CIN # L99999GJ1987PLC009768
Regd. Office: 9-10, GIDC Industrial Estate, WAGHODIA, Dist.: Vadodara, 391760
Ph. # 75 748 06350 E-Mail: co_secretary@20microns.com
Website:www.20microns.com

31st October, 2023

TO:

BSE LIMITED *Department of Corporate Services* Phiroze Jeejeebhoy Towers, Dalal Street, Fort, **MUMBAI – 400 001.** ***SCRIP CODE : 533022***		***NATIONAL STOCK EXCHANGE OF INDIA LIMITED*** *Listing Department,* Exchange Plaza, Bandra – Kurla Complex, Bandra [East], **MUMBAI – 400 051.** ***SYMBOL : 20MICRONS***

Re*: Transcript of Earnings Call*

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, please find enclosed herewith the transcript of the earnings call held on 26th October, 2023 post announcement of financial results of the Company for the quarter/half year ended 30th September, 2023.

The above information is available on the website of the Company at https://www.20microns.com/.

You are requested to take the same on your records.

Thanking you,

Yours faithfully
For 20 Microns Limited

[Komal Pandey]
Company Secretary
Membership # A-37092
Encl.: A/a

20 Microns Limited
Q2 FY24 Earnings Conference Call

Event Date / Time	:	26/10/2023, 15:00 Hrs.
Event Duration	:	63 mins 05 secs

CORPORATE PARTICIPANTS:

Mr. Atil Parikh
Managing Director and Chief Executive Officer

Mr. Tushar
Ventura Securities Limited

Moderator

Ladies and gentlemen, good day and welcome to the 20 Microns Limited Q2 and H1 FY24 Earnings Conference Call hosted by Ventura Securities Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand over the call to Tushar from Ventura Securities Limited. Thank you and over to you Tushar.

Tushar

Thank you. Good day, ladies and gentlemen. On behalf of Ventura Securities Limited, I welcome you all to 20 Microns Limited Q2 and H1 FY24 earnings conference call. The company is today represented by Mr. Atil Parikh, Chief Executive Officer and Managing Director. I would now like to hand over the call to Mr. Parikh for his opening remarks, post which we can start the question-and-answer session. Thank you and over to you sir.

Atil Parikh

Good afternoon, ladies and gentlemen. A very warm welcome to the Q2 and H1 FY24 earnings conference call of 20 Microns Limited. I would like to begin by offering a brief overview of our company. 20 Microns Limited is a pioneering and a leading industrial mineral company with a rich experience spanning across three decades. We are the frontrunners in revolutionizing the

Micronization of various industrial minerals with a systematic approach in India. Our product range includes an array of non-metallic industrial minerals like calcium carbonate, talc, kaolin, mica, quartz, dolomite, natural red oxide and various specialty chemicals and functional additives, like mineral based fertilizer, construction chemicals and many more.

With nine state-of-the-art manufacturing facilities and warehouses across India, including Gujarat, Rajasthan, Tamil Nadu and Andhra Pradesh, we have a collective manufacturing capacity of 4,50,000 metric tons per annum. Additionally, we operate five different mines in India, collectively holding in total mining reserve of approximately 169 lakh million tons. Our products are used as building blocks in various industries, like paints and coatings, rubber, plastics, paper, tires, ceramics, agrochemicals, containing and many more. Currently, we saw a wide range in customer base across the world, including 65-plus international countries.

We proudly cater to more than 200-plus clients representing a wide array of industries, which also includes well established companies like Berger Paints, Asian Paints, Kajaria, Pidilite, L&T, Kansai Nerolac, Finolex, ONGC, JK Tyre, AkzoNobel, and many other.

Moving onto the financials, our revenue from operations increased by 6.35% and stood at ₹ 1,997.03 Mn in Q2 FY24 compared to ₹ 1,877.78 Mn in Q2 FY23, on account of surge in demand for our products in the underlying industries like paints, rubber, plastics, and others led by extended festive season and increase in propensity to consume. Further, EBITDA increased by 28.25% from ₹233.44 Mn in Q2 FY23 to ₹299.40 Mn in Q2 FY24, and margins improved from 12.43% to 14.99% during the same period. This impressive performance can be attributed to our sustained commitment to cost efficiency, resulting in reduced power and fuel expenses and improved negotiations for freight charges during this period. PAT increased by 34.24% and stood at ₹160.54 Mn in Q2 FY24 compared to ₹119.59 Mn in Q2 FY23, margins improved to 8.04% from 6.37% during the same period.

