"Transpek Industry Limited
Q1 FY2022 Earnings Conference Call"

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**Moderator**: Ladies and gentlemen, good day and welcome to Transpek Industry Limited Q1 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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. Thank you and over to you Mr. Mehta!

**Bimal Mehta**: Thank you. Good evening everyone, on behalf of Transpek Industry Limited I extend the very warm welcome to everyone for joining us on our earnings call today. I am Bimal Mehta, Managing Director of Transpek Industry Limited. Along with me I have Mr. Pratik Shah, CFO and Mr. Alak Vyas, Company Secretary on the call. Our investor presentation post Q1 FY2022 results, is uploaded on Stock Exchange and we hope you had a chance to look into it. We will give you a quick overview about the company followed by recent developments.

The company was founded in 1965 as Transpek Industry Private Limited by Shri Govindji Shroff. Currently Mr. Ashwin Shroff is the Chairman of the Company. Since 1970 we have emerged as one of the most reliable chemical company in the global market. We have established indigenously designed procedures for chlorinated compounds such as thionyl chloride different acid chlorides and various alkyl chlorides. Throughout the years we have gained competence in manufacturing and managing chlorine and sulphur based chemicals. Chlorination chemistry is used in intermediate and specialty compounds that can be used in variety of applications. Chlorine and sulphur are hazardous chemicals and what sets us apart from the competition is our capacities to handle such chemicals in very huge quantities.

In terms of our product portfolio applications our products are used in a variety of industries such as polymers, pharmaceuticals, agrochemicals, fragrances and a variety of other applications such as paints, pigments, in making photo initiators and other similar applications. Polymer is one of the most important applications that certain monomers are manufactured by us and our customers purchase them from us. They also purchase other monomers from other parties and which they combine and used to create polymers.

These polymers are often high strength, high durability, lightweight and fire resistant materials. Because of these features, they are frequently used to replace steel or other metals as well as in a variety of other applications requiring high strength such as aerospace and/or defense industries. Our products are also used in pharmaceutical industries for making supplements like vitamins, making cold treatment medicines, cholesterol lowering medicines and so on. Some of our products are also utilized in production of agrochemicals such as pesticides, herbicides, and insecticides. A small percentage of our products are also used in flavor, aroma, color and pigment markets. We have a manufacturing facility in

Ekalbara, near Vadodara, Gujarat which is an advantageous location for a variety of reasons.

Export connectivity is one factor and the qualified manpower is another. We have multi-purpose and multi-product plant facilities. The entire complex covers 100 acres with around 55% of this being green belt. On the side we have about 30000 to 35000 fully grown trees. The entire production capacity which includes captive consumption of some products is estimated to be at 66000 metric tons. Our staff constantly innovates monitors inspects and handles the numerous complex chemistry that we have at various stages. We have our in-house R&D center that is recognized by the Department of Science and Technology of Government of India. Besides this, Transpek has job work arrangements with three manufacturers and to clarify these are not leased or rented facilities they do job work for us. We manufacture more than 15 products in total. Transporting some of these hazardous chemicals is a critical part of our business and we have a well-developed transportation and logistics infrastructure which comprises hundreds of ISO tanks. With respect to quality delivery and service, we have established a very, very strong reputation with the world's major chemical giants.

Now coming to recent business performance due to COVID-19 in FY2021, business environment was sluggish in terms of the applications that our customers have, resulting in lower offtake in volumes. We have seen some business revival in last two quarters, it is expected that the situation will continue to improve. We are well prepared to capitalize on future growth opportunities.

Over the last two quarters business performance has seen a significant improvement. In comparison to Q4 FY2021 and Q1

FY2021 revenues in Q1 FY2022 were higher. The application volumes are gradually recovering providing opportunity for the company to increase its revenue. Regarding the existing long-term agreement, I would like to inform you that the terms of agreements have not changed due to pandemic. Earlier total volumes were low because the application segments were not doing well. We have already been given compensation for a small shortfall in offtake by the customer during the FY2021.

The business has been recovering and has reached to good volume in Q1 FY2022. The company believes that situation will further improve in terms of volume growth. Now this time we have received some questions from investors and some of these questions we believe are of generic nature. So many of you may be wanting to ask similar questions, so we will try to address some of these questions as part of the speech, and in fact we would request all investors if they can send questions in advance as much as they can that would help us and you both in terms of covering it during the initial talk and then we can focus on questions which are beyond that.

Coming to the new project, as we have also mentioned in our presentation uploaded recently, it is still on hold due to prevailing uncertainty and we are reviewing the situation and would announce if there is any significant change in the status. On the capex for the coming period, it will be based on timing of the introduction of new products or any other initiative and if there is any significant investment that is to be done it will be announced appropriately on the stock exchange.

On the other long-term contract, well what we have today, we are already working on medium and long-term contract with other customers. A three-year contract is under finalization with an existing customer. However, it will not change anything significantly in terms of volumes from this customer compared to what has been in the past. It is just entering into a contract for the same level of volumes.

