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Transpek
Creative Chemistry

Date: 21st February, 2023

To,
BSE Limited
P.J.Towers,
Dalal Street, Fort,
Mumbai – 400 001

Sub: Transcript of the Investor Call held on 17th February, 2022

Dear Sir/Madam,

We forward herewith the transcript of the Investor Call held by the Company on Friday, 17th February, 2023 for your reference and record.

This disclosure is made pursuant to the provisions of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Hope you find the same in order.

Thanking You,

Yours faithfully,
For Transpek Industry Limited

BIMAL VASANTLAL MEHTA
Digitally signed by BIMAL VASANTLAL MEHTA
Date: 2023.02.21 19:33:23 +05'30'

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"Transpek Industry Limited

Q3 FY '23 Earnings Conference Call"

February 17, 2023

Disclaimer: This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the Company by the reader.

MANAGEMENT: **MR. BIMAL MEHTA – MANAGING DIRECTOR – TRANSPEK INDUSTRY LIMITED**
MR. AVTAR SINGH – JOINT MANAGING DIRECTOR – TRANSPEK INDUSTRY LIMITED
MR. PRATIK SHAH – CHIEF FINANCIAL OFFICER – TRANSPEK INDUSTRY LIMITED
MR. ALAK VYAS – COMPANY SECRETARY – TRANSPEK INDUSTRY LIMITED
SGA – INVESTOR RELATIONS ADVISORS

Moderator: Ladies and gentlemen, good day, and welcome to Transpek Industry Limited Q3 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bimal Mehta, Managing Director. Thank you, and over to you, sir.

Bimal Mehta: Thank you, Niraj. Good evening, everyone. On behalf of Transpek Industry Limited, I welcome everyone for joining us on our business call today. Along with me, I have Mr. Avtar Singh, Joint Managing Director, Mr. Pratik Shah, Chief Financial Officer, Mr. Alak Vyas, Company Secretary and SGA, our Investor Relations Advisors on the call.

Our investor presentation post Q3 FY '23 results are uploaded on the stock exchange. Now we will give you a quick overview of the recent developments of the company. And post that, we will open the floor for question-and-answers.

We have highlighted in earlier call multiple times that our Company's performance should preferably be reviewed more on an annual basis due to the nature of business model. Many of our customers go through bidding process for getting the bulk order and the demand and price for the key ingredients, which we produce can vary from quarter-to-quarter. We are a six decade old company and manufacture wide range of Acid and Alkyl chlorides. Globally we are well known, renowned for our proficiencies in sulphur and chlorine chemistry.

Coming to our product portfolio applications, the products that we manufacture find applications in many industries like polymers, pharma, agrochemicals, paints, pigments, photo initiators, and like this kind of applications. Current facility that we have, we have a manufacturing facility at Ekalbara, which is near Vadodara in Gujarat. The entire production capacity, which includes captive consumption of some products is estimated to be 66,000 metric tons. Just to clarify, merchant sales capacity is nearly 30,000 metric tons, out of which 15,600 is done at Ekalbara location and balance 14,400 metric ton per annum is through job work sites.

Coming to the business performance, business performance has improved during the first nine months of FY '23 led by a steady volume and better product mix. Growth has been primarily driven by international market as compared to the domestic business. Some of the issues such as supply side disruptions, raw material availability and price and higher freight cost have weighed on chemical industry as we all know. It has continued to hold back in general the growth momentum and we expect this to continue in the near term for chemical industry. Although freight charges and RM prices have eased out in the global market and that has helped further reduce the cost pressure in recent times, lot of uncertainty still prevail due to the current global situation.

Coming to financials, total revenue for nine months financial year 2023 stood at INR 634 crores, a growth of 32% on year-on-year basis. EBITDA for nine months FY '23 stood at INR 120 crores, a growth of 15% with a margin of 18.8%. Profit after tax for the nine months FY '23 stood at INR 61 crores, a growth of 13% with a margin of 9.6%.

