“Transpek Industry Limited
Business Update Conference Call”

October 01, 2020

MANAGEMENT: **MR. BIMAL MEHTA - MANAGING DIRECTOR - TRANSPEK INDUSTRY LIMITED**
MR. PRATIK SHAH – CHIEF FINANCIAL OFFICER - TRANSPEK INDUSTRY LIMITED
MR. ALAK VYAS - COMPANY SECRETARY - TRANSPEK INDUSTRY LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Transpek Industry Limited's Business Update Conference Call. This conference call may contain forward looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bimal Mehta. Thank you and over to you, Sir!

Bimal Mehta: Thank you. Good evening everyone. Thank you all for joining in for Transpek Industry Limited Business Update Conference Call. I am Bimal Mehta, Managing Director of Transpek Industry Limited and I have along with me Mr. Pratik Shah, CFO and Mr. Alak Vyas, Company Secretary on the call. I hope that all of you and your loved ones are safe, these are really extraordinary times and perhaps the most important thing for all of us is to ensure that we all are safe and so is our family. As this is our maiden conference call let me give you an introduction of our company, its operational and financial highlights following which we will have the forum open for questions and answers.

Before we start, I hope everyone has gone through our investor presentation uploaded on BSE earlier, for those who have not, it is available on the website of the company as well as on the website of BSE. The company was incorporated in 1965 as Transpek Industry Private Limited. It was founded by Shri Govindji Shroff. Currently Mr. Ashwin Shroff is the Chairman of the company. We started with business of manufacturing acrylic sheets and in 1968, we took a strategic decision of diversifying and entering into chemical manufacturing business. Since then we have grown leaps and bounds, diversified and emerged as one of the most responsible producers and exporters of chemicals in India. Over the years we have achieved expertise in manufacturing and handling chlorine and sulphur based chemicals and have indigenously developed processes for chlorinated chemicals like Thionyl Chloride, various Acid Chlorides and various Alkyl Chlorides. This chlorination chemistry presents unending opportunities for supply of intermediates and speciality chemicals suitable for multiple applications. Currently we carryout reactions like chlorination, acid chlorination with Thionyl Chloride, which includes acid chlorides and fatty acid chlorides, alcohol chlorination with Thionyl Chloride, which results into alkyl chloride, Friedel-Crafts Reactions, Sulfonation and Amidation. We also use sulphur and do some sulphur chemistry, both chlorine and sulphur are very difficult to handle, what differentiates us from others is how we handle such hazardous chemicals. Adding to it, we were the first Indian company to introduce few products like Chloroacetyl Chloride long back as well as Thionyl Chloride. To sum up, our key strengths are chlorination and sulphur chemistry and handling hazardous chemicals in 1000s of tonnes at the same time.

Coming to our products and product portfolio applications, there are many applications in which our products go, one of the major applications is polymers. Polymers does not mean only plastic; it also means high performance polymers where you require product strength, high durability, fire retardant characteristics, light weight and such other critical aspects. These polymers are used in many applications where metals are being used, whether iron, steel or some other metals. So they are used to replace metals. We manufacture monomers and when you combine two or more monomers it becomes polymer, so we supply monomers to our customers who makes polymers out of that, few examples based on our understanding of products that are made out of polymers are bullet proof jacket, brake and clutch pads for Formula One racing cars, high end consumer cars, aircraft components, body and parts whether civil or military aircraft, it is also used in space program and nowadays this kind of polymers are also used in construction of very high rise buildings. These are not the only application we have so for the product, as we have discussed in the past and as mentioned in our annual reports from time-to-time, our products also find application in agrochemicals like various pesticides, herbicides, insecticides, pharmaceuticals, flavors, and fragrances, etc. In pharmaceuticals, our products are used to produce folic acid supplement and for other medicines used for cold, cholesterol reduction, etc. A smaller part of our products is also used in colors and pigment application as well. This I am specifically mentioning as we have been receiving a lot of queries to understand how diversified other products and its uses.

Coming to research and development, all our products are manufactured with indigenous technology developed by our research and development team. Our R&D facility is recognized by Department of Science and Technology, Government of India. Our facilities are also approved for allowing students pursuing PhD to conduct research and experiment. We have been pioneers in starting independent process safety management in India. Most of the global giants have such department for taking care of any mishap during process. It is important to monitor and control the process at each stage for the complex chemistry that we deliver.

Coming to manufacturing facilities, we are headquartered in Vadodara, Gujarat and we have our manufacturing facility at a village called Ekalbara, which is in Padra Taluka of Vadodara and that is approximately 25 kilometers away from our registered office. The location is strategic, so it helps us being well connected with our customers as our plant is approximately 400 kilometers away from Nhava Sheva Seaport, Mumbai while Mundra.

Pipavav and Hazira seaports are also well within reach. Also Vadodara city has an inland container depot for facilitating export activities. Our plant at Ekalbara is spread over 100 acres of land with total production capacity of 66,000 metric tonnes per annum for all products. We have plants, which are multiproduct, multipurpose plants. We have an expert team of engineers, which look at process scale of plant, design, erection and, commissioning. In our manufacturing premises, we also have facility to take up contract manufacturing as well as job work facility for our customers to provide them economically viable solution. As all of you know that environment protection and sustainability are very key aspects for chemical business, we have technical expertise in handling hazardous chemicals and therefore we have a very strong focus on safety and environment protection.

