



# SIGACHI INDUSTRIES LIMITED

CIN: U24110TG1989PLC009497

AN EXCiPACT GMP, ISO 9001:2015 & FSSC 22000 CERTIFIED COMPANY



To,

Date: 03.11.2022

<b>The Manager BSE Limited P. J. Towers, Dalal Street Mumbai-400001 (BSE Scrip Code: 543389)</b>	<b>The Manager, NSE Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai- 400051. (NSE Symbol: SIGACHI)</b>
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Dear Sir/Madam,

**Sub: Transcript of the Earnings Call for Q2 FY 2022-23 Results held on 28.10.2022**

**Unit: Sigachi Industries Limited**

In continuation to our letter dated 03.11.2022, audio recording of Q2 FY 23 earnings call, please find attached herewith the transcript of the earnings call held on Friday, October 28, 2022, 2:00 PM IST. The same is also available on the company's website at [www.sigachi.com](http://www.sigachi.com) .

This is for the information and record of the exchanges.

Thanking You,

Yours faithfully

**For Sigachi Industries Limited**

**Shreya Mitra**

**Company Secretary and Compliance Officer**

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**Sigachi Industries Limited**  
**Earnings Conference Call**  
**October 28, 2022**

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**Moderator:** Good day, Ladies and gentlemen and welcome to the Q2 FY23 Earnings Conference Call of Sigachi Industries Limited. 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 this conference call, please signal the operator by pressing “\* then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

**Anuj Sonpal:** Thank you. Good afternoon everyone. A 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 earning conference call for the second quarter and first half of financial year 2023.

Before we begin as always let me mention a cautionary statement. Some of the statements made in today’s concall maybe forward looking in nature. Such forward looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management belief as well as assumptions made by and the information currently available to the 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 earning’s call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review. Now let me introduce you to the management participating with us in today’s earning’s 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 and OS Reddy – Chief Financial Officer. Without any further delay I would request Mr. Sinha to start with his opening remarks. Thank you and over to you, Sir.

**Amit Raj Sinha:** Thank you Anuj, a very good afternoon everybody. It is a pleasure to welcome you to the earnings conference call for the second quarter and the first half of financial year 2023. First, let me wish you all a Happy Diwali and a New Year. In the interest of some of our people who are new to the company let me first start by giving a brief overview of the company after which Mr. OS Reddy our CFO will brief you on the financial performance for the quarter under review. Sigachi was incorporated in the year 1989 and today we are one of the largest and leading

manufacturers of microcrystalline cellulose in the world. Our company manufacture high quality cellulose based excipients which predominantly find usage in the pharmaceutical, supplement and food industries. The company has created a niche in manufacturing highly innovative pre-formulated excipients and 60 plus wide variety of excipients of international quality standards apart from customized solutions. From its 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 two more in Telangana from where we ensure supply chain reliability for our customers in India and across the globe. Our total capacities from all these the three facilities add up to 13,800 metric ton per annum which we have further enhancing by the ongoing CAPEX it would subsequently touch 21,000 metric ton per annum. We at Sigachi have a global sales and distribution network and exports to more than 40 countries across Asia, Australia, American continent, Europe and Middle East. Now, I request our CFO to brief you on the financial performance after which I will give you the operational highlights of the quarter. Over to you Mr. OS Reddy.

**OS Reddy:**

Thank you Mr. Sinha. Good afternoon everyone. Let me first brief you on the second quarter financial performance first and then the half year financials. The operational income for the quarter was Rs. 83 crores an increase of 44.2% year-on-year, EBITDA reported was Rs. 16 crores an increase of approximately 21% year-on-year and EBITDA margin stood at 19.76%, net profit after tax reported was Rs. 14 crores an increase of 37.4% year-on-year while the PAT margin percentage was 16.48% a slight decline of 82 basis points on a year-on-year basis. Coming to the half yearly financials the operational income for H1 FY23 stood at Rs.161 crores a significant increase of 43.4% compared to H1 FY2022. Similarly operating EBITDA stood at Rs.33 crores seeing a significant increase of 26.8% EBITDA margins were reported at 20.27% and PAT stood at Rs.26 crores an increase of 39.7%, PAT margin stood at 16.42% during first half year FY2022. Now, I hand over the call back to Mr. Amit Raj Sinha to give you the operational highlights.

**Amit Raj Sinha:**

Thanks OSR. On the operational front the revenue growth was primarily driven by increased for MCC across all the industries with volume growth in the range of ~8.5% and realization growth in the range of 25% in Q2 FY23 on a year-on-year basis. A decline in EBITDA margins in Q2 FY23 on a year-on-year basis and QoQ basis was due to higher raw material cost an increase in cost on the new business initiatives of OTC and nutritional which are in the nascent stage of launch and hence contribution to the margins are low currently. Export sales has increased by 40% to Rs.113.2 crores in H1 FY23 as compared to Rs. 80.87 crores in H1 FY22. Capacity utilization has increased to 94.5% in H1 FY23 as compared to 93.27% in FY22. Company successfully passed on the freight and raw material increase to the customers. Company expect the growth end to continue with current profitability at sustainable levels. Furthermore the capacities of around 7,000 metric ton will be added during the later part of FY23 which will contribute to additional revenue growth in the next financial year onwards. Company's constantly striving to improve on its R&D capabilities, cost effective manufacturing processes

and thereby remain as a manufacturer of choice with highest quality standards. With this, we can now open the floor for question and answer session.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

**Yogesh Tiwari:** So, my first question is basically regarding the price growth, we had this 25% price growth in Q2, so wanted to understand what would be the quantum of price hike you took in Q2 versus Q1 and what would be the expected price trend currently in Q3, are you looking for any further price increase in this quarter?

