Unnathan Shekhar: Yes, we have seen Lauryl Alcohol call going up to $3500 and then crashing to $900.

Bob: Right and then how did you manage it as you would have been hit both sides?

Unnathan Shekhar: To tell you the truth, that time we did not have the ability to manage it that well because that is the first time where something so significant happened, then we put in place the good risk management framework in place that has allowed us to mange subsequent situations like this which again happened in 2012 and that has again happened in 2015–2016. So, this is something which keeps happening every 18 to 24 months. The volatility has only increased year after year. That has enabled and hold our ability to manage this risk in a significantly better way.

Bob: Thank you.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: I just wanted to know what will be the incremental turnover from the date we are going to have new plants in operation and what will be the approximate profit out of that?

Unnathan Shekhar: Our first thing is to commission the plant. Subsequently since these are all new products, how do we ensure that we are able to get those volumes with the customers, and we will not able to make any statements in terms of what will be the turnover or what will be the profitability out of that.

Shanti Patel: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Thank you for the follow up. Sir, couple of questions, one is on our employee cost, there has been quarter-on-quarter decline. Any particular changes in that or it just was higher in Q1?

Unnathan Shekhar: Can you repeat the question?

Rohan Gupta: I was saying that employee cost on quarter-on-quarter has come down. Any particular changes there?

Ganesh Kamath: The question comes is that in the employee cost last year and current year, last year since we had a lockdown.

Rohan Gupta: Sir, I was personally comparing from Q1 to Q2, Q1 it was Rs.54 Crores and second quarter?

Ganesh Kamath: Yes, you are talking about the second quarter. Sequential has gone down because the performance for the second quarter was not up to the mark that is why the reversal has been done.

Rohan Gupta: As the performance was not up to mark means what for the employees? It is not linked with the scale?

Unnathan Shekhar: It is because Q1 to Q2, so the Q2 performance, our variable pays provisions have been scaled down.

Rohan Gupta: Okay, then you are saying that the payable cost of the employees which has come back?

Unnathan Shekhar: For your senior management, top management, there is a good amount of variable pay component.

Rohan Gupta: Yes, that is what I was thinking that you have to take a lot of cut in the salaries for the current quarter?

Unnathan Shekhar: Correct, thanks for noticing that.

Rohan Gupta: I wish the rate goes up significantly and let us wonder in line with the improvement in the performance of the company.

Unnathan Shekhar: Hopefully, it goes up in the next quarter.

Rohan Gupta: My second question is on the commissioning of this specialty chemical plant which will happen by the end of this year. We have seen that we have been living in a COVID environment and there has been a lot of global type restrictions and speciality chemicals plant focusing more on the new product development and all. So, even though we are going to commission the plant but how has been the product acceptability, how has been the demonstration and what are the customers or we will see that well flow picked up in our speciality chemical plant?

Unnathan Shekhar: Every person including you and I are fed up with this COVID, if you see travel plans are easing, customer organizations including at Galaxy, we have started many people coming back to work from office. So, everything is improving for the best, keeping our fingers crossed and COVID is expected to get into the endemic zone as per WHO in the coming months. If that happens then I think everything is falling well in place, our capacity is coming up, the consumer demand looking up in terms of people mobility increasing so that is good. We do not see any further negative happening unless COVID has its own way of riding it back again which looks to be a low probability.

Rohan Gupta: Any sense you can give on the positioning of the new speciality chemical plants, how much of this is only programming on new product development and how much can we produce in our existing product basket of the speciality chemicals?

Unnathan Shekhar: It is all a multipurpose plant that we put up, so it can be a new product also we can make plus existing. It will be difficult for me to give you that number because it is not that everything is, they are not mutually exclusive. So, I can make two or three products ,some of it can be existing and some of it can be new products. So that is the way we configure our plans.

Rohan Gupta: As the pandemic is ending but it may still take at least 1-1.5 years for reaching to the customer giving the demonstration. So, do you see that for one and a half years, our new specialty chemical plant may repeat off?

Unnathan Shekhar: Let me be clear all these new products now which are commissioning our engagement with customers continue through the virtual mode. We actually did more meeting with customers last year than we ever did in the previous years because we could do more of virtual meeting so that market development efforts never got impacted. In fact they got enhanced in the last year. When things come back it is only that it is going to accelerate further. It is not that we have to stop our market development activities for the new products.

Rohan Gupta: Okay, you have been able to meet the new customers actually and after the commissioning this new plant?

Unnathan Shekhar: What we are going to looking at is that it was not in terms of our market development efforts to the customers that actually got enhanced last year. Our customers if we are launching with our molecules, they are going to launch any new SKUs or new products, they would essentially would have waited for things to stabilize as far as COVID is concerned and consumers come back to the markets, and they start looking at it positively. So, those things will only be accelerated with the COVID situation regressing.

Rohan Gupta: Just last from my side, since you are also in LABSA in AMET, how much price increase has happened in LABSA product basket compared to our Lauryl Alcohol food basket.

Unnathan Shekhar: Lauryl Alcohol has galloped much faster than LAB. So they keep trying to compete with each other.

Rohan Gupta: Because Egypt markets are very sensitive and as lauryl alcohol prices have gone up much sharply then there may be possibility that they may be shifting their market from oleochemical product to LABSA products?

Unnathan Shekhar: Yes, but thing is that not every product can have LABSA, there are certain formulations that cannot have LABSA. It is not that interchangeable. That is why it is largely used only in home care and fabric care and some amount of dish care. And it cannot replace kg for kg SLES in every single formulation.

Rohan Gupta: Okay, thank you. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Unnathan Shekhar: Thank you ladies and gentlemen. Thank you for attending this conference call. Have a great day and have a safe and a great year ahead. Thank you.

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