"Transpek Industry Limited
Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Transpek Industry Limited Q3 FY2021 Earnings Conference Call. This conference call may contain forward looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bimal Mehta, Managing Director of Transpek Industry Limited for his open remarks. Thank you and over to you Mr. Mehta!

Bimal Mehta: Thank you. Good afternoon everyone. On behalf of Transpek Industry Limited, I extend a very warm welcome to everyone for joining us on our earnings call today. I am Bimal Mehta, the Managing Director of Transpek Industry Limited. Along with me, I have Mr. Pratik Shah, CFO and Mr. Alak Vyas, Company Secretary on the call. I hope you and near ones are safe and healthy in these unprecedented times. Our investor presentation post Q3 FY2021 result is uploaded on the stock exchange and we hope you had a chance to look into it. Since some of you may be hearing us for the first time today, we will give you a brief overview about the company followed by operational and financial performance.

As many of you know, we are a five decade old organization, which was founded by Shri Govindji Shroff and we initially started our business of Acrylic Sheets, but later in 1970s, we diversified and entered into chemical manufacturing business. Since then we have grown 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 developed processes for chlorinated chemicals like thionyl chloride and various acid and alkyl chlorides indigenously. The chlorination chemistry creates opportunities for supply of intermediates and specialty chemicals suitable for multiple end applications. We also do sulphur chemistry, adding to that we were the first Indian company to introduce a few products like CAC, which is Chloro Acetyl Chloride, TC, which is Thionyl Chloride in India and even in Asia. Both, chlorine and sulphur are very difficult to handle. They are extremely hazardous chemicals and what differentiates us from others is our ability to handle such seriously hazardous chemicals in very, very large quantities going into thousands of tonnes.

Coming to our product portfolio applications, the products that we manufacture find applications in many industry like polymers, pharma, agrochemicals, flavors and fragrances and various others like paints, pigments, photo initiation and other such applications. One of the major applications is polymer. We manufacture certain monomers and our customers buy these monomers from us. They also buy other monomers from others and then they combine and they make polymer out of that. These polymers are typically very high strength, very strong, high durability, fire resistant and heat resistant kind of material with a very light weight. Because of these properties, they are used significantly in replacement of steel or other metals and also they are used in various other applications where high strength is required especially for example aerospace or defence and such applications.

In pharmaceutical industry, our products are used to produce various products including some supplements, medications for cold, medications for cholesterol reduction, etc. Some of our products also find application in agrochemicals where they are used in manufacturing pesticide, herbicide, insecticide, etc. A small proportion of our products are also used in flavors and fragrances, color and pigments market.

We have our manufacturing facility at a place called Ekalbara, which is near Vadodara in Gujarat and this is a location, which is strategic for various aspects of business especially one is export connectivity and two is availability of qualified manpower. The plants that we have on our factory locations are multiproduct plants. Of course, some plants are dedicated to products, but then there are multiple plants, so there are multiple products that we can do and multipurpose plants also are there.

The entire facility is spread over 100 acres and out of that about 55% is green belt. We have about 30,000 to 35,000 trees, fully grown trees on the site. The total production capacity including the captive consumption of some of the products is about 66,000 metric tonnes. We have also in-house full-fledged R&D facility, which is recognized by the Department of Science and Technology, Government of India and our team constantly innovates, monitors, inspects and handles the kind of complex chemistry that we have at various stages.

Also transporting these hazardous chemicals is also very critical element of our business and we have a very robust logistics and packaging system, which includes hundreds of ISO tanks. 70% to 75% of our business is exports and we have built very strong relationship with many multinational and many global chemical giants for almost a period of for more than 30 years and with that we have a very significant global presence in terms of geography and in terms of customers. We have been able to build very solid reputation with world’s leading chemical giants with respect to quality, delivery, service, and supply. On all these parameters, we have been rated very high and that is why we have been able to build very strong relationship with these global chemical giants.

Now coming to the performance, Q3 FY2021 performance has been lower as compared to Q3 of the previous year because of the impact created by this pandemic where most of us are affected in some or the other way. However, in the current financial year, we have so far seen a gradual recovery in application segment on sequential quarterly basis. We supply multiple products to multiple large chemical manufactures in the world and these large manufacturers have very wide use of those products in different end user industry.

Now this diversification is of course there, but it also changes from time to time with conditions that change or with business cycle that change. For example, currently due to this pandemic airline business as we say aerospace business is significantly impacted and so wherever this application of the products of our customer in this area like aerospace or automative or some other such industry, definitely there is going to be a significant impact on their volumes and on their business.

With respect to a long-term agreement that we had announced almost three years back and one of our major customers, I would like to inform you that there is no change in the agreement and everything is same as it was agreed upon and there is absolutely no change. Of course, the overall volumes have been low as the application segments were not doing well.

Coming to projects and capex as announced earlier the new project has been put on hold. We are periodically reviewing the situation. We will announce if there is any change in the status. The capex for nine months is largely attributable to the replacement and upgradation. For the coming next two years, it will be based on introduction of new products and we will announce as and when we are going to be making any significant investment.

