

**Sigachi Industries Limited**  
**Earnings Conference Call**  
**July 25, 2022**

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**Moderator:** Ladies and gentlemen, Good day and welcome to the Q1 FY23 Conference Call of Sigachi Industries Limited Earnings Conference Call. As a reminder, all participants' 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 "\*" and then "0" on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Sir.

**Anuj Sonpal:** Thank you. Good morning everyone and very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Sigachi Industries Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the first quarter of financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's concall may be forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results that differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and

financial quarter under review. Let me introduce you to the management participating with us on today's earnings call and hand it over to them for opening remarks. We firstly have with us, Mr. Amit Raj Sinha - Managing Director and Chief Executive Officer, Mr. O. S. Reddy - Chief Financial Officer Ms. Shreya Mitra – Company Secretary. Without any further delay, I request Mr. Amit Raj Sinha to start with his opening remarks. Thank you and over to you, sir.

**Amit Raj Sinha:**

Thanks a lot Anuj. A very good afternoon everybody. It is a pleasure to welcome you to earnings conference call for the first quarter of FY23. Firstly, I hope everyone is keeping safe and well. In the interest of some of the people who are new to the company, let me first start by giving a brief overview of the company after which Mr. O. S. Reddy, the CFO will brief you on the financial performance of the quarter under review.

Sigachi Industries was incorporated in the year 1989 and today, we are one of the leading manufacturers of Micro Crystalline Cellulose in the world. Our company manufactures high quality cellulose-based excipients, which predominantly finds usage in the pharma, supplement and the food industry. The company has created a niche in manufacturing highly innovative pre-formulated excipients and are using and selling 60+ widely used excipients of international quality and standards apart from customized solution for customers. From our state-of-the-art R&D facility, we ensure continuous innovation to efficiently meet evolving customer demands. We have two manufacturing facilities in Gujarat and one in Telangana from where we ensure supply chain reliability for our customers in India and across globe. Our total capacities from all these three facilities are more than 13,000 metric tons per annum which we are further enhancing through

our ongoing CAPEX plans to reach 20,000 metric tons per annum. We at Sigachi have a global sales and distribution network and exporting to more than 47 countries across Asia, Australia, American continent, Europe and Middle East. I will now request the CFO to brief you on the financial performance after which I will give you an operational highlight for the quarter. Over to you.

**O. S. Reddy:**

Thank you, Mr. Sinha. And good afternoon everyone, let me brief you on the financial performance of the first quarter of financial year ending 2023. The operational revenue for the first quarter was rupees 78 crores, representing an increase of around 43% year on year. EBITDA reported was rupees 16 cores with an increase of approximately 34% year on year and the EBITDA margin stood at 20.82%. The net profit after tax reported was rupees 13 crores which increased by 42% year on year, while the PAT margin percentage was 16.35%. Now I hand over the call back to the MD to give you the operational highlights. Over to you

**Amit Raj Sinha:**

Thank you CFO, so on the operational front the revenue growth was primarily driven by increased demand for MCC across all the industries. With volume growing at approximately 10% and realizations at 19% on a quarter-on-quarter basis. Export sales increased to 75.43% in Q1 FY23 as compared to 73.6% in Q1 FY22 due to the continuous efforts of on enhancing the global client base through our marketing and product customizations. We focused on high margin product mix with cost effective manufacturing processes and effective management of interest in inventory which resulted in improvement of EBITDA and profitability on quarter-on-quarter basis. The consumption of material reduced to 47% from 51% in Q1 FY22 due to adoption of cost effective processes and of course a favorable product mix. We

expect this trend to continue and sustaining the profitable level. Furthermore, capacities of around 7000 MT will be added during later part of FY23, which will contribute to additional revenue growth in the coming financial year. We're also putting high focus on R&D capabilities through cost effective manufacturing processes by remaining as the manufacturer of choice and supplier of choice in the existing industry. With this we are now open the floor to the question answer session.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Keshav Kumar from RakSan Investors. Please go ahead.

**Keshav Kumar:** I have a couple of questions. The first one is the director of the statutory auditor Mr. Adi Narayan is also the director of Usha Kiran Finance, which was allotted shares on a preferential basis back in 2013. And Amit Sir is disclose as a part of the promoter with 0.1% holding in that company that under transactions with Mr. Adi Narayan, actually go even further back to 2008 memorandum subsidiary Sigachi Laboratories on boarded Mr. Adi Narayan as director and in 2010 Mr. Ravindra Sinha seems to be the director and the said company is currently promoted by our current statutory auditor and under the very same name of Sigachi Laboratories. So due to these observations, it's sort of difficult to a certain true independence of the auditor. So firstly, what would be a comment on these observations and what steps could the management take to a certain interest to the minority shareholders?