**OS Reddy:** Last Q1 the average price was 216.75 this time it is 217.04 slightly increased Q1 to Q2 this 25% when we compare to year-on-year growth in price that is majorly on account of mix of the grades and also the increase in price of raw material impacted the selling price

**Amit Raj Sinha :** In terms of in thought process on passing on any further price increase to the customers in Q3 I would indicate that at this moment there are some customers wherein the price increase will happen in Q3 we have given them an indication, but the price increase is not being effective, so these customers will have a price rise other than that there are no further prices I am sure you would believe that currently the prices are most of the prices are already at its peak. So, we do not see further price being going up. However, in case there is significant change in the crude oil or in the raw material prices we would not really hesitate in passing on the price increase to our customers.

**Yogesh Tiwari:** So, just to understand these customers would be from the pharmaceutical segment or from the four segment wherein the price hike might?

**Amit Raj Sinha:** It is a combination it depends which ingredient is having what level of price increase on the raw material input and accordingly it will be passed on whether it is in the food or in the pharma or in the nutraceutical segments. Our objective is that we are able to camouflage ourselves from the price rise by being transplant to our customers and showing them change in the raw material prices and giving them a price increase.

**Yogesh Tiwari:** And as you mentioned that most of the prices have freed out, so is there any probability of declining prices or maybe taking up price cut in Q3 or Q4?

**Amit Raj Sinha:** We do not see that happening because I am sure you would understand that there are lot of volatile international situations prevailing and we do not see that happening and so I do not see the price being cut down at this moment anywhere.

**Yogesh Tiwari:** And one more thing like on the price rise which you will be taking for some clients so that would be like the quantum would be like a single digit like 4%, 5% something like that that in that range?

**Amit Raj Sinha:** Yeah it will be in single digit the input price has not had such an impact that it goes beyond single digits at this moment.

**Yogesh Tiwari:** In terms of export since we have a huge export I think for more than 40%, so just wanted to understand what is the trend for freight cost so it is like we have this higher freight cost in our earlier quarter, so how is that looking going ahead?

**Amit Raj Sinha:** We have seen that the freight cost has been dropping over the last couple of months we have seen the freight cost come down significantly. We are still observing it because the freight component is again dependent heavily on lot of international scenario and the way the goods move. So, we are being cautious, but are keeping this in mind when we review the prices.

**Yogesh Tiwari:** And that decline would be like in strong double digit if I take on a quarter-on-quarter basis?

**Amit Raj Sinha:** Actually we have not seen that because we do not see the freight component increase or decrease a percentage. We see it as an absolute value and try to gel in our pricing to see what will be our increase. So, I would not be able to comment on whether it will be single digit or a double digit because the ocean freight for New York is different, for California is different, LA is different it gets very difficult to bring out percentage increase or percentage decrease in the ocean freight. We see it as a value and then whatever is the incremental decrease or increase we see if we can factor it into our pricing.

**Moderator:** Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

**Bhavesh Chauhan:** My question is from your presentation in slide 6 where you talk about widening our horizon, so when do we say that company will venture into human nutritional segment, is it in addition to the 7,000 tons of capacity that we are expanding is something separate and or is it related to our existing business?

**Amit Raj Sinha:** That is in addition to the 7,000 metric ton capacity like I indicated in my talk there are three facilities for microcrystalline cellulose the cellulose based excipients and we have one facility for premix of nutrition and food. The capacity for this premix of nutrition and food is in the range of 9,000 metric tons per annum. So, this human nutrition part, this activity or this product comes in from the nutritional facility.

**Bhavesh Chauhan:** But are we already manufacturing this or you have tested the markets and everything?

**Amit Raj Sinha:** We are manufacturing, the plant is commissioned we are sampling out to lot of customers where there is business development already underway.

**Bhavesh Chauhan:** Do we see in the next two years any meaningful revenue on this division?

**Amit Raj Sinha:** Yes we definitely see a reasonable percentage of our revenue coming in from the food and the nutrition part of our business.

**Moderator:** Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

**Vignesh Iyer:** Last quarter in Quarter 1 if I remember you had given raw material cost as around \$850 as compared to YoY as I said it was around \$650, can you give me the number whatever it is stands as on Quarter 2?

**Amit Raj Sinha:** This is around \$900-\$950. This is different grades are there on an average we can take right now it is \$900 plus , it is expected to come down little.