Coming to new product and product developments, we are working on a couple of areas to diversify our clients, end user market and products. In nine months of financial year 2022, we have introduced five new products and anticipate adding a couple of more products that are in various phases of development. Once launched and once we reach a critical mass, these products will contribute meaningful business as well as reduce our reliance on one or two products on a significant basis.

Many products are also under evaluation at different stages of development, commercialization stage and that would continue to be focus of our future endeavours. We are having about 20 products at this point in time, about 14 products are regular products, 6 products are kind of semi-regular products where we produce based on the overall demand and of course we can do many other acid chlorides as per the demand of customers, acid and alkyl chloride, because we have already developed those products.

And then we are also working on adding products which are not acid chlorides, and also increasing our geographical presence, basically into other areas than what we are traditionally supplying to and with very intensive and continuous focus on sustainability practices and customer delight. We are already working on building our business in geographies like South America, Eurasia and Japan and we have some positive indications from these regions.

Coming to growth and capacity expansion, many of you have asked questions earlier and even before this call. We have highlighted that we are already replacing one old plant with a new plant with about 70% higher capacity and that would help in capturing higher demand for that product and this is also being designed in a manner which is going to be a multi-product plant. We have flexibility based on the demand scenario so far as this plant is concerned, we can produce different, different products.

As you all know and we have also declared earlier that we have limited scope for enhancement in the quantities permitted by the regulatory authorities at our Ekalbara site at present. We are indeed looking at other strategic initiatives to capture further growth including brownfield expansion and/or greenfield expansion. We are already on drawing board and discussing various options, possibilities and eventually, once we have a clear understanding of the way ahead, we will seek our Board's approval and once Board approves, we will definitely and surely inform you at the appropriate moment on the initiatives that we plan to take.

Meanwhile, definitely, we have some capacity available at job work sites, plus we have got as mentioned in earlier calls that we have about 450 metric ton per month additional permission that was based on our ability to ensure that the effluent and emission doesn't change from whatever we had for lower capacity, lower quantities and we have been given permission but I also explained earlier that while 450 metric tons permission has been given, we can utilize about 200 to 250 metric ton per month, because otherwise we may exceed the effluent limit depending on the product.

We are well equipped in terms of our R&D setup and we are happy to inform you that all products are manufactured at Transpek and whatever products that we manufacture at Transpek are developed in-house from the very beginning. We also get very good support from recognized universities and scientists in this area and around. Currently our focus is on retaining the market share of existing products and diversify our product basket and portfolio with an emphasis on sustainability and ESG and other aspects.

We are also very happy to, delighted to inform you that the company has received an award from Government of India for energy conservation activities undertaken during the years from 2018 to 2021. It is testimony to our team's grit and hard work and our focus on ESG.

With this, I conclude the speech and open the floor for questions-and-answers. Thank you.

Moderator: The first question is from line of Keshav Garg from Counter Cyclical Investments.

Keshav Garg: Thank you for the opportunity. Sir, I wanted to understand that if we compare our Q3 number, Y-on-Y, then they look good, but if we compare them with Q3 of FY '20, that is December, 2019 quarter, sir in that quarter, our profit was INR 30 crores, which is now INR 25 crores. So what needs to improve for us that, so that we can again regain and surpass that previous quarterly peak that we did way back in FY '20?

Bimal Mehta: As I have mentioned earlier in this recent talk that I made and earlier also, if you try to compare Transpek's performance from a quarter-to-quarter basis either in the same year or comparing to the previous years, it would not be very appropriate. Because see, the business is not such that every quarter we have specific allocation of the quantities or the volumes. The volumes change from quarter-to-quarter, the product mix also changes from quarter-to-quarter, the pricing also keeps on changing from quarter-to-quarter, raw material prices also keep on changing from quarter-to-quarter.

So, and of course you are talking about almost two years back. So, I don't have quick data right now of 2020, but general point is that if you want to compare Transpek's performance, I would sincerely request that you compare on a longer-term basis. Because see, I'll just give you a very quick example that say, I have one product which one of my customer is buying in US and the same product is being bought by a customer in Korea. Now in a particular quarter, I may have, and then both the prices are different, for the sake of understanding let us say, the US price is higher than Korean price.