**Amit Raj Sinha:** I would just like to bring out that. Mr. Adi Narayana is, of course, the promoter of Sigachi laboratories, which was founded way back in early

90s, 93-94 to be precise. And during one of Sigachi fund raise his company, Usha Kiran Finance, had invested into shares. I think that was around 20 years back and that is how when we had increased shareholding in the sense when we had I think it was a bonus issue. It just so happens that the company name of the auditor, is Adi Narayan. But the partner of the company is different. It is Mr. Y Pullarao And I don't see this as any conflict of interest, because there is no direct involvement of any of the auditors, any, of the T Adi Narayana & company people in the Full House Audit Works, CFO Could you just substantiate what I speak.

**O. S. Reddy:**

This Mr. Adi Narayana, he is no way related to the firm T Adi Adinarayana and Company. He's not even a partner or he doesn't have any interest with this firm now. Even that time he started that firm, but that form is completely being run by Mr. Y Pullarao and Thus Adi Narayana doesn't have any interest with this company. As of now only Usha Kiran now has got some share. That is a long back it had hold and it continues to hold and there is no conflict of interest, and since long he's not at all associated with this audit firm also.

**Keshav Kumar:**

The second one is the policy of 1% sales as entity to Family Trust 2025 onwards, I believe is again prejudicial to the interests of minority shareholders. I could have understood this if we were a conglomerate and one of the interests of the parent company had to pay loyalty to the parent for Technical Support, and that could justify the expense as a compensation for the time and resources provided, but in our case the cost of this is very substantial for a size like alignment to revenues disregards bottom line. For example, if we grow our revenues at a 15% to 20% CAGR, or double in four to five years, then royalty charge would be 10% of the current EBITDA. And as we've seen in these inflationary

times, pricing alone can push the topline without being a function of volume of the product mix so if we don't increase our margins enough to offset that the charge hits right there, so it's in essence a call option in which the managers incentives are aligned to the top line but minority shareholders are entitled to dispensable cash as dividends or the per share net earnings, so our incentive are solely dependent on the profitability of the enterprise, which further depends on the ability of the business model and the capital allocation. And thirdly, in that very order the last is sales so I would sincerely request. The management to align loyalty incentives to bottom line or rectify it to a performance linked compensation scheme only then will the interests will totally aligned at both ends.

**Amit Raj Sinha:** Fine Sir, I think we will take this suggestion positively. We will do our homework and see which way we can align it to the bottom line rather than aligning it to the top line.

**Moderator:** Thank you. The next question is from the line of Meet Katoria from Niveshaay. Please go ahead.

**Meet Katoria:** My first question is that you see rising inflation across the globe. Do you see any impact on demand as majority of our revenue come from USA? And what will be the revenue guidance for upcoming year?

**Amit Raj Sinha:** We of course are seeing rising inflation. But however, we have not really seen it impacting our demand. The prime reason is that we primarily catering to the Pharmaceutical industry, which is not new so we don't see decrease in demand in any way. In the US in fact the sales have been pulling up much more, so we don't see the tapering down because of inflation.

- Meet Katoria:** And what will be the revenue guidance for the coming year.
- Amit Raj Sinha:** We believe that whatever has been a CAGR over the last three years, we would be able to continue to maintain it, Sir.
- Meet Katoria:** My next question is that our competitors like Gujrat micro wax have more margin than us like in FY21 EBITDA margin was 30% and in FY20 they also have 23% EBITDA margin. So anytime that our margin will improve further.
- Amit Raj Sinha:** CFO, you had certain details of our competition. Could you just give those details as to, which way the margins seem better than Sigachi. We had done this analysis around the year back when we were going public and what we saw was that our margin percentage over the product MCC were better than their product now it so happens that JRS has an additional product by the name of croscarmellose sodium, and there the margins are much superior. So, if you compare all in all, you would see that Gujarat micro wax the margins are better than Sigachi. But if you just compare their product portfolio of MCC with our product portfolio of MCC we are definitely better off than them.
- O. S. Reddy:** To supplement in future, we are going to manufacture these excipient, CCS, which has a higher margin also. With this, we hope it will increase. We have analyzed their profit also. Their manufacture other small other excipients also. That's why there is a higher margin for them. Even Sigachi also going forward to would better the margins on account of CCS product.
- Meet Katoria:** And my last question is that what is the current realization for the product and what is the impact of wood pulp pricing?

- Amit Raj Sinha:** Could you please repeat?
- Meet Katoria:** Yes, Sir. What is the current realization for the product and what is the impact of wood pulp pricing?
- Amit Raj Sinha:** Yeah, current realization is the first quarter it is the around ₹217.00 last year it was ₹182 and going forward. This will only get better.
- Meet Katoria:** Yes, and any impact wood pulp pricing.
- Amit Raj Sinha:** We have seen is that, at this moment we are able to pass on the increased pulp prices onto the customers. So that's a very big comfort. We hope that the wood pulp prices should average out and should get stable very soon. We were expecting it open that in the Q2, but it still continues to be going up a bit, but we are hopeful that by the first half of the year it should stabilize and probably later even taper down.
- Moderator:** Thank you. The next question is from the line of Rajesh Jain from NB Investments. Please go ahead.
- Rajesh Jain:** I have broadly 3 questions. One is with reference to the Nutraceutical segment which you have announced quite some time back where we have entering into that segment which has a huge potential. The press release doesn't talk about who are the main competitors. And what are the benefits that company would be offering to their customers to get the business from them.
- O. S. Reddy:** So you would like to have the name of the competitors and which way the customers would get benefited on account of customer acquisition priorities. Is that right, Sir



