



Galaxy Surfactants Ltd.

May 31, 2023

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Ref.: Regulation 46(2)(oa) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015.

Dear Sir/Madam,

Pursuant to the relevant provisions of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we are enclosing transcript of Earnings Conference Call for Q4 FY 2022-23.

This is for your information and records.

Yours faithfully,
For **Galaxy Surfactants Limited**

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“Galaxy Surfactants Limited Q4 FY’23 Earnings Conference Call”

May 24, 2023

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MANAGEMENT: **MR. UNNATHAN SHEKHAR** – PROMOTER AND MANAGING DIRECTOR – GALAXY SURFACTANTS LIMITED
MR. K. NATARAJAN – EXECUTIVE DIRECTOR AND CHIEF OPERATING OFFICER-- GALAXY SURFACTANTS LIMITED
MR. VAIJANATH KULKARNI – EXECUTIVE DIRECTOR – GALAXY SURFACTANTS LIMITED
MR. ABHIJIT DAMLE – CHIEF FINANCIAL OFFICER – GALAXY SURFACTANTS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Galaxy Surfactants Limited Q4 and FY '23 Earnings Conference Call. We have with us today from the management, Mr. Unnathan Shekhar, Promoter and Managing Director; Mr. K. Natarajan, Executive Director and COO; Mr. Vaijanath Kulkarni, Executive Director; and Mr. Abhijit Damle, CFO.

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 the 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 star then zero 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. Thank you, and over to you, sir.

Unnathan Shekhar: Thank you. A very good afternoon to all of you, ladies and gentlemen. I'm delighted to welcome you all for this final conference call for the financial year 2022-'23. Henry Ford had once said, "when everything seems to be going against you, remember the airplane takes off against the wind, not with it." Over the last 24 months, we have had one such journey and it is important for all of us to understand the story that has played out over the last 24 months.

It was exactly a year back when we had bounced back from one of our weakest quarters. While we registered a robust performance in quarter 4 financial year '21-'22, for the full year financial year '21-'22, we had reported a decline in EBITDA and net profitability. Degrowth never sends a positive message, and while multiple factors did go against us in FY '22, we remained confident and knew only our actions and performance could ensure growth and growth alone could reinforce and reassure our investors.

While FY '21-'22 was all about supply-led volatility, FY '22-'23 was all about managing demand cutbacks and astute risk management in an extremely volatile and corrective supply environment. Just to give you a glimpse, our major feedstock fatty alcohol, which constitutes 50% to 55% of our raw material purchases, corrected 50% in the last 12 months. But when we compare it quarter-on-quarter, quarter 4 FY '23 versus quarter 3 FY '23, it has remained flat.

Such has been the magnitude of correction that any speculative positions or wrong calls could have dented the business severely. A highly capable and experienced team with a strong understanding of the raw material markets, combined with the relationship quotient, built over decades with our vendors gave us the real edge in this market and ensured our march in FY '22-'23.

Capabilities built along with perseverance and persistence, combined with small consistent efforts, ensured we record our best financial performance till date. Truly a remarkable turnaround when compared to our performance 12 months ago, given the highly volatile macro backdrop. The consistency demonstrated by the team is worthy of praise, and I take this opportunity to acknowledge and thank each one of them for the same.

Ladies and gentlemen, while numbers were lag indicators, one of the leading indicators is the equation we share with our customers. It gives me immense pleasure to share with you all that we received 2 prestigious awards from 2 of our key customers this year. Firstly, the Clean Future Partner award from Unilever. This award was only given to 6 suppliers globally who have partnered with Unilever, and through multiple innovations, enabled them in their journey towards a cleaner future.

Secondly, the Supplier Excellence Award for Global Fabric and Home Care segment 2022 from Procter & Gamble. Every 2 years, Procter & Gamble recognizes and thanks, from over 40,000 suppliers, its key suppliers with excellence awards in different business groups. It gives me great pleasure to share that this is the first time in the history of Procter & Gamble, an organization from India, Middle East, Africa, that is our IMEA region, has won this award.

As Henry said, success is a journey and not a destination, and for us, the journey of innovation, partnering with purpose with all of our stakeholders and delivering consistent performances continues. The inherent business model remains robust and with a strong talent pipeline, we remain positive, confident, and optimistic about a bright future.

Moving on to business performance, it is important we understand the structural drivers and focus more on the outlook. Starting with India, which continues to outperform, the uptick in premium consumption, the revival of rural demand, and entry of a new player overall bodes well for the home and personal care space. While there may be a few quarters of volatility, I personally will insist that you all look at the bigger picture. Structurally, we are now getting into a zone where 8% to 10% volume growth across segments over the next 3 to 5 years is a strong possibility.