On materials sourcing and transportation, I would like to inform that company has not faced any major issues in raw material sourcing during this COVID situation. In case of transportation and logistics there have been delays in getting berths on vessels and delaying return of our ISO thing. This is experienced by many other companies as you might be knowing. Also freight charges have increased as witnessed by the industry. However, the company has been able to manage all this quite well and no significant effect is seen.

On derisking, as mentioned in earlier calls and also in the presentation that we have uploaded, derisking is our primary focus in terms of performance and strategy. Company is focusing on reducing customer concentration, product concentration and regional concentration. We have already started adding new products and customers and also working to change the regional concentration.

Coming to new products, Company has introduced three new products in last six months. While the initial volumes are small, they are expected to grow over next few years. These products have applications in agrochemicals and pharmaceuticals. We intend to grow our products in diverse application profiles such as pharma, agro, polymers, plastics, photo initiation, electronics and personal care. All other new products are in different stages of development and same will be introduced after the completion of development and validation by customers.

Some of you have been asking about the competitive landscape. So on competition I would like to just say that there are few companies making acid chloride in India, Japan, China, and Europe. It should be noted that there is no like-to-like or one-to-one competition as each company may have some common products with us but they may also be making other acid chloride as well as other products. Just to give you an idea about a few major competitors, but yes of course it must be noted that they may not be directly competing in case of some of our customers and some of our products but they are competitors in general for a broader sense of term. So one company is CABB in Europe, second is Ihara in Japan, third is Shiva Pharma in India, four, there are few Chinese manufacturers and five, some new manufacturers in India, have started creating some acid chloride capabilities but out of this the old ones have some locational advantage like CABB in Europe and some have longstanding in the market. We have tried to cover some of the generic questions that we had received. Thank you for listening. Now I would like to hand over the call to 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 Rahul Jain from Credence Wealth. Please go ahead.

**Rahul Jain**: Sir just to understand with regards to the capex. You have been maintaining the capex has been put on hold considering the decline in our long-term agreement business, the polymer business. But just to understand this further where do we stand today in terms of pursuing the next growth capex? What could be trigger for going ahead and typically what kind of readiness do we have till date like do we have a ready land available within our company for going for the new capex? Are the EC approvals been applied just to understand when you announce the capex it will take how much time for that capex to really fructify into the topline that is my question number one?

**Bimal Mehta**: I think there is some confusion here. Capex in general and new project are two different things and this new project was entirely a part of an overall growth plan. It had nothing to do with the long-term agreement or anything like that. It was just another location, another place and we wanted to set up a new project to capture some of the growth that was seen at that point in time. So this is one part and which as we have been maintaining or mentioning that it has been put on hold because we do not have any clear visibility on that part of the business. Now coming to capex in the normal sense or even in a regular process as we have mentioned that capex is already on the cards so as soon as we have some significant development in terms of new products which is a kind of critical mass in terms of volume, we would be doing whatever capex is necessary and in fact we have been conserving cash for that also in terms of our cash flow and other aspects. Now coming to availability of land and availability of permissions and all that, so there are variety of ways this can be handled, one is that we have ample land more than what I have mentioned in my initial speech, more than 55% is green belt and a lot of that is open land so land is not an issue. When it comes to permissions, permissions are a very complex matter but we can get permissions depending on what we are planning to achieve there are methodologies which is called product mix change and various other aspects this is second and third as I mentioned that we have three job work arrangements and those companies also have land as well as additional permissions which we can utilize. We are working on new products and as and when significant development happens in terms of critical mass where we need to invest in capex we will definitely do it and announce it in advance.

**Rahul Jain**: Sir just to understand this further we have met in your AGM about the two three years back we attended two, three AGMs on a consistent basis and correct me if I am wrong if we are talking about this land in Gujarat, the available space but typically permissions in Gujarat were supposed to be quite difficult or almost impossible to come for as what you have mentioned in one of the AGMs?

**Bimal Mehta**: Yes, so in the area where we are there are issues, but now things are slowly changing and we believe that government is conducive to give permissions, for example what is a product mix change that if you are manufacturing ten products, but you are not manufacturing five products right now as part of your original consent and EC, when you can convert those five products to a new product that you plan on manufacturing. That is why we are able to introduce new products as I mentioned in last six, seven months we have introduced three new products and there is a adequate amount of available permissions which are already there which we have to convert to new product between us and the job work facilities.

**Rahul Jain**: Sir just to understand that you have maintained we have seen a good improvement in our topline for last two quarters and you have mentioned in your presentation as well in your initial speech about good recovery in the volumes. If you could share some numbers with regards to the long-term agreement typically as we speak today are the volumes back to almost as we speak today are the volumes somewhere near to the pre-COVID levels now or we are still far away from those volumes?

**Bimal Mehta**: I would not say that we are far away from the optimum volumes. We are reaching there and we believe that volumes are going to be sustained as they are and probably improve also.

**Moderator**: Thank you very much. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

**Dhaval Shah**: Sir when we add new products to our portfolio typically once how long do they take to mature in terms of getting a sizeable volume and what sort of revenue would they be adding overtime and second question would be your share of revenue from new products how has it moved over past three years and how do you see it going forward?