**Rajesh Jain:** Yes.

**O. S. Reddy:** Yeah, so like we indicated in the press release, we are looking ahead or rather, we have already launched the human nutrition vertical of our nutritional services and that primarily would be looking at certain premixes which are the need of the hour in certain end market segments like fortified food and beverages, for the private segment. We also have the fortified food and beverage for the institutional segment which is more on the B2G, the government part. here business is transacted on tender. We have the pharmaceutical premixes which is again going in for the tablets which has specifically certain ingredients and to an extent certain minerals being taken in, so these are the premixes which we are focusing on. Now, in terms of our competitors, I would say hexagon could be one of them there are private limited companies like Supreme Pharmaceuticals. These are some of the competitors like DSM. Also DSM, I could qualify as the market leader in the premix. Now in terms of the value add over what my other competitors are doing because of our expertise in the formulation segment, we do have strength in the tablet technologies and the suspension technologies wherein we could work on giving them a better product mix where in tableting activities as the formulators end would go without a rejection, wherein we will be able to put in a better mix of Vitamins so that their end material is made. I just give you an example set to one of our prospective customers who is a very big company. In fact there are conglomerate. We were discussing about fortification of Tea leaves and in the Tea Leaves the customer wanted vitamin A and vitamin D to be fortified. They could show it as a fortified it could be advertised to the customer accordingly.

- Rajesh Jain:** I have further to this product segment, I was told that these new products have MCC as one of the constituent. So does it mean that are we supplying MCC also to these customers earlier.
- O. S. Reddy:** So these customers we are not selling directly, but we sell to the agent, and they may take it from them. But we are not selling to these people directly.
- Rajesh Jain:** OK, the purpose of asking that question was a once you launch these products, do we have to conduct testing or trials for this new product with these customers?
- O. S. Reddy:** Yes, we need to do it.
- Rajesh Jain:** OK, so how much time will this take for the product to commercially launch?
- O. S. Reddy:** It will take maybe immediately we can do it, but only trial. It will take as the trial order will provide and they test the quality test and all that is working we produce it will not take much time, even not more than even one day or even 24 hours or even just within two days 48 hours. Depending on the pending product, how many stages are there like that it is even now in 12 hours or so we can complete the trial and their maximum of 72 hours, 270 on higher side.
- Rajesh Jain:** For this product is same as it's at the same level as MCC and how much revenue can be expected in the next two to three years.
- O. S. Reddy:** MCC also is part of this product and in margins also there is a sales mix is there it is depending upon the product and we expect little lesser

than MCC. Our turn over in current year we may be reaching around 18 to 20 CR from the Premix facility

**Rajesh Jain:** OK, and how big is the potential, Sir? Let's say three years or five years down the line, can we go up to 100 plus crores in this segment or not?

**O. S. Reddy:** In this segment not less than 50 crores as of now but going forward during that we have to access further. There is a good scope ahead.

**Rajesh Jain:** In one of the interviews post listing you had mentioned about food industry going to contribute around 30% to the sales in FY23. So this product you are giving for Nutraceutical segment that is not part of that food segment, right?

**O. S. Reddy:** Yeah, that's not that part of it. Our statement was there with respect to our MCC. Our MCC, we supply to pharma, Neutra and food and part to chemicals, all these sectors. This thing is that slowly food percentage also, it is going up. In that context, we told. Earlier it was very less and then slowly food is also picking up.

**Rajesh Jain:** OK, so my second question is regarding the Capex. So are we doing at the Dahej or at Kurnool?

**O. S. Reddy:** That we will move to the Dahej. Because all our other experience, even now that is closer to the existing facility at Dahej is 1 kilometer away and there only, we wanted to set-up the MCC. Manufacturing facility also because for administrative convenience and we wanted to transfer that, we want to move that CCS project to Dahej.

**Rajesh Jain:** But have you already have got the land there?

- O. S. Reddy:** Yeah, that is the other process and all is going on, land already we have procured. And the other environmental clearances and other licenses and all. The process is going on.
- Rajesh Jain:** So are you confident of commissioning this plan by Q1 of next financial year?
- O. S. Reddy:** No, it will take a little time for EC. This will take time, but the existing expansion at Dahej and Jhagadia for MCC that will come into operational from fourth quarter of this year FY23.
- Rajesh Jain:** So now that you have acquired this land at Dahej, so are you going for any change in capacity for CCS?
- O. S. Reddy:** CCS Sir right now maybe small variation but not very huge anyway at appropriate time we'll announce it again once it comes all the approvals and all we take and then we'll let you know it.
- Rajesh Jain:** So my third and last question is regarding the recently announced entrance to this OTC product. So if you could share some data about what are these products where they will be manufactured? Who are the competitors? Some information. About these things.
- O. S. Reddy:** That our MD will update you right now. I have limited information, but in this OTC but that also will make an announcement and then you'll get the more details for time being we will defer that question.
- Rajesh Jain:** OK, but are we expecting any sales during this current year and next year.
- O. S. Reddy:** Yeah, currently also we are expecting some sales from next year as well. Current year also we are expecting something.