Africa, Middle East, Turkey has been a point of concern now for the past couple of years. While macro headwinds on account of currency devaluation and inflation remain, signs of stability emerge. While it will be too premature to talk about growth, we do believe Africa, Middle East and Turkey will emerge stronger from this. If we reflect on our quarter 4 performance excluding Egypt, the rest of Africa, Middle East, and Turkey saw a 7% volume growth this quarter. So we do see this momentum sustaining.

As for Egypt, volumes seem to stabilise, and growth should come back by H2 FY 2024. The rest of the world, which primarily includes the developed markets of Europe, the Americas and Asia Pacific, has been again impacted by geopolitical issues and inflation. The adverse performance here has impacted our specialty segment. The key here will be permanent receding inflation and resolution of geopolitical tensions.

This holds the key because the bulk of the personal expenditure in the developed world today is directed towards consuming basic mass and masstige products, adversely impacting the frequency of premium consumption. While price hikes taken by major FMCG players ensured top line growth, they have reported a volume decline across the board. Their volumes hold the key for our specialties. With raw material prices and freight rates correcting, we believe demand gradually comes back. War resolution will further boost European consumption, which holds the key for us.

While the demand scenario barring for India remains hazy, our complete focus for FY '24 will be to ensure sustainable volume-led growth. The last 3 years have been flat in terms of volumes, and while we have grown in terms of our profitability due to better mix, efficiencies, recoveries and exchange, volumes hold the key. As stated previously, the targets remain the same: a volume growth of 6% to 8%; EBITDA growth higher than volume growth, and PAT growth higher than EBITDA growth with ROCE in the 22% zone.

The structural framework that has enabled our growth over decades remains the same, and volumes are an integral part of it. Therefore, continuing from Q3, we would refrain from giving out an EBITDA per metric tonne guidance for FY '24. However, as stated previously, it is safe to assume that your company will aspire to grow in terms of volumes, as well as EBITDA for the coming year.

To conclude, ladies and gentlemen, it is said that success in business is all about building, building relationships, talent pipelines, great products, robust processes, consistently and passionately. At Galaxy, we have done that for the past 4 decades, and the ensuing decades will be no different.

Thank you very much, ladies and gentlemen. We are now ready to take your questions. Thank you.

- Moderator:** We'll take our first question from the line of Nikhil Rungta from Nippon India Mutual Fund.
- Nikhil Rungta:** Sir, you indicated that the volume growth for the next 3 to 5 years would be 8% to 10%, but you are guiding for 6% to 8%.
- Unnathan Shekhar:** No, no. When we mentioned 8% to 10%, we are talking about an optimistic possibility for India. For domestic Indian consumption, we mentioned 8% to 10%. We see a good possibility as far as India. That is local India. Whereas when you talk about 6-8% we talked about global consolidated volume.
- Nikhil Rungta:** Okay. So 6% to 8% is what you are looking at?
- Unnathan Shekhar:** That is global consolidated volume. Yes.
- Nikhil Rungta:** Okay. And if you can also guide in terms of performance and specialty, what type of volume are we looking for in each of them?

- Unnathan Shekhar:** So as we have said, the proportion of performance to specialty has been around 2/3, 1/3. And we believe that we will continue to remain around that particular zone.
- Nikhil Rungta:** Okay, okay. Sir, my second question is on margin. In the opening remark, you mentioned that you will stop giving EBITDA per tonne from going forward. But in terms of raw materials, the prices are falling now. So what type of margin visibility should we have on that particular aspect?
- Natarajan Krishnan:** So essentially, as we said, the margins will be a combination of the volumes that will happen plus the product mix. So our objective is to ensure that we are able to capitalize on every opportunity in terms of volume growth, and the raw material price reduction we'll have to manage it very judiciously in terms of pricing it well, okay, to ensure that the demand growth is ensured and ensure that we are able to make it margin accretive. So it will be a mix of a lot of stuff, but our objective will be to ensure that we grow our EBITDA and PAT ahead of our volume growth.
- Nikhil Rungta:** Okay. Sir, last question from my side. What's your view on U.S. market now? I mean, our specialty was impacted largely because of U.S. market. So what's the view now?
- Natarajan Krishnan:** So U.S. also, if you see, U.S. has been -- the market has been on the inventory corrections, the pipeline inventory because I think the entire pipeline from the Walmarts to our customers. I think they have had an overhang of inventory. Our discussions with U.S. customers tell us that by the end of this quarter, they should have been done, okay, with the inventory corrections. So we expect to start having the demand coming back from Q2 of this financial year.
- Moderator:** We take the next question from the line of Sanjesh Jain from ICICI Securities.
- Sanjesh Jain:** Yes. Quickly on this realization, if I look at for the performance, I thought that LA has sharply corrected. However, if I look at the realization for performance chemicals, sequentially it has improved, and in contrast, if I look at the specialty, there is a significant decline in the realization. Can you help us reconcile specialty decline largely because we have sold lower to the U.S. and Europe and hence the mix has deteriorated? Is that the thing? And on the performance, can you help us understand that better?
- Natarajan Krishnan:** Yes, you're right. So actually, the mix has been not favourable in terms of better realization. So that is what has impacted the lower realization in specialty.
- Sanjesh Jain:** And in performance?
- Natarajan Krishnan:** Yes. So performance also in terms of the way the mix stays within our performance has led to a better realization there overall.
- Sanjesh Jain:** No, I thought LA is a common denominator. I can understand LABSA and Ethoxylates, but they were very small proportion, but otherwise, LA was the common denominator and that's falling very sharply. Despite that, there is an improvement if I look at on a Y-o-Y basis or a sequential basis. So what is leading this? What kind of mix? You are telling me that there is more SLS than SLES?