Now, let me run you through our ESG initiatives, which are the heart of what we do. Over the years, our company has adopted a sustainable approach of doing business wherein environment health and safety come at the forefront. At Transpek, constant efforts are made to curb and control the effluents, gases and other harmful substances from the plant and ensure safe disposal of these substances. All these efforts have helped us in achieving higher standards of safety, leading to better working environment for all our employees and surrounding communities. We have also adopted several measures and methods such as installing rainwater harvesting and recharging facilities in our plant and also ensuring adequate green cover in our premises. We have full-fledged effluent management system with a licensed discharge facility to the central effluent channel. Our company has over 100 acres of land with green belt of over 30,000 fully grown trees within its premises.

As you know transporting chemicals is also a very critical element, we have a very robust logistics and packaging system. Logistics play a very vital role in our business as a safe, systematic and for sustainable transportation, which is a key challenge in global chemical industry. I am happy to share that we have been the pioneers in developing an in-house ISO tank station, which is well equipped with the state of art technology. We manage over 600 ISO tanks for safe and secured transportation of our products whereby each tank is closely monitored for its efficient utilization, periodically inspected by our internal team as well as competent external agencies and authorities.

Our team also has expertise in providing end-to-end support to deliver the material in ISO tanks where we have facilitated many customers in transition to use ISO tanks using our technological competence. On the packaging front we offer different size of drum packing for our products, which are UN approved and certified by Indian Institute of Packaging. All packing, marking and labeling are prepared and shipped as per IMDG, IATA and REACH guidelines.

We have a very significant global presence of over three decades in international markets. We have been able to build a very solid reputation with world's leading chemical giants, which has enabled us to develop long standing and successful business relations with them and we supply large quantities of acid chlorides to some of them. Approximately, 70% to 75% of our business comes from exports and we have built very strong relationships with these MNCs since more than 30 years.

On Awards and accolades front, I am very happy to share that our efforts towards various initiatives in terms of environment, in terms of CSR, in terms of safety and various other aspects; those efforts have helped us to achieve few milestones major milestones over the years. I would just mention few of them. One major milestone is that our company has been rated silver badge by Ecovadis Sustainability platform. We have also received excellence in CSR award from Government of Gujarat, best in social responsibility award from the Indian Chemical Council and another award from Federation of Gujarat Industries for excellence in the field of environment pollution abatement and preservation.

This was just an idea about the company, now let me run you through the future prospects and growth initiatives undertaken by the company on timely basis. One such focus area is to introduce products that are intermediates with the objective of enhancing our value in terms of value-added products. We are also working on forward integration from acid chlorides and also considering other chemistries independently or as part of such forward integration. Few products are under development at multiple stages. We are also in the process of evaluating and acquiring new customers across product categories and geographies, which will help us, reduce customer concentration.

We also acknowledge there are several external opportunities for growth, the government's self reliant drive might provide more supportive business environment to the chemical industry. Also uncertainty in the minds of global giant towards Chinese manufacturing companies at present might provide good opportunity for chemical companies including us for quick growth. The company is making all efforts and getting ready to capture the growth potential expected at present and in near future. Thank you. Now I would like to handover the call to the moderator to open the floor for question and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir, firstly our EBITDA margin has improved significantly in the last two years along with reduction in working capital so can you please explain the reason for that and second question would be your current capacity utilization. I believe 66,000 is the installed capacity, if you can give some breakup along with the current utilization and the expectations for the current year and the way forward?

Bimal Mehta: Yes, sure. So this last two years of EBITDA margin that you have mentioned is basically if you look at the significant increase in our volumes compared to the earlier years. This is one reason that it has given higher EBITDA margin and another reason is that we have product mix, mix, which has different margins. Even same product can have different margins for different regions or different customers depending on the quality requirements or delivery requirements that they have, so sometimes we have a mix, which provides you little higher margins so that is why you are seeing those higher margins in the last two years.

Dhaval Shah: Which would be those products if you can name that?

Bimal Mehta: No, these are confidential matters and we cannot disclose as we are bound by lot of customer confidentiality agreements.

Dhaval Shah: Okay.

Dhaval Shah: Can you also throw some light on working capital because it has improved significantly for us.

Bimal Mehta: Yes because we have been able to improve our realization, utilizing various instruments like pre-shipment credit and post-shipment credit and various other things and then customer supported discounting, bill discounting, so with all that our working capital utilization has significantly reduced, so basically we have better cash flow situation. Plus of course the last two years margins have also added good amount of cash into the system. Coming to capacity utilization, the 66,000 metric tonne is basically a combination of various products including the ones, which we use for internal consumption, so for example we use sulphur trioxide for making Thionyl chloride, we produce sulphur dioxide then we produce Thionyl chloride and then Thionyl chloride is used for acid chloride, so it is a kind of a complex network of the things, but currently we are operating at about 50% capacity and as everyone knows that currently the time is very uncertain very, very volatile, so we expect that utilization should increase in coming months and probably in the next calendar year. But yes this is an expectation right now what we believe is that is very difficult to predict.

Dhaval Shah: Sir how much of this capacity would be committed for the long-term contracts?

Bimal Mehta: Again little bit of confidentiality is involved so we would not be able to tell.

Dhaval Shah: No problem Sir I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you for the opportunity Sir and great initiative, through this conference call it is very easy to understand the company and keep track of what the progress is, so thank you very much for this. I had a few questions, on the non-pharma part of the business when you introduce new molecules how long is the validation cycle there, how long does it take for you to convert a new product into a commercially viable business?