- Rajesh Jain:** Ok and, Sir, you have already given a guidance for the top line, saying that you will maintain whatever you have been achieved during last three years, so. But as far as the bottom line is concerned, there is considerable growth during last three years. Can we expect improvement in margins going forward also?
- O. S. Reddy:** Yeah, we hope that will increase because our sales mix changing it is in the composition of there are special grades and some premium grade portion is increasing thereby where we get higher margins. That's why because of that change in sales mix we are getting the higher product margin, and that will continue.
- Rajesh Jain:** So that means you expect whatever the growth in top line is their bottom line would. Grow better than that.
- O. S. Reddy:** Bottom line also will go at least there is a definitely there is a sustainability in bottom line profit and we hope it will increase further.
- Moderator:** Thank you. The next question is in the line of Ananth from as AS capital. Please go ahead.
- Ananth:** So first question is about the Nutraceutical segment. So sir mentioned about 18 to 20 crore is expected within FY23. So at what since level, like what is the cost structure here and at what sales level will be breaking on search in this segment?
- Amit Raj Sinha:** Yes, that's right. We need to get some further details, but the margins are as we said earlier would be bit lower than MCC.
- Ananth:** So will this will be EBITDA positive this year.

- Amit Raj Sinha:** Yeah, yeah EBITDA also only would be there. We expect there will be positive EBITDA.
- Ananth:** So in the sense that will there be any like higher cost as we are launching this new division and because of that margin will get lower is there is there? Is there a possibility like this would be?
- Amit Raj Sinha:** but this still lower that is under initial stage and we'll come up the outcome with. So in fact.
- Ananth:** OK and similarly about this or if the segment. Also like what kind of investment is required here and like what?
- Amit Raj Sinha:** Investment also not much, because we get these products manufactured from contract manufacturing and then we will sell through with our Sales & marketing network. We'll have improved marketing network and maybe in this segment also little less than now, the MCC margins. But it's the incremental revenue with the minimum capital. That's the reason we don't set-up any manufacturing facility. We get these products manufactured from third party
- Ananth:** OK, so this will require like hiring of lot of MRs and all that like how the for the distribution network and like how does it work? Do you have the distribution network for this OTC segment?
- Amit Raj Sinha:** Right now, we are establishing this, Distribution network. We however do not need the MR's since this is a OTC product
- Moderator:** Thank you, the next question is in the line of Dharshil Jhaveri from Crown capital. Please go ahead.

- Dharshil Jhaveri:** So I'm a bit new to the company, so could I just ask a few basic questions. Our new capacity supposed to kick in by end of this year. So in FY24, what additional revenue can we expect and what could be the capacity utilization for the new capacity?
- Amit Raj Sinha:** The new capacities which will come into line is 7000 metric tons per annum. That will come in fourth quarter, fourth quarter maybe we'll be occupying a very small portion of it and in by 24 Rd we'll be achieving 60%. Of that increased capacities anyway, the existing capacities we are operating at, even now 95%.
- Dharshil Jhaveri:** Ok Sir, and also the growth in this year revenue. How much would it be driven by volume and how much would it be by value?
- Amit Raj Sinha:** Yeah, volume more in the first. Quarter that is 10% and the value is around 19%- 20% is there.
- Dharshil Jhaveri:** Because the third quarter additional quantities will come and then it will add us more in quantity.
- Moderator:** Sorry to interrupt Mr. Javeri there's a lot of disturbance from your line.
- Dharshil Jhaveri:** I just wanted to ask so we have a volume growth of 10% and value growth of 20%. So that should continue this year.
- Amit Raj Sinha:** With the fourth quarter, we are adding the additional capacity, and with that the quantities will add a little more and anyway, that price realization will increase because of the healthier sales. Because the special grade field sales mix is increasing because of that term, it will increase. The price also will increase and the quantity is also increase because right now we don't have work on the capacities. Also, we are

operating at around 95% and fourth quarter. We'll get the additional capacities and then point.

**Moderator:** Thank you, the next question is from the line of Yogansh Jeswani from Mittal Analytics, please go ahead.

**Yogansh Jeswani:** So only work if he signed the building that you mentioned, you clarified that you won't be checking off a manufacturing union while we do this training it. So given that historical experience, why are you venturing into this segment? And also, from what I understand this is a very, very competitive area and our expertise has been more on the MPC and so why have we taken this decision? we will get into this segment specially at the time and we are having. Very big apex ongoing of 120 plus covered with again.

**Moderator:** Sorry to interrupt Mr. Jeswani. There's a lot of disturbance from your line, Sir.

**Yogansh Jeswani:** Yeah, so I'm saying the OTC segment that we have launched. Why are we getting into this specially at a time when we have already committed ourselves to a very big Capex?