One of the major elements of our focus currently in terms of performance and in terms of strategy is derisking. So what we are trying to do is to reduce our customer and product concentration. However, we all know, we must understand and we must note that the customer and production concentration has helped company improve its performance significantly in the last two to three years, which has brought in good stability in terms of business and very good financial strength. But of course considering the long-term growth, we need to minimize the impact of challenges to specific application segment due to market situation like what has happened in case of this pandemic. The company is working on adding new products and new customers. In long-term derisking strategy, the company is targeting balanced volume distribution amongst four to five application segments and also customers as well as some of the regional balancing is also being focused upon.

In new products, the company is targeting growth from products having various applications profile like Pharma, Agro, Polymers and Plastics, Photo Initiators, Electronics, and Personal Care. In many of these applications, we are developing lot of new products and they are at different stages of development and they will be produced after the completion of development and validation by customers on a gradual basis.

As I mentioned earlier, we are global business partners for major chemical companies, and we have been their partners for decades. Our long standing relationship has helped us to grow over the last four to five years significantly. At present, we are in regular talks with them and we continue to review situation periodically together, in terms of how the business is going to move forward as soon as this pandemic is over. Currently, we are seeing some reduction in effect of pandemic and considering all that.

For the first half of FY2021, business environment was sluggish in terms of the applications that our customers have and therefore there was lower offtake in volumes from the clients. In the last two to three months, we have seen some volume improvement, but of course there is no clear indication. Yes, there is a belief that situation is expected to improve gradually. We are making all efforts in getting ready to capture the growth momentum that we will see in the coming period.

Thank you. Now I would like to hand over 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 Dhruv Bhimrajka from Monarch Networth Capital Limited AIF. Please go ahead.

Dhruv Bhimrajka: Good afternoon Sir and thank you for taking my questions. Sir my question is regarding the point that I have seen in the Annual Report 2020 that there is a supply agreement between the company's Transpek Silox for its supply of Oleum and sulphur dioxide so can you please elaborate on this arrangement?

Bimal Mehta: Yes there are two products sulphur dioxide and Oleum. Both products are produced during production of other chemicals. So sulphur dioxide is a byproduct and Oleum is a co-product, which is manufactured during the manufacturing of sulphur trioxide. Sulphur dioxide is a byproduct, which is generated when we produce our acid chlorides, which are our main products. Now sulphur dioxide as a product is used in very few specific applications. There are not many uses. There are not many customers for that. Transpek Silox has a products where sulphur dioxide is used significantly and therefore in order to have sustainable supply and sustainable production, because if we are not able to sell our byproducts then we will not be able to continue with our production and we have entered into an agreement with them, supply agreement with them and as and when for example we are not able to give sulphur dioxide due to some production issue at our end for short period of time when we have taken a shutdown or we not producing enough quantifies then we sell to them Oleum, which can be converted by them into sulphur dioxide. That is the arrangement. This arrangement is based on a cost plus pricing and because it is typically a byproduct, pricing is not very high or in terms of margins is also not very high. It is just ensuring sustainability of our production of our regular products. That is why this agreement has been made.

Dhruv Bhimrajka: Thank you for that. One more thing, which I wanted to ask, is that in your Annual Report, you have mentioned that the company sources a majority of raw materials and the number said is 65% from renowned suppliers. So I wanted to understand so let us say your top price of raw material versus the ratio of domestic sourcing and imports that you do of those raw materials?

Bimal Mehta: The raw material is terms of specific percentages, I do not have those numbers, but just to give you an idea the major raw material that we use is called TPA, which is largely bought domestically and another major raw material that we use, which is called IPA, which is imported. Significant quantum of our raw materials besides the TPA and the basic raw material, which is chlorine and sulphur, most of the raw materials are imported, which are acids and some of the alcohols. Currently, we are not seeing any significant impact in terms of supply chain or in terms of pricing here. Out of about say 20 raw materials that we will be using the main raw materials and in case of about two to three raw materials, we are facing some shortage, but that is not affecting our sales or our production because for those raw materials we are also having limited orders.

Dhruv Bhimrajka: One last question I want to ask is that now for the long-term arrangement you have almost supply to the customer for the last two to two and a half years, so what has been the learnings of the company and how do you see that benefiting us in the past? In the long run do other such arrangements or contracts, which may come as we go forward?

Bimal Mehta: You mean to say that the potential for other contracts this, what you are exactly asking?

Dhruv Bhimrajka: So we have this long term agreement with the customer for 10 years so what have been our learnings for the past two to two and a half years under this contract, which we can apply to our future business actions?

Bimal Mehta: Basically similar contracts are also being discussed with other customers, but yes of course they may not be the same volume in terms of the business size. They may not be same period, but of course company definitely focuses on this and we are already discussing these kind of contracts like say with one customer we are discussing a two year contract, with another customer again we are discussing a two year contract. So those things are already being worked upon and as they materialize then things will become clear, but right now most of them are in discussions stage.

Moderator: Thank you very much. The next question is from the line of Riddhesh Gandhi from Discovery Capital Management. Please go ahead.

Riddhesh Gandhi: We have been just looking at the last 11 or 12 quarters and your EBITDA has been literally all over the place? It goes up and it goes down? There was a large steep price, which I am assuming is because of capex sometime in FY2020 and then again it come back down? How should we as people who are slightly like newer to the company actually just get some sort of understanding as what are the drivers for the future? What is the base rate of EBITDA? Should we be looking into Rs.45 Crores, which we did in December 2019 as a regular number or should we be looking at it as a lower number because of the cyclicality? How should we be thinking about this?