Bimal Mehta: Any product, whether it is pharma or non-pharma, we must keep in mind that there is a very huge amount of validation that goes into the product. There is a R&D level validation, then there is pilot level validation, then there is commercial level validation on our side. Then on the side of the customer also there is validation and then they finally validate their end product also. So typically what we have noticed is that on an average, it takes about two years time for a product to get fully commercialized.. In case of Pharma it might maybe little more or maybe almost same but there is not much difference except if the application is very, very simple or of a mediocre kind wherein there is not much strict requirement, but most of our products do not have that kind of scenario, we are supplying to those applications where validation process takes time.

Agastya Dave: Sir you have also mentioned that value addition is something that you are looking at so I am assuming this would be you are going into products with multiple stage processing. So suppose just hypothetically here because I do not have a perfect understanding of your company, let us say if you are doing today two steps and you progress into a process or a product which gives you four steps; so what impact on gross margins would you see in such a case?

Bimal Mehta: No it is not very easy to quantify or specify without understanding the product because each product has different characteristics. Sometimes even if you had one step but it may be very, very hazardous, very difficult to complete then you may fetch little better margins and if you had three steps, they are simple steps then the margins maybe lower so there is no benchmark or number, which says that for every step this is going to be the value addition.

Agastya Dave: Finally I believe you sell a lot of TPC and it was one of the big orders that you won a couple of years back. over the last two years I do not know the timeline here, so excluding the TPC order that you have got, for your base business of acid chlorides what is the growth there it is such a large thing and I cannot find any data about it online, so could you describe excluding this one big order your base business how is that growing, how is that expected to grow?

Bimal Mehta: First of all let me clarify that this is good that you ask. There is a continuous belief that TPC is something that we sell in a big way but TPC is one of the acid chloride and currently yes we have very large volumes in TPC, but there are products, which are similar to TPC, for example IPC is there and TPC is also not sold under only one contract or anything. There are multiple customers of TPC and there are some other compositions of TPC with other products and in various ways this product is being sold. Now when you look at the growth, then growth is typically monitored not in terms of product but is monitored in terms of application and customer; so for example currently pharma is definitely a growing industry as we all know so there are number of products that we are working on where the application would be pharmaceutical. And while this TPC basically IPC, TPC some other products go in polymer so this polymer business is also expected to continue to grow, but it is not only TPC other products are also there in polymer and pharma application is expected to grow. What we believe is that agrochemical is not going to grow, even if it grows it has become largely commodity business so with significant growth also there may not be significant benefit coming to manufacturer; so pharma yes of course we are looking at so where we expect good growth to come. But right now you see this current volatile situation has actually made everybody wonder that what we should be projecting, what we should be looking at so we are just working on various initiatives, looking at opportunities and trying to work out what should be or what would be our growth.

Moderator: Thank you. The next question is from the line of Anand Trivedi from Nepean Capital. Please go ahead.

Anand Trivedi: My first question is you had planned capex of Rs. 120 odd Crores in Vizag, which you have postponed if you can give any color on why that has been postponed is that because the order that you are expecting have not come through or is it just because of the uncertain demand situation during COVID-19?

Bimal Mehta: Basically we have postponed this capex or this new project especially because of the COVID-19 situation as there is a significant amount of uncertainty in the market not only Indian but also global markets. We do not want to really become very aggressive and want to play prudent looking at all possibilities and opportunities in the current situation and commit ourselves only when and where we really see value coming in.

Anand Trivedi: So you would revisit this going forward?

Bimal Mehta: Yes, this would be revisited at an appropriate time.

Anand Trivedi: The second question I had is you have a fairly large investment of about 100 Crores in Silox and you are getting a fairly low dividend yield from that, what is the future plan of this is something you are intent to hold on or at some point of time would you look to monetize this?

Bimal Mehta: This is something that would be considered by the Board at appropriate time and this is a very small percentage of investment in a company that is Transpek Silox and valuation is being done, because it is a closely held company, so valuation is being done by expert valuer. Therefore you are mentioning this valuation in terms of the amount and then dividend yield, but that was an investment that was done way back in 2000 and Board will definitely at appropriate time will consider what to do with this investment.

Anand Trivedi: Ok. Thank you so much.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus Asset Management. Please go ahead.

Rahul Veera: Sir it is good to have you speaking on the call. It makes access very easy because last two times we had to come to the AGM to discuss everything in Baroda. Sir I just wanted to understand now in terms of client concentration and the product concentration can you give some color on that Sir like Thionyl Chloride what percentage of revenues would be that or any top three molecules for us?

Bimal Mehta: See basically so far as client concentration is concerned, as I mentioned that there are some confidentiality requirements, but as you also would have noticed in my speech that we are working to reduce our client concentration. So far as product concentration is concerned as I mentioned let us not go product by product because it would be not very easy to understand just purely based on product, but we should look at application concentration so right now we have significant concentration in polymer application as probably if you have seen our presentation, which was uploaded earlier or otherwise I would recommend you to go through it that would give you a very clear understanding on our product application, it is about 70% in polymers and about 18% in pharmaceutical these are two concentrations. Now if you consider look at this as product application concentration perspective then it might appear big risk to the Company. But both these applications industry are growing quite well. This kind of high-end polymer market is also expected to grow from whatever public domain information that we have by about 10% a year and pharma industry of course we all know that it is considered to be a good high growth area. So this is the area where we are trying to focus to reduce our concentration. For example in pharma, -as I mentioned earlier we currently have about three or four product applications; but we are focusing and looking at multiple product applications. In polymers also we are looking at other applications besides what we are doing today. Addition to this, we are also looking at other applications, for e.g. cosmetics, flavors and fragrance. Some other applications like colors or pigments or photo initiator applications, where color fastness is being maintained by application of those products. So we are working towards having various applications, and diversifying our portfolio and minimizing or rather reducing our product application concentration.