**Amit Raj Sinha:** Yeah, that Capex being in a way that is going on with the existing MCC expansion is going on, and MCC and also croscarmellose sodium. We go and apart from that, this OTC in this marketing network is required and then even that marketing network will help for further increase in sales of MCC. We are not setting up of any manufacturing facility, only we get it manufactured from outsiders main contract with its contract manufacturing and then we sell our product and right now from the initial basic information and then after our complete study, there is some decent good margins are there, without incurring any Capex.



**Yogansh Jeswani:** I agree on the part wherein you say that there is no Capex. But my limited point or clarification that I need is at a time when we are already, you know, putting up a huge Capex which obviously will take in a lot of management, bandwidth and energy in establishing this. So again, bringing in a new product like CCS and then also almost doubling our capacity in MCC, that it will take a lot of time and effort and energy and money. So then at such a time, by bringing in a new segment, which person is not a very higher margin or a very interesting segment?

**Amit Raj Sinha:** So like you indicated, that a significant bandwidth of the management is going into the Capex and the added capacity. I would say, of course there is a reasonable amount of bandwidth going, but it is not that we are ourselves on the job. We have team members. We have a total strength of 900 people in Sigachi and there is a specific hierarchy and there are team managers and VP's who are taking care of their respective part in sections. So, it is not that I physically must go and review which way what's going on, so it's not that there is a limitation on the bandwidth. My second point would be that MCC. We have matured out and here are among the leaders, and by virtue of being that we are able to command a specific medium. And of course, have a reasonable EBITDA. Likewise, when we get started in the other segments, of course it will not be as good as the excipient industry, what we are today. But our overall objective is that we get into the B2C space because B2C space in this segment there is bound to be growth coming in. In fact, it's already post COVID, there has been a lot of change in the consumer behavior and we feel that we have the inherent competence. This to take advantage by having certain products which are aligned to the customer needs in line with our R&D and capability and the competence and be able to push this into the

market when we take our baby steps. We of course will not have such margins, but going forward as we expand & have brand extensions coming out of cover, then we are bound to be getting into positions will be among the top view and thereby we will be having a reasonable level of margins. Our overall long term objective is that we remain ahead & positive of the 20% EBITDA what we have been having all these years.

**Moderator:** Thank you Sir. The next question is in the line of Darshit Shah from Nirvana Capital. Please go ahead.

**Darshit Shah:** So my question is to Mr. Amit so we spoke about GRS numbers and understanding. There is the contribution of CCS is almost 50% and that's the reason the margins are higher. But if you look at another company which we digged little deep into that Signet excipients. I'm not sure whether the manufacturing here or kind of trading we have now 70% held by IMCD be India from their NCCS since it will look. The realizations are quite high around six Lac rupees per metric ton. So any thoughts or ideas you have about that? While the realization was so high for the MCC saying.

**Amit Raj Sinha:** I'll just tell you a Signet Corp was a trading house and they had some of the leaders as principles. So they had DuPont as one of their principles and they had India, Bangladesh and Sri Lanka as their region. They were actually importing the finished product, stocking it and selling it out to the local industry in India now. Because they were having industry leaders respond to is a number one player in the industry. They had different pricing. You know the industry leader level pricing and that speaks about the reason that they have certain average realizations which are better than us. Now on the second part of the question, where they it shows as approximately 6 lacs per ton. I believe that it's

a combination of lot of other excipients which kind of are being sold together under the broad name of cellulose, they've exceptions. Because they are not really a manufacturing house, they are trading house.

**Darshit Shah:** So you mean to say that because of the MCCC kind of profile they have the wide range products from viewpoint and all. The pricing varies a lot, so would it be fair to assume that I mean since we kind of also cater to domestic and market here. And earlier I understand that using the product profile more or less is not that different when we kind of either reset or probably any other competitor sales. So in this case would it be fair to assume that the realization would be different if you kind of the products are imported it. You're getting the same domestic market.

**Amit Raj Sinha:** So when it is the world leaders who are selling it locally they have a different price point. I think one would agree to that the second reason that it looks a bit enormous or big in size is on account of the depreciated rupee because you're converting it into the rupee form. What we when we look around we usually see that they are in much higher than our pricing in dollars. And if the product mix, what they sell is better, then they go up a couple of notches higher.

**Darshit Shah:** OK, got it. So the price is a bit higher for them than what we kind of selling domestic that would be a fair result.

**Amit Raj Sinha:** Yes, because their leaders they managed to extract the price from the big players and sometimes big players discount out the local strength of industries here. And they believe that importing from the leaders would give them an edge by spending a bit more. It's nothing else. There are so many customers. Where we have kind of displays the

top number one player in the world and we have we continue to be supplying them even today.

**Darshit Shah:** So would we kind of kind of dig deep into all these clients? Because if we look at their volumes but they did a year back was somewhere around 8000 to 9000 metric tons, so can that be an addressable market also? To us in India or you think the customer profile is completely different than what we can cater to?