Now in a particular quarter, I may get much higher order for that product from US customer. And in another quarter, I may get order from Korean customer which is much higher quantity. So because of the pricing, same products, raw material cost will be same, but because of the pricing there will be a margin difference. So this way product mix, quarter-to-quarter order, different customers, different geographies, different regions, the margins will vary.

So, i would strongly recommend that you look at longer term profitability or volumes, like for example nine months or 12 months and don't compare on a quarterly month basis.

Keshav Garg: Sir, point well taken. Sir, now this since past three quarters we are doing almost INR 200 crores top line so it seems you will end the year with around INR 800 crores top line. So for next financial year FY '24 sir what is the outlook sir in your judgment? What you are hearing from your customers, their feedback, the demand scenario? Sir, you think we can reach somewhere around INR 1,000 crores of top line in next financial year FY '24?

Bimal Mehta: See, there are two dimensions to look at. One is the demand situation. So demand situation, whatever visibility we have, we have good visibility until the end of this calendar year atleast. And we do not see any major drop or a major change in what we are experiencing right now.

Secondly, as I have mentioned earlier, that we have currently a limitation of permission. So we will have to work on that. And if we have to work on that, then naturally it will be a little bit of a time-consuming affair, because we cannot overnight set up a plant or do something which is going to allow us to produce. So as of now, I mean, in this call, maybe in the next quarter call, I might be able to give you a little more understanding on this.

But as of now, I can say that, it is something that we don't see any major disruption at least for this point in time. And of course, our target, if you ask me our target, is definitely to reach INR 1,000 crores in the next year. But it depends on the circumstances that i just explained.

Moderator: The next question is from the line of Pavan Kumar from Ratna Traya Capital.

Pavan Kumar: Sir, can you break the growth between realizations, growth and volumes for nine months at quarter for the third quarter, please?

Bimal Mehta: Can you speak a little bit loudly because your voice is coming very low.

Pavan Kumar: Yes sir, volume growth for this particular quarter and also for the nine month period?

Bimal Mehta: Volume growth?

Pavan Kumar: Yes.

Bimal Mehta: See, on a year-on-year basis, it is growth of 32% for nine months in terms of revenue growth.

Pavan Kumar: Third quarter, how much would it be, sir?

Bimal Mehta: Third quarter, yes. It is 5%, quarter 3 FY '22 to quarter 3 FY '23.

Pavan Kumar: Ok and what would be the normalized EBITDA margin band that we should assume on a yearly basis?

Bimal Mehta: 16% to 20%.

Pavan Kumar: Ok and sir, what would have been the utilization for the levels that you see in this particular quarter? And is my understanding right that based on the current capacities and even our growth plans next year, revenue should peak at around INR 950 crores next year, if the demand is there?

Bimal Mehta: So there are two ways, I just mentioned just in the previous question, there are two dimensions. One is demand. So we are right now seeing that our demand is expected to be steady and of course with introduction of new products that we are looking at, we can reach that kind of number between INR 900 crores to INR 1,000 crores next year. But more importantly, also we have to look at permissions, permissions that are available and permissions that we have right now got in terms of little bit expansion. And of course, we may have some possibility of doing some additional quantities at our job work sites that we utilize.

So overall yes, it can be reached if everything goes well and we are able to get permissions in right time, within the normal time, because sometimes it can come in 3-4 months. Of course, not at Ekalbara site anymore because Ekalbara site, we have already reached the peak in terms of permission. But at job work sites, it may come. But sometimes it may take even 6-8, 9 months, months, depending on what is the record with the regulatory authorities.

But as I mentioned, we are targeting that kind of number. So we are very focused on working towards finding right solutions to achieve that.

Pavan Kumar: And in your commentary, you were mentioning you were looking beyond acid chlorides and sulphurs. So can you throw some light on what would be the additional kind of growth opportunities you might be thinking of?

Bimal Mehta: So the products, see, we are working on multiple products, which are, of course, acid chlorides and alkyl chlorides, which are traditionally done. We are also looking at products which are beyond that or different than that because the idea is to broadbase our product portfolio. So once some of these products which we are working on and we are now able to commercialize then we can look at significant growth that can come from some of these products.