**Bimal Mehta**: To answer your first question as I have mentioned earlier in the various calls that typically when you start say for example it of course it depends from industry to industry so let us start with first say pharma. Today for example we have introduced one product for pharma that product is right now being bought in small quantities by our customers. They are manufacturing their own products out of that and gradually building their market because there are patent issues and other issues that they have to address. So in such a case, we see about one and a half to two years before such a product being scaled up. Now coming to for example product which goes into polymers, then polymers also require a huge amount of testing and validation. So again, one and after two years of approval time before we actually see a critical mass in terms of big volume. Three products that we have introduced, I think probably in another 1-1.5 years time, we will start to see some critical volumes coming-out on that and typically each product can provide about Rs.10 Crores to Rs.12 Crores worth of sales unless it is something which is very significant then probably it can go to about Rs.20 Crores or something like that.

**Dhaval Shah**: Once it matures?

**Bimal Mehta**: Yes at the time when they mature.

**Dhaval Shah**: Sir our focus would be more on pharma, agro and polymer or how would be in terms of our introduction of new products like in terms of the end market opportunity given certain like an agrochemical will be restricted to the end market size of that particular insecticide or a fungicide being used same with pharma while in polymer it could be similar to the end product market side. So how does it differ and how do we select a product which we want to get into?

**Bimal Mehta**: There are two ways to look at the product selection, one is that we have what we call a new business development process where we study different products in terms of market, in terms of chemistry and matching it with our current or potential capabilities and then we decide on a particular product. This is one way. Second is that we get inquiries from different customers, existing and new and then we look at those products and we decide whether to go for those products or not whether they are within the circle of competence that we have or not. So this is the way the products are selected and then of course the development phase and everything happens.

**Dhaval Shah**: Sir any risk to the chemistries which we are into and the products where those chemistries are applied in terms of them getting cannibalized with some other chemistry which is more efficacy or more any other reason so any such risk?

**Bimal Mehta**: No because chlorination is a very vast field and it is one of the four or five basic chemistry, so it is a big landscape of products. We are into acid chloride but when we look at chlorination chemistry there are many other possibilities so that is not something that can happen.

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

**Sarath Reddy**: The basic necessity of the mother of invention is it fair to say that the crisis or maybe I am using a strong word but a significant contraction that we have experienced over the post COVID phase from our largest customer it has led to management rethink about risk and you all have worked hard maybe extra hard to come up with new products that have in part compensated and we can see that the diversification of profile products that the company self seems to have changed or improved would it be fair for us to understand without getting into the nitty-gritty's of which product is just hard to get into that would it be fair for us to understand as shareholders that the new Transpek in FY2020 may be let us say FY2023 when your pre-COVID volumes from your contract which was the bulk of your business from what I understand when that is back to normal you will stand much taller in revenues given the new products that you all have been able to come up with to compensate for the loss of business am I clear I am not sure if I was clear?

**Bimal Mehta**: I understood what you are trying to ask. Let me first of all give you a very clear understanding that the contract volumes are picking up as I mentioned earlier and we believe that they are going to be stabilized to the optimum level soon. We do not currently see any issue from that front. Now let me just give you a little bit more detail because some of you others also may have the same question. What happened is that it is not that fundamentally the business model of our customers has changed due to Corona. What happened was that the applications that they have especially in certain segments those were the businesses that were hit by Corona and therefore their demand from their customers reduced but this was a temporary phase because the product that the manufacturer has, has multiple applications beyond the industries which suffered to some extent during this COVID situation. As part of their strategy, they have also raised their proportion of their business into various other applications. So there are so many applications of those products. It is in defense, aerospace, automotive, construction, firefighting and etc. and they keep on developing new applications so now they have already regained their volumes to a great extent and they believe that there is not going to be any significant change even if there is a third wave or anything like that happens. Now another thing that I would like to add is that everybody has a question that the volumes has reduced in the last year ,but let us look at the last two years consistently that. Today's the Transpek has been benefited because of that long-term contract which significantly changed the business level to almost close to double than what we were in 2017 and those times. What happened with this contract, is that we created a financial stability and the most important element was that we could build resilience within the organization. within The company and within the business which helped us despite significant drop in volumes in the last year. However, that also helped us to sustain and make profits even during those difficult times. So let us understand that this particular contract has been a significant contributor to the value that everybody, all stakeholders have derived from this business. Moving forward as we have been continuously telling that as a very conscious strategic approach, we are trying to balance out our application profile. So we are not talking about specific products but we are talking about application profile, right now our concentration is significantly in polymers that may change and is changing slowly and also it is changing in terms of regional concentration. Right now, we are more dependent on US centric so that is also changing. We have shifted some in terms of percentage of proportion, we have Europe as a significant portion of our volumes as you could have seen in the presentation that we uploaded Strategic shift is also happening but that is not because there are severe or rather there is some serious doubt about the volumes but that may be coming from the contract. It is a conscious strategic derisking or rather derisking strategy that we are following.

**Sarath Reddy**: Thank you for that. Then that is coming across quite clearly in the first page of your presentation the more diverse nature geographically and at the product level but my question also was, is it not logical then that when normalcy returns from say the contract which was leading to certain applications in defense, aerospace for example

**Bimal Mehta**: As I had mentioned earlier that we are expecting the volumes to reach optimum level as they were in near future .