Bimal Mehta: I do not think that we have attended any of our AGMs, but during AGMs these types of questions keep on coming and again in earlier calls also. I would like to inform all the investors and all the shareholders here that because of the nature of the business, I would strongly recommend to look at the performance of the company on an annual basis and not on a quarterly basis. There are a couple of reasons for that. One is that the product mix that we have can have different level of profitability. It is not one product company or it is not one or two product company. Even within the products, we may have different pricing and different profit margins depending on the quality that we supply to the customers or even depending on the customers, the regions, and the competitive pressure. So various elements are at play when it comes to profitability. So for example in a particular quarter we have got orders from customer A where we have higher margin because of that better quality that we give and in that particular quarter you will see higher EBITDA, so I would strongly recommend that you look at our EBITDA on an annual basis.

Riddhesh Gandhi: If we look at the FY2019 and FY2020 we saw a large jump up from FY2018 and obviously the last three quarters have been slightly weak so we heard some of the commentary. I have not attended any of your annual AGMs at all, but I heard a couple call. How should we be thinking about it going ahead? Is it what we did in FY2019 and FY2020 what is the normalized EBITDA and the last three quarters has been expectational and how quickly will we be able to go back normalization?

Bimal Mehta: If you look at our presentation, which was uploaded earlier. You would have seen that we have already mentioned that 16% to 20% is going to be range of EBITDA as we believe as we expect.

Riddhesh Gandhi: Because of revenue have also come off in the last couple of quarters right?

Bimal Mehta: The last three quarters revenues have been off because as I mentioned that application segments where our products go have not been doing well. How many of us say actually travelled by air international in the last nine months. Right? So now significant volume of our product goes into aerospace industry. The aircrafts are not being manufactured. The aircraft manufacturing orders, the orders are also being cancelled so that is where the impact has come from. Some impact has come from automotive business, so that is why the performance is not so good. In my speech I already mentioned that one of the derisking strategy is to broad base our application profile in terms of going into various other applications and create a balance in application segment. So that is what our strategy is as far as we move forward into the future probably this kind of impact may not be there because we will have application profile spread out. The same application profile that the performance that you mentioned for the last two years, the same application where we have significantly focused has given us such a wonderful result in the last two years and has brought the company to a significant financial stability level.

Riddhesh Gandhi: Sir the question was so what I am hearing from you is the FY2019 and FY2020 numbers, which were almost 2x of the EBITDA, which we did in 2018 that should be as automative and aerospace normalizes is that actually a normalized number or look for that totally high number because of some other factor?

Bimal Mehta: 16% to 20% of EBITDA margin and normalized sales in our capacities would be anywhere between Rs.500 Crores to Rs.700 Crores.

Riddhesh Gandhi: Got it. That is the range of the revenue and EBITDA, which we expect to make, got it and just the last question is with regards to normalization in aerospace and auto how long do we see that taking in the order book reflecting any improvements already and how should we be thinking about it?

Bimal Mehta: To be very honest, there is no crystal ball where we can gaze that how long the pandemic impact will continue and how long this, we were all expecting that things are going to significantly improve and then we saw a big second wave in UK, Europe and some other countries. Many of these countries are now again in lockdown. In fact, for example New Zealand yesterday announced that they are going for a lockdown. It is very difficult to say right now. As I mentioned we are in constant contact with our customers. We are working together with them as the situation unfolds and if things improve then we are geared up. We are ready to take advantage of that situation.

Riddhesh Gandhi: Just my last question is with regards to actually how specialized are the products, which we offer and I know we offer a whole host so it is hard to give actually a broad brush, but if we were to split the revenues how much would it be the specialized as opposed commodity like?

Bimal Mehta: Actually if you look at Acid Chloride business this is our key product. Acid Chloride is of different, different types and it is somewhere between commodity and specialized products and they are not exactly highly specialized, but they are also not exactly commodity products. The two main products that we have what we call TPC and IPC and they both go into polymer segment, we have significant concentration in polymers, which the end applications is highly specialized, but our products are not as specialized as the end application.

Moderator: Thank you. The next question is from the line of Ahmed from Unifi Capital. Please go ahead.

Ahmed: Thanks for taking my question. This is in regard to the long term supply agreement, which you had mentioned about with the customer in the financial year back? Is it in the midst of a take or pay contract, which means we means we had undertaken a major capex increased from 31,000 metric tonne to 66,000 metric tonne, so considering the fact do you have a fallback mechanism where you get some compensation on a yearly basis till the volumes come back to normalcy?

Bimal Mehta: Yes, the contract is having take or pay arrangements within in it. In terms of expense reimbursement and in terms of cash flow accommodation and in terms of some margins so that is already being looked upon, but the point is that the contract has this take or pay arrangement based on a minimum volume not reaching a minimum volume and for the balance volume there will be a take or pay so yes it is there.

Ahmed: Which means have we reached the minimum volume for the year or any compensation will be put out?

Bimal Mehta: We are almost there. We are very small quantity is short of the target volume so for that we will definitely get the reimbursement and cash flow accommodation.

Ahmed: It would come in Q4?

Bimal Mehta: Yes.

Ahmed: I pick up for next year taking FY2021 as the base and your efforts to get into newer product segment and agrochemicals and pharma, could we see a better revenue uptick in FY2022 or it would take some time before you crack those customers or crack those products?