**Vignesh Iyer:** So, the rise in margin although, but then it is on a rise, so we are not considering the fact that this has to be passed or it has already been passed on after taking the price hike?

**Amit Raj Sinha:** Yes already that has been passed on and now because of this freight charges also are coming down and crude oil prices and some of the raw material cost also are in declining phase. Just on an average at present it is around \$900 is there.

**Vignesh Iyer:** Coming to the nutraceutical business if I am not wrong you had guided around 18 to 20 crores for FY23, can I get the number what it is as things stand in H1?

**Amit Raj Sinha:** Right now recently only that has been started in second half only we are expected to get some revenues out of it that is in very initial stages maybe it will be little less also maybe 12 to 15 crores like that.

**Vignesh Iyer:** As of now in Quarter 1 and Quarter 2 we have not seen any contribution as such?

**Amit Raj Sinha:** less than a crore.

**Vignesh Iyer:** My third question on cross sodium as an excipient what is the status of the EC clearance?

**Amit Raj Sinha:** We have applied for the EC clearance at our Dahej SEZ facility and the EC paperwork is underway.

**Vignesh Iyer:** Any expected time lines on it?

**Amit Raj Sinha:** EC clearance expected timelines anything what we speak is we cannot be very sure, but I personally expect that it should get on an earlier note, it should get done within 6 months, if it is get on a delayed note it might get done within 12 months.

**Vignesh Iyer:** Another 6 months?

**Amit Raj Sinha:** Another 6 months beyond the first 6 months.

**Moderator:** Thank you. The next question is from the line of Sanjeev Damani. Please go ahead.

**Sanjeev Damani:** Sir, I wanted to know one thing sir that all our raw materials are largely imported if I am correct then what effort we are making to make them in India also?

**Amit Raj Sinha:** Sanjeev sir because this is a forest product there are lot of limitations for this product to be made in India. In fact, there have been situations when we have attempted importing it from Indonesian pulp manufacturers, but some of them are not really qualifying the sustainability criteria because of that we do not really find it meaningful to be importing it from them. We have this wherein we import pulp only from the pulp mills which are qualified and certified by the Forest Stewardship Council. So, once it is certified by the FSC then it becomes very sustainable and we have been as a sustainability practice we have been following this of importing raw material only from these suppliers and unfortunately in India we do not have such concepts still as on date. So, they do not really come into the purview of replacement of import.

**Sanjeev Damani:** So direct Agri products is coming to us or it is also processed by the foreign companies and then we buy it from them?

**Amit Raj Sinha:** Mr. Sanjeev Kumar it is of course processed by the pulp mills there is a level of purity which comes in and thereafter it is given out to the consumer's people like us.

**Sanjeev Damani:** You may not setup the pulp mills to processes I mean if at all if it is giving any kind of agreement, assurance that we are not dependent to that extent on somebody else?

**Amit Raj Sinha:** If I understood you correctly you are indicating that should we looking at backward integration.

**Sanjeev Damani:** Exactly.

**Amit Raj Sinha:** No, at this moment the quantum of CAPEX involved for a pulp mill is thousands of crores and that is not really scalable or that is not really possible for our line of activity. So, we are not really looking at that option. There are lot of pulp mills who are giving us at a very competitive price and who have been following sustainability practices. So, we are comfortable doing business with them.

**Sanjeev Damani:** You are also saying that is available in abundance and there is no likely threat in near future about raw material procurement?

**Amit Raj Sinha:** Yeah, it is a sustainable raw material, it is renewable raw materials and it is of course available in abundance.

**Sanjeev Damani:** One more question sir we export and we important so naturally our export are on CIF basis or they are on pre and board basis then only freight agreement will be either in our account or it may plus basis so that also I want to know from you?

**Amit Raj Sinha:** Mostly on CIF basis.

**Sanjeev Damani:** we cover our on the risk of freight rising was going down as we will benefit it rises then we have to applaud it. Since insurance is only for the product, but freight element rises and comes down?

**Amit Raj Sinha:** Freight element rises and comes down.

**Moderator:** Thank you. The next question is from the line of Manav Vijay from Deep Financial Consultant Private Limited.

**Manav Vijay:** Sir, first of all if you can just elaborate on this new capacity it is becoming operational in the next quarter; Quarter 4 so earlier you had indicated that you will be in a position to fully utilize this capacity in two years timeframe. So, maybe let us say FY25 end, so does that still stands true?

**Amit Raj Sinha:** At this moment our focus is to see that the execution of the CAPEX gets done as fast as possible. Once we intend to commence our commissioning activity in the last quarter of the current year and the first quarter of the next year it will start showing us on our sales. Now, in terms of utilizing of all this added capacity over two years we still stand by it, but is very difficult to give a firm commitment on this because there is outside situation, there are lot of other variables which come in. So, in case there is a change in the market, in case there is a ocean freight the way things are in the last one year then it would impact us on our scale. So, maybe the two years might change to three-year period, but on a positive note I believe that we should be able to absorb a major chunk of the added capacity over the next two years.