**Sarath Reddy**: My question was if those volumes return as they are as you said they are already virtually are and you are already at full utilization of capacity, then would there not be a pressing need to expand capacity because while those volumes contracted you added multiple other products to derisk. So now you have your erstwhile volumes from the erstwhile product as well as now the other big products which have scaled up?

**Bimal Mehta**: Yes, that is very logical as and when required there will be additional capacities as per the need of the products and the quantities that are being manufactured. As I mentioned that right now whatever products that we have introduced are in small volumes so that can be produced within the multi-purpose and multi-product plants that we have. As soon as the volumes go up to a critical mass definitely there will be an investment, there will be capex and there will be new capacities.

**Sarath Reddy**: Do you see adequate capacities for the rest of this financial year?

**Bimal Mehta**: We have adequate capacity for the time being and for rest of the year.

**Sarath Reddy**: Thank you.

**Moderator**: Thank you. The next question is from the line of Viraj Mehta from Equirus Portfolio Management Services. Please go ahead.

**Viraj Mehta**: Thanks for taking my question. Sir just have a simple question once we have this new product scaling up and our earlier contract also reaching its optimal takeoff that we had earlier, we were probably doing around 180 Crores, 190 Crores topline per quarter before the pandemic hit. Is it safe to assume that will be 20%, 30% higher than that because of new products and the earlier product reaching its optimal utilization not today but I think whenever we kind of reach that point in future?

**Bimal Mehta**: See you have calculated numbers for me but the point is that there is no crystal ball which can forecast specific numbers but yes as the volume grows and as quarter-on-quarter growth happens then naturally we will see where we are reaching but right now as I said that we should be reaching the optimum volumes that we have seen earlier. I would not speak any number here because a lot of things depends on the price at that point of time, it also depends on the product mix that we have in that particular quarter and if you have studied the company's financials, you would have probably seen that quarter-to-quarter, there can be significant variation depending on product mix, product price, so it is not that simple to talk about numbers in that manner, but yes we are going to see good level of volumes in this period and near future. Of course, barring any unforeseen circumstances which neither of us can predict but otherwise in general what we believe is that we are going to reach the optimum levels and the new product as I said maybe after probably we may talk about similar thing in the next year's call and at that time probably we can tell you where we are heading in terms of volumes and all that.

**Viraj Mehta**: Sir last question is within our capacity and you said that our job workers also have some capacities what is the topline we can do before the capex not asking the year but what is the optimal topline we can do?

**Bimal Mehta**: Yes, that can go up to Rs.700 Crores and even depending on the product mix it can go up to Rs 750 Crores annually.

**Viraj Mehta**: Thank you and best of luck Sir.

**Moderator**: Thank you. The next question is from the line of Dhruv Bhimrajka from Monarch AIF. Please go ahead.

**Dhruv Bhimrajka**: Good afternoon Sir and congratulations on getting back the business on the growth track. Sir my question is regarding the capacity utilization that we did for FY2021 so if I am not wrong we have an installed capacity of 18000 tons and our job work capacity is 8000 tons correct. So out of that what was our utilization for FY2021 the actual volumes which we sold last year?

**Bimal Mehta**: So the last year we had roughly about 50%,- 51% capacity utilization.

**Dhruv Bhimrajka**: This is on total 26000 tons installed correct?

**Bimal Mehta**: Yes actually see the capacity that 26000 is that a number that you have got from somewhere or what where is that number has come from?

**Dhruv Bhimrajka**: In the previous calls you had only told?

**Bimal Mehta**: Okay, so I just wanted to make sure that what we have because there are other products beyond those long-term contract products which are included here so about 50% of that total 18 plus 8.

**Dhruv Bhimrajka**: Sir what would be your capacity utilization for the first quarter of FY2022?

**Bimal Mehta**: FY2022 I can say it differently because we have this Corona second wave but right now we are operating at about 85% to 90% capacity barring two small capacity plants which has campaign-based products so right now they are not being utilized, but about 85% capacity is right now being utilized. See just to again repeat this that simple mathematics would not apply that if you are doing this much capacity this was the turnover because as I mentioned there are product mix changes, there are price changes from quarter-to-quarter. So just keep this in mind.

**Dhruv Bhimrajka**: I take that point and also you mentioned in your opening comments that the client had compensated you for the low offtake in FY2021 in terms of a long-term agreement. So would it be possible for you to mention the quantum of that compensation?

**Bimal Mehta**: No it would not be because the contract has confidentiality agreement but I can give you the answer in little different manner. The gap between what is the minimum contracted volume and the actual volume was not very significant that I can tell you so the compensation was also not that significant which warranted a specific or separate disclosure.

**Dhruv Bhimrajka**: Sir just one last qualitative answer if you can give I do not want numbers so as you have already said that the long-term agreement & business modalities has not changed due to COVID so what I wanted to understand is that previously the products which you were supplying to the client in the long-term agreement has the realization for the product dropped post COVID or is it the same pre COVID?

**Bimal Mehta**: There is no change in the realization because it is a cost plus formula driven contract so the margins remain consistent.