Bimal Mehta: It will definitely take some time because product validation, see we have some products ready. For example, we have already given samples to our customers. What they will do is that they will validate that product in their laboratory first and they will come back to us and they will ask for the sample from our pilot facilities. So we will give a product from our pilot facility. Then they will validate that product in their pilot facility. Then in most of the Pharma and agro products there is shelf life concept, so what they will do is that they will put our product aside for certain period of time may be say for six months or nine months whatever is their standard of shelf life and they will check whether the product is getting spoiled or not. They will also put the product that they have made using our material on the shelf in the sense that they will also wait for certain period to see whether that product remains as it is and it was manufactured. So it is a long term process and that is why I mentioned that various new products are at different stages of development and yes as things progress we will start introducing those products. Fortunately, in one or two products the customers are ready, not significant volumes, but customers are ready. So once that is validated, it will immediately be commercialized, but yes it is going to take some time.

Ahmed: Does that mean sequentially it will grow and if this grows new base?

Bimal Mehta: No. Most of the products will go sequentially. Sometimes you can introduce say more than one product parallelly also. It all depends on the validation process and customer's comfort with the end products they test the quality as I mentioned the period on shelf and all that.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from i-Wealth Management LLP. Please go ahead.

Dhwanil Desai: Two questions. So first is Sir in terms of pharma and intermediate side, I think we are working on couple of products, so any update on that and kind of taking along with that. Currently 70% of our revenue is coming from polymer applications. I am not asking for next one or two years but over a period of time how do we see this contribution coming down and how we see the other segments contribution going up? Any roadmap on that that you have internally?

Bimal Mehta: Just to repeat what I had said that we are trying to do as part of derisking strategy is to balance volume distribution among four to five application segments. So naturally of course polymer will still be little higher. Say right now we are at about 70%. Over the next two years or may be two and a half years, it may go to about 45% to 50% and the balance would be in Pharma and agro and some other applications. We are also working on introducing some new products, which are value added products. So beyond what we are typically doing. There will be some value that we are expecting coming from that, but that of course it is again a two to two and a half year process. And I think something more you have pointed out.

Dhwanil Desai: Sir I was asking that those two intermediate that we are working on the Pharma side?

Bimal Mehta: One intermediate is ready in terms of laboratory scale product and one intermediate is already being given to four to five customers for their testing. We are expecting that in another six to eight months' time, we will see get some understanding on that. Now let us also understand one thing, which I think would be important for most of the participations of this call to know that many times the product is developed or rather developed together with the pharma customer considering the patent expiry that is going to happen. So what they do is that the customer's figure out that this product is going to patent expiry in a particular year or in a particular month and then they start preparing for them and they start looking for suppliers for the raw material or intermediates for that particular product. Sometimes what happens is that for example Transpek has a product developed, which is given to a pharma customer. They are already testing and everything, but the patent expiry may be happening say in October of 2021 as an example. So then you know after that only they will be able to start production and then only we will be able to start supplying these products, but yes these two products are developed. In case of one product, sample is already given and one is ready and we will be working with customers when the samples have to be sent and all that.

Dhwanil Desai: Sir kind of from what you said so essentially when things normalize on the polymer side in terms of application segment and the new product starts getting in route, it takes eight months to nine months so it means that we will continue to grow from the earlier base and we have enough capacity or do we need to do any significant capex can you throw some light on that?

Bimal Mehta: Right now we have adequate capacity because besides the manufacturing facility that we have, we have also worked with three job work locations nearby to our factory. So we have enough capacity to produce some of these products. So capex will be largely modification of the plants and some addition of some of the systems or equipment and all that. We are not expecting huge or significant capex as we speak, but yes if a new product comes or some new product or some new opportunity comes, we will definitely look for investing into it.

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

Sunil Kothari: Thanks a lot for this call which is very knowledgeable & informative. Sir my question is because of this last one to one and a half years experience and your observation on polymer application, which is not going as per plan because of this external event, You will be little bit more conservative & conscious for not investing in other segments or you are confident and want to invest further to expand other application segments? What is your thought process on this?

Bimal Mehta: Sunil there are two elements to this. It is good that you have asked this question. This is very important question. One element is that are we trying to reduce polymer business? No. We are not trying to reduce polymer business. The polymer business in terms of the quantum that we have had earlier and we expect things to improve in terms of application segment gradually. There will be further improvement in the volumes as compared to current volumes. The idea is that we will not remove our focus from polymers, but will increase our focus on other application segments. We will produce products which are going into some other applications like pharma, agro, electronics and various other applications. So that our product profile becomes little broader. So for example today our polymer business as I mentioned earlier is about 70%, Polymer application from our product is about 70%. It may go to about 50% to 55% over some period in the future and then we increase our focus on our percentage allocation in terms of revenue over the other application.

Sunil Kothari: That is by increasing other applications?

Bimal Mehta: Yes.

Sunil Kothari: Sir we are very specialized in terms of these handling hazardous chemicals these type of our supply chain ability. All these things through that we may be very specialized in so called product manufacturing. So we are at which stage and how do you see any major capex and development over the next five years? How confident you are with this much many years of experience and this type of relationship with the customers?