**Amit Raj Sinha:** Your second statement speaks the answer that their customer profiles are primarily the innovators. And historically, innovative companies have been working with the world number one. We have been trying to get into the innovative companies, but it is still work in progress and their customer profile is primarily the innovator, whereas ours is more to do with the generics.

**Darshit Shah:** And the last session ethanol side where we had announced a project or kind of drawing board stage of going into that. So is that still on the board or we have kind of mood I mean in terms of not doing that.

**Amit Raj Sinha:** So we're kind of mentally going on the other side of the border where we are feeling that it might not be the best thing to do. So we are looking at every point possible alternatives and maybe in another couple of months we should be very clear on this and we will bring it, we have. We only having a debate with a lot of industry people trying to discuss certain situation and among our own team members and then putting it across to every other people who we feel are relevant. And the industry veterans we. Are trying to. Assimilate, but overall we feel that probably it should be a very tough change for

us. But at this moment it's not a decision, it's a work in progress and we should update this maybe in another couple of months on this.

**Moderator:** The next question. Is from the line of Anurag Dinkar Patil from Roha Asset Managers. Please go ahead.

**Anurag Dinkar Patil:** So in terms of human nutrition segment, are we outsourcing the manufacturing or using their own capacity?

**Amit Raj Sinha:** So what we have done is said, we're not outsourcing it, we have taken on lease a premix facility and we are manufacturing it and that premix facility itself.

**Anurag Dinkar Patil:** OK so over next two to three years. Can you just elaborate on your plans in terms of capital allocation? Because we are thinking a lot of project and simultaneously like it in all human nutrition, then OTC products. We also incorporated subsidiary in Dubai. So if you can just elaborate on that part over next 2-3 years, what are your preferences particularly?

**Amit Raj Sinha:** So in terms of subsidiary at Dubai the prime purpose of the subsidiary was to further our sales in the region. The Middle East and the North African market are a very scattered market, and we realize that it would be very good if we have local people there. We selected Dubai at the base and we'll have sales team or local people across the various regions and the countries for furthering our sales. Thus, there is bound to be no Capex. It's only operational expenditure. Now in terms of ethanol like I spoke in my last statement, it's a work in progress and. We are looking to see, If it is worthwhile to go ahead on that. So, ethanol project is in abeyance and is being debated over internally. In terms of human nutrition, At this moment We have no further expenditure on

human nutrition like I indicated, we have the plant on lease for a 10 year period and we will be using the complete facility to get into the premix market and further our sales. So even in the human nutrition at this moment there is no further Capex and the Capex cycle. What we see at this moment is primarily for the two expansion of the two MCC facilities, which is brownfield facility and the croscarmellose sodium, which would be a Greenfield facility. As regards the OTC because we are launching in the healthcare sector we are having this contract manufacturer from some trusted good reputed players in the North Indian region and so there is no Capex coming in on account of jumping into this category as well.

**Moderator:** Thank you, the next question is from the line of Vignesh Iyer from Sequent Asset Management. Please go ahead.

**Vignesh Iyer:** I just want to know about this Sodium excipient prosperity like CCS and so what is the now expected date of commencement of production of as a commencement of that facility or production facility can you tell me?

**Amit Raj Sinha:** So we are in the current process of getting the EC clearance for our land which we have acquired recently. So, because EC is activity, which kind of goes from 6 months to 12 months. We really are not able to commit you update, but once the EC clearances in place we will definitely have a date to it because everything else is already structured in the project management team members. So once the easy is kind of in our hand, we will give it wait, but at this moment it would be inappropriate to bring out the specific date, Sir.

- Vignesh Iyer:** And coming to 2nd, I remember the last call if you had given the spreads were around average \$500. If I'm not wrong, so if you could comment on how the spreads are as a as of now means.
- Amit Raj Sinha:** OK, I like to go deeper into this. OSR, Do you have an idea of this spread being discussed.
- O S Reddy:** This Jhagadia and Dahej there is a total of 29 Crores at Jhagadia and 27 Crores at Dahej. The heck out of here 16 crosses unspent as on 30th June, and that also will be completed by end of this year. I mean before first quarter before last quarter of this April, we'll incur the Capex and CCS that is unspent, that is 33 crores there. The total unspent amount. That is lying in now its deposits with banks.
- Vignesh Iyer:** No, I asked about the product thread that we had discussed in the last quarters on call about the product. However, the spreads were turning to be. You said it would be somewhere around \$700 to \$900 then, but the average spread came around \$500. To a certain how the prices were of the product, so I just wanted to know compared to that, how is the threads as things stands now.
- O S Reddy:** The pricing last year it was 182 average and this first quarter we have achieved 216.79 and going forward it will further increase. About raw material that is around now. It is increased almost 20%-25% from \$650 to now \$850-\$900 per metric ton it's there.
- Vignesh Iyer:** OK, so the average would be around \$900 this quarter.
- O S Reddy:** That is on higher side but average that would be around \$828-\$830.