**Dhruv Bhimrajka**: That is great Sir. Thank you so much, I will come back in the queue.

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

**Faisal Hawa**: Generally, you have a fixed cost of almost 100 Crores in terms of salaries, depreciation , interest and return on investment. So we could utilize only 50% of capacity in 2021. So it is not the compensation really too low for us given that we have almost suffered losses of between 45 Crores and 50 Crores on fixed cost alone. Also, because the same buyer sources with materials from another supplier in India at almost much higher rates. So we should have been compensated much better at it and secondly how do you feel that their final product Kevlar will be utilized for electric batteries? Are they giving any kind of indications on where it would reach as that could be a much bigger utilization of their product and third is sir can you give an estimate as to how much is the three job workers contributing to revenue in each quarter and I mean how fast could you get any kind of permissions for expanding capacity at the present Ekalbara complex?

**Bimal Mehta**: To answer your first question, compensation is based on not the maximum volume that the customer typically takes. It is based on the minimum guaranteed volume. So the gap between minimum guaranteed volume and the actual volume as I mentioned earlier was not very significant. So therefore, naturally the compensation would also not be significant. The volume that you saw for example in 2019-2020 or 2018-2019 they were at optimum level & not at minimum level. So that is one point. Coming to your second question, electric vehicles, now you see Kevlar or any other Aramid Fiber whatever the companies are manufacturing, they are quite expensive products. So we do not see or as a company we do not think that Aramid Fiber would be used much in electric cars. Of course it can give light weight compared to using metal and all that but we do not see any major hints or anything coming from the market or some customers that it is going to be used in electric vehicles probably they may use in very high-end electrical vehicles to some extent but we will come to know as things unfold.

**Faisal Hawa**: Actually there are articles in the press stating that some of your customers is in talks to the Japanese battery manufacture to use it or they separator for batteries?

**Bimal Mehta**: That can be there because that is a mission critical application but not in general in electrical vehicle like for the body or something like. That would not be used but yes it is a very specific application but it will not be significant in terms of the quantum that goes in each car. Coming to your question on the permissions in Ekalbara, suppose we go today for what is called product mix change, it takes about four to five months to get a permission and that applies to all including job workers and all that it is about maybe three months to four month maximum five month process.

**Faisal Hawa**: We may not be now looking at a Greenfield expansion at all so how will we be utilizing our excess cash flow or how do we plan to utilize it and secondly is the company doing anything to list its shares on NSE or to improve the liquidity of the stock because our equity is very low and even the base is quite low. So are we thinking in terms of doing anything to enhance the shareholder value there?

**Bimal Mehta**: Whatever cash flow we are generating we are right now conserving for any major developments that may come of course besides whatever is logical or whatever is on hand with the feedback of the board will distribute to shareholders in form of dividends and all that. Others are used as usual retained earnings which are basically being conserved for the future initiatives. Regarding NSE listing, we will definitely pass on your recommendation to the board.

**Moderator**: Thank you very much. The next question is from the line of Nikhil Shetty from BP Equities. Please go ahead.

**Nikhil Shetty**: Thanks for the opportunity and congrats on a good setup number. So most of my questions already been answered but on a gross margin during the Q1 it has contracted by around 900 bps on a Y-o-Y basis so what led to this decline and can you share the sustainable gross margin level for FY2022 and 2023?

**Bimal Mehta**: I think you had sent this question right?

**Nikhil Shetty**: Yes.

**Bimal Mehta**: Yes, but we try to figure out what you mean by this and we did not see when we look at our gross margins, we do not see any contraction like 900 BPS on year-on-year basis. So I do not know which data you have used to ask this question.

**Nikhil Shetty**: Last year it was around 56.4% in Q1FY21 and during Q1FY22 it is around 47.4%?

**Bimal Mehta**: Understood. Some of the raw material cost has increased during the current quarter that is why you are seeing drop in those margins.

**Nikhil Shetty**: Can you share the sustainable gross margin for 2022 and 2023 Sir?

**Bimal Mehta**: I can tell you about EBITDA it should be between 16% to 20% of the sales that I can reasonably estimate which, of course we use for our internal targets and all that.

**Nikhil Shetty**: My next question is on some local manufacturers are aggressively adding acid chloride capacity where we compete with a similar product and primarily targeting to the export market like Terephthaloyl and Isophthaloyl chloride. Do you expect this affect our overall pricing?

**Bimal Mehta**: See the point is that some local manufacturers are definitely adding capacities. That information is absolutely correct. But how it will impact pricing is basically it is all totally dependent on demand and supply and of course the preference of the customers for a particular supplier for example Transpek is most preferred supplier for most of our customers. Pricing may come under pressure if there are more suppliers and demand is not picking up accordingly but right now whatever capacities that others are generating they are already in market and it does not affect its pricing very significantly.

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

**Sunil Jain**: Thank you for taking my question Sir. This was again related to raw material cost increase. You said that the long-term contract is cost plus margin so is there any lag between the cost increase and passing it on to your large customer?

**Bimal Mehta**: Yes, you are right. The simple process is that whatever is the average cost of the raw material in say for example current quarter will be adjusted in the price in the next quarter so there is a one quarter lag.

