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Galaxy Surfactants Ltd.

August 21, 2023

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Pursuant to the relevant provisions of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we are enclosing transcript of Earnings Conference Call for Q1 FY 2023-24.

This is for your information and records.

Yours faithfully,
For **Galaxy Surfactants Limited**

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“Galaxy Surfactants Limited Q1 FY '24 Earnings Conference Call”

August 14, 2023

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MANAGEMENT: **MR. UNNATHAN SHEKHAR** – PROMOTER AND MANAGING DIRECTOR – GALAXY SURFACTANTS LIMITED
MR. K. NATARAJAN – EXECUTIVE DIRECTOR & CHIEF OPERATING OFFICER – GALAXY SURFACTANTS LIMITED
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Moderator: Ladies and gentlemen, good day, and welcome to the Galaxy Surfactants Limited Q1 FY '24 Earnings Conference Call.

This Conference Call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" and 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. Thank you, and over to you, sir.

Unnathan Shekhar: Thank you very much. Ladies and gentlemen, good afternoon, and welcome to this first earnings call for the financial year '23-'24.

At the outset, it is important to reflect on the long-term picture before we dwell on the quarterly performance. Despite the volatility we have witnessed in the past 40 months, our stakeholder relationships have strengthened and further firmed ourur internal processes, capabilities and competencies. I am sure the experience garnered will hold us in good stead going ahead.

Continuing with the long-term picture, it is also important for us to understand the market picture as of date and how it will influence the numbers for the current year and perhaps for the next few quarters.

India has emerged as the bright spot globally. We believe the key drivers for sustained uptick in consumption are a stable macroeconomic environment supported by innovation and technological developments backed by a buoyant market filled with emerging new players and traditional majors. Today, with all the above factors thriving, the stars are aligned for sustained double-digit growth.

Galaxy is positioned to capitalize on this and play a significant role in enabling it. The last 40 months have seen global inflation clocking new heights, something that the developed markets have not witnessed for the past four decades. It has not only impacted the spending frequencies, but also led to a change in spending patterns.

Combined with the ill effects of war, the bulk of the spending today is towards food, energy and basic amenities. While the picture was the same even in the pre-COVID era, the percentage and absolute amounts have increased significantly, thus adversely impacting the disposable income for luxuries and premium products.

The combination of excess inventory, slowing demand due to changing spending patterns, along with the fears of recession and high inflation have completely dented the buoyancy seen in 2021 i.

But like any other cycle barring any macroeconomic shock, we expect things to improve slowly but steadily. With inflation easing and countries in the European Union adapting to the new normal, we believe the end is near, and consumption will come back from 2024.

A volatile global backdrop impacts imports dependent developing countries the most. This time has been no different. The sudden depreciation of the Turkish lira from 11 at the start of 2022 to 27 as of today, equivalent to a 245% in 18 months and that of the Egyptian pound from 15 to 31 during the same period, dented consumption significantly in these markets. While this is something that had happened previously in Egypt, but the difference this time was the fact that inflation was mainly food driven. This impacted domestic consumption severely.

Even with respect to Turkey, fears of an economic collapse resulted in significant cutbacks and migration, thus impacting overall consumption. While the situation continues to remain grim and volatile, adaptation is visible. Barring any other macro shocks, we are seeing signs of recovery. With improvement in food supplies and currency stability, growth should come back in the second half of 2023.

Focusing on the quarter this has been a relatively stable quarter for us. Progressive improvement of supply-side factors along with pickup in demand, ensured a healthy 7.4% volume growth for this quarter.

We are pleased to share that in quarter one FY '24, volume growth stood at 7.4%. This has been possible due to the strong double-digit growth clocked by India. Barring any risks due to Monsoon or crude, we see this momentum sustaining.

Africa, Middle East and Turkey is slowly but steadily making a comeback. While volumes remain flat year-on-year, we see signs of improvement, especially from H2 2023. This should further enable us to meet the 6% to 8% guided volumes target.

Inventory destocking continues in North America. Like quarter four, this yet again has adversely impacted our specialty volumes. Having said that, we are pleased to share that despite the decline in North America, quarter-on-quarter specialty as well as rest of the world volumes have grown. This has been due to the slight recovery seen in Europe and growth clocked in Asia Pacific by our specialty care products.