During H1 FY24, our exports contributed ~16.0% of the total sales. Coming onto our revenue spilt, paint industry contributed ~50% to the total revenue followed by ~23% by plastics and rest by rubber, paper, ceramics and others. Further, our subsidiary 20 Microns Nano, engaged in manufacturing of specialty chemicals and soft industrial minerals, contributed ~12.0% to the total revenue.

One of the key drivers of our future success is our unwavering commitment to research and development. We invest heavily in fostering a culture of innovation, constantly pushing the boundaries of what is possible. Our dedicated team of 45 to 50 people continuously focused on innovation by developing a wide range of product in our in-house R&D facility in Vadodara, Gujrat. 20 Microns remains unwavering in its commitment to delivering high-quality products and innovative solution. Through the ongoing research and development initiatives and close collaboration with both the domestic and international customers, we continue to enhance our product portfolio catering to diverse markets.

As one of India's leading producers of ultrafine industrial minerals and specialty chemicals, we are expanding our global footprint and diversifying our product mix. We added 61 products in our offering during the financial year FY23. Further, I would also like to highlight some of our recent developments in terms of technology upgrade where we have introduced automation across various different business functions in our company, including the tracking material logistics, creation of purchase orders, which according in ERP system, when the notification for short repeats and material rejections, automated payment advice is given to our vendors.

Additionally, we have also integrated ERP, CRM and HRMS system to efficiently gather data from key specific modules to sales, production finance, quality control, material management, sales tracking, executive performance and employee activities among other critical areas. In terms of our expansion, we have recently expanded in two new regions, including the Middle East which includes Jordan, Egypt, Saudi Arabia, Iraq, and more and Southeast Asia, which includes Thailand, Indonesia, Japan, South Korea and Philippine through various distribution agreements. Additionally, we have also restructured our distributor relationships in other international markets with a focus on capitalizing on the strengths and mitigating their weaknesses, all while optimizing the product portfolios to achieve maximum efficiency.

Moving ahead, we are steadfast in our dedication to executing our strategy with precision and we hold a strong belief in achieving greater profitability and enhanced cash flow for the fiscal year 2024. To realize this goal, we will persist in our efforts to improve the efficiency, including periodic upgrades to our machinery and technology. We also accelerate the adoption of digital capabilities and maximize the utilization of data using the expanding growth opportunities within our core markets. Furthermore, we are confident that our strategic focus and operational excellence will be instrumental in significantly elevating the company's growth, profitability, sustainability, and cash generation in the near to medium term. I thank you all for your time and I'm happy to answer any questions that you may have. Thank you.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. First question comes from Divya Daga from Global Securities Private Limited. Please go ahead.

Divya Daga

Congratulations for good set of numbers and for margin improvement. I have a couple of questions. My first question is, as more than 50% of the revenue of company comes from paint and coatings segment and upcoming plants of Grasim and JSW will be helpful for us. So, can you provide that if we are in talk or do we have any contracts with them?

Atil Parikh

Yes, so we are already an approved vendor with JSW, and we are already doing some system supplies to the company. In terms of Grasim, we have already initiated the trial orders as an approved vendor for them and with the announcement of their different plants across the country, as they open up we will be starting to supply to them as well.

Divya Daga

My next question is, in H1 FY22 revenue was INR 374 crores, then in this H1 we have revenue of INR 391 crores that is 4% growth, 4.5% something. So, you have given a guidance of 15% to 18% revenue growth for the year. Will we be able to cover this by the next 6 months?

Atil Parikh

Yes, we will be able to do that. And yes, we shall.

Divya Daga

Okay, sir. My last question is, this fall in other expenses from INR 54 crores to INR 48 crores in Q2 and from INR 105 crore to INR 94 crores in H1. So, is there any major fall in particular head, can you state?

Atil Parikh

Yes, there are two heads I would like to define here, one is the power and fuel cost, where the fuel costs have gone down, where we are using furnace oil to manufacture our kaolin in Bhuj plant. So, that has decreased. Since it's an external thing we are dependent on, so, because of that we have a reduction in the fuel cost. And secondly, our export logistic costs have gone down substantially. So, if you look at the COVID times the freights have drastically increased to abnormal levels and now they have got back to the normal levels. And because of that, earlier times we used to have very high export logistic cost and now in this financial year we have a substantial reduction as well. So, these are the two factors.

Moderator

Thank you. Next question comes from Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah

Hi Atil ji, congratulations on a good set of numbers. I basically wanted to know little bit about the JV that we intend to do with the German company Sievert for manufacturing, construction, chemicals and building products. So, any color on what kind of CapEx that we intend to do for this and whether it's going to be a completely new plant or in our existing plant we can make those products?