**Sunil Jain**: So, whatever the cost has increased we will be getting the benefit in the next quarter for that. The employee cost which has increased in this quarter somewhere around 13 Crores, so is this going to continue at the same level, or it is a onetime increase which has been given in this quarter?

**Bimal Mehta**: If you are comparing this on quarter-on-quarter basis then this increase is normal increase that we see in industry and probably you are also comparing March 31, 2021 quarter with the June 30, 2021 quarter and that is where there is one small adjustment in March which is gratuity, which was provided for earlier at larger amount was reversed based on the actuarial valuation. .

**Sunil Jain**: So this is what is going to continue in the coming period as well. Sir last question relating to the share of polymer, the share of polymer if we see this is mainly to the key customer or you are supplying it to different customers also?

**Bimal Mehta**: Yes this product which goes into polymers is supplied to different customers as well. It is supplied to customers in US and also in US multiple customers. It is also supplied to other customers like in Korea, Japan.

**Sunil Jain**: Great Sir. Thank you very much.

**Moderator**: Thank you. Next question is from the line of Sunil Kothari from Unique Portfolio Management Service. Please go ahead.

**Sunil Kothari**: Thank you for the opportunity. Congratulations Sir for sustaining improvement in numbers and profitability. Sir my question is compared to last say this pre-COVID situation the way people were talking about India becoming opportunities for sourcing from India, China Plus One strategy and after COVID also there was a major supply disruption globally. So are you getting any inquiry or thoughts any major opportunities opening up for Transpek because of this last three, four years the disruption related to China and COVID your thoughts or your views?

**Bimal Mehta**: There are two ways to look at this, one is that whether Transpek has been in direct competition with Chinese suppliers of the product. So we are in direct competition with Chinese suppliers in some of the products and not all. In fact in some of our products, we are exporters to Chinese customers. So that is why we are not getting many inquiries currently from our customers because we were not being like considered a substitute for Chinese suppliers today or earlier. So this is one way to look at it. Now looking from a macro level on larger perspective, yes we are getting inquiries from various customers in whom we understand to be looking at us and of course other suppliers from India as a replacement for China. The point is that it is a very gradual process because as I have been mentioning and explaining time and again that changing supplier from A to supplier B especially for example in pharma or mission critical applications like polymers is not that easy and it takes some time but yes there is definitely a potential in terms of some opportunities.

**Sunil Kothari**: Sir my second question is on the derisking strategy. The statement we are making is that we want to balance volume distribution among four to five application segments. We are currently very heavy almost two thirds from polymer and we want to balance it may be over a three, five, seven year whatever timeframe so I am very sure that we are not going to reduce our polymer related contribution but we want to increase further this other application. So what preparation are we making and it will require a very sizable investment also? so I mean without any timeframe if you can talk about the opportunity, the other segments which if you are working since long on pharma and agro-related products a little bit more on qualitatively on this aspect of derisking?

**Bimal Mehta**: To answer your question is the first part which is that we are definitely not going to reduce polymer's contribution in fact we may be looking at even adding more products which go into polymers. parallel to adding products which go into various other applications. So two major areas of applications that we are working on is one is of course pharma and another one is specialty chemicals. So specialty chemicals because of its very vast potential in terms of application areas, when we say specialty chemicals it is not just one particular area it can be hundreds of applications. So we have already drilled down a list of potential products that we can manufacture as part of our market intelligence process as well as interaction with customers so some of the specialty chemicals we are working on. And yes you rightly said that when the maturity of the process happens and when we are ready to introduce some of these products, there will be requirement for some significant investment and at that time of course we will announce that appropriately.

**Sunil Kothari**: Sir lastly, as an investor people understand that Transpek being so successful since long with on base of top MNCs our track record is too good recently concluded this long-term agreement product and contract is also you are successfully delivering. So what is stopping us to become little aggressive and they are asking for very high growth and numbers but with looking at your already established setup your experience, the way we have proven ourselves what is stopping us from a little bit becoming a more capex heavy and trying to do some more growth? Broadly can you share your view.

**Bimal Mehta**: In fact, you answered the question in the question itself. You see the reason that we have grown so fast in last three years is that we were very aggressive as compared to our earlier years. In terms of investment, we have invested heavily into just one project which was probably equal to five or six years of capex, general capex that we do. So that strategic approach of being aggressive is definitely continuing and as I said we are working on some of the initiatives, the only point is that we believe in kind of a process where we also ensure that we remain stable and we also remain resilient because we are in VUCA world where things can change suddenly. We never believe that this kind of situation will arrive but last few years we all have seen that how things can go from good to worst. So that is why whatever we do, we are definitely aggressive in that sense, but we are building our base before we take next quantum jump.

**Moderator**: Thank you. The next question is from the line of Rahul from Shefa Family Office. Please go ahead.

**Rahul**: My question is extension to the last answer you getting into new application segments and planning to grow little aggressive. Sir can you elaborate other application profile like electronics, personal care portfolio, photo initiator which you are planning to get into is it like it is our capabilities in those applications or those are our natural extensions in terms of product portfolio and value chain that will lead us to getting interested into this area is that like demand from the existing client or the opportunity size we can tap based on our capabilities, please elaborate on that?