The slowdown in Africa, Middle East, Turkey, and North America has impacted our subsidiaries' performance, which after two good years, are now witnessing headwinds on account of demand. While challenges persist, we believe H2 FY '23-'24 will be better than H1 FY '23-'24. While we have refrained from giving out any EBITDA per metric ton guidance, going by the current trend and visibilities we have, we believe EBITDA per metric ton should be in the zone of Rs 20,000 to Rs22,750 per metric ton for FY '23-'24. For now, volume growth remains the key prerogative.

To conclude, ladies and gentlemen, Stephen Covey once said, "Where you are headed is more important than how fast you are going." This is extremely important in the current context as, given the volatile and uncertain backdrop moving ahead steadily holds the key. While growth may be slowing globally, the steadiness imparted by our India business is ensuring the volume momentum sustains. We remain confident that the second half of FY '23-'24 will be better than the first half and that the volatility seen in the last 40 months should give way to sustained consistency from 2024-25.

Thank you, ladies and gentlemen. We are now opening the floor to questions. Thank you.

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

Sanjesh Jain: First on this EBITDA per Kg, what we look to achieve in FY '24 is close to Rs. 20 to Rs. 23 per kg. In this quarter, we are close to Rs. 21 a kg and in the second half, we expect AMET to pick up, which will be dilutive from the EBITDA per kg perspective, and we expect it to recover. What will lead this? Are we expecting an even better recovery in this specialty than what AMET can recover and the mix can always work in our favor, is that? Or number two, are we looking the stronger off-take of specialty in India? Has the trend started in a way which is very visible, and it's positively rubbing offers on the margin side?

K. Natarajan: Yes, Sanjesh. So, first, as Shekhar said in his opening note, that volume growth is the key prerogative. Now the guidance that we have given in terms of Rs 20,000 to Rs 22,750 is essentially with a very clear this thing that the volume growth estimated was 6% to 8%, and we do expect that from the second half, you know, your Americas should pick up better. That means my special ingredients volume should have an uptick. That's one of the key assumptions based on which we have given this particular guidance.

Sanjesh Jain: On the India side, even there, is the speciality picking up any materially than what we see?

K. Natarajan: No, India is majorly driven by performance surfactants. Okay? But that will not significantly drive the EBITDA per metric ton to the higher end of the band as we indicated. Rest of the world more so North America has to come back quite aggressively.

Unnathan Shekhar: Sanjesh, yes, there is also a premiumization at play in India which we would desire that it continues and grows further.

Sanjesh Jain: Second, on the AMET situation, Turkey and as you rightly said, the situation remains very fragile. Last time we have seen a quicker come back, but this time it appears will be difficult.

How much time do you anticipate reaching an FY '21 kind of a volume in this segment from where we have almost fallen more than 20% now? Do you think it will take a couple of years to cross that volume line again?

Unnathan Shekhar: Very interesting question, Sanjesh. I think we did see sudden green shoots emerging at the beginning of this quarter, but surprisingly, we have seen a resurgence of inflation. Again, in the last, week to 15 days. Okay? So, it remains highly volatile, and as we said, the new resurgence is again on food inflation. So, we would expect the consumers to, you know, balance their wallets more in terms of the basic amenities, necessities. So, we would like to be optimistic and that at the same time be on guard in terms of the ground situation, whatever is happening. So, we will possibly get a clearer picture by the end of this quarter.

Sanjesh Jain: On the Egypt plant itself, are we looking now to diversify more aggressively out of Egypt and Turkey? Because if we see the history right from the day we started work there, it has been very volatile, very uncertain. Do we enter aggressively in the Latin Market, the nearby European market and more African markets and reduce the proportion of Egypt and Turkey, thereby keeping the geography at least stable?

Unnathan Shekhar: Now you are right. I think we have certainly diversified our product portfolio there in Egypt in a very conscious way, and Egypt is much more diversified in terms of its portfolio compared to what it was a couple of years back.

Sanjesh Jain: And at what utilization rate are we running now Egypt plant there?

Unnathan Shekhar: Today, we are approximately 68% to 70%.

Sanjesh Jain: We don't need to do the CAPEX for the next few years, right? So, it should be very stable regarding free cash flow generation.

Unnathan Shekhar: Yes.

Sanjesh Jain: Second, on the specialty side, how are we seeing the off take of the mild surfactant in the export market and the blended preservatives which we are proprietarily making? How has been the trend on these two side?