- Vignesh Iyer:** OK, just said one thing. So if I go quarter on quarter there is around 8% improvement in net sales. So how much is the contribution towards volume and how much is due to realization? Is there a de growth in volume?
- O S Reddy:** Around 19 percent is there one price realization and the quantities 10% is there
- Vignesh Iyer:** So it's 10% growth in volume you meant to say.
- O S Reddy:** 10%, that is the pricing of four raw material is different, and the selling price is different.
- Vignesh Iyer:** No, I am asking if quarter on quarter I compared sales, sales has increased by 8% so I wanted know quarter on quarter. What is the contribution by volumes and by real life?
- O S Reddy:** I didn't tell this is the last quarter versus current year. When this revenue growth that is around 45% is there from Q1 of last year versus Q1 of current year. And in the pricing lots FY22 the Pricing is averaged by 182. Now the in the first quarter the average pricing. Is 216.8 around 217 is the on selling price.
- Moderator:** Thank you. The next question is from the line of Sagar Shah from Phillip Capital. Please go ahead.
- Sagar Shah:** My first question regarding to your capacity. As I guess your capacity is around 13,800 tons per annum. Can I get volume number?
- Amit Raj Sinha:** Volume number last year it was 13,800 metric tons. This year were roughly more than 14,000, around 14,500- 14,600 metric tons. It is available as based on now first quarter results.



- Sagar Shah:** So 14,500 tons is your current quarter's tons
- Amit Raj Sinha:** Yes, let me tell you in the last quarter it will vary because of additional capacities will come. Additional capacities of 7000 tons will be added in the last quarter. As of now, this is the 3650 for one quarter that is equivalent for fourth quarter, it will be 14,600 metric tons without considering the additional are increased.
- Sagar Shah:** OK, so basically 3650 tons is your sales volume for this quarter. So basically what is the total capacity for MCC current features?
- Amit Raj Sinha:** Can you please repeat the question?
- Sagar Shah:** What is the total capacity of the company manufacturing majority of the company?
- Amit Raj Sinha:** That's what MCC, the manufacturing capacity 4600 tons per annum will come without considering the upcoming increase in the capacity. In last quarter, it's going to add up for 7000 metric tons without considering that right now based on first quarter, first quarter rounding up available capacity 3650 metric tons. That is multiplied by 4 it will come 14,600.
- Sagar Shah:** OK, so now as we move forward into a different product for human nutrition. So can you explain first of all, what is the market or globally? I mean any specifically in the domestic market, the market price? Secondly, the EBITDA margins of this segment are as same as the MCC. I wanted to understand on that part.
- O S Reddy:** EBITDA margins are slightly lower than MCC.
- Sagar Shah:** OK, so what are the margins are in in that segment? Can you please?

- O S Reddy:** That is now it is under a very preliminary stage but this year we may expect around the 18 crores of revenue from that. Still now we need to study further and then there is a very preliminary stage here to tell you anything.
- Sagar Shah:** OK, so basically 18 crores revenue expecting in the entire year, right?
- O S Reddy:** Yes.
- Sagar Shah:** And what is the revenue that you will be spending for this capacity for. I think you told that you will be taking some land on lease.
- O S Reddy:** Yes, this is on our lease premises.
- Sagar Shah:** So what is the amount that will be spending to produce this product?
- O S Reddy:** This is a 15 Lakhs per month being paid towards lease and roughly 1.8 Cr per year. This is without incurring any Capex. Further, food premises can also be made in the same facility.
- Sagar Shah:** Yeah, but 1.5 crores is the lease rental for the entire year, right?
- O S Reddy:** Yes this 1.850 lacs per month.
- Sagar Shah:** Its there a Revenue that you are expecting from this segment.
- O S Reddy:** Yes
- Sagar Shah:** OK now my next question or related you have already told about which is going to Commission for FY23 I'm trying to understand this product actually. Can you explain the market size? Can you explain the significance of this product and can you explain the on the realization front.

- Amit Raj Sinha:** Which one Are you talking about the MCC or CCS?
- Sagar Shah:** CCS
- Amit Raj Sinha:** Yeah, it will take them not this year it, but will come in later. We just acquired land and then we have applied for the EC clearances and other approvals for setting up this plant and the realizations also higher when we compared to MCC. Croscarmellose sodium, is a superior grade of expedient.
- Sagar Shah:** So my question was that you are saying this is the superior product as compared to MCC. It has a wider significance. So why are you focusing on the other segment on the nutrition part instead of focus, not focus in CCS. Or maybe it's funding even more on this.
- Amit Raj Sinha:** Yeah, so you see, it is not that we are not focusing on CCS, Sir. CCS is already a work in progress. We are looking at getting the EC certification of the facility and proceeding with the project. So it is not that by focusing on the nutrition part we are really not focusing on the CCS. There are two separate teams. There are two separate facilities and there are different locations. CCS continues to be as part of our agenda and it's a work in progress which will finally, commission and it will give us revenues.
- O S Reddy:** All our primary area there are specialized people and we'll take care of all are important for the company.
- Sagar Shah:** OK, so my last question. Well, though I didn't get the company is enjoying right now in the first quarter around 21%-22%. Are these sustainable for the entire year end, and even for next year some kind of EBITDA margin guidance?