Bimal Mehta: The point is that capex is directly related to the opportunity that you see. So as you already know three years back, we saw an opportunity and that is why we have heavily invested considering the typical investment or capex that we do year-on-year basis. That was a very significant investment that we made and as we move forward, we are looking for this kind of opportunities. Once we see this kind of opportunities, definitely there will be capex on cards and that will be announced. Yes we have a strategy in which we are moving or working on and we are implementing the strategy. But to foresee something over next five years in today scenario is very difficult.

Sunil Kothari: Thank you very much. Wish you good luck.

Moderator: Thank you very much. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: Good afternoon Sir. I appreciate the concall. The insights are very helpful. I have two questions Sir. In the last three years you have cycled, when we started doing CPC, would these two new key products in polymer, we had transformed from the earlier products which were low value and low margin to make more of these products. Now that we have facing the demand issue because of the application in the aerospace, we plan to use this capacity for those same old products, if yes, then how will be make up for the margins and the turnover that you are doing earlier and in future if the demand comes back or do we go back?

Bimal Mehta: As I mentioned in the answer to the earlier question, the focus on polymer application, our focus on those products is not gone. We are not going to reallocate capacities, we have enough capacity to take on other products without comprising the capacities where is going into polymer as of now. Idea is to add, idea is not to reduce and replace. Idea is to add new products, new applications and utilize facilities which are not dedicated to polymers.

Ayush Mittal: Second question is around the capex that we had announced and just a year and a half back we have surplus capacity and not particularly any easier to do more manufacturing if there was a need, but because of COVID we have to shelve this program. Now in many of the areas we are seeing very strong demand for chemical industry, so many companies are doing best, why we have not even started going back on this capex plan, what is that reason for the change because if we start today then it will take at least three years may be to kick stand the whole process, so do not you think we should be kick starting the basic investment trade, and all those things for the future?

Bimal Mehta: As I mentioned earlier, we are looking at a broader product profile and we have already identified few products, some of them are already being developed or already developed. Whereas, some products are being developed and are at different stages of validation. so based on that whatever is required to be done in terms of whether ECs to be taken or whether we can go for product mix change at various sites, as I mentioned earlier we have about three job work sites where we are manufacturing, so there is a concept called product mix change, so from product A to product B you can do the changes without going for any EC, so along as certain conditions are met, so we are considering all that and based on that comprehensive plan has already been done and we are going to implement that as and when capex need for capex arises. But right now we are not seeing an immediate need for a very significant capex.

Ayush Mittal: Thank you. Wish you all the best.

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

Sunil Jain: Thank you for this opportunity. My question is what was the capacity utilization in this Q3 and how would this be moving in current point of time?

Bimal Mehta: Until now which is April last year to January this year, capacity utilization has been around 35%, which includes of course our site and job work site. Currently, we are at about 65% capacity utilization.

Sunil Jain: Is it possible to specify what was it in Q3?

Bimal Mehta: Q3 particularly? I do not have that number immediately, but sorry, I do not have that number right away.

Sunil Jain: No problem Sir. Another question was whether there is any difference between the gross margin for polymer products and other products with polymer product might be having better margin?

Bimal Mehta: Not necessarily. Polymer product has significant volume, but margins have different from application to application, product to product or even same product going to different application for different customers or same product going in different quality, so purity profile, for example 99.5%, 99.7%, 99.8% and the pricing will differ. So gross margins differ from products A to products B to products C and it is not necessary that polymer fetch higher margins, polymer definitely have higher volumes.

Sunil Jain: Thank you very much.

Moderator: Thank you very much. The next question is from the line of Faisal Hawa from H.G Hawa & Co. Please go ahead.

Faisal Hawa: Good evening. I have two questions Sir. One is, you said that full compensate us for not having lifted in Q2 FY2021, so is there any chance to give me some kind of force majeure or something and not fulfill contact or we may have to go into some kind of further proceedings with them or something with that that is one. Second, can you hopefully have on some cost cutting efforts that give me undertaken to give the results better for the same FY and third is what kind of labour job, can we get done if at all these orders come back, what the kind of labour job facilities that we have give us another Rs.175 Crores, Rs.200 Crores kind of revenue, if we get at full swing?

Bimal Mehta: To answer the first question as of now we have no indication or we have no understanding on any force majeure or anything that is going to be there with the contracts that we have. The supplies under contract are continuing. Yes, the volumes are low, but the suppliers are constantly continue, every month there are some orders and every month of product is going, so we do not see or we have not been given any indication on force majeure or we do not see anything as such. Second question, when you say cost cutting, yes, we are very conscious of the cost cutting, for example, of course there are many, many areas where we have worked on cutting the cost, but I will just give you one simple example that our average interest cost or cost of borrowing last year was about 7.9%, it is close to about 8% and right now it is about close to 6%, 6.2%. So how we have been able to do this, we have been able to do this with cash conservation, focus on cash flow, utilizing instruments, which are much lower in terms of the finance cost in comparison with the cash credit, same way there is good amount of work which has been done on conservation of energy, cost cutting there. So yes, there is a good focus in terms of keeping our costs within control, reducing, optimizing and all those efforts are going on.

Faisal Hawa: There was third question about the two or three sites for whom we pay the rent and who do labour job for us to these three unit should be able to give us around Rs.150 Crores, Rs.200 Crores extra revenue as and when our orders come back?