**Manav Vijay:** So, sir within the first year can you do 40% to 50% utilization would that be possible?

**Amit Raj Sinha:** 50% actually is very optimistic because first year as we scale up from a 0 to 50 it is tough, but it is doable. It is not that it doesn't. However, I would probably put it the first year maybe 30 to 40 and next year as the balance.



**Manav Vijay:** My second question is on the CCS plant so if I got you correctly you mentioned that the EC approval is expected to come in next 6 to 12 months am I right?

**Amit Raj Sinha:** Yes Manav that is right.

**Manav Vijay:** And after that there is a lead time of 15 months to 18 months to get that project up and running.

**Amit Raj Sinha:** That is right.

**Manav Vijay:** My third question is regarding basically the carriage outward expenses that you disclosed separately in your annual report so last 6 years, 7 years of annual report suggest that these expenses were used to 3% to 4% of your sales now in FY22 due to higher let us say all these issues these expenses jumped to close to 10%, now if you can just explain that of the 6% which basically you incurred additionally in FY22 how much you have been able to pass on to the customer and how much is what you are incurring currently from your own resources?

**Amit Raj Sinha:** Mostly we could able to pass this additional cost whatever cost we are incurring towards freight. We are including in our price considering this or even subsequently we are raising a separate debit note for the increase.

**Manav Vijay:** That means whatever increase that was there has been passed on?

**Amit Raj Sinha:** Fair enough.

**Manav Vijay:** Next question is sir in this quarter our tax rate was 11% any specific reason and what is the number that you guide for FY23?

**Amit Raj Sinha:** FY23 also because of this CAPEX we are incurring and because of this deferred tax asset and liability came in because of that this quarter second quarter it has come down, but normally future of the same thing will continue another 4 years and later on our SEZ exemption will go lapse 15 years will be completed and then we will an increase of another 5% would be there, 3% to 4% at least.

**Manav Vijay:** So, the tax rate for this year would be around 18%, 20% what that number would be?

**Amit Raj Sinha:** Yes 18% to 20%.

**Manav Vijay:** Sir my next question is now in this quarter since you have taken that plant on lease basis the Nutraceutical plant of I think around 26 crores to 27 crore correct me if my number is correct so your depreciation expenses has moved from around Rs. 80 lakhs to around 2.1 Cr. Now, going forward till the time this new plant become operational at least for H2 2.1 crore becomes a quarterly number in terms of depreciation?

**Amit Raj Sinha:** There is a lease accounting system is there as far accounting standard. These lease period in the earlier stages the expenditure would be on higher side because all the lease rental whatever pay during the lease period we have to bring it to NPV net present values on that we have to charge a finance cost or borrowing cost because of that in initial year it will be little higher and going forward it will come down.

**Manav Vijay:** So what would be the number of years for which this plant has been leased to the company?

**Amit Raj Sinha:** This is around almost when it is comfortable 10 years. Company does not want to incur CAPEX and that is why we have chosen this model.

**Moderator:** Thank you. The next question is from the line of Ruchita Ghadge from I-Wealth Management LLP. Please go ahead.

**Ruchita Ghadge:** Sir just had a few question because I am slightly new to the company so I would like to understand on your CAPEX, so how much CAPEX you will be putting for the next 1 year, 2 years and then which basically products they are putting this CAPEX and from when it will start commercialize basically if you can just help me with that?

**Amit Raj Sinha:** Right now we are almost at 95% we are replacing our existing capacities. We expand that capacities are expected to go ahead ready by end of this financial year and as we indicated in the earlier inquiries by next two years we will be achieving around 70% to 80% of utilization.

**Ruchita Ghadge:** And sir this is for the MCC?

**Amit Raj Sinha:** Yeah existing MCC the Brownfield expansion at our Dahej and Jhagadia facility.

**Ruchita Ghadge:** And the other one sir what is that?

**Amit Raj Sinha:** CCS Cross Carmellose Sodium that is now EC clearance is expected in 6 to 12 months' time and post that around 1.5 year it will take to come into commercial operations.

**Ruchita Ghadge:** That will get commercialize in the Quarter 4 will we see some revenue coming or will that happen in the next financial year?

**Amit Raj Sinha:** Next financial year that will happen.

**Ruchita Ghadge:** In this financial year we will not see any revenue?

**Amit Raj Sinha:** In this financial year we are not expecting any revenue.

**Ruchita Ghadge:** And the 25 crore revenue that said additionally that will be coming in I thought that is from this new capacity?

**Amit Raj Sinha:** New capacity only yes, but this existing MCC expansion is there as well as food and nutra also is there other segments are there.

**Moderator:** Thank you. The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

**Vinayak Mohta:** I just wanted to understand the way forward for the company so you are expanding on the entity front and then you have 1 million, 2 billion, 2.5 you will have additional capacity on the CCS coming on stream and your nutraceuticals being done from the least plant as well, so would you just give me a way forward as where do you see the company moving in the next maybe 4 to 5 years that we have from internal roadmap, so what scheme are you looking at and what could be risk that could come through in that scale up that you are looking forward to?