Rahul Veera: This Rs. 120 Crores project that we have currently kept it on hold, I believe the gross block as of today is close to Rs. 250 Crores or Rs. 350 Crores of which plants and machineries Rs. 250 Crores so if we consider Rs. 120 Crores is can we assume that it will be close to 35,000 tonnes in capacity additions?

Bimal Mehta: No, investment is not as simple as the formula in terms of investment versus the production because sometimes, see for example if we are going for value added products and value added products require multistage facility it may require more investments, the sales value may not be proportionate in terms of investment, it maybe even higher or it may be even lower that is very difficult to assume in terms of X value of investment versus Y value of sales. Sometimes we look at lower value of sales but higher margin in terms of total number, total sales but higher margins and then in those products you may have to invest more because the chemistry may be complex, the equipment requirement maybe complex so there is no formula like that. And this investment also was kind of planned over stages so there is nothing like that if we invest Rs. 120 Crores and then you get this kind of volume.

Rahul Veera: How much percentage of revenues will be contractual versus noncontractual revenues?

Bimal Mehta: Again as I said customer confidentiality comes in, we have very, very strict agreements because these global giants are very secretive about what they do so they do not want this information to go in the public domain, so I am very sorry but it is not possible to answer this question.

Moderator: Thank you. The next question is from the line of G Vivek from GS Investments. Please go ahead.

G Vivek: My question is that ours is one of the oldest company in chemical sectors in India and over a period of more than 40-50 years we have not been able to become one of the chemical giants compared to some of your contemporaries by Aarti Group, Atul Group, they have gone much ahead of us despite we having a head start, so anything changing in recent times in terms of opportunity size increasing for the chemical sectors due to China Blue Sky policy and China's Plus One policy and any steps we are taking so that our CAGR and growth increases?

Bimal Mehta: Yes, so first of all look at the growth as you have seen that in the last two, three years we have started growing much faster than what we have grown earlier and we have taken steps to grow like this and we are also working on faster growth than what has been in the past and that is why we are looking at as I mentioned in my speech and giving answers to other questions we are looking at various possibilities, various opportunities, various options. Now coming to this China thing to us it still looks like very premature in terms of the belief that a huge amount of growth will come as a replacement of China into India because there is when you look at the quantum of the production that happens in China and the quantum of exports that China does globally and even just look at the imports coming from China into India it is huge, huge, huge and to create those kind of capacities or create those kind of processes or products so fast would require multipronged approach where not only just companies like ours or other companies they alone cannot do everything because there will have to be a very significant amount of investment in infrastructure by the government, like for example chemical industry zones and such other things. The regulatory framework will need to become more conducive and more supportive towards chemical industry. Much faster approval should be given, less bureaucratic processes should be there and then of course lot of incentive should be there for research and development because lot of product development will need to happen if we really have to replace China as a world's factory so far as chemicals are concerned. So we believe that yes there is a good opportunity, a really big opportunity for Indian chemical manufacturers, but is it going to be realized quickly, no we believe that it is going to be a very gradual process unless something really dramatic happens and as of now because of the COVID situation also many companies even if say for example company A wants to move their production or their purchase from China to India they are not taking risk right now if their supply chain is intact they would prefer to keep it intact for the time being and once the situation evolves and we have better clarity as industry, as economies then definitely there would be a little active movement in this, but right now it looks more like euphoria than actual happening on the ground.

G Vivek: How does the opportunity size remains for us and what are our differentiating factors and what is the CAGR we are looking for the next few years?

Bimal Mehta: First of all differentiating factors as I mentioned in my speech we are very good at handling hazardous chemicals, of course our sustainability practices are robust. Infact EcoVadis platform is a platform where it is set up by global giants, global giant chemical companies and they basically look at the ratings and if you are in good rating, like for example we are in silver, you automatically qualify as their potential supplier, so inquiries that they would like to frame for new opportunities new products they will send to us. And so far as CAGR is concerned we do not have any specific visibility as of now but once things become little better little clear as soon as this corona situation is over and we are able to work with our customers where we are of course working on lot of opportunities then we would definitely probably in a future call we can talk about that.

G Vivek: Thank you Sir.

Moderator: Thank you. The next question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia: Sir first of all congratulations in terms of achieving the turnover getting doubled from 2017 to 2020 with the addition of just 23 employees. If I see your balance sheet in 2017 it were 566 employees and right now we are at 589, but still we have managed to double our turnover, so a commendable job from the management in terms of execution. I have question if we see in terms of our historical gross block and if we exclude the Ind-AS and everything, so we have added almost Rs. 200 Crores from 2017 to 2020, which has almost helped to double our turnover and if we roughly see the EBITDA margins I think we are almost working at 30% plus ROCE so thought process of the management in terms of earlier and now with this order has really charged up in terms of our return ratios improved significantly so my question is like if we get some opportunities in terms of smaller orders of let us say Rs. 100, Rs.150 Crores do we have some extra capacities at our existing locations in terms of contract manufacturing or some tolling facilities whereby we can accommodate some more additional volumes so have we have some sort of leeways in terms of executing some smaller orders of this size because then probably the capex would not be much as compared to the kind of orders, which we may get so this is one?

Bimal Mehta: Basically we do have some additional capacity if in terms of rupee we have to translate it is not very easy to do. It will depend on the product profile and the pricing structure of that product, but yes we do have some additional extra capacity available if you look at on an annualized basis sometimes it may so happen that in a particular quarter our capacities maybe fully utilized because some products are seasonal. So when the customer demands during a particular period, very high quantity, then maybe all the facilities would be occupied but yes we do have extra capacity to generate further revenue.