**Bimal Mehta**: It is actually a mix of all that you said. Some products that we work on, is basically coming from existing customers and some from new potential customers. Of course, we will evaluate and if we will find that they fit within our circle of competence, then only we will confirm to customers that we are ready to work on it. This is one part. Second part is that basically we work on what we have built so far. So whatever our capabilities are in terms of processes in terms of chemistry in terms of the products that we manufacture in terms of the development, that we have so far done and we are doing, utilize that. and based on that, we also of course utilize market information that this product may be say for example import substitution as an example that it may be heavily imported from somewhere and India needs it, then we can manufacture this product so that can be one element of it and application profile is for example let us talk about photo initiators so photo initiators we have a lot of application in what we call surface coating and new developments keep on coming. It is not only one product, we keep on developing new one and we look at the possibilities in terms of whether we can participate in that kind of development. And then if our chemistry or our process capabilities fit within that then we work on that product. So it is a very quick structured process and very refined process, refined over the years and we follow a systematic procedure for that.

**Rahul**: I understand Sir. How are we approaching towards it like some R&D that we are doing, how many PhDs have we on-boarded or kind of scientists or in terms of validation process, validation product development?

**Bimal Mehta**: Yes so we have a full-fledged R&D laboratory, manned by probably 20 plus chemist, people who have chemical background of different types and experience level. We also have a team of engineers who are working together with chemists in order to move from R&D level to kilo level and kilo level to pilot and pilot level to the commercial production level. So those teams are also in place and as and when of course we need to draw on some more talent from outside then we go to universities or institutions.

**Rahul**: Thank you.

**Moderator**: Thank you. The next question is from the line of Dixit Doshi from White Stone Financial. Please go ahead.

**Dixit Doshi**: Sir as you mentioned earlier that we are already at around 85% of the utilization level and we also mentioned that we are working on few products that are small in size right now. But as and when they attain a scale then we can do a capex for that. So I just want to understand for this capex if you decide to do a capex for any of such products, so what would be the amount that typically will be required for this kind of a capex and how much time typically it takes to do this capex?

**Bimal Mehta**: See the point is that it is not a simple calculation, for product A this much money will be required for product B this much money will be required because product-to-product it varies. For example, it can be Rs.7 Crores, Rs.8 Crores it can be Rs.10 Crores or it can be even Rs.20 Crores or Rs 30 Crores also. It is very difficult to say for a particular product as of now that this kind of effects will be required because it also depends on how the volumes unfold and how we define our process as we start to produce larger quantities. We are using our existing facilities with some adjustments and some modifications to manufacture this product and as soon as there is a little indication that volumes are going to go up then our engineering team will start designing this facilities and based on that capex, data would be or rather capex value would be derived.

**Dixit Doshi**: So broadly if you can give us what kind of asset turnover can these products achieved for every say Rs.20 Crores, Rs.30 Crores rupees that we invest how much kind of a turnover broadly we can expect to achieve?

**Bimal Mehta**: Typically in chemical industry sometimes it is 1.5 times, 2 times and in some cases it can be even 2.5 to 3 times but in case of some products not all maybe 10% or 15% of products it can be even four to five times, but in very few products .

**Dixit Doshi**: Thank you Sir.

**Moderator**: Thank you. The next question is from the line of Ankit from Bamboo Capital Partners. Please go ahead.

**Ankit**: Thank you for the opportunity. Sir with this the long-term contract coming back to streamline and we going back to a pre-COVID levels as you are saying we can touch Rs.160 Crores, Rs.170 Crores of quarterly run rate so and with this new products also ramping up but say over the next year or two, we can touch Rs.700 Crores, Rs.750 Crores of topline so what will be the growth drivers from there on how do we see that the company is scaling up to let us say Rs.1000, Rs.1200 Crores over the next few years? I am not asking for a timing but do you think we have certain projects in pipeline or molecules in pipeline and we will be able to reach that and if we do have how they will we get the additional capacity to ramp up to these levels?

**Bimal Mehta**: These are definitely part of our strategic approach so for example we keep on working at what next level that we want to reach or we should be reaching and then within that we define some of the areas of growth, we define some of the potentials that we look at, some opportunities that we look at. So yes every company and organizations with their management will have aspirations to go to the next level from where they have reached so far or they are expecting to reach in one or two years. So we do have some of these plans and as mentioned earlier, there is a very structured process of building those strategic pathways where board level, promoter level, management level discussions happen and then we decide and agree that this is the area that we want to work on. For example, this polymer business we had envisaged when it was just very few Crores we had envisaged I think in around 2007 this can become a much larger business than what we are seeing today and from that time we started working on these products which go into polymers. So yes we do have a kind of horizon, strategic horizon as we move forward. Right now, as you rightly mentioned that we cannot give you very specific time or specific numbers but yes the numbers for example that you mentioned are definitely part of our thinking process.

**Ankit**: Do we have certain products in other development in R&D or in our pipeline to be launched where the size of the molecule can be pretty large let us say not the current 10 Crores, 20 Crores molecule that we doing with those single molecule it can be expect 200 Crores even now?

**Bimal Mehta**: We have a library of about 150 products ready. Ready in the sense with data not in terms of development or R&D. So there is definitely a pipeline but selection of the products from this pipeline depends on how the market is, how the business is. As I mentioned earlier, we use market intelligence, market data we also interact with customers and then on that basis we select the products, and we start developing and we start working on it. But if you look at in terms of knowing or understanding the product and broad idea about the potential and broad idea about chemistry and all that we have a huge pipeline. .

**Moderator**: Thank you. The next question is from the line of Kashyap Karthik from Table Tree Capital. Please go ahead.

**Kashyap Karthik**: Thank you so much for the summary at the start of the call I think it answered a lot of questions that I had. Two questions one is I think around December 2019, March 2020 we have reached about Rs.160 Crores, Rs.170 Crores quarterly payout numbers so I heard in the middle of the call that that was in the minimum number of level of the polymer business. So now we are reaching the optimum level so do we have a capability to reach Rs. 200 Crores for quarters it is not in the immediate quarter but subsequent quarters over the next six months?

**Bimal Mehta**: As I mentioned that we can reach annually about Rs.700 Crores to Rs. 750 Crores in terms of revenue and what you probably summarised is not correct Rs.160 Crores is not the minimum volume. For minimum volume, we were referring to compensation that was there in the earlier year when the volumes were not taken. I just mentioned that in total all products combined, we have the capability to reach about Rs.700 Crores to Rs.750 Crores annually, depending on the product mix and the price .

**Kashyap Karthik**: Got it and the other question that I had Sir, given we are primarily in acid chloride there has been a lot of scrutiny in pollution boards so not to give permission for all the red zone products right for acid chloride typically fall under regular products not sure where our products fall in the polymer business. So is there a difficulty to get some of these formations even if it is our existing land given Acid chlorides are typically red zone and pollution control boards have a lot of measures not to give permission because even in Vizag I mean a lot of pharma plants and chemical plants are being shut down because of this exact same reason and probably that why our project also got delayed?

**Bimal Mehta**: Just to clarify, I mean you have asked the right question but it is not because of acid chloride and it is red zone product or anything products are not defined versus zone, zones are defined based on the level of pollution that may have been there in that particular region or that particular area, based on that, red zones are defined of course products can also be defined green orange red category and all that but that does not create problem in terms of getting new permissions, if the area is not defined as a red zone now. But especially where we are which is Ekalbara, currently they have certain policy where they do not give permission for expansion even if you have the land, which as I mentioned that we have reason to believe we have heard from some reliable sources that these permissions are now going to be relaxed. So they should be coming but we do not have any confirmed information or any evidence about it. We use what is called product mix change. For example, in our permission, we may have 20 products out of that we may be only making 15 products. So we are not making other five products and we are not planning to make, then we convert those products to new products that we are making. Secondly our job work partners they have also similar situations there. They have 20 products and they are making only four products or five products. So other products capacity which may be significant can be converted to products that we want to manufacture. So this is the way the growth can happen but yes right now our Ekalbara plant is part of a zone where there are a lot of restrictions in terms of permissions, not restriction in terms of changing the product, restrictions in terms of adding new products and increasing the quantities that is where the limitations are.

**Moderator**: Thank you. The next question is from the line of Rohit Ohri from Progressive Share Brokers Limited. Please go ahead.

**Rohit Ohri**: Sir I have two questions when we say that we have added two new acid chlorides so can you just elaborate what are we talking about whether it is the composition concentration some change in process or if it is a new grade or are you looking at some product like TMAC or something?

**Bimal Mehta**: See there are so many products that we can manufacture and out of that we are making right now 10 acid chlorides as an example. When we say we have added two specific products, it is not about any grade or anything two specific products. So I will just give you example, one product which is called isobutryl Chloride which we were not manufacturing earlier that we have now introduced as part of our products offering. So these are totally new products, in the sense they are still acid chloride but they are totally new products not any version or any modification of the existing product.

**Rohit Ohri**: Isomers? Are they isomers or they already exists?

**Bimal Mehta**: No, not isomers, the name is like that isobutryl chloride it is not isomers.

**Rohit Ohri**: Sir second question is knowing that we are into these complex substitution and replacement reactions if I can use the word are you looking at going for further forward integration in these processes maybe a plus one or plus two to get into acid anhydrides or esters which are having more demand in the pharma industrial or maybe the perfume segments?

**Bimal Mehta**: Yes as I mentioned that we are looking at specialty chemicals as one of the growth portfolio. Definitely, we are looking at products which are more than what we are doing in terms of number of steps of chemistry or complexity.

**Rohit Ohri**: Sir if I can just squeeze in one more you are looking at acid anhydrides or are you looking into esters?

**Bimal Mehta**: Right now I will not be able to give you that information because of the competition issues also we need to face.

**Rohit Ohri**: Yes, Sir I understand that. That is okay Sir. Thank you, thanks a lot.

**Moderator**: Thank you very much. I now hand the conference over to Mr. Bimal Mehta for closing comments.

**Bimal Mehta**: Thank you to all the investors who participated and who raised questions and we hope that we were able to answer all your questions to your satisfaction. As I mentioned as and when there is any major or significant development you would definitely be ensuring that you all get information well in time and thank you for joining us in call and participating. Thank you.

**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.