**Amit Raj Sinha:** Vinayak in this case if you see our expansion into Cross Carmellose Sodium you would see that it is a related diversification wherein very close diversification wherein the raw material remains the same the customer profile the customer remained the same. Likewise if you see our portfolio of products the 60 different products what we have the specialized new ones where we have patents in place those specialized products are taking in raw material and processing it value adding further to our customers. So, basically what the products which my customers would buy and process it further. I am doing it myself at my facility here and as a co-processed ingredient and then handing it over to my customer with a value add and of course at a variable price and with limited competition. So, if I see this overall scenario what I see Sigachil doing is it is gradually moving up the value chain in terms of the product basket, in terms of the value added level which we are kind of adhering to do our customers. Going forward I see ourselves continuing to do this continuing to move up the value chain ladder and see which way we can service our clients more with our wide variety of products and with products which are very related.

**Vinayak Mohta:** And is there any risk of replacement of these products or they are integral part to whatever your customers do?

**Amit Raj Sinha:** The risk component in this category is extremely low. The reason I say extremely low is because all these products are proven and are the Pharmacopoeial products that means they are new chemical entities which were incorporated many years back subsequently came into the Pharmacopoeial approval list and then are being used. What we are currently doing is we are working on this approved new chemical entity and developing a new particles which benefit the formulator, which benefit the guys who make the tablet, the capsule, syrup or ointment. So, I do not see because new chemical entity approval and acceptance by the pharma industry is a very slow process. So, I do not see any new chemical coming in getting approved and finally finding its place in Pharmacopoeia in a very short span of time. It takes decades sometimes.

**Vinayak Mohta:** And how big is the market for these product as a whole?

**Amit Raj Sinha:** Sir it is very difficult to quantify I would say that the cellulose based products what we make that as the market reports indicates that it would be a \$1.4 or \$1.5 billion market size by 2025.

**Vinayak Mohta:** So, one last question is it fair to assume that going forward you will be able to maintain your historical 25% growth rate and given your moving up the value chain eventually you will also be able to see an expansion of margins going forward may be does not come instantly, but over a period of time?

**Amit Raj Sinha:** Yes sir we do believe that number one we will be able to maintain the growth rate whatever we have the CAGR what we have maintained on a top line and bottom line. We would continue to keep that growth rate intact because of our various other ventures activities what we are doing in the nutritional segment, in the food segment, in the healthcare segment. So, that would of course continue to be there and as we get deeper and deeper into these businesses we would strengthen back and get better at our margins. I am sure you would understand that when you are in a nascent stage, you are just getting started, you have to kind of push through and gain market share, but as you start getting to be among the leaders you get better and better at commanding a better price and having a better margin.

**Vinayak Mohta:** Sir, one small question lastly I just want to understand your realizations have gone up quite decently this quarter as well, what are the risk of the visualization to come down thereby impacting your top line and bottom line as well?

**Amit Raj Sinha:** Realizations could drop in case the rupee strengthens. Realization could drop in case there is a drastic decrease in the ocean freight because we sell on CIS. So, there are risks involved, but what I overall see is that we are very comfortable or very confident on maintaining our margins even if the realizations drop the comfort and confident of maintaining our margins remains intact.

**Vinayak Mohta:** But you maintain margins on an absolute basis or on a margin basis?

**Amit Raj Sinha:** On a percentage basis, on an absolute basis there is no meaning actually on a percentage basis. So, if I have been higher than 20% EBITDA I would continue to see that I am a 20%, 21% EBITDA all throughout irrespective of our decrease in our realization or increase in our realizations.

**Vinayak Mohta:** But the realization will impact the EBITDA number equally because if you are maintaining the margin if Rs. 100 becomes Rs. 80 then it will be like Rs. 20 to Rs. 16 EBITDA at 20% just an assumption?

**Amit Raj Sinha:** So, then on absolute basis it would impact.

**Moderator:** Thank you. The next question is from the line of Sagar Shah from PhillipCapital India Private Limited.

**Sagar Shah:** So, my first question I wanted the volume figure for this quarter?

**Amit Raj Sinha:** So which volume do you want because you want the cellulose based ingredient volume sales.

**OS Reddy:** Yes sir. It will be around 3,600 to 3,800 this quarter metric tons.

**Sagar Shah:** You mean to say FY22 second quarter?

**OS Reddy:** Q2 FY23.

**Amit Raj Sinha:** H1 that is 6,800 metric tons.

**Sagar Shah:** And we are running at 94% capacity utilization?

**Amit Raj Sinha:** Yes 94.5%.

**Sagar Shah:** So, can you tell the Q2 FY23 volume figure?

**Amit Raj Sinha:** FY23 roughly 14,000 metric tons we will cross volume.

**Sagar Shah:** Q2 volume figure?

**Amit Raj Sinha:** You mean to say only Q2?

**Sagar Shah:** Yes sir.

**Amit Raj Sinha:** Okay that is around 3,500 metric tons.

**Sagar Shah:** And H1 7,150 right?

**Amit Raj Sinha:** 7,150 is H1.

**Sagar Shah:** 6,823?

**OS Reddy:** We are talking about production.

**Sagar Shah:** We are talking about sales volume?

**OS Reddy:** Sales is 6,823 hopefully only capacity will be seen on production that is why I told the production figure sales are 6,823

**Sagar Shah:** My next question was regarding our realization front our realization YOY we clocked a 25% growth, so can you elaborate on that as what kind of sales mix have you looked actually to enable higher realization as compared to YoY?