- Amit Raj Sinha:** Yes, Sir.
- O S Reddy:** Yep, just these profits, even growth, under even EBITDA and profit margins are sustainable in future.
- Moderator:** Thank you. The next question is from the line of Kushal from Strontium Enterprises. Please go ahead.
- Kushal:** My first question is for CFO, since we export 60% of our revenue comes from export and are we reaping the benefits of rupee depreciation? If yes, what is the revenue mix across geographies and what does this rupee depreciation impact on our margins, either positive or negative? And also how is Sigachi position to face the macroeconomic headwinds? And are we moving any price hikes and are we comfortable and are the customers comfortable with price tags and is it impacting the margins going forward?
- O S Reddy:** Coming to the export business and almost we have work even 75% of our products goes into abroad export and around 25% comes from the domestic market. And in rupee depreciation, the extent depreciation Now impact that is a policy for us because we have the next FOREX. Its earnings power supply is there. And this is a favorable love for the company and any increase in raw material cost we could able to pass on to the customers and any increase Because of this, inwards Rupee fluctuation in considering the services or imports that we could able to pass and then. Anyway, on exports we are getting the benefit out of it. So they are taking we could able to pass it on and then they are accepting it.
- Kushal:** My second question would be for CEO and in the recent interview with Economic times you have said that the Nutraceutical segment revenue

would be 20% to 50% of total revenues in the next two years and you also said about the total revenues would be close to the doubling in the next two years and if the EBIT margin of 20 similar to 20% sustainable in the. Next two years.

**Amit Raj Sinha:** So the EBIT margins of the excipient lines are definitely sustainable and going forward as we add in capacities for MCC and we expand into the portfolio of CCS, we believe that the margins are only going up. On account of the expansion into the nutrition and into OTC healthcare products, we definitely see an increase in top line in the initial phase. We are positioning ourselves so that we are able to capture more market. We would have little lower EBITDA compared to our excipient lines on account of Nutritional and OTC segment in the initial phase. However, as we continue to service and continue to expand our product portfolio, we believe that we should be able to come back to our base margin of 20% EBITDA.

**Kushal:** And you have gone into the Dubai subsidiary and when can we expect it to be commissioned? And when can it be operational?

**Amit Raj Sinha:** The Dubai subsidiary is more of a market presence rather than a facility. We are not investing into a facility in Dubai. Dubai is not the best place for a facility, it's only a market presence where we'll have local teams, local teams to kind of go out to the North African region to the Middle East region and further our sales. So that activity is already underway. We have appointed as CEO for the Dubai subsidiary and we will be appointing the local people there to take on the sales team roles.

**Moderator:** Ladies and gentlemen, we will be taking the last question that is in the line of Dharma Venkatesan an individual investor. Please go ahead.

**Dharma Venkatesan:** I have two suggestions, not questions. First suggestion is that even though it was actually already referred, but I'm just suffering it again here regarding the royalty which we are paying like I would suggest the management to ensure it more in terms of the performance related to some kind of payment on the two net sales net profits rather than of net. Sales there is a first suggestion. And second thing would be regarding the ethanol. What like what is the thought process in the 1st place to consider it because we don't, we don't have any kind of forward or backward integration or any kind of anything related to that. They are not being as such. So what is the first thought the processing that to consider that in the first place.

**Amit Raj Sinha:** Thank you. So much Mr. Dharma appreciate your suggestions on the first suggestion of royalty, we did have a question earlier in the call and did it indicate that rather than having it as a figure of the top line, it should be on the performance base as a figure of the bottom line and we have confirmed to him that we will do our homework and see which way we can align so that it is fair. Now in terms of the second question of ethanol as and when the political leadership came out with certain overall broad targets and activities in terms of having an additional blend on our fuel, we thought it could be a good opportunity. And we did appoint their consultant to explore feasibility that is currently underway. And as we explore, and as we talked more to the stakeholders, We realize that there are certain aspects of this which are of course very, very different from what we do and certain aspects which are not entirely in control of the government. So it is not that government is going to be positive about it, so at this

moment we are exploring and seeing which way it aligns with our overall purpose and. possibly we might actually not be going ahead, so we are talking to a reasonable level of stakeholders in this industry and in another couple of months, we should come out officially as a board decision.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now have the conference over the management from Sigachi Industries Limited for their closing comments.

**Amit Raj Sinha:** Thank you all for participating in this earnings call. I hope we are able to answer your question satisfactorily and at the same time offer insights into our business. If you have any further questions or would like to know more about the company, please do reach out to our investment relations manager at valoram advisors and thank you very much. Stay safe and stay healthy. My best wishes to all of us. Thank you.

**Moderator:** Ladies and gentlemen, on behalf of Sigachi industries limited. That concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.