Bimal Mehta: Yes. Just to clarify, we are not paying rent. We are paying the job work charges, they do products from product and we give job work charges to them.

Faisal Hawa: There are some minimum charges that we give to everyone even if we do not utilize it so…

Bimal Mehta: Job work charges yes.

Faisal Hawa: That would give us any way Rs.150 Crores, Rs.200 Crores revenue?

Bimal Mehta: Yes, all these three sites combined.

Faisal Hawa: If you could just accommodate one more question, are we in talks with Gujarat government to give us any kind of more extension of tonnage requirement as far as the Pollution Board and others is concerned so that could give us more capex opportunities without much extra ticket cost?

Bimal Mehta: Unfortunately, the area where we are, the government is still restricting expansion, that is why we have tied up with this three job work facilities and as we mentioned we are also paying some minimum charges just to ensure that we have this capacity available. We do not lose on to that, because these capacities are not just capacity, they are permissions also, permission to manufacture, the consent to manufacture. So yes, right now there are no new permissions given. We are working with government, we & industry association have made representation and there is some discussion going on, we are hopeful, but let us see as things unfold we will see what happens.

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

Abhisar Jain: Thank you Sir for the opportunity. Sir, just wanted to understand that what kind of capacity do we have had these three job work locations in terms of tonnage, the capacity availability?

Bimal Mehta: One moment, I will give you the data. Whole three combined about 1000 metric tonne a month.

Abhisar Jain: Okay, so 12000 tonnes per annum and we have 66,000 MTPA at our plan so, on that combined 78,000 MTPA, you mentioned 35% utilization for the nine months right?

Bimal Mehta: Let us first understand very quickly what this capacity means. 66000 metric tonne capacity includes products which are used for captive consumption which is Thionyl Chloride, which also includes some part of sulphur dioxide which is also captive consumption, which also include sulphur trioxide, which is also captive consumption, it also includes capacities for producing by products. So it is not simple as that that we have 66,000 metric tonne capacity in terms of the end product or the final product that we make. So it is not practical to combine 66000 and then this 12000 metric tonne, within 66000 metric tonne, significant amount of capacities for captive consumption.

Abhisar Jain: Okay, understood, so basically the end product capacity out of 66 KT will be?

Bimal Mehta: So that you are aware of what end product capacities are, just one moment. It is about 16,000 metric tonne is the end product capacity at our Ekalbara and another 12,000 metric tonne it is job work site.

Abhisar Jain: Right and 35% utilization was on this end product capacity right?

Bimal Mehta: Yes.

Abhisar Jain: Sir, on slide #27 in your presentation, you mentioned the six key applications where you are developing the new products and on this one, you have mentioned that many of these are also at validation staying at the customer end. So what I want to know is that in the next two years out of this six categories, what is the number that comes to your mind in terms of how many new products can be start to commercialize or any revenue ballpark figures that comes to your mind, the timing can be up and down but that in the next two years, how many number of products?

Bimal Mehta: In the next two years, we understand that we are going to be intoducing at least three to four new products.

Abhisar Jain: Three to four new products right and any revenue range for each of them?

Bimal Mehta: Revenue range most of these products are typically if they are being both on full capacity or full demand basis from us then anywhere between Rs.10 Crores to Rs.30 Crores per product.

Moderator: Thank you. The next question is from the line of Pavan Kumar from Ratna Traya Capital Partners. Please go ahead.

Pavan Kumar: Can you give us an indication of what will be the proportion of revenues from aerospace and automobile industries, to the applications?

Bimal Mehta: See, what I can tell you is that 70% of our products is going into polymer segment now, what happens typically is that within polymer, these polymers are used in automotive, used in aerospace, used in defence, used in fire protection, used in construction, used in various other applications and those that added to particular allocation is typically what customers know, not us, because we supply to customer and then they will supply to many customers, which is having applications in different, different segment. So for us it is not very easy to define, but yes, significant production and we know and we understand from customer, significant production goes into aerospace, then a good amount goes into defence and the good amount goes into automotive. These are three main application segments so that is the only thing that we have understanding of. Customers do not share data with us that how much of that base products goes into different, different applications.

Pavan Kumar: And the automotive sales that would these be high end cars or how do we understand?

Bimal Mehta: These are typically very high end cars and some racing cars. So high end cars for example, where these polymers are, these polymers are used in three, four areas. One is for brake pads because of the friction, there is a lot of wear and tear that can happen and also there is a huge amount of heat generation. Second is clutch pad. Now that is of course clutch is no longer there because auto transmission system, but earlier clutch, but today even in high end cars particular racing cars clutch is still there, because they are not auto driven. So these areas and then there is something where lot of heat is getting generated, but some other part near that heat is the insulator, then this kind of material is used. Nowadays there is a talk of using some part of this polymer in electric cars, the main reason being to keep light weight. That has been talked upon, to the best of our understanding, so far no one has used it, but it has been talked about.

Pavan Kumar: Okay, do we have only one polymer right now probably namely the one we are supplying on the contract side or do we manufacture two or three other kind varieties of that polymers?

Bimal Mehta: No. What we manufacture is not polymer, we manufacture chemicals for polymer, which in general called monomer. So we supply a monomer, we manufacture two monomers, two different monomers and both of them supplies to not only one customer, we have supplied to almost six or seven different customers. Yes, one customer has very significant volume for us, but it is supply to six to seven customers and these are two different monomers.