Natarajan Krishnan: No, no. So one is, in performance, you have a mix in terms of various grades of SLS and SLES. We have the solid form, we have the liquid form. Okay? So there are various components of mix within my performance products. The other is also how we are able to manage the risk positions in terms of our alcohol. Okay? It is also very important in terms of how do you manage the realizations in performance products. So that's what Shekhar alluded to in his opening speech about how the team managed this particular aspect very well. So the combination of all this leads to a better realization in our performance products sequentially.

Sanjesh Jain: Got it. The next question is on the ADD, which India has imposed on the LA. How is it going to play out for us in terms of the margin profile? Will it have any meaningful impact or you think that's a non-event for us?

Natarajan Krishnan: No. So I think, first, we need to also know that this levy has been something that the entire industry, us and our customers have been contesting very, very heavily and intensely with the Directorate General of Trade Remedies and this particular contesting will continue. So this levy, let me clarify, is only for imports made for domestic supplies. So it is not applicable for imports that are made to cater to our export business. So what we're doing is that, this notification has come in 2 weeks back.

So we are reviewing this notification and discussing with our legal team in terms of initiating all remedies available to us under the law to contest this levy. So it's not that we have just accepted it because any such levy, which is inflationary, is something that we need to contest, and we firmly believe this is unjust. So we are also in discussions with our domestic customers and strategic vendors to understand how they will adjust and respond to this levy, because finally, this levy will be inflationary, and the impact of this levy will have to be borne by the end consumers.

So what we need to do is, we need to wait and watch as to how the situation will pan in the coming months to understand how the ability of our consumers to absorb this impact. So yes, this is a wait and watch game, contesting the levy, understanding, engaging with our domestic customers, engaging with our strategic vendor partners, and also waiting and watching how the consumers finally end up absorbing this impact.

Sanjesh Jain: Got it. But theoretically speaking, assuming that it remains unchanged, will it have any impact on the margin for us?

Natarajan Krishnan: No. So then have to find ways to engage with our customers and vendors. So we'll have to work this out. So it is too premature to comment on that, but yes, our this thing would be to see how we are able to ensure that our margins are protected and final submission, it will be reflective -- it will only happen if the end consumers bags the brunt of impact, but finally that's how it get passed on. So that's what I said we need to wait and watch because it's just 15 days old. And we need to ensure that we are able to create a -- ensure that the impact is contained.

Sanjesh Jain: Got it. Second, on the volume growth on the RoW side, particularly U.S. and Europe. Is it more of an inventory destocking because of the steep raw material fall, or are customers worried about an underlying demand itself?

- Unnathan Shekhar:** No. So in Europe, it is certainly underlying demand cutback. That is something that we could see, and that's the reason why consumers are more towards mass and masstige products in Europe. Whereas in the U.S., we would like to believe that the inventory destocking, which has been going on for the last almost 6 months, will likely stop by the end of this quarter. So anyway, we would be more clear in quarter 2 as far as U.S. is concerned. The pain, we believe, in Europe will be longer.
- Sanjesh Jain:** And Europe is bigger for us than U.S., right?
- Unnathan Shekhar:** Not really.
- Sanjesh Jain:** Okay. Because of Tri-K being there, U.S. is equally strong?
- Natarajan Krishnan:** Correct.
- Sanjesh Jain:** Okay. Sir, one last question on the AMET side. I think in your opening remarks, you said that ex of Egypt, AMET has grown and Egypt is what is showing this decline. And the second thing, we have come on a very, very favourable base. Last year same quarter, the volume decline was as high as 29%. So I think that should also be helping us. When should we start seeing this again going up? Because inflations in Egypt and all looks like stabilizing, the elections are probably the verge of getting behind in Egypt and all those stuff. So do you think second half, we should be again back to upwards of 15% volume growth for normalization in the AMET market, is that possible?
- Unnathan Shekhar:** Yes. That is what we would like to expect and be optimistic about.
- Sanjesh Jain:** What is the growth in this quarter in the AMET region excluding Egypt?
- Unnathan Shekhar:** We said 7%.
- Moderator:** We take the next question from the line of Aditya Khetan from SMIFS Institutional.
- Aditya Khetan:** Sir, my first question was about raw material. So when we look at the raw materials, so 50% to 55% is fatty alcohol and how much would be a fatty acid, ethylene oxide and DMAPA?
- Natarajan Krishnan:** So our total raw material to take is about 70%, so this is 50%, 55%, the balance would be all these put together.
- Aditya Khetan:** So remaining would be -- so fatty acid, sir, would be how much you said?
- Unnathan Shekhar:** All the other raw materials.
- Aditya Khetan:** Okay.. Sir, just a question. So in this quarter, sir, what we are witnessing, on quarter-on-quarter basis, so the fatty alcohol prices have been almost flattish, but some of the surfactant prices, like the alcohol ethoxylates, so they have witnessed a decline of 20%. So it seems like the spread has declined for the quarter on spot basis, but despite your numbers are showing a robust -- so good margins. So just wanted to understand this correlation.