But right now, I may not be able to exactly place the numbers, but we are indeed looking at products which can give quite good growth.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai Good afternoon Bimalbhai. First question is regarding the new products. You said that we have already introduced five new products and two more are in the pipeline. So I assume that this year contribution will be miniscule. But all seven products put together, the total revenue potential of this product would be in the range of INR 130 crores to INR 150 crores, because earlier mentioned that typically, these products have INR 20 crores, INR 30 crores revenue potential?

Bimal Mehta: Yes. You can safely assume about INR 150 crores, yes.

Dhwanil Desai: Ok. Got it. And sir, slightly more understanding on this 70% increase by replacing the old plant with new plant. And you also mentioned that you have received approval for additional capacity of 400-something metric tons, but we'll be able to utilize 220 or something. So are we talking about the same project or two different things?

Bimal Mehta: These are two different things. The plant that we are talking about is something which is called Friedel-Crafts reaction. And that is in addition to the permission that we have for acid chlorides. So that permission is already there. We had a plant which was lower capacity and now we are building a new plant with higher capacity but that even at that higher capacity the permission is already there, but currently as we know that Europe and other markets are going through a lot of turbulence, what we have decided is that we would make this plant a multi-product plant so that if a particular product does not have much volume as we may be expecting, we can always change over the product.

But for this particular reaction, which is called Friedel-Crafts reaction, that reaction, I mean, it's a very similar chemistry compared to acid chloride. But it also has one more step to it so for that, we have permission, which is which is matching with the capacity that we are building.

Dhwanil Desai: Just a follow-up on that. So that 70% increase in capacity, when will it get operationalized? Any timeline?

Bimal Mehta: Around anywhere between August to October of this year, this calendar year.

Dhwanil Desai: Ok. So that essentially means sir, that, even one year beyond FY '24, we'll have capacity and permission to grow if the demand is supportive? Is that a right understanding?

Bimal Mehta: No, see, we can grow in acid chloride only up to 250 metric ton per month maximum. And this other Friedel-Crafts product, we can do more like, it is not very high, it is about 1,200 metric ton per annum, so 100 metric ton per month. So that's where our permissions end so far as current situation is concerned at the Ekalbara site.

If we are, and meanwhile, because you are projecting, you are talking about 2024 and onwards, if the things become easier to, if we are able to get permissions, further permissions, we have no problem of land and other peripheral setup in terms of the current site at Ekalbara, because we have about 100 acres of land and we are using about 40 acres, 45 acres only. So then we can definitely consider setting up additional capacities.

Moderator: The next question is from the line of Sunil Kothari from Unique PMS.

Sunil Kothari: Thank You Bimalbhai, congratulations. Looking at our numbers since last four, five years, we are able to maintain really good profitability and slowly coming back to this year will be the, I think, our highest compared to last four, five years, whatever highest we achieved? So what is our basic strength that we are able to pass on the cost, what is the reason for maintaining this level of very respectable margin? If you can throw some light on this capability.

Bimal Mehta: So basically, there are three major elements that we need to consider when you are talking about Transpek. And of course, why customers have certain liking or interest for Transpek? One is the very-very long-term relationship. For example, there are customers with whom we have been doing business since 90s. And they have full trust in us. So even if there are situations where the cost is a problem or a price is a problem or things like that, they always sit with us on a table and we sort out all the issues. This is one.

Secondly, our ability to provide the same product on a very consistent basis, batch-to-batch, lot-to-lot, and very-very high quality product, very pure product. And the service, the service quality that we have, in fact, all our customers say that when it comes to Transpek, we don't have to worry about service.

From a technical standpoint, our ability to handle these various hazardous chemicals like sulphur dioxide, thionyl chloride, chlorine, and hydrochloric acid all these are very hazardous products and we handle thousands of tons annually so that is another ability that sets us apart. And most important thing in today's time is the ESG, or environment, sustainability, and governance practices. When it comes to environment, Transpek is very solid. We do not use water from public resources. We recycle our water 100% from the rainwater. On our site, we have about 35,000 fully grown trees, whereas our chemicals are so hazardous that if there is an exposure, then all trees can die. But nothing has happened in so many almost, six decades of existence.