K. Natarajan: Yes, so this has been impacted. We have seen this since the second quarter of last year because, you know, there has been a hit in terms of the premium segment and prestige segment in which these materials find use. So, that's why it's important that, you know, the current demand situation, the restocking in U.S. turns around well, and then we see that things would start picking up. So, that's obvious to you. That's one of the reasons you see that the specialty volumes have been impacted. I think things would have been pretty different if that had been very intact. So, that's what we want to turn around in terms of the market situation.

Unnathan Shekhar: Of course, one thing that we have seen is that though there is a very, very small decline year-on-year, but on quarter-on-quarter, there has been an improvement with respect to the Specialty products which is an encouraging sign.

Sanjesh Jain: I thought it's more seasonality because we saw the same trend even last year. On a sequential basis, generally Q3 tends to be better because of the summers in the developed market. Is it more seasonal or do you really it more seasonal, or do you see the underlying demand improving?

Unnathan Shekhar: No, we have to, see, on a macro level, the discretionary products in bracket which means the specialty ingredients have been impacted. You know, that is for a fact. So, we have to see inflation moderating or going back to pre-levels. That is one. So, that particularly, the majority of consumers are able to have certain discretionary income, you know, coming into their wallet. That's going to be a very important shift that has to happen in these developed markets.

Sanjesh Jain: Last two questions from my side. One on the CAPEX Rs 150 crores which we intend to spend this year. Where will it go? What are we looking in terms of opportunity to invest? And number two, the food inflation has again started. Do you see a risk to the fatty acid prices again there because of this food inflation?

K. Natarajan: Yes. So, firstly, on the CAPEX, it will be a combination of what we will be doing in India and Egypt and also we will be on both the legs of performance affecting the special ingredients. So, some of them are already in progress in terms of implementation. So, that's been this case even the previous years, and as regards the food inflation, yes. Food inflation suddenly pushes up the vegetable oil prices, so it can lead to an increase in fatty alcohol and fatty acid prices. So, as of now it seems to be a little bit tepid, but it's more supply led. So, if supplies get impacted by weather conditions, things can be significantly higher. So, yes, we are keeping a close watch on the weather patterns now and the stocks of vegetable oils in Southeast Asia. So, let's hope that things don't, the supply remains not much impacted.

Moderator: Thank you. The next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: My question is on the raw material, sir. Sir, if I look at the raw material prices, the fatty alcohol prices have fallen almost by more than 45% Y-o-Y and continuously down Q-on-Q. So, have you passed on the benefit of those through your long-term customers or still there something left with you?

K. Natarajan: No, it's been passed on, as is always the case.

Nilesh Ghuge: So, no further correction regarding the raw material prices or pass on left?

K. Natarajan: No, they will always be because it's not that you pass on everything within the same quarter. So, there will be some amount of spillover. That is always the case every year. So, significant portion of it keeps getting passed in the same quarter. So, there is nothing different this time.

Nilesh Ghuge: So, based on the volume, I know that you stopped giving volumes, but based on the comments in the opening remark and the presentation, if I calculate the gross margin, gross margins for this quarter should be in the range of a Rs. 51 to Rs. 52 per Kg. So, will it remain at this level for FY '24?

K. Natarajan: No, see, the EBITDA per metric ton has been about Rs 21000, close to RS 21,500 per metric ton this quarter. So, I didn't get your number of 51 to 52, what was that? Last month, no, yes. So, I think we need to focus on the EBITDA per metric ton. So, that's what we have also guided to Rs 20000 to RS 22,750 with the volume growth of 6% to 8%. I think that should be the number that we should stick to.

Nilesh Ghuge: My second question is on the local and niche player share. So, that share is continuously going up. At the same time, your MNC share is coming down in revenue, and you mentioned that there is a slowdown in a developed nation. Do you think the share of a local and niche player will also be more this year compared to your MNC customers?

K. Natarajan: No, it will be a typical, always moves within a range. So, I think in India everyone seems to be doing well. So, I don't see that as an issue, but yes, there will be minor churn amongst them, okay, and that's why it keep it in the range. So, I don't see that as a key determinant.

Nilesh Ghuge: But just correct me if I am wrong. If your share of this local and niche player increases, the margins will be better, right?