- Natarajan Krishnan:** No, no. Like we said, this is a combination of the mix that we have and also in terms of we need to manage our feedstock risk and positions. So a combination of all these ensures that you are able to manage your margins well.
- Aditya Khetan:** Okay. But this data is correct, sir? Fatty alcohol on quarter-on-quarter basis, so it has been flattish. The current prices might be lower, but it has been flattish on a quarter-on-quarter basis, right?
- Unnathan Shekhar:** More or less.
- Natarajan Krishnan:** More or less, yes. But then on ethoxylates trend, I am not able to make any comment on that because you are saying that it is 20% lower, which markets, so we are not clear about that. So I don't think we'll be able to comment on that.
- Aditya Khetan:** Okay.. And sir, my third question, sir, when we look at your history over the last 7 years, we have added approximately 1.5 lakh tonnes of capacity overall, including performance and specialty. So how much of this, if you can like highlight would be into the performance side capex, so capacity in specialty? So 1.5 lakh tonnes, we have added. If you can help me with the split like...
- Natarajan Krishnan:** So majorly it will be performance products, majorly.
- Aditya Khetan:** How much, sir?
- Natarajan Krishnan:** Majorly performance products.
- Aditya Khetan:** Mainly into the performance side, you are saying?
- Unnathan Shekhar:** Major.
- Aditya Khetan:** Majorly into the performance side. Okay. Sir, what -- how much is the maintenance capex, sir, per annum which we incur?
- Natarajan Krishnan:** Yes. About INR30 crores to INR40 crores per annum.
- Aditya Khetan:** And sir, our capex guidance of INR150 crores per annum, which we say, so where are we adding the capacity for the next 2 years, in performance or specialty?
- Natarajan Krishnan:** Both.
- Aditya Khetan:** And sir, the quantum would be, sir, how much?
- Natarajan Krishnan:** Yes. We would not want to reveal that now because that will be when we add it. But then, yes, so it's for both performance and specialty ingredients, and we don't reveal as to what is the proportion of the capacity addition between these 2.
- Aditya Khetan:** Okay. And sir, the guidance on the EBITDA per metric tonne, that we are keeping at around INR16 to INR18 per kilo, right?

- Unnathan Shekhar:** No, no. We have said that we are not giving out any guidance, EBITDA per metric tonne. We made clearly in our call, in our speech, opening address.
- Moderator:** We take the next question from the line of Aditya from Securities Investment Management.
- Aditya:** So, sir, I understand this question has been asked before, but still wanted to get a better understanding. So what has led to the increase in EBITDA per tonne from an average of INR16,000 to INR17,000 to around INR24,000, INR25,000? Because when I look at your product mix, the mix of performance and specialty has remained more or less the same. So what has contributed to this increase?
- Natarajan Krishnan:** Yes. So one of it is within specialty and performance also, we have a product mix that can obviously be made favourable. So last year has been, in terms of the judicious management of our cost, our raw material positions, our ability to price in markets where we could get a better pricing what has led to better EBITDA per metric tonne.
- Aditya:** Right. And just wanted a better understanding. This year, the sales volume in Africa has decreased, while those in India have increased, which might have led to an increase in EBITDA per tonne. So now if we were to consider the growth in Africa to come back in this year, would our EBITDA per tonne be declining because of increased sales on Africa?
- Natarajan Krishnan:** No, we want to ensure that we grow -- we need to ensure that we grow our demand profitably, first is for the demand growth to happen in Africa, Middle East, Turkey, then we'll take all the appropriate positions to ensure that we leverage on the demand growth, that is important. How it pans out in EBITDA is something that will -- something will be derivative. Okay? So we don't price based on EBITDA per metric tonne as a derivative. So it's important that we need to understand this.
- Moderator:** We'll take our next question from the line of Rohan Gupta from Nuvama.
- Rohan Gupta:** Sir, first question is just a clarification on our revenue from specialty care business. So since in the current quarter presentation, we have not given the revenue from the current quarter in specialty, it works out roughly INR245 crores from specialty. So just wanted to reconfirm, is that number right?
- Natarajan Krishnan:** Yes, yes.
- Rohan Gupta:** Okay. So sir, that marks a very sharp fall, almost 45% worldwide, and even a very significant fall from INR400 crores in Q3 to INR245 crores in Q4. You mentioned that couple of reasons, especially destocking in the U.S. market and the poor performance from Europe. This is also marked by deterioration in average realization because of change in product mix, that's what you highlighted. But sir, we still understand that the specialty care market, especially in U.S. and Europe, is a pretty stable market irrespective of this destocking and the kind of industry which we cater, which is FMCG led.
- So just wanted to understand that, has there been any couple of products out -- the 2 to 3 products