Third, when it comes to environment, we have processes where we recycle even our sewage water, our effluent water. So these are, there are many things. Then coming to, so these are environment and sustainability practices. Our labor practices, our employer practices are ideal in the region where we are. And most important is the governance process. We have a very strong and professional Board, very-very intelligent Board. They ask right kind of questions and they also give very good ideas and directions.

And customers have a tremendous faith in us because we are very transparent and open in dealing with them. So in today's times, the companies that we work with, the large global chemical companies, large pharmaceutical companies of India, they all want a reliable partner who is very focused on sustainability practices. So all these things set us apart and customers are happy to work with us.

Sunil Kothari: So I think looking at the global scenario, looking at your relationship, the way you've proven yourself from this 2018, one MNC order continuously and very sustainable way to providing them the product. You must be getting a lot of inquiries for many more products or maybe more volume and all. So, constraints must be what this permission of environment or how you would like to comment on the inquiry from, because you are serving some customers since last 30, 40 years and all these are global giants. So they must be interested in your capabilities and furthermore products. So how to evaluate this situation in terms of demand?

Bimal Mehta: So basically, inquiries are keep on coming and we get inquiries of two types. One is inquiries which are connected with what we can do, which is basically at present while we are developing other products, but at present we are solid on chlorination, which is acid chloride and alkyl chloride. So we keep on getting inquiries and that's why as I mentioned we have been able to introduce about five products and we are introducing two more products and these are again from large global companies.

Second type of inquiries that we get, are not acid chlorides, not alkyl chlorides and many a times we know that this product is good but we know that it is also not something that is in our domain of expertise, so we have to politely refuse. But wherever we find that yes even if non-acid chloride we are able to do, then as I mentioned, we are already working on some non-acid chloride.

So constraints are, now, of course, moving forward, one constraint can be permission. But that can be overcome, because you can always look at various strategic initiatives where you can go even greenfield, or you can do many other things. So those things are not going to constrain us. But we always believe in building a very strong base and then take a quantum leap. So now, after, as you mentioned, after 2018, we have built a very strong base and we will very soon be able to take quantum leap if markets and situations, so permit.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital Partners.

Ankit Gupta: Thanks for the opportunity**.** Sir, apart from the seven products out of which five have been launched and two we are planning to launch, what are the other products in the pipeline and when do you expect to launch them? How many products are there? And which industries will they be targeting?

Bimal Mehta: We are working on actually multiple products. I mean, as we speak, we are right now working on almost 15-17 products which are at different stages, R&D, kilo lab, pilot scale, and very close to commercialization and all that. And these all find different, different applications. For example, in pharmaceuticals, in polymers, in agrochemicals, so there are various applications. I may not be able to give you right now names of the specific products, because that's something which is driven by confidentiality agreements with the customers.

But multiple applications, different, different applications and also different regions. It's not just concentrated. So we are, for example, we are working with customers in Japan. We are working with customer, new customers. Korea we have many customers, in Japan also we have couple of customers, but we are right now discussing or working with almost six, seven new potential customers in Japan, two, three in Korea, couple of them in South America, one or two in Eurasia and of course Europe and US being our traditional markets, so we are also working with existing and new customers on other products.

So this activity is kind of continuous and on a regular basis. And many a times what happens is that the product is being developed and we reach to a stage, but then we find out that it's not worth to commercialize or even customers may say that their entire project has changed so it's not something that is always 100% sure in that sense because while we develop in about two years, even the end product demand or end product chemistry also may change. That's why many a times some of the shareholders ask us, why are you not aggressive in investment and aggressive in building capacities? But we prefer to take a balanced approach where being aggressive and being conservative is balanced out. And as I mentioned just before in the question earlier, we try to build a very solid base and then take a jump.

Ankit Gupta: And what can be the revenue potential from these molecules?

Bimal Mehta: This revenue potential from what?

Ankit Gupta: From the 15-17 molecules in the each of this molecule have revenue potential of INR 20 crores, INR 30 crores that we have for.