Moderator: Thank you very much. The next question is from the line of Abhishek Shah from Valcore Capital Advisors. Please go ahead.

Abhishek Shah: Thank you for the opportunity. Bimal Bhai just few questions, wanted to understand the new product that you are mentioning, you mentioned polymers are generally high volume, low margin relatively. So can we assume that the new products will be much higher margins than the existing margins of the company in total?

Bimal Mehta: First of all polymers are, as I mentioned different, different margins are there, different, different polymers, different, different application segments or different, different customers, different, different regions, it is not that necessarily product that we manufacture, monomer that we manufacture is necessarily low margin. We have to blend it in particular ratio with something else or if you have to produce some specific quality for a particular customers then margin may be little higher in that. Coming to the new products, we do have focus on two, if you look at our growth strategy, we are looking in two different ways. One is, adding products which are different application. So some of them may be regular or normal margin and some of them may be high margin, also I think some products where definitely they have high margins, but these are multistep products. These are more complex products, so yes, one those products get introduced the margins may improve for that particular group of products and for the other products, we are just looking at derisking which is having different applications, but this is normal margins.

Abhishek Shah: Is it fair to assume that margin trajectory should be upwards in the coming years, discarding this year, but with the value addition that we are talking about I think we also spoke about adding number of process in each of the product that we come up with?

Bimal Mehta: Yes, so the point is that we are focussing on and we are trying to target in margin improvement as we move forward in terms of our product profile, it is definitely part of the strategy.

Abhishek Shah: Got it. Just one more clarification in line with the other questions asked previously in terms of the capacity you said 16000 plus 12000, I understand it might be difficult to quantify, but when you say we are at 65% capacity utilization, I am just trying to compare it to the peak quarter turnover of Rs.160 Crores, Rs.170 Crores that we have done, we would be at around 60%, 65% of that or peak turnover would be Rs.200 Crores for quarters out of it?

Bimal Mehta: This is very difficult, because each product pricing, each product has even the same product may have different pricing from customer A to customer B in the region or second A2 segment but yes, what we just mentioned in terms of number, it is largely similar to what can be seen once we have full utilization.

Abhishek Shah: Understood, just one more thing is, in March, a lot of chemicals across the board went through serious fall in prices, so one was volume degrowth and second was a fall in realization, where exactly do you think, do you see serious realizations fall even right now for us or pricing wise we have back to where we were say compare to last February or last March?

Bimal Mehta: Pricing wise, we have not been affected much because a significant amount of our volume is cost plus pricing. So we have not been affected in that sense plus most of the products that we buy, some of them had definitely seen some reduction in the price, but it was not very significant. So from the perspective of overall reduction in terms of value or rather price of our products, we have not seen in significant drop.

Abhishek Shah: Bimal Bhai just one request finally is that if we can give some predictability of when the concalls are scheduled because generally most companies have their concall scheduled directly may be in a day or two after the results, so until the last week we were not sure, we are having a concall at all. So there is some confusion in predictability.

Bimal Mehta: I understand your concern. I am sure all of you will give us some support because we are learning to do these calls after many, many years of listing the Securities. We have only just started doing this concall every six months now. So yes, as we move forward we will be little more disciplined in terms of these things.

Abhishek Shah: We appreciate the cooperation. Thank you.

Moderator: Thank you very much. The next question is from the line of Jayesh Parekh from JMP Capital. Please go ahead.

Jayesh Parekh: If I have understood from your talk, there are three things. One, currently polymer business, the demand is an issue and when demand would restore fully it is not very clear. Number two, as a derisking policy, we will plan to expand into other segment with incremental product and third thing you said that polymer business annual EBITDA could be in the region of 16% to 20% and you also said that the expansion into other segment may be next two years, three to four product will come with the revenue size of Rs.20 Crores to Rs.30 Crores per product. So is my understanding clear that for the next two to three years, the revenue growth will not be much and expansion in EBITDA will not be as similar to specialty chemical as we have seen in the chemical segment currently. Please correct if my understanding is wrong from our point?

Bimal Mehta: Two corrections. One is that just to EBITDA range 16% to 20% is not polymer business, it is about company. It is about the entire business and secondly, revenue growth that you mentioned from new products is not Rs.20 Crores to Rs.30 Crores. As I mentioned earlier, it is anywhere between Rs.10 Crores to Rs.30 Crores that we are looking it, so some products may have Rs.10 Crores, some products may have Rs.12 Crores and some products may have Rs.13 Crores, Rs.14 Crores, Rs.15 Crores or even, Rs.20 Crores, Rs.25 Crores, Rs.30 Crores. So over next two years, we are seeing some of this product getting introduced and based on that from volume improvements will happen and definitely some margin improvements should happen. But more importantly what we believe is that this current products that we have which go into polymers that we believe that as the things become little better, we do not have exact understanding on when because nobody has exact understanding on what things will happen when considering the pandemic situation, but we do believe that in the coming time and not very distant future, this volume should start to get better in terms of the current product supplies. So probably next quarter or even quarter after that we do not know but somewhere around that possibly volume should go back or may be improve little bit, not little bit but significantly above what we have today.

Jayesh Parekh: Should take at least two to three years for new capacity?

Bimal Mehta: Improvement, if we do not see any major situation like what we are seeing today, we believe that there is consistency, because this particular product polymers which are called Aramid fibers, they are expected to grow in terms of application every year at about 10%. So for next until 2027 or 2028, there are reports, some of you only sent me those reports which say that Aramid fiber is going to grow at about 10% every year, so once this thing restore, once this thing become better, we believe that it is going to be sustainable volume business.

Moderator: Thank you. The next question is from the line of Samarth Singh from TPF Capital LLC. Please go ahead.

Samarth Singh: Thank you for taking my question. My first question is on pharmaceutical intermediates, when is the end molecule patent expiry for the two intermediates, what is the size of the market here?

Bimal Mehta: These are some of the questions that our customers are not the sharing as of now, because their own confidentialities that they have to maintain. So what they do is they only give a certain intermediate or some names of the intermediate. They do not disclose end application as of now, they also do not disclose when they are going to start, what particular product is there and when the patent expiry is going to be there. So we do not have any understanding or indication on that. Once they validate the product, once they are comfortable and they are ready to put into the drug master file, then definitely they will come back to us with all these details.

Samarth Singh: Thanks. Could you tell me the cash and debt on balance sheet?

Bimal Mehta: To give you quick idea, we have about Rs.55 Crores working capital limits of which we are right now utilizing now Rs.20 Crores due to good cash management and Rs.40 Crores are the total borrowings right now. Fixed deposit and bank borrowing total of Rs.62 Crores and as I mentioned working capital Rs.20 Crores.

Samarth Singh: So working capital of Rs.20 Crores plus bank borrowing of another Rs.50 Crores?

Bimal Mehta: Bank borrowings and public fixed deposit Rs.62 Crores.

Samarth Singh: And is there any cash and liquid fund investments on the balance sheet?

Bimal Mehta: We do not have any liquid investment what we have is just fixed deposit of about Rs.8 Crores and cash balance of about Rs.2 Crores.

Samarth Singh: Thank you.

Moderator: Thank you very much. The next question is from the line of Rishabh Makhija an Individual Investor. Please go ahead.

Rishabh Makhija: Thank you for the opportunity. Just wanted to understand one thing this long term contract as we have various supply polymers, in percentage term, how much would that supply be and what is the end use of with polymer?

Bimal Mehta: How much of that, what did you ask?

Rishabh Makhija: The polymer which we supply under our long term contract, how much of our total supply would go in this contract and what is the end use by the customer?

Bimal Mehta: I can tell you about the end application, end application is basically what is called as I mentioned earlier is Aramid fiber, Aramid fibers are if we have heard about brand name called Kevlar, Kevlar became famous when it was known that it is going to be used in making bullet proof jacket then Kevlar became very famous. So what do we supply is monomer and using these monomers our customer makes polymer and that polymer is called Aramid fiber which is branded as Kevlar and another brand name is Nomex. But I cannot tell you how much exactly goes under the contract in terms of percentage of revenue because we have a confidentiality agreement with customer.

Rishabh Makhija: Okay, understood Sir. Just wanted to understand even is it possible to quantify rough percentage terms, because what we are seeing is in the entire segment, there are great results of the board and our company has somewhat then struggling in terms of the revenue and EBITDA as well, so just wanted to understand when we can the recovery based on our long term contract?

Bimal Mehta: Definitely, there is a significant drop in terms of the business coming in under this long term contract, definitely there is significant drop. But that drop is as I mentioned earlier in the call it is because of the end application segment not doing well, which is for example aerospace, for example automotive, most of the governments right now are focusing on supporting businesses which have suffered due to this COVID situation, so there is tremendous focus away from defence expenditure. Defence is also one major application of this particular polymer. So there is definitely a drop in supplies which are going under this contract and that is a peculiar situation that we are facing. Many other companies may not have similar situation and hence some of them would have seen either their business stable or some of them would have gone. Also we must keep in line many of these companies which seem to have grown recently in last three, four, five, six months where their volumes have significantly increased, their businesses have gone through good growth, many of them were preparing for some of this capacity expansion or adding new products or new chemistry for the last two to three years. For example, I will not name particular company, but one company was three, four years back they started investing into a particular product and investment of Rs.1200 Crores. So what has happened is that investment has now seen the light of the day and therefore in their case there is a significant jump in terms of their products and in sales. What we are looking at and as I mentioned earlier also as part of our derisking strategy is that to grow our product profile. So let us hope that all of us do not have to face this kind of situation like this pandemic, but life is something which is unpredictable. So what we are doing is that we are building a derisking strategy and we are trying to broad base our product profile. So that we can also grow similarly in these tight situations or business situation come under pressure.

Rishabh Makhija: Understood. I appreciate. Thank you.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that will be the last question for today. I will now hand the conference over to Mr. Bimal Mehta for closing comments.

Bimal Mehta: It was wonderful talking to all of you. All of you brought out some very interesting questions and we hope that we have been able to answer all the questions satisfactorily. As the things unfold, as situation changes if there is any significant change, any significant development within our business or some new opportunities that we see where we need to inform you, we will definitely announce it properly and appropriately. Thank you for joining us on the call. As mentioned earlier, we will try to become more predictable in terms of the call dates. Thank you very much and all the best to you. Keep stay safe in this situation.

Moderator: Thank you very much. On behalf of Transpek Industry Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.