concentration which has impacted such a -- which has led to such a sharp fall in revenues from specialty or it is across the product basket? Number 1. Second, you mentioned expecting the performance to improve only from H2. Do we expect that this specialty care run rate will continue like this in first half?

Natarajan Krishnan: So first of all, I'd say with regards to the revenue, one thing that we -- when you look at these numbers, we also understand that the freight rates have corrected very significantly. Freight rates have come down by almost by 100%, 150% into these regions, into Europe and the U.S. So that itself will have a reduction in the revenue portion of the specialty ingredients.

Second is, when you said that it's a very -- the specialty ingredients goes into a lot of prestige products in U.S. and Europe. Now, there, inflationary situation has rejiggered the whole consumer demand towards more mass and masstige products. So when the demand for prestige and premium products is impacted, our specialty care ingredients get impacted. And the destocking is happening more in terms of all the specialty ingredients because lot of stocks got built up in anticipation the demand would continue at the robust level of what it was, which we saw towards the end of last financial year.

Rohan Gupta: Okay. So we expect this scenario to start improving or the destocking should be over by Q2 and that may still lead to a slightly -- pressure on first half? And then only can expect it to improve in the second half from a specialty care product basket side?

Natarajan Krishnan: Yes. When we talk to our customers in Europe and U.S., I can tell you that the U.S. customers are a little bit more bullish about things improving from next quarter. But when you look at Europe, the issue is more in terms of demand itself has got impacted because of the huge inflationary impact that happened. So things now are getting better in terms of gas prices coming down, and commodity prices coming down. So this augurs well even for Europe to come back, but Europe probably should start coming back from the end of this first half, whereas U.S. would probably start reflecting from the beginning of the second quarter.

Rohan Gupta: Okay. Sir, second question is on our other expenditure, which has been continuously falling very sharply, has peaked in the current year first quarter and since then has been coming down. It is all mainly led by the fall in freight cost or are there some other variable also reducing this cost?

Natarajan Krishnan: majorly freight cost.

Rohan Gupta: Mainly freight cost because it was INR147 crores in Q1 and it has fallen to INR117 crores in the current quarter.

Natarajan Krishnan: Yes.

Rohan Gupta: Was it power and fuel cost is also included there and is it significant?

Abhijit Damle: Yes. Power and fuel is also included in other expenses.

Rohan Gupta: And is it also significant to reduce these expenses?

- Abhijit Damle:** No, there will not be a reduction because of power and fuel.
- Natarajan Krishnan:** Yes, power and fuel has essentially been a little bit inflationary, you know that.
- Rohan Gupta:** Okay. So this is mainly because of the fall in freight cost?
- Natarajan Krishnan:** Yes.
- Rohan Gupta:** Sir, our capex guidance is roughly INR150 crores to INR170 crores for the next year, right? We are already sitting at almost INR150 crores kind of cash and bank on the balance sheet and expect to further generate solid cash flows next year, I mean, in '24. Any expectation which we can have in terms of the increased payout or the utilization of the surplus cash if you will have?
- Natarajan Krishnan:** So the payout that we do, we have a very clear dividend payout policy, and like you see this year, the dividend payout has been pretty good. Okay? Now, with regard to the cash, we do have a clear plans for capacity additions, and also in terms of certain infrastructure requirements that we need to do. So we have a good judicious use for our cash that we generate.
- Rohan Gupta:** Sir, third question, further clarification on ADD on LA. Sir, you mentioned that they are -- customers are still challenging it, but this is primarily for the -- on the imports mix on the domestic supply. I think it will be very challenging for the government to determine in terms of that for the company like us, for the raw material used for the export purpose and for the domestic supplies. I mean, how the government is going to address those issues? And in terms of overall raw material, if I understand right, it is still being contested, but if the duty continues, do you see that since our business model is like that, everything is passed on to the end customer, it will be completely passed on to the end customer or we have to, for some time, bear some kind of impact on gross margin?
- Natarajan Krishnan:** So first of all, in terms of your first question, how does the government give control, government has enough and more methods and rules available to take care of what is imported for domestic and what is imported for export supplies. And that's been in place for the last 30 years since I have been handling this. So that's not an issue.
- .
- Very simple and clear and a very transparent mechanism which the government has. So that's not an issue. Now, as far as the second thing is, very clear, any levies of these types have to finally get passed on, and that will happen. It's only because then the consumers have to adjust to the new equilibrium and we need to wait and watch how they would adjust to this new equilibrium. And that's the way it will be like. Last year when the commodity prices went up significantly, finally, it led to consumers absorbing it. Correct? The same rate holds good here also. Of course, there will always be temporary situations, which will cause some perturbations, but that is the case with any shocks that are given to the system.
- Moderator:** We'll take our next question from the line of Vipraw Srivastava from InCred Capital.
- Vipraw Srivastava:** Yes. I just wanted some guidance on the AMET division. So as you said that AMET business is expected to improve. But if we look at the PMI data and the inflation part, it's still at multi-year