**Amit Raj Sinha:** Sagar it is a combination of product mix, it is a combination of increased freight and it is a combination of depreciated rupee it is not one single. It is a combination of all of this that has given us realization what we see today.

**Sagar Shah:** Now, my last question regarding to our opportunity in Dubai on Q1 we are exploring market opportunity in Dubai, so are we still on that what is the progress regarding that?

**Amit Raj Sinha:** I am actually not able to hear you clearly Sagar opportunities in?

**Sagar Shah:** Dubai.

**Amit Raj Sinha:** The Dubai Subsidiary has incorporated and that of course incorporated to further our sales in the middle east and the African region. So, that is a work in process at this moment. We do not intend to invest any facilities out there that is primarily a marketing office to strengthen our sales and deepen our sales in that region. At this moment the subsidiary is stabilized. We are in the process of hiring the whole team setting up the systems there.

**Moderator:** Thank you. The next question is from the line of Rajesh Jain from NB Investments. Please go ahead.

**Rajesh Jain:** Sir I had this first two questions some clarification with respect to what is mentioned in the annual report first is have we taken the position of Kurnool land?

**Amit Raj Sinha:** Yes sir Kurnool land position has been taken.

**Rajesh Jain:** How big is that sir?

**Amit Raj Sinha:** That is a 25 acre piece of land.

**Rajesh Jain:** So as of now there is no plan to do anything there?

**Amit Raj Sinha:** So, right now we have nothing very concrete couple of quarters back there was a debate on ethanol project which was subsequently scrapped out. So, right now we are deliberating on what could be the most optimum project which could be taken in aligning the market needs and our competencies. So, that is the work in process at this moment.

**Rajesh Jain:** The second question is there is a mention in annual report that due to economic advantages the food industry and pharmaceutical industries are increasing demand for non Food based MCC derived from plant waste or agricultural recycling, will this affect the demand of MCC?

**Amit Raj Sinha:** No, I do not see the demand of MCC being affected. The sourcing of raw material for this product might see a change in case there is market acceptance from the end consumers. End consumers who are the pharmaceutical formulators in case they see this aligning with their overall purity levels and aligning with their overall tablet properties they might want to see a substitute raw material being sourced for the cellulose ingredients what they are purchasing from us, but that is a very slow change I will tell you because change in the pharmaceutical industry takes many, many years and acceptance because it actually comes on to the table of the customer or the patient do we had.

**Rajesh Jain:** Just for information in case if they accept and they shift from this good the plant waste or the agriculture recycling, can our existing machinery can be used for the same or do we have to go for a different machinery?

**Amit Raj Sinha:** The same facility because the chemistry behind the process remains the same and naturally the equipment which is designed is designed for the chemistry to be executed. So, it would remain the same the parameters would change the purity levels would change and consumption of utility is required, water air all that would change, but overall the chemistry would change.

**Rajesh Jain:** My next question is regarding the O&M that is operation and maintenance of the plant, currently I think we are handling one or two plants, so just wanted to know three years going ahead how big this segment can become, is management want to grow this business also or it is just that as and when you get a proposal or an opportunity you want to take that and maintain the plant?

**Amit Raj Sinha:** I am actually very bullish on the O&M part of our business. One of the prime reasons is that it does not involve the CAPEX. It is a service industry and in the service industry I can show my results upfront. The very fact that we have been contracted out by the Aditya Birla group does indicate that we are executing there plant at their premises with our set of people and technical skills better and more cost effective than what they have been doing all these years does indicate our competencies in this segment. We are discussion with lot of big players because once you qualify in certain segments, certain customers, they want to replicate at their other plants. So, we are in discussion with reasonable level of players to see which way we could extrapolate this success to other industries with similar products or same industry in their different products. Just mentioned to you sir hydrogen hydride plant which was inaugurated by Shri. Narendra Modi was with our O&M. We were privilege to be operating the plant which was finally inaugurated the Chloromethane of Gujarat Alkali and the hydrogen hydride plant in Gujarat alkali are under O&M contract of Sigachi and hydrogen hydride is the first plant of in the first chemical to be made in India which goes into rocket fuel. So, that is the level of competency.

**Rajesh Jain:** Just to get an idea what is the revenue from this segment during last year and how much you are expecting let us say three years down the line?

**Amit Raj Sinha:** So, CFO do we have the last year figure with us the breakup of O&M.

**OS Reddy:** Yes last year 13.5 crores we have achieved and this year this is of course our expectation is around 25 crores and the growth rate will continue. In this segment also we can see good growth in future.