Bimal Mehta: Yes. Even some maybe more even.

Ankit Gupta: And sir, one more question on the capex front. FY '24, we are planning or we have aspirations to reach INR 900-1000 crores kind of revenue. And will be largely exhausting our capacities in our Ekalbara plant, until and unless we get EC approval for further expansion. So a few years back, we had a plan to set up a facility at Vizag. So are we looking to put up one more plant at some other place or we will be looking at only in Ekalbara?

Bimal Mehta: No. What I mentioned is that we are already on a drawing board looking at all kinds of possibilities from a strategic standpoint. So it would definitely include even a greenfield project and it can be either in Gujarat or elsewhere. It depends on what kind of products we are planning to produce there and what is the customer geography and how the overall strategy works out. So we are quite open on options and possibilities, it is not something that we will just sit tight until we get permission in Ekalbara.

Moderator: The next question is from the line of Dhiraj Dave from Samvad Financial.

Dhiraj Dave: Thanks a lot for giving me this opportunity. Just one question. This year, we see this nine months, we see some kind of major growth in other income. So is it the dividend from Transpek Silox or something else?

Bimal Mehta: So basically there are some one-time items. So there is one special dividend from Silox and also there is one small insurance claim that we received. So that is why you are seeing that significantly higher other income.

Dhiraj Dave: And the second question I had is basically last time as previous participant Ankit was asked, we were looking at some kind of development in Vishakhapatnam. And at that time, probably two, three years back, if my memory sounds correctly, you indicated capex of INR 100 crores or something, at least an initial capex for acquisition of land and going forward. So now, since we are looking at like 19 products under development and kind of it, what will be kind of when you are at, again, whenever it's kind of right time, but what will be kind of capex we'll be looking at when we will be coming back to work. It seems like last three, four years we are constrained by capacity at our end?

Bimal Mehta: No, we are not constrained by capacity. We have been constrained by permissions, but within permissions, we also, whatever capacity we have, we are trying to utilize to the maximum and also, as I mentioned, we have got little more ability or rather permission to increase our volumes. So that will help. Now coming to the new plan that we had at that time planned and all the products were little different. Currently, the products that we are right now looking at, once we have some further and clear understanding, then we can talk about specific capital expenditure numbers.

But definitely it would not be less than INR 100 crores, INR 150 crores, not less than that. But specifics will work out depending on the products that we finally go with. I mean 18-19 products that we are looking at, as I mentioned, some of the products by the time we are ready, may not continue to be viable. So the number of products and which product we will be doing and what volumes we will be doing, that will drive the capex.

But in general, It can be anywhere INR 100 crores, INR 150 crores in total.

Dhiraj Dave: Last question, if I may squeeze, why we didn't look at -- do we have any land at Dahej petrochemical complex or chemical complex? And are we looking to do because that was very nearby in your area only?

Bimal Mehta: Yes. So that is also one of the options that is being considered. I mean if we have to go for Greenfield or something like that. Right now, we are on drawing board, we are looking at all options, whether it is greenfield, if we get permission, we are pushing government to open up permissions in this area, then brownfield, we are also working with various trade associations to represent to government that they should open up permissions in this area. It can be greenfield, and greenfield can be in Gujarat, Dahej or any other place, or it can be even outside of Gujarat.

Right now I don't have a very clear answer for you, but all options, all possibilities are being looked at and we are already on drawing board for that.

Moderator: Next question is from the line of Faisal Hawa from HG Hawa and Company.

Faisal Hawa: What is the chance that DuPont renews our contract for the next 10 years or so? And have you had any kind of conversation with them, whether this renewal itself will take place or not?

Bimal Mehta: Sorry, you are talking about renewal of the contract?

Faisal Hawa: Yes.

Bimal Mehta: Yes, so basically, we have just completed about I think five years now and we have more five years to go. So at this point in time, there is no specific discussion on renewal of the contract, but what we understand that currently whatever products they are manufacturing from the products that we supply, the market for that product is pretty solid and it's going to be good over the coming years.