highs. So what you are observing on the ground, which is an indicator signs you are observing on the ground, which indicates that it might improve in the coming quarters?

Vaijanath Kulkarni:

So based on the currency devaluation has happened in 2016 and the degree has been almost similar this time. We have typically seen the equilibrium getting established over a period of something like 9 months -- 6 to 9 months. And the similar trend is visible, the currencies are stable for last 2 months, and that's the reason we have talked about that the countries which are affected, which is predominantly Egypt and Turkey, which have started to show some signs of stability.

And we hope that in the coming quarter, they will follow a similar pattern of the previous devaluation when it happened, almost something like 80% to 100% devaluation. So we have to wait and watch, but based on our empirical data of similar shock, that's the time required. And we are very closely in touch with customers and we are seeing some resolution happening. And based on that only, we are very hopeful and optimistic as we go into the next quarter.

Vipraw Srivastava:

Right. Second question, which I had was that, if we look at Galaxy's result quarter-on-quarter, quarter 4 has been the heaviest. I mean, it had been posting good revenue numbers compared to previous quarters, but this trend has changed in this year results. I mean, quarter 4 has been the weakest, if I'm not wrong. So anything which has changed or is it just because of the AMET part? Any views on that?

Unnathan Shekhar:

See, as we said, the top line has a relationship in terms of feedstock prices. We did mention that the feedstock prices have seen a correction of almost 50% this year, but it has been quite flat in the last 2 quarters. So today, lauryl alcohol prices are around \$1,350 to \$1,400, which used to be as high as USD2,000 and USD2,200 in the beginning part of -- in the first 2 quarters of last year. So the revenue has a proportionality with respect to the feedstock prices. Does that answer your question?

Vipraw Srivastava:

Yes, yes. Sure. And one last question if I am allowed to ask. Sir, you mentioned that within the U.S. market, it's more related to destocking of inventory, right? But if you look at other macroeconomic indicators, it also points that a recession might be eminent in that country and it might also impact consumer spending in the U.S. market. So any signs of that or is it just too early days? What are your views on that?

Natarajan Krishnan:

See, U.S. recession more pronounced to handle. First one is in terms of the debt ceiling that they have to take care of. So I think that even our customers seem to be a little bit concerned as the markets are, so what they're going to do. Recession, as our customers say that it can be like for a shorter time and at a lower level. That's what they indicate even if that happens, but the main issue is in terms of they have to resolve this debt ceiling stuff. So I hope that they do that in the next 1 week to 10 days. That's a bigger issue that we need to grapple with as far as U.S. is concerned.

Moderator:

We'll take our next question from the line of Rohit Nagraj from Centrum Broking.