**Rajesh Jain:** What is the margin we get here EBITDA margin in this business?

**OS Reddy:** More or less 22%.

**Rajesh Jain:** Maybe three years down the line this can go up to 100 crores plus something?

**Amit Raj Sinha:** Very difficult to quantify Rajesh, but we are doing the ground work to see that we capture more and more market and service our customers, any customer whose operational expenditure is being reduced by taking in Sigachi as an O&M partner I would not want that.

**Moderator:** The next question is from the line of Utkarsh Somaiya an Individual Investor. Please go ahead.

**Utkarsh Somaiya:** If I heard you correctly you said you are operating in 94% capacity utilization?

**Amit Raj Sinha:** Yes.

**Utkarsh Somaiya:** From the current capacity you have been able to do around 70 crores to 80 crores of quarterly revenue, so is that the optimal revenue we can express from the current utilization current capacity?

**Amit Raj Sinha:** We are getting even more than that because of this product mix and specialized product it will go up at the top line now with a growth rate of 20% to 25% and we maintain the bottom line even we can see a growth in bottom line also.

**Utkarsh Somaiya:** just to understand your capacity sir currently it stands at around 14,000 tons?

**Amit Raj Sinha:** Yes 14,000 metric ton.

**Utkarsh Somaiya:** And after the capacity which is coming in Q4 it should stand at?

**Amit Raj Sinha:** 21,000 another 7,000 will be added.

**Utkarsh Somaiya:** And after that you will be waiting for the environmental clearance which should take around 6 to 12 months of the new plants?



**Amit Raj Sinha:** For this product no need to wait we can go ahead we have got all the permissions so after completion we are talking about environmental clearances for CCS that is different product Cross Carmellose Sodium. This 7,000 what it is expected to come the additional capacity that is existing MCC only in our existing manufacturing facilities.

**Utkarsh Somaiya:** On the revenue front we can expect your revenues to go up by the same proportion as the capacity

**Amit Raj Sinha:** Yes, but the absorption of capacities will take 7,000 it will take two years time to observe that.

**Utkarsh Somaiya:** So, by FY25 you should be producing 21,000 tons?

**Amit Raj Sinha:** Yes correct.

**Utkarsh Somaiya:** And until FY25 we can expect the 20% margin profile on the EBITDA approximately?

**Amit Raj Sinha:** Yeah.

**Utkarsh Somaiya:** And beyond that I think you said it will take around FY25, FY26 for the new plant to come if I am not wrong?

**Amit Raj Sinha:** Yes in this also we can do some debottlenecking and then we can increase the capacities further also.

**OS Reddy:** So, when you talk about debottlenecking that should be around 10%, 15% debottlenecking or it can as high as 50%, just to get an idea maybe it depends upon the situation maybe up to 25% we can bring in over a period of time not immediately. After achieving the full capacity then we can expand another 25% in the expanded capacities additional capacities.

**Utkarsh Somaiya:** Just to clarify to understand at 21,000 tons the company can approximately do a top line of 450 to 500 crores with a possibility of 25% extra debottlenecking in case the demand is at the environment receivable is that the right understanding?

**Amit Raj Sinha:** Yes.

**Moderator:** Thank you. There is the follow up question from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

**Yogesh Tiwari:** I just wanted to understand on the CCS segment so for example it is not operating margins are about 20%, what would be the we actually did a high margin product so what would be the margins on this new product CCS and how is the competitive landscape like what is the total market for this product, how many players are there and what would be the capacity we will be looking for?

**Amit Raj Sinha:** For the Cross Carmellose Sodium it is more of a complicated product because there is a furthermore of chemistry involves. So, there are limited players in this segment and when we look at the competitive landscape and their margin profiles we see that there margin profile are in the range of 25% EBITDA to 30% EBITDA. So, what I believe is that we should be able to match up to the competitive profile and definitely be around that place. In terms of market size as per future market insights.com the Cross Carmellose Sodium has a market size of \$900 million \$US and in the current space. By the time we commission it should be in the range of \$1.1 billion by FY24.

**Yogesh Tiwari:** And how many players approximately looked at so it will be like four, five players only in this market?

**Amit Raj Sinha:** Yes four, five it is.

**Yogesh Tiwari:** And the end is this would be like again the pharmaceutical players or what would be the clientele like?

**Amit Raj Sinha:** So, it is the pharmaceutical players basically goes as a disintegrant in solid oral dosage forms. So, it goes in primarily into tablets or in capsules and it goes in as a disintegrant. The functional use of this product is at the disintegrant basically helps the tablet breakup at appropriate time at an appropriate rate inside the body.

**Yogesh Tiwari:** And what would be the like the capacity which we will be looking at to build up?

**Amit Raj Sinha:** Yes we are looking at a capacity of 1,800 metric tons per annum.

**Yogesh Tiwari:** So, at 1,800 metric ton what would be the market share like in terms of installed capacity in the segment?