And secondly, our relationship and our strength in terms of ability to service their needs has been proven and they are very happy with it. So if their product line continues beyond 10 years at the same level, then I don't see, as of now I don't see, of course I'm talking about five years hence, but I don't see any major issue to happen in that case.

Faisal Hawa: But do you not feel that with the kind of dependency of almost over 50% of our revenue on that one customer, they would be in a much more stronger position five years hence, while negotiating with us, and we should be really preparing ourselves very much to get this turnover down to at least 20%-25% of our revenue by increasing the share of other customers and not decreasing it?

Bimal Mehta: That is exactly what I have been talking about and we are working on and you are seeing that we have introduced new products. I just talked about entering markets like South America, Japan and Eurasia and all that. So that's the very reason and also we are working on other products than what we are supplying to DuPont. So product dependency and customer dependency, we are very clear that we need to reduce that. So this is on the one hand.

On the other hand, it is extremely difficult to find such a reliable and such a trustworthy customer, who is ready to consistently support you. and whatever growth that we are talking about in Transpek as of now and what now we are talking about this being the launch pad for the next phase of growth is also while it is we are dependent, but it is also because of the significant business that we got from DuPont since 2018.

So it's kind of we have to be aware, we have to be conscious of the dependence but at the same time the same dependence has helped us significantly in terms of our ability to now talk about much larger growth.

Moderator: The next question is from the line of Ahmed Madha from Unifi Capital.

Ahmed Madha: Thank you for the opportunity, sir. We understand that the change in product mix, the gross margins and the top line will vary quarter-on-quarter. But one thing is that our operating expenses has seen a lot of volatility. If you look at the top line, it is similar to the range of INR 200 crores to INR 220 crores range, but Q1 the operating expense was INR 44 crores, Q2 it was INR 52 crores and Q3 it was INR 42 crores. So what explains that variance between Q2 to Q3? Is it because of the freight cost? Can you explain what are the line items that are contributing to the reduction in expenses?

Bimal Mehta: See, for example, I'll just give you a very quick example of the recent ones, INR 52 crores and INR 42 crores, so when we had this INR 52 crores, which is the previous period, we had freight. I mean, as you all know, we all know that freight cost has significantly increased and now it is easing out. So there was a difference of about almost INR 4.5 crores due to the freight. Then during that period we also wrote-off some assets. I mean this INR 42 crores, why you are saying, INR 42 crores, because now that kind of freight is not there and we have reduced freight of almost INR 4.5 crores.

And then we have asset write-off of almost INR 2.4 crores, which is not there in current period. And because our business is significantly dependent on exports and we also have quite a good amount of imports, there is also foreign exchange impact that you see and that was about close to about INR 1.5 crores. So these kind of items which are one varying from quarter-to-quarter. And freight also keeps on varying, because you know as I mentioned one is that there was higher freight and now it is lower freight, but also it keeps on varying because say for example in this particular quarter I have more business from Korea and less business from US, then my freight cost would be lower. And in the next quarter, if my US business is much more than Korean business, then my freight cost would be higher because of the cost that is being charged for different, different locations.

Moderator: Next question is from the line of Samarth Singh from TPF Capital.

Samarth Singh: Congratulations on the good set of numbers. My first question was on the capex for this year, what is going to be the total amount and can you provide a break-up of the same?

Bimal Mehta: So we are looking at about INR 50 crores- 55 crores capital expenditure. When I say capital expenditure, it also includes the replacement of capital equipment. So out of about INR 55 crores, INR 20 crores will be for infrastructure, EHS activity, R&D activity, energy conservation activity and various other things. About INR 21 crores would be replacement of the existing facility and existing plants. And INR 16 crores is going to be for the new plant. Of course, the total budget for the new plant is about INR 36 crores, but in this particular financial year, we would be incurring about INR 16 crores.

Samarth Singh: So this is for financial year '23, right?

Bimal Mehta: Yes.

Samarth Singh: So how is it our -- I think our PPEs, any other net block has gone up by about INR 60 crores as of the half year. So how is that happening?

Bimal Mehta: Sorry?

Samarth Singh: The difference in net block between March '22 and September '22 has gone up by about INR 60 crores.