- Rohit Nagraj:** Sir, in your opening remarks, you mentioned about the new competitor. So could you just give a little more details in terms of which segment the competitor...
- Unnathan Shekhar:** We didn't say new competitor. We said new player.
- Natarajan Krishnan:** New customer for us in the home and personal care industry who is emerging.
- Unnathan Shekhar:** And all of us know who he is.
- Rohit Nagraj:** Okay. I thought competitor. My bad, sorry. Yes. Second, in terms of Tri-K, any more understanding and how it is faring well, given that, I mean, the specialty care products has been impacted last year? So I believe there would have been impact on Tri-K as well. So what is the strategy on which we are working? And I mean, what is the timeline that this particular segment can be a substantial segment over the next 3, 4 years?
- Unnathan Shekhar:** Whatever we mentioned about the U.S. is valid for even the Tri-K business. Now, what we have done is, in terms of fortifying our product portfolio in terms of new innovations. We have come up with innovations to address what we call the Indie brands, the small customers, and then we have come up with multifunctional products for various combinations of end use benefits.
- So that is what we have done in terms of preparing ourselves and fortifying ourselves. Now what is important, as we said, is that, the demand certainly has to come back, and people have to start spending on premium products from what they have done in the last few quarters in terms of spending more on mass and masstige products.
- Rohit Nagraj:** Right, right. Got it. Sir, second question in terms of ethoxylates. So we understand that, on the agrochemicals side, the demand has been quite lacklustre, and obviously ethoxylates also go in that particular segment. So will there be any -- I mean, is there any fungibility that ethoxylates going into agrochemicals can also go into the home and personal care, the FMCG products? And will that have any kind of impact on us?
- Unnathan Shekhar:** See, we are very, very selective in terms of the ethoxylates that we make and sell and to the types of customers. So we are not in the general ethoxylate market. We are very selective and very specific; a large part of our ethoxylates goes for captive consumption.
- Moderator:** We'll take our next question from the line of Anubhav Sahu from MCPPro Research.
- Anubhav Sahu:** So a couple of questions. First of all, wanted your comments on the volatilities of fatty alcohol prices. The prices, which we have seen in fiscal year '22 and '23 were probably due to unprecedented situations, labour shortages in plantations or supply side issues. They may not repeat so frequently. So going forward, would it be reasonable to think that because now the prices would be more range-bound? Just wanted your opinion on that.
- Natarajan Krishnan:** Yes. So essentially if you see, I don't think there are any supply constraints, but today now in terms of availability of labour. So I think that has all come back to normal. But I think there have been talks of El Nino, there can be some impact on production and all that. We need to wait and

watch. But barring those sort of situations, we know that the demand seems to be tepid in terms of palm oil. So it should be more flattish. We don't expect any great spikes, except if there is going to be a supply side issue in terms of weather patterns.

Anubhav Sahu: Got it. And secondly, on the domestic market, we seem to have had a good turnaround for last 2 to 3 quarters, good volume growth here. So, sir, would you want to call out which end markets are doing well for us in India? And any comment on channel inventory that looks like on a normal level? And do you see any pockets where discretionary spending is having an impact on any of the sub-product category?

Natarajan Krishnan: No. I think India as a market is majorly tilted towards mass and masstige products. So the growth is across these 2 segments. The premium and prestige segment, which has molds for D2C channels, yes, there have been -- although it's a small portion of the market, there have been some corrections, but I think that also should start coming back. But yes, India has been growing across the mass and masstige segments. As you know, rural demand has been something that started making a come back now. So urban has been making a major portion of the growth that has happened. And so, that composition of the market growth continues, D2C brands should start picking up in the coming quarters.

Moderator: We'll take our next question from the line of Shalini Gupta: from East India Securities.

Shalini Gupta: Yes, sir. I had a couple of questions. Sir, performance surfactants volume growth is 12% for the quarter. So what would have driven this growth? If in case you've discussed this, I'm sorry because I joined the call rather late.

Unnathan Shekhar: Yes. For the quarter, it has been 12%. And as we said, a large part of it has been driven by the growth in domestic India.

Shalini Gupta: Okay. And sir, Turkey and Egypt are 2 very important markets for you. Now, some of the people who are selling to Turkey and Egypt say that they have experienced a very significant growth in those markets. So, sir, what has been your experience in Egypt and Turkey?

Unnathan Shekhar: As you said, we are seeing a revival in terms of consumption. Last quarter, as you know, we have grown 7% on rest of Africa, Middle East, Turkey other than Egypt. So we do see certain green shoots in terms of consumption coming back in these...

Natarajan Krishnan: Which industry is it you're referring to when they said they are seeing good growth in Egypt and Turkey market?

Shalini Gupta: Consumer.

Natarajan Krishnan: Consumer, the local markets there.