Atil Parikh

So this, it's too early for us to comment anything on this JV, because we are still in the negotiation phase and preparing the terms and conditions for the JV agreement. So, we are still working on the conditions and the kind of investments that would go into the formation of this JV and the manufacturing that we will be doing. So, in maybe another six to eight weeks we will have a clarity on the same and we will be announcing the same in the exchanges.

Darshit Shah

So, this company is a very old, kind of 100-plus year old organization mostly into construction, chemicals and building production and probably the revenues are in millions of euros. So, just to get an understanding on, if you can give a little bit idea of what kind of products do we intend to make? Or probably are these going to be the first of its kind products to be Made in India? Or probably is there an export opportunity to, if you don’t want to name the product, just to get a rough idea of what are you looking in this JV?

Atil Parikh

Basically, if you look at ditch day scenario, many of these European companies are willing to enter into India. So, definitely this company has been in business for many years and as you mentioned it’s a very old known company in Germany. So, they decided, since we had a relationship with this company before, we were in discussions of manufacturing certain construction chemicals here in India. So, it's a mix of different chemicals that we will be doing. We are still working on the final aspect of the products that we will be manufacturing here in India, but most of them will be the new edge technology products which I think some of them are doing, some of them are not doing here in India. So, once we have a list ready of the different products that we intend to make here, we will definitely be announcing that as well.

Darshit Shah

Sure sir that will be really helpful. Sir, secondly on the margins front, as you alluded that there was reduction in power and fuel and freight costs, and little bit increase in the gross margin which has led to this 15% kind of operating margins from around 12.5% to 13% that you alluded last year. So, any rough ballpark guidance on the margin trajectory probably for this year and for the next couple of years & where do we see them heading?

Atil Parikh

I think this is an optimal figure that we usually work in our organization and in the ecosystem that we work in terms of the industrial mineral segments. So, 15% is an ideal margin space we usually look into. So, to maintain these kinds of margins will be the task that we will be taking up in the next few quarters and to sustain them, and then we will be working on improving them as well.

Darshit Shah

Sure. And sir lastly, when we met, I think you alluded some product that was kind of useful in the EV battery space. Can you share a little bit more highlight on what that product is, whether there are any potential kind of plans, tie-ups or something of that sort where we can do in India or exports?

Atil Parikh

So, right now, we're working on that product. So, we have not yet completely finished working on the product. So, once we have some clarity on that, we will be targeting more of the export markets and the Indian market, but the Indian markets currently is still in the very nascent stage of the EV and the semiconductors and the battery space. So, a lot of projects have been announced. So, once we have some clarity from the production happening in India, we will be trying and designing the product within that.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. Next question comes from Mayur Liman from Profit Mart Securities. Please go ahead.

Mayur Liman

Sir, my first question is, what are the reasons for the revenue increase apart from the festive season?

Atil Parikh

The increase in the revenue?

Mayur Liman

Yes sir.

Atil Parikh

Yes, this part has been very good I think in the term. So, the demand is usually there till pre-Diwali season. So, we have seen a good growth in the demand from various different sectors in the export markets as well as the domestic markets pick up and so that is the reason that we have been able to increase the revenue in the quarter two.

Mayur Liman

Okay. My second question is, what are your expectations from the next quarter?

Atil Parikh

So, Q3 and Q4 usually are at par with the current trends that we are following. So, these demands are quite erratic in terms of this financial year, but we try and maintain our revenue growth in our bottom-line growth, keeping in consideration the various different market segments that we are a part of. So, we try and balance our portfolios accordingly in terms of the product range that we have to offer in the market, within the domestic and the export market. So, I think it should look fair enough in the same way that we have seen in Q1 and Q2 shape up.

Mayur Liman

Could you please give us a product-wise revenue breakup? And do you have any plan for adding new product in the future?

Atil Parikh

Yes, so we keep continuously innovating and adding more products in our portfolios. Our 20 Microns product revenue mix typically is in the range of 50% for calcium carbonate, about 22% of kaolin, about 10% of talc and remaining is all other minerals like quartz, mica, feldspar and other products. And then, 20 Microns Nano, we are doing various kinds of opacifiers, wax additives, processing aid, matting agent, rheology modifiers. So, as mentioned they contribute about 12% of the total revenue of 20 Microns. So, that's how our product mix is basically bifurcated. Typically, our product mix usually does not change much, it remains in the same percentage YoY with an increase in the growth levels that you usually see.

Moderator

Thank you. Next question comes from Dhivyansh Gupta from Latent Advisors. Please go ahead.