Bimal Mehta: Yes, that would be probably carry forward of if you have to go back and see capital work-in-progress last year and some of that would have been capitalized in this year, besides the current capital expenditure that's why.

Samarth Singh: And just for clarification, just want to understand, does our depreciation, accurately reflect our maintenance capex? I mean, I'm asking you a question because of the corrosive nature of our products. You know, so we're doing about INR 32 crores, INR 30 crores of depreciation, is our maintenance capex also about just about the same or would it be higher?

Bimal Mehta: No. This is largely depreciation takes care of the replacement of equipment or replacement of plant assets. So it's largely okay. I mean, there is no significant mismatch in that sense. And secondly, yes, the nature of our products is very corrosive, but we also have very strong anti-corrosion practices, where we, first of all, of course, we minimize or rather we control emissions. Basically, corrosion will happen when you have emission and then atmospheric contact, which is having moisture. Then only corrosion will happen, oxidation happens only in that scenario.

So we try to control emission at the source, but sometimes there can be accidental emissions and all that. Then we also have anti-corrosive paints and anti-corrosive coating and all that. So and then the equipment are generally, many equipment are glass lined equipment. Then many equipment are also under positive pressure of nitrogen, which prevents moisture exposure and therefore the corrosion. So we have good practices there and in general from a financial standpoint, depreciation is good enough to cover the replacement capex.

Samarth Singh: So last question from my side. I understand you have passively invested in Silox, but just for a shareholder perspective, how should we think of this, an investment that you will monetize at some point or should we just think of this as a business where we can expect to just get our return to deal with?

Bimal Mehta: This investment is to be looked in the context of the event or in a situation when we made this investment. This investment was made during the sale of one particular part of business to Silox in the way back in year 2000 and at that time we hold and from there we are holding this kind of shares, but these are illiquid shares I mean it's not that people I mean there will be people ready to buy all this. And secondly, there are agreement clauses which also give preference to Silox to buy and all that.

So in all-in-all, at this point in time, I mean at right time we may be able to monetise this, but right now it's not something that is on our horizon or it's something that we are looking at.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Thank you for the opportunity again. Sir, two questions. So one is on this, whatever new products that we are commercializing of five to seven products. So in terms of kind of scaling it up, will we have enough permissions in place to scale them up to its potential? Or will it, that is also contingent upon we getting permission?

Bimal Mehta: So some of the products we will be able to scale to the full extent, but some of the products that we have, or we are introducing or we have introduced also has much larger market. So right now of course we are working with one or two customers with whom we initiated this product but some of these products have larger markets and to capture that larger market, we will have to work on a combination of looking at our job work partners and see whether they can produce some of these products or these volumes.

And also, as i mentioned earlier, we are looking at various possibilities of expansion and for that we are on drawing board and we are also planning something to present to the board, and once those things are clear, then there will be some expansion options including greenfield and also as i mentioned we are representing to government very strongly to open up permissions in this area. Of course, whether it will happen or not, I don't know. But if that opens, then we have a brown field opportunity also. But yes, some products have opportunity for bigger business.

Dhwanil Desai: And sir, on this, whatever is there on the drawing board with you, I assume that the trigger would be some kind of a soft commitment from customers in terms of offtake or is it that the de-risking angle that you need to have multiple plants also will come into play. Is there any trigger, which will kind of help you to take a decision? How should we look at that?

Bimal Mehta: No, the trigger is simple that we need to grow this way or that way. I mean because growth is the only constant that should be in life and I'm sure as shareholders you will also be looking at that company should grow. So that's the main driving factor. I mean, that we have to grow, we have to grow in terms of product profile, we have to grow in terms of geographies, we have to grow in terms of numbers, we have to grow in terms of profits, everything. I mean, so that's a simple thing. I mean, that's the key driver.

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

Bimal Mehta: Thank you. It was wonderful talking to all of you and thank you for your questions. All of you brought out very some very interesting questions and we hope that we have been able to answer the questions satisfactorily. If you have any further queries, please get in touch with SGA, our Investor Relations Advisors. Thank you once again.

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.