- Shalini Gupta:** No. See, these are companies, a lot of, you would know I'm sure that there are lot our domestic consumer companies who have large presence in Egypt, Turkey and they have a large international presence. And in the call, they said that these 2 markets, particularly they mentioned, have done very well. So I'm just referring to that.
- Natarajan Krishnan:** Okay. So no, that's -- we need to understand the base also because their presence in those markets is pretty small.
- Okay. So the base volumes are small and they would have seen that growing. But then if you look at the overall market, they are not present majorly in all the segments we cater to. So like, there are some of them who are only into -- in South Africa. Some of them are only, say, into Turkey. So they are also- all of them have been talking, but their base has been low. And then they have also been into certain product categories where yes, there may be seeing, but their base volumes are pretty low. So that is not reflective of what is happening overall in the HPC market in Egypt and Turkey.
- Shalini Gupta:** Yes. Okay. And sir, second question is that, sir, U.S.A. and Europe have not recovered, and it shows in your results as well because the specialty care -- and I am talking about the quarter, specialty care volumes have declined. So I'm saying that, let's assume that U.S.A. and Europe stabilize going forward, maybe the first quarter or maybe second quarter of FY '24. So what kind of volume growth should we expect, between 10% to 12% or higher in -- when the recovery happens, probably the second quarter, so financial year '24?
- Natarajan Krishnan:** Yes. So when the recovery happens, first the degrowth has to stop. So how the recovery starts happening, so I think we will have better clarity as we move into the next quarter. Right now, it will be too premature to comment. We only want the demand to return the way our customers have engaged with us. But then yes, to what extent it will come back, I think it's too premature for us to comment. We do hope that we are able to get into those 12%, 15% zone. If that happens, we will be very happy, but let us wait and watch.
- Shalini Gupta:** Okay. And sir, my last question is on realization. So, sir, our main raw material, that is fatty alcohol, prices are down 50% or so to financial year '21 levels. So realization per kg should be roughly the same as we experienced in financial year '21 that -- I'm talking about performance surfactants. So realization should be about INR115 or so per kg?
- Unnathan Shekhar:** Performance surfactants are a mix of many SKUs....
- Natarajan Krishnan:** And of various active levels. So I don't think you'll be able to come to any such conclusion there.
- Shalini Gupta:** But I'm off the mark like, say, by INR4, INR5 or more?
- Natarajan Krishnan:** No, because the way you are calculating, I don't even know how you have calculated it. So I will not be able to comment on that.
- Shalini Gupta:** No, it's basically the same -- the realization, which you yourself reported in financial year '21 for performance surfactants as a category, whole category.

- Natarajan Krishnan:** That is divided by the volume. So you are saying that whether -- that will be continue to the same way this year.
- Shalini Gupta:** No, realization, which is basically the sales over the volume.
- Natarajan Krishnan:** Yes. If the composition is the same as '21, and with the alcohol content, I think you may be right. Yes, the composition remains the same.
- Shalini Gupta:** And specialty care realization should be INR140 to INR150?
- Natarajan Krishnan:** No, specialty care is -- the mix changes have been very significant, so we don't -- we won't be able to make any specific comment on that.
- Shalini Gupta:** Okay, okay. Mix change has shifted towards protein, is it?
- Natarajan Krishnan:** No, there are many components to that. So I don't think we'll be able to explain that in a very clear way the way you want it.
- Moderator:** We'll take our next question from the line of Bobby Jayaraman: from Falcon Investments.
- Bobby Jayaraman:** Your trading capacity, if you add it up, is 440,000 tonnes, right, and the volumes you did for FY '23 are around 220,000. So you're operating at 50% utilization?
- Unnathan Shekhar:** No, our average capacity utilization is about 65%.
- Unnathan Shekhar:** Across almost 200 products.
- Bobby Jayaraman:** Right. So a major driver of your EBITDA margins would be the operating leverage, right, as it goes up to 80% or something?
- Unnathan Shekhar:** Yes, yes. But as we have always said, when it reaches 80%, we start thinking about a new capex.
- Bobby Jayaraman:** Okay. So you have quite a lot of free capacity now?
- Unnathan Shekhar:** Yes. Because -- it is not a free capacity across every single product line, okay, because when we plan a capacity -- in specialty ingredients, we plan a capacity for a horizon of almost 7 to 8 years. And in performance, we plan for a horizon of about 4 years or so. Okay? So that's the horizon for which we plan a capex.
- Bobby Jayaraman:** Got it. The -- what is the proportion of sales in India for your specialty chemicals?
- Unnathan Shekhar:** Overall, we -- as we say, it is 2/3, 1/3 at the global level. India the percentage will be lesser because India is largely a mass and a masstige market.
- Bobby Jayaraman:** So it's insignificant almost?
- Unnathan Shekhar:** Yes.

- Bobby Jayaraman:** Yes. Okay. And how do you really different -- internally, how do you differentiate between specialty and performance? Is it a clear demarcation or just for the investors that you demarcate it that way?
- Unnathan Shekhar:** Yes. We have given the definition in one of our conference calls. See, the performance surfactants are only those products which are -- which have the fatty alcohols as their feedstock. And now, since fatty alcohol is a highly volatile commodity, and management of the feedstock, the sourcing of the feedstock requires a lot of skill and experience. And that's what we have classified all products, which are based on the -- lauryl alcohol as feedstock, we have classified them as performance products. That's the simple definition.
- Moderator:** Thank you. we have reached the end of the question-and-answer session. I now hand the conference back over to the management for closing comments. Over to you, sir.
- Unnathan Shekhar:** Yes. Thank you. So thank you, ladies and gentlemen. Look forward to seeing you again, meeting you again. Thank you.
- Natarajan Krishnan:** Thank you all of you. Thank you.
- Abhijit Damle:** Thank you so much.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Galaxy Surfactants Limited, that concludes this conference. Thank you for joining with us, and you may now disconnect your lines.