Nirav Jimudia: Whenever you are negotiating for the new contracts what is the threshold IRRs or return on capital employed you keep in mind before putting up a new plant or let us say taking new orders from the customers?

Bimal Mehta: I think the business negotiations are not just typically on IRR or ROCE or margins, margins are of course critically important, largely we look at payback period and various other parameters but most of the times especially when you are negotiating a contract as you just mentioned they are more strategic in nature so we look at long-term opportunity, long-term benefits, plant utilization, turnover of the capital, capital investment and then of course the margin, so it will vary from product-to-product, customer-to-customer, market-to-market, application-to-application and even what is our horizon if we are doing business for just one year say for example if it is a simple opportunity and then we have to forget about it then we may look at little higher margin, if it is long-term opportunity where its sustainable business coming in then it will be a lower margin so it is not something that is purely a financial exercise in that sense.

Nirav Jimudia: Second question in terms of if you see your balance sheet of last 15 years I think we have invested almost 30 Crores, 35 Crores in R&D cumulatively in last 15 years, so most of this R&D has gone in terms of product innovation or process innovation because let us say we have some synergies inside our business whereby we can have some process innovation and do an R&D over that or have our R&D being more focused towards product innovation in terms of getting new products to the market, so how has been the journey in last 15 years?

Bimal Mehta: Both, but, if you talk about proportion then it is more proportion towards product development because in last 15 years except for one or two acid chlorides all other acid chlorides that we introduced have been produced from last 15 years, we also added as I mentioned earlier Friedel-Crafts product, which is very complex, so higher portion towards product development and balance towards process for example in the process we developed a kind of closed loop chemistry where our own by-product becomes raw material for the end product as it is like a closed loop chemistry, so some process innovation and some R&D has also gone into effluent treatment systems. For example we have developed our own water treatment facilities, which is a biological process compared to conventional or any other chemical or solvent processes, some R&D has also gone into that.

Moderator: Thank you. The next question is from the line of Vivek Gandhi from Discovery Capital. Please go ahead.

Vivek Gandhi: I had a couple of questions. One is on polymer side given it is about 70% odd revenues could you give us some sense on the actual end markets, which you are ultimately supporting and actually providing chemicals to which will give us an indication on how to see growth going ahead and also whom you can compete with on these specific products?

Bimal Mehta: Basically this polymer as I mentioned in the speech what we manufacture is monomer and these polymers are basically a combination of two or three monomers or whatever is the process that customer has they are combined to make polymers, now the polymers that are manufactured out of the monomers that we supply are basically in high-end applications and some of the applications I have mentioned in my speech and then applications are continuously growing because metal is being replaced in many, many, many applications for example if you want to make efficient electric cars, which is going to be the future as we all see right now, now they have to be very light weight because otherwise they will not give the efficiency that is expected and there will be frequent recharging, so in order to replace the metal body in electric cars some of these type of polymers can be the key.

Vivek Gandhi: Is it like PTFE kind of polymers?

Bimal Mehta: No, these polymers are aramid fibers, so this is like high strength low weight high resilience, high tensile strength, high yield strength, high resistance kind of material.

Vivek Gandhi: How is the competitive intensity and the pricing and how should we be looking at the long approval process?

Bimal Mehta: No, these polymers are actually aramid fibers and have no competing materials.

Vivek Gandhi: No, the chemicals which we provide to our clients who are having a lot of competition for that.

Bimal Mehta: Competitors to us that is what you mean to say?

Vivek Gandhi: Yes true.

Bimal Mehta: Yes there are couple of companies globally and also one company in India, there is one company in Japan, there are couple of companies in China so some of them have much smaller capacities than what we have and some of them for example Japanese company also has some internal consumption, internal means within Japan so of course there are competitors and the manufacturer, but the market size is right now pretty big and it is growing in terms of what we understand from the market and from the public domain information is that this aramid fiber market is is growing about 10% a year so there is enough to play for various manufacturers.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: I am just checking a couple of clarifications and I attended your AGM also the recent one, so on the acid chloride side that is one of our growth driver if you could help us understand without leaving the product are the opportunities of let us say 100 Crores odd product sizes and how many such opportunities are possible and just that in the chlorine chemistry space whom would you look up to or any peers that you want to tell us and what business sizes they have attained in the chlorine chemistry space?

Bimal Mehta: So far as acid chlorides is concerned there are acid chlorides which have very large volume applications and those opportunities definitely we are looking at some maybe 100 Crores, some maybe 50 Crores, some maybe 200 Crores so there are indeed products, which have very large volumes, but yes of course they are being manufactured in some small/ large quantities by different, different manufacturers and when you look at chlorine chemistry then one company in Europe, which is called CABB is one big company, which is very old and is involved in big way in chlorination.

Pritesh Chheda: What revenue size?

Bimal Mehta: No I do not have the numbers of the CABB because we do not compete directly with each other in almost we do not have any direct competitions, if you really want to understand chlorine chemistry, they are pretty big yes.

Pritesh Chheda: Okay any other name alongside CABB?

Bimal Mehta: No.