K. Natarajan: Yes, it should be, but depending on what sort of product portfolio that we work with them, so yes. So, in general, it should be okay, but it differs from customer to customer.

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

Rohan Gupta: Sir, first question is on closely looking at how we are guiding roughly now Rs. 20,000 to Rs. 22,750 kind of margins per ton, though probably not adequately available the volumes which we have stopped giving, but we have been guiding for last year it's roughly 6% to 8% kind of revenue growth and expecting EBITDA growth higher than that and the bottom line growth even higher than that within the operating leverage.

Now when you are talking about roughly even at the high range of 22,750 kind of margins per ton, that leads to roughly close to 7% to 8% decline compared to last year in terms of margin. So, even if we achieve the highest number, the bottom-line growth probably looks like flattish in the current environment. So, are we just being slightly conservative or has the scenario changed much faster or deteriorated faster than we anticipated three months back?

K. Natarajan: No, Rohan, Natarajan here. So, we are not being conservative. So, we have been very realistic. We have explained as to how North America and Europe have been impacted significantly with the specialty volumes. And we also know that something needs to come around. So, as we are very clear that we need to grow our volumes at 6% to 8%, that is the key priority, and we need to have EBITDA, absolute EBITDA to be growing higher than our volume growth. That's very clear.

But this guidance is to only ensure that we are able to give some sort of a because we have not, we have stopped giving the EBITDA per metric ton guidance for almost the last two to three quarters. So, we wanted to get back to that so that the market gets a clear picture of how we think about directional things will be.

Rohan Gupta: So, you see that there will still be growth at an EBITDA level.

K. Natarajan: Yes, that's right.

Rohan Gupta: And higher than volume growth.

K. Natarajan: Yes, that's from our this thing, firstly, we are very clear, that's what we work towards. That's what we aim at, but we only want the external situation to be equally cooperative. With that in mind, yes, we should be growing our EBITDA higher than our volume growth. That's very clear.

Rohan Gupta: Sir, last time you are talking about that, we have seen a significant destocking happening in a market like, you know, in U.S. markets and all like Wal-Mart and all, they are going more closely towards the inventory destocking that has impacted the volume. However, down trading was also taking place in some markets like Europe where the consumption or consumers have been facing inflation. So, do we see right now the volume decline which has happened? I assume that the inventory destocking situation would be broadly over. So, it is now the real consumption that is getting hit or do you see that the specialty volume which is still weak in the current environment is more weaker because of the destocking is still taking place?

K. Natarajan: So, see, the inventory destocking is something that started progressively coming down. So, we do expect based on discussion with customers that by September it should be fully through. The other aspect also is that what Shekhar said during his opening address, that there had been this thing where the consumers have started moving more towards mass and mass reach product. So, for them to come back to consuming very robustly, the prestige products is something. We do hope that it starts happening in the second half. So, we are eagerly awaiting that. Probably, we will have a better answer to this question when we meet next about our conference call for the next quarter results.

Rohan Gupta: Sir, a last question from my side. Sir, we have seen that the fatty alcohol prices have fallen to almost $1,240 level, mostly COVID or closer to that level. From here, we may see some slight recovery, but do we see that the impact or the falling raw material prices which would have led to benefiting the end consumer in terms of the falling end product prices, it is helping only the Indian markets to grow or the Indian markets are overall growing irrespective of across the categories and specialty also and in a surfactants markets as well?

K. Natarajan: So, Rohan, we have been looking at the commentary of all our customers in India, the big customers. So, if you look at them, all of them are very clear that the lower commodity prices have enabled them to pass on the reduction. So, you have seen all of them have increased the grammage. There are more bigger types that are now into the market. So, that's aiding our customers to be able to start getting their demand higher and they kick starting consumption by lowering prices increasing grammage. Yes, but for anything significantly impactful as far as supply side is concerned, we do hope that the situation continues and keeps sustaining growth momentum that has been there over the last three to four months in India.

Moderator: Thank you. We have the next question from the line of Rohit Nagraj from Centrum Broking Limited. Please go ahead.

Rohit Nagraj: Just first, initially, a clarification. Any specific reasons for not providing the volume data for the quarter?