**Amit Raj Sinha:** That might be very difficult question to say at this moment. We will probably have to do some homework I believe we have done it before. We conceptualize the idea, but I do not have figure upfront.

**Moderator:** Thank you. There is a follow up question from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

**Vinayak Mohta:** Sir just one question the product that you are talking about previously was on the OTC size if I have missed it the disintegrant that you are talking about.

**Amit Raj Sinha:** The disintegrant Mr. Vinayak if pharmaceutical excipients in active ingredient that is a pharmaceutical product and that lines with our current product mix I mean it is a very close diversification.

**Vinayak Mohta:** And on the Nutraceutical factory that is taken on lease, what is the total revenue that you can clock there as full capacity and by when can that happen approx?

**Amit Raj Sinha:** In Nutraceutical segment we are at an very early stage at this moment. We are getting the facility approved and by the various regulatory bodies and of course by the customers and we are having a ground work for business development activity is going on. At this moment it will be very early to indicate anything specific probably maybe another quarter or maybe by the end of this current financial year. We should be able to have more clarity because we would have had reasonable level of revenues come in and we would have a strong indication on which way we can kind of add on to the values of our products and fix them more other products.

**Vinayak Mohta:** So, we have basically three things Nutraceuticals, the new plant that will eventually you will get EC eventually commercialization and the Brownfield expansion these are the three things that are going on the company as of now any other thing that I am missing?

**Amit Raj Sinha:** We are having Brownfield expansion of our core products where we have paper work and activity is going on for the Greenfield expansion of Cross Carmellose Sodium which is a related diversification. We have nutritional facility the premix facility of 9,000 metric ton which is in place and the ground work to have that facility approved and the subsequent product approved in place that is an in fancy stage likewise. Our healthcare segment has been launched and we are kind of working on at the distribution system and the setup for marketing these healthcare products. In fact over the last month and half we have had good level of advertisements going in into the local newspaper in the North and the Eastern India on our two OTC products. It has also been coming out in the television channels. So, we are aggressively taking this, strengthening our distribution system and the management and sales team around them to see that once the system is in place putting in products would just be a matter of kind of penetrating deeper into the market.

**Vinayak Mohta:** And the 9,000 metric ton is for I did not get that?

**Amit Raj Sinha:** That is a premix facility which has been taken on a 10 year lease. So, at this moment we are doing certain level of food sales and we are doing the ground work for the nutritional premix sales as well.

**Moderator:** Thank you. Ladies and gentlemen this will be the last question which is from the line of Rajesh Jain from NB Investment. Please go ahead.

**Rajesh Jain:** Sir, I have two questions only one we are entering into the Nutraceuticals and the OTC counter and then CCS also, is there any thinking in the management to go for any acquisition in these field?

**Amit Raj Sinha:** Sir positive thoughts are always there God willing and by the support of investors and of course the Sigachi team do things, but it will be very early to look at anything, if there is anything concrete we will definitely bring it out.

**Rajesh Jain:** My last question is regarding the capacity sir when you say capacity of CCS is around 14,000 we can utilize 100% capacity of that?

**Amit Raj Sinha:** Just to amend your statement capacity of CCS is a Greenfield project and it will be 1,800 tons.

**Rajesh Jain:** No, what I meant to say is the MCC?

**Amit Raj Sinha:** Utilizing 100% capacity is something like being a perfect condition and perfect conditions as we know never happens. So, I would say when we are above 90% we already start doing the groundwork to see where is it that we can debottlenecking and we work on debottlenecks of the specific equipments and see that we kind of increase a 5%, 7% by just debottlenecking one step and then gradually the capacity increases by a bit more. I would say that if somebody has to operate at 100% capacity utilization it would be very tough. So, I think at 90% itself we start fine tuning and see where we can pull in additional capacities.

**Rajesh Jain:** And this bottlenecking you can do up to maybe 20%, 25% maximum?

**Amit Raj Sinha:** In the same civil space it is only on certain achievement that you can play around so 70-25% is kind of the upper limit.

**Rajesh Jain:** My last question how is the demand for MCC because we are hearing lot of recession talk in US and Europe, so are you seeing any drop or slow down for the demand of the MCC in outside India markets.

**Amit Raj Sinha:** No, not all Mr. Rajesh I would tell you that the pharmaceutical industry technically is recession proof because these becomes ingredients which are anybody. So, we have historically also in the 2008 crisis we had not really seen a drop. There were other challenges, but it was not really a drop in the demand. So, likewise I do not see a drop in the demand coming in for this particular product.

**Moderator:** Thank you. As that was the last question for today. I would now like to hand the conference over to the management from Sigachi Industries Limited for closing comments.

**Amit Raj Sinha:** Thank you all for participating in this Earnings Concall. I hope we were able to answer your question satisfactorily and as some time offer insights into our business. If you have any further questions or would like to know more about the company please reach out to our investment relations managers at Valorem Advisors. Thank you stay safe and stay healthy. Thank you.

**Moderator:**

Thank you. On behalf of Sigachi Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.