Pritesh Chheda: Just one more clarification I was seeking we have done 100 Crores capex in the last two years over and above the 100 Crores that we did in 2018, one of the response you made was this 100 Crores in the last two years lot of it has gone for column construction, automation, etc., and on the other side you said that your capacity utilization Q1 is 50%, to one participant you even responded saying that if there is some new business I can do a bit of it from a existing capacity so just clarifying here the asset block that you have on ground what revenue can it support and your peak revenue was 600 Crores so what revenue it can support and is it fair to assume that incremental growth if any whichever the company has to generate a supportive capex has to be done or growth capex has to be done so if you could just slightly clarify this whole part?

Bimal Mehta: First of all dividing 100 and 100 Crores for a particular project and 100 Crores for other items probably those are the numbers that are being interpreted, I do not think that we have specified those numbers in our annual reports, but yes just to give you an idea that we as I mentioned that we do have some spare capacity available, which is not significant but we do have plus we do have locations where our job work is being carried out, there those job work facilities also have some capacities so if we have some new opportunities then we can definitely go to that, but whatever capacity that we have currently we believe that we can go up to about 700, 750 Crores turnover, but yes it all depends on the product mix, the pricing because prices are very, very different from acid chloride A to acid chloride B to acid chloride C, they are different also from geographical sense, they are also different from market standpoint, but if you take just an average then about 750 Crores turnover we can reach with whatever facilities that currently we have and then of course we have job workers facilities where we can go and work with them. And so capex investment into new facility or capex would definitely be a strategic decision so sometimes you do not want job workers to do your work and you want to keep it within your premises or within in-house and definitely there would be some capex required and as announced earlier also we would come to stock exchange and announce appropriately.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Thanks a lot Bimal Bhai for a very detailed explanation to so many critical things and starting this call. Sir I have just simple one question is you rightly now explained is we are basically in raw materials our presentation also talks that and we are moving towards intermediates so what I understood is now from monomers to will manufacture polymers or if you can explain little bit these things and one more on this journey towards forward integration and value added products, any quantitative things can you explain or try to make us understand that currently we are producing something which gives us say Rs.100 per kg output and can it reach maybe over two, three, four years what type of journey we are planning that is the one question and second if possible if you can give us capacity at toll manufacturing facility, which we have reserved for us these are the two questions and thanks a lot for this very good starting?

Bimal Mehta: So when I say value added it does not necessarily mean that from monomer we will go to polymer in fact making polymers from monomers is extremely, extremely complex and extremely well protected and well guarded process and it is not very easy for companies like Transpek to do that at least with current capabilities. When I mention the value added products for example say in pharma if we are manufacturing product A and then after 10 or 12 steps it goes into the final API then we may make about 2 steps or 3 steps or 4 step or 5 step product depending on what our customers want, same can go for applications in say flavors or fragrance or cosmetics or even agrochemicals so that is the way value added happen. In polymers value addition as of now we do not have any significant value addition coming in from monomer to polymer kind of scenario.

Sunil Kothari: So this journey will add value per kg or whatever per tonne is any value addition any forward integration from raw material to intermediates should give us better realization so any aim or objective if you can quantify maybe over three, four years?

Bimal Mehta: No, what happens is that as I mentioned earlier also that each provider, each intermediate, each customer, each application has different, different pricing and different margins, but sometimes for example I am just giving you an idea not necessarily of Transpek's products but what we understand from chemical industry sometimes if you add one step just one step and you have Rs.60 value addition sometimes you add one more step after that you may have Rs.100 value addition and after that if you add another say you may have only Rs.40 value addition, but point is that what customer wants, whether customer wants 3 step, 4 step, 5 step or 6 step level product depending on that and the complexity of each step the value will vary.

Sunil Kothari: So any objective or any target you would like to quantify?

Bimal Mehta: No, as I said it is a very complex thing to handle to workout.

Sunil Kothari: Last this point is toll manufacturing capacity we have?

Bimal Mehta: Again, there are confidentiality agreements that come into play.

Sunil Kothari: Thanks a lot and please continue, thanks a lot.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: My question relates to if we see your gross margins are consistently more or less same in the last seven and eight quarters so how you manage your raw material costs up and down?

Bimal Mehta: There are two ways to look at raw material because one is that some raw material cost that we have is definitely a pass through to our customers especially when we have some pricing arrangements or agreements, but others are difficult to control because raw material supply or raw material pricing is set by manufacturers and it is not buyers market in that sense we do not control because what they produce and what they sell is huge, huge quantity compared to what we consume and interestingly most of the customers who are not into long-term arrangements they do their own ordering also on a quarterly basis, so we definitely manage to the extent possible when we quote them on quarterly basis and manage to the extent possible wherever raw material prices change.

Sunil Jain: So major raw material cost what you said is pass through and some raw material you manage through?

Bimal Mehta: No, I did not say major what I said is that whatever is under the long-term pricing arrangement is definitely and wherever in that also long-term pricing arrangement if we have that condition that yes raw material will also be a factor in the formula then yes it is a pass through.

Sunil Jain: One more question about what was your capacity utilization before COVID situation?

Bimal Mehta: Last quarter of the previous year was almost about 85% to 90%.

Sunil Jain: Thank you very much.

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

Sharad Tripathi: Most of my questions have been answered so I am just curious about one thing given the legacy of your company and your long-term association with your company and given the fact that our revenue is close to 600 odd Crores, so just a sense on the opportunity size as a whole whether it was a conscious choice to grow business at such a pace or it was the opportunities were not available and how do you see this getting a long-term contract whether it is a inflection point, which anyone can notice in a company, which goes into a different league altogether given your association with your company how do you treat this event as far as the overall growth or the scale of opportunity for your company is concerned?

Bimal Mehta: Let me just ask you to repeat your question because I am not able to understand so you want to say that what is the growth prospect or how do we see the next few years or what exactly is your question?

Sharad Tripathi: Question is about the growth given your long legacy in this business it took a lot of years or basically more than three decades to reach here so how do you see this going forward next five year, seven year, ten year down the line whether the revenue percentage growth is going to be a little bit higher or it is going to be in the same pace?

Bimal Mehta: Just to very, very quickly give you some run on the history if you go beyond 2000 which is when company was having two lines of business sulfoxination and the chlorination business we were already growing about say 15, 20 years or about 20 years back or maybe 25 years back we grew at much faster pace than what you saw later on after 2000 so there like any other business you have phases where you grow fast sometimes you have subdued growth it cannot be kind of every year you have very, very quick and very, very fast, very, very big growth. Then as I mentioned we were initially say Thionyl Chloride manufacturer, Chloroacetyl Chloride manufacturer we were the first in India for Chloroacetyl Chloride, we were probably to the best of my memory and knowledge we were first in Asia to manufacture Thionyl Chloride, so at that time we had very, very large volume Thionyl Chloride manufacturing, but Thionyl Chloride is a low value product when it comes to pricing it is very, very low value product so that is why we did not see very large revenue per se, but quantities were very, very large and then we decided to strategically moving to acid chloride using Thionyl Chloride, so Thionyl Chloride gradually became more internal consumption, captive consumption and then we moved into acid chloride and then we started growing in acid chloride and then last three, four years we were looking at various opportunities where we can do scale up our operations, our business, our revenue to a significantly higher level so that we as you see and as you mentioned we have seen that we have been able to achieve. We do look at similar opportunities, we are looking at various possibilities, various opportunities and we believe that we can grow not every time like last two years or three years, but we do believe that we will be growing at little better pace than what we have been growing historically for few years.

Sharad Tripathi: Thank you BimalJi quite helpful. Thank you.

Moderator: Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: Sir my first question is when you indicated Rs. 750 Crores kind of a peak revenue potential are you considering that toll manufacturing capacity also into that or that is other than the toll manufacturing?

Bimal Mehta: We are considering toll manufacturing facility currently occupied by us, yes that is included.

Amar Maurya: Secondly Sir how much of the chlorine and sulphuric acid we will be consuming on the monthly basis?

Bimal Mehta: Sulphuric acid does not go into direct consumption, sulphuric acid is basically a product, which is generated when we make sulphur trioxide as a raw material and so far as chlorine is concerned definitely it depends on the operational business volume but if it is at peak capacity then we maybe consuming about 50, 60 metric tonnes a day.

Amar Maurya: At a peak capacity. Okay thank you Sir.

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

Rohit Nagaraj: Sir in terms of the current product mix how much is specialty and how much is commodity and whether there is any difference between the margins for both these segments?

Bimal Mehta: Actually none of our product currently is a commodity product. Yes of course if we consider Thionyl Chloride as a commodity product; then yes, Thionyl Chloride would be to some extent considered as commodity product, but we use large portion of our Thionyl Chloride production in captive consumption so almost none of our products are commodity products per se in that sense.

Rohit Nagaraj: Just one clarification in terms of any lost time incident which has happened in the last five years and any plans of making the facility, ZLD facility?

Bimal Mehta: ZLD right now is not on the horizon because we do have good canal conveyance system where we treat our own effluent and we transfer it to the canal, which conveys into the sea, so ZLD is not something that is right now on the horizon, but yes we do have understanding and we do have understanding of technology if the need arises for ZLD and sorry what was your other question?

Rohit Nagaraj: Yes, any lost time incident which has happened over the last five years?

Bimal Mehta: Yes so last year we had an accident within the premises. I do not know whether you have seen our disclosure but we had made disclosures on stock exchange. Our facility had remained closed for almost close to two months and yes that was one significant incident otherwise nothing significant.

Rohit Nagaraj: Alright thank you and best of luck Sir.

Moderator: Thank you. The next question is from the line of Dipen Shah an individual investor. Please go ahead.

Dipen Shah: I just had a question on the client side we have said that we have been servicing our clients for maybe close to three decades in several cases so just I wanted an idea like are we sole suppliers for our products to each of these clients or are there competing companies, which also supply similar products and the second part is that have we substituted any other suppliers in our clients when we supply our own product?

Bimal Mehta: So far as being the sole supplier is concerned most of these chemical companies, large chemical companies, global chemical companies have a very clear and very strict policy, which is called supply security so they never rely on one supplier, but yes of course they decide on proportion. They may have one major supplier and two minor or small suppliers so they decide like that so it is not like that there will be only one supplier globally because that would create a dependence for them which with they would not like. What was the other question you had asked?

Dipen Shah: Have they substituted any other suppliers for our clients?

Bimal Mehta: That keeps on happening, sometimes we substitute, sometimes they substitute, so it is open market. There you have to play with the competition, and you have to do whatever best you can do, so this keeps on happening.

Dipen Shah: Thank you very much.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir two questions, one you have mentioned about chlorination chemistry so we have been leaders at Transpek in terms of chlorination and we have done wonderfully for so many years pioneers in certain products at the same time I understand in some of our group is equally strong in bromination also so going ahead do we plan to leverage some of the group expertise which can probably be helpful for us in Transpek in terms of launching such product.

Bimal Mehta: Yes, so basically what happens is that first of all each company within the group has a independent management, independent strategy, independent product profile, independent processes and independent market and customers, but yes we do exchange information and expertise on certain aspects like safety, environment protection and those initiatives where everybody can benefit, now coming to specific question for example if we have a product where we do chlorination and then we also require bromination definitely we would be very keen to seek help from our group company or group companies whatever expertise that they have and we will definitely utilize that as needed whether it is in bromination or some other chemistry where one of the group company has expertise or capability of course that would happen.

Rahul Jain: But are we working on certain products in that direction where we use combination chemistry?

Bimal Mehta: Yes we do. We are working on as I said value added products, so some of the value added products have combination chemistry so you do first say chlorination and then you may have to do fluorination or bromination or amidation or various other processes yes we are working on it.

Rahul Jain: My second question and of course it is combining the previous couple of questions with regard to capacity and this capex has been put on hold and they do understand situation being so dynamic, fluid, uncertain so we do understand the need to keep it on hold for some time and your presentation talks about apart from the project will be reconsidered as and when situation improves and the opportunity crystallized so if I may look at this opportunity crystallized would that mean some kind of customer feedback or would that be so what I am trying to understand is how do we look at shareholders or what you would look for what factors to change, what situation to change, which would probably give you an indication now let us revive this project and are we talking about reviving this same project of 120 Crores or probably now it could be something more or something different also.

Bimal Mehta: So basically you see the opportunity of course come from market and customer so we are in live contact, live dialogue, constant communication with our customers and at different, different times we took about various possibilities and opportunities, various products number of products we keep on talking about not that all products are conducive to what we can do some products customer says okay this is an opportunity and we may say look this is not something which is our cup of tea or we may not be able to handle effluent of this product or something like that. So yes opportunities are there, they are being looked at and when they crystallize when we really see that yes customer is ready we are ready, we have the capability we have the knowledge or customers provide us knowledge and we develop the process then definitely we would really go into it. Coming to the size of investment or size of project at that time it was considered to be this number and this amount and as you rightly mentioned it would be when it is reconsidered by Board in its own wisdom based on the opportunities and based on the requirements it can be different number, it can be larger scale, then it can be smaller scale so yes these are all possibilities.

Moderator: Thank you. The next question is from the line of Apurva Shah from PhillipCapital. Please go ahead.

Apurva Shah: Sir I just need a clarification on our geographical or maybe segmental breakup so if you look at the historical numbers so barring last two years when North America has grown substantially because of this large contract so what is happening in the most of the other geographies, in most of the geographies either segment or the revenue is declining so either it is because of our capacity constraint or is it because of the products what we are offering has limited growth in terms of those particular geographies can you help us to understand that part?

Bimal Mehta: So basically in last two, three years our focus has been executing significant capacity enhancement as you all have seen and then revenue enhancement so we focused on that cost, which of course brought the company to a different scale in terms of revenue, in terms of margin and in terms of cash flow generation and meanwhile all those regions in terms of market for the product that we manufacture has either remained stagnant or they have been buying from various other suppliers, but yes we have focus on those regions, we are working with various customers in those other regions and we do see that the growth should start coming in from those areas and even in North America it is not only one contract or one customer there are other customers and there are other products also from where also the growth has come.

Apurva Shah: Sir does it mean that our most of the products still has a huge growth potential barring few top contributing products?

Bimal Mehta: I would qualify it as a huge growth potential or anything like that but definitely there is a growth potential and there are other products in the pipeline including acid chloride so naturally there will be growth coming from some acid chlorides or other additional acid chlorides that we manufacture and of course some value added products.

Moderator: Thank you. Due to time constraint we take the last question which is from the line of Jason Soans from Monarch Networth Capital. Please go ahead.

Jason Soans: I just wanted to know what was it in terms of business model when you sell or you have a long-term contract you did explain earlier, but just wanted to know what is the business model do you have it on a cost plus basis model as and when you have your raw material cost and after that you have a conversion cost is it that way so just wanted some clarity on that?

Bimal Mehta: I understand many of you are very, very curious about this long-term contract because that gives some understanding to you, but we are very, very constrained in responding to questions on contract because the customer has put so many conditions and so many restrictions and violation of which can create a big trouble for us so I am very sorry but I will not be able to respond to this question.

Jason Soans: Just one last thing I wanted to ask you is I understand in your Q1 FY2021 revenue breakup polymer forms a lion's share of revenue so just wanted an outlook on your polymer and pharma business for the next one, two years you said a guidance is not possible but just some color on your polymer and the pharma business that will be very helpful?

Bimal Mehta: Yes, we do believe as I mentioned in response to some of the earlier questions we do believe that growth is definitely going to come from both these segments polymer as I mentioned that what we understand from the global public domain information that is going to it is going to grow about 10% per annum and pharma of course lot of public domain information is available it is going to see significant growth in the coming years and we will of course put all our efforts to grab as much as make the best out of that opportunity to the best of our ability, but yes growth should be coming from these two sectors.

Jason Soans: Do you think that your major raw material you did touch upon that there is a pass-through what percentage is imported from China if there is any import from China?

Bimal Mehta: Yes there are imports from china but it is not very significant percentage, I do not know the numbers immediately, but it is very, very insignificant. If your question is from the perspective of concern that you may have that if supplies from China stops then what can be your issue we do not see any issue like that.

Moderator: Thank you. I now hand the conference over to Mr. Bimal Mehta for closing remarks.

Bimal Mehta: I take this opportunity to thank everyone for joining the call. Thank you for asking many, many questions. I hope we have been able to address all your queries. For any further information kindly get in touch with strategic growth advisors, who are our investor relations advisors. I and our team in Transpek we all request all of you to be safe under the given circumstances. Do take care of your near and dear ones and thank you once again. Thank you.

Moderator: Thank you. On behalf of Transpek Industry limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.