K. Natarajan: Well, yes, we have been here to make it change from this time because what we wanted to be given the context in which we are talking that direction inputs are more important because the specific numbers can be a little bit inappropriate. So, we said we would stick to this moving forward as the way that will guide the market in terms of what we have grown in terms of volumes. We will report the overall volume growth specifically, but the individual numbers typically need to be given directionally so that we end up being consistent in how we put it across.

Rohit Nagraj: First question is on India. So, we have seen consistently high growth over the last few quarters and given that earlier, the inflation was also higher, the growth did not subside. So, is it related to some specific new product introductions that we have done? I mean, you just alluded that in terms of the customers, they have increased the grammage, etc., but from our side, it is through some new product introductions, or is it based on the market share gain we have had?

K. Natarajan: It's a combination of all that you have said. So, there have been some volume share gains that we have had. The other thing is in terms of how some categories we participate in have grown pretty much well from our customers' point of view, which has enabled us to participate much more with their franchise.

And the other one is we have also seen some good traction in terms of certain new product introductions that we have done in terms of specifically to the D2C brands and also in some new introductions that we did. So, it's a combination of all these because it is important that as far as we try on all these fronts, the market also has to be cooperative, and India has been really cooperative regarding the demand side. So, that's good for us, and if this sustains, I think we will have the numbers getting sustained in terms of India volume growth.

Rohit Nagraj: Just second clarification again slightly on the numbers. I mean, pardon me, I am pressing again on this. So, last year we did about Rs 568 crores of EBITDA for the entire year. First quarter we have done Rs 123 crores. So, if I just get up Rs 568 cr minus Rs 123 cr, it's close to about Rs ~450 crores, which signifies about Rs 150 crores of absolute EBITDA in the next three quarters consistently. So, how confident are we that maybe given that we have given the EBITDA per metric ton guidance, is there any possibility of the 6% to 8% volume growth probably getting higher given that we have seen positive tractions across the geographies, and India is continuously performing exceptionally well?

K. Natarajan: Yes. So, what I am saying is that you are pretty much right in terms of what you have concluded, but yes, our aspirations are very, very confident, but we do hope that the external scenario starts cooperating pretty well. And we have reasons to believe that the worst is behind us in the developed markets. So, let's keep our fingers crossed. That's important, but the internal mandate to our teams is very clear that we need to better our last year EBITDA numbers, and we need, as we focus in terms of ensuring that we grow very aggressively on our volumes. That's very clear. So, this, the guidance that we have given is to ensure that we are able to give some clarity to the market participants, but that doesn't limit us in terms of what we need to do.

Moderator: Thank you. The next question is from the line of Vipraw Srivastava from InCred Capital. Please go ahead.

Vipraw Srivastava: So, just one question I had. So, for this quarter, if we look at the EBITDA margins, it's around 13.1%, and that has been the trend for the last two, three quarters around 14% to 13%. So, as we have seen the raw material prices have come down significantly for Galaxy. So, going ahead, if prices go upwards, do we expect that this margins might contract slightly to around 10%, 11% which we have seen historically or do we expect this margins to hold for the, let's say, next two quarters?

K. Natarajan: I don't think we need to have any guess there. That's why we guide the market in terms of EBITDA per metric ton because the margin percentages can vary depending on how the raw material prices go up and down. So, that is not integrated with the propensity of our business to deliver margins. So, that's EBITDA per metric ton is what needs to be looked at.

Vipraw Srivastava: Just one more question. So, regarding the U.S. market, which you have told that you expect the numbers to improve from the second half of this FY, so, I mean, is it based on some discussions with the end clients? I mean, will they be taking more orders post this, in the second half or is it just based on, it's just a qualitative analysis based on your experience? I just want to understand the reason behind that.

K. Natarajan: So, it's a combination of the way some readings that we do or what is happening in the market, some commentary in terms of our customers in the U.S. market, some amount of face-to-face discussions and meetings with our key customers there. No one gives you these things very clearly, but this is what we term as our team who are in the front surmises, and they relay it back to us. So, it's based on that, you know, we have come to this particular expectation in the second half of this year.

Moderator: Thank you. The next question is from the line of Krishan Parwani from JM Financial. Please go ahead.

Krishan Parwani: Just one question from my side. So, based on the qualitative commentary you gave in the presentation about the volume growth, the realization for your Specialty products have jumped significantly in this quarter. So, what would be the reason for the same, if you could answer that?

So, my question is your Specialty care realization has roughly jumped from Rs 134 per Kg in the last quarter to Rs 193 per Kg this quarter. So, any particular reason? Because I think it had started normalizing from, let's say, Rs 230 to almost like Rs 134 in the last quarter?

K. Natarajan: No, it's a mixed impact. So, if you also see that the volumes are lower for specialty and then the mix with North America volumes below, the realization per Kg will look higher, right? Because there is a denominator which is lower. So, plus, there is also a mix that is so leading to that.

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

Bobby Jay: Gentlemen, just wanted to clarify what do you mean by, you know, the consumers not spending enough? Because all the data that's coming out from the U.S. at least shows that the economy is robust. That's the reason the Fed is not even stopping interest rate increases. Employment is, unemployment at a very low level. People are spending. They are splurging on luxury products if you look at the sales of Louis Vuitton and all that. So, your comments don't reconcile with what's happening there.

K. Natarajan: Oh yes, you are right, Bobby. In fact, we also have been grappling with this. Still, then we have been trying to find as we read our customers' commentary, we are also looking at our competitors' commentary there, and we are also looking at all the other chemical manufacturers there. All of them seem to be reporting very, very low results. So, we are trying to establish a correlation if the entire U.S. market is doing well, why is it only in our segment we and our competitors, they are in the U.S., and all the other chemical players in U.S. don't seem to be performing very badly. So, we are trying to get to some analysis there. We have not yet completed this. So, we are also having the same question in our mind.

Bobby Jay: And could you give some actual examples of the products that you use your chemicals? For example, I know there is sunscreens and other face screens, right? But what are the brands specifically? Can you mention them?

K. Natarajan: It will be your high-end shower gel. It will be shower oils. It will be high-end…..

Bobby Jay: No, what I mean is, sorry, what I mean is the actual brand like Head & Shoulders or what's the brand you are talking about here?

K. Natarajan: There are a lot of them. We don't want to be talking about that because there is some confidential that we get into with our customers. So, we don't want to be revealing that.

Bobby Jay: Because, you know, when you say high-end brands in shampoos or sunscreens, I mean, it's hard to think of any. I mean, most of the brands in the U.S. unless they are, I mean, they are ultra high-end.

K. Natarajan: So, I think, I will give you an introduction, Bobby. I think you should look out for a sulfate free formulations.

K. Natarajan: So, you can look at preservative free. You can look at anti-aging.

Bobby Jay: Are your chemicals used in sunscreens, correct? The Specialty chemicals that you sell?

K. Natarajan: No, we don't have a big presence in sunscreen formulations.

Bobby Jay: So, your presence is where? In anti-aging creams or just facial creams in general?

K. Natarajan: They come into shower gels, into shampoos, into toothpaste, into home care formulations, both cleansing as well as this thing, fabric enhancers, all of them.

Bobby Jay: I understand. So, if you take shampoos, when you say high-end shampoos, how does that compare with Head & Shoulders and Procter & Gamble? Would it be what 50% higher price or? I am just trying to get a sense of what kind of products you are referring to when you say high end.

K. Natarajan: Oh, yes, so when you look at sulfate free, typically, it's the high end shampoo. So, anything that is sulfate free is high end. So, compared to Head & Shoulders, you look at any sulfate free. I think you will find…

Bobby Jay: So, it will be at what price premium to Head & Shoulders?

Unnathan Shekhar: And there are a whole lot of niche players in U.S. who sell these shampoos at a much, much higher price compared to what you call as Head & Shoulders.

Bobby Jay: So, you supply to those, those brands.

Unnathan Shekhar: They are all small niche players. There were a lot of small niche players around the United States of America.

Bobby Jay: So, those are the ones you are referring to when you say that your volumes aren't picking up. Is that correct?

K. Natarajan: No, even all the players also have their own premium high-end sulphate-free formulations. So, even that has got impacted. all the players have their presence in high-end prestige formulations, whether it be a local niche brand or even bigger customers with their own brands in that segment.

Bobby Jay: So, some brand like Dove or Head & Shoulders would be mastic-free, right? That wouldn't be premium.

Unnathan Shekhar: Yes.

K. Natarajan: Yes, they would come under the category of mastic.

Unnathan Shekhar: Correct.

Bobby Jay: So, you are talking about like a 20%, 30% premium to these brands are the ones where you are seeing so off take. Would that be correct?

Unnathan Shekhar: Yes. I mean, you would be surprised to know that there are certain brands in U.S. which sell for something like $16 a bottle.

Bobby Jay: 16 a bottle.

K. Natarajan: Yes. But they may have a very, very small preference. You know, this is what I am saying to give you an idea of what we call extreme prestige or high premium, very high premium.

Bobby Jay: The next question is from the line of Karan Gupta from Varanium Capital. Please go ahead.

Karan Gupta: So, my first question is related to the raw material fatty acid and fatty alcohol, which is the most important raw material for us. So, any plan, any possibilities to backend integration of this raw material, basically this extracts from soybean, and palm oil? Any backward integration you are planning or thinking about this? Because this is raw material fluctuating in price is very much, more than 50% from quarter to 121 I think quarter.

K. Natarajan: But that's not going to change even if you backward integrate. So, that's better managed by our strategic vendor partners. They are doing a pretty good job, and we have vendor partners who work for us, think for us and support us well to ensure that we can manage it virtually and keep it up.

Karan Gupta: See, I just did this small research on this thing. So, the extraction from palm oil or your soybean oil will get you this thing, fatty acids and fatty alcohol. So, would you think that you can manufacture this in-house?

Unnathan Shekhar: For your information, the fatty alcohols and fatty acids which are significant or relevant or important for the personal home care industry largely come from Palm kernel oil and coconut oil, which are the main contributors in terms of what we call the Lauryl carbon chain. The palm oil and soybean oil also contribute to certain fatty acids, but the large, you know, large constituents of the fatty alcohols in the personal home care industry are from the lauric chains that give you a picture of what specific oils are consumed significantly for the home and personal care industry. And soybean oil and palm oil do not have the lauric chain.

Karan Gupta: So, it's better to rely on the vendor.

Unnathan Shekhar: Yes.

Karan Gupta: Second is something related to the maybe this question or the information may be confidential for you, but just on the broader view, if I take the one bottle of shampoo, so how much is the contribution of our overall products or chemicals in that bottle? I mean, in any products, what is the contribution of, I just wanted to understand the significance of our products?

Unnathan Shekhar: Typically, for your information, a bottom of shampoo, the contents will contain almost 75% water. Okay? The ingredients going into a shampoo bottle, will constitute approximately anywhere from 18% to 22% or so. So, 75% is constituted by water.

Karan Gupta: So, 18% to 28% is our product.

Unnathan Shekhar: Yes.

Karan Gupta: So, in one product, let's say, shampoo or your sunscreen or nail polish or any personal care or anything, so we can include two, three chemicals or four or five chemicals just to increase the effectiveness of our product.

Unnathan Shekhar: So, it can be anywhere from, you know, a simple shampoo could contain only four ingredients to a very complex formulation which could contain even as high as 15 to 20 ingredients.

Karan Gupta: 15 to 20 ingredients.

Unnathan Shekhar: Depending upon the claims, the benefits, etc.

Karan Gupta:

The last question is related to the Specialty chemicals. I can imagine performance surfactant as a product, but some of the Specialty chemicals I am not able to imagine. So, just give the broader sense of the growth trajectory of this? Because we have the major product range in this segment and contributing around 38%. So, just trying to understand the growth trajectory of this Specialty chemicals.

K. Natarajan: So, we have said this earlier. So, our strategy is to grow both legs of the market, both the performance surfactants and specialty ingredients, and they will continue to be in this particular proportion only, you know, 60/40, 60 by 35, because the way the ingredients get formulated, I think they typically have this proportion. And the specialty ingredients portfolio, the growth will majorly be driven by the developed market because there are much more reward consumers there, and they have got a clear demand with regard to this prestige products in which our special ingredients go in a significant way. So, that's what it's going to be.

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

Rohit Mera: Just one question. What is the current capacity utilization? And secondly, what is our debt to equity ratio?

Unnathan Shekhar: As of today, the capacity utilization is 68%, and our debt equity ratio is less than 0.15.

Abhijit Damle: Less than 0.15.

Moderator: Thank you. As we have no further questions, I would like to hand the conference over to the management for closing comments. Over to you, sir .

Unnathan Shekhar: Thank you very much . Thank you, ladies and gentlemen, and I look forward to the next quarter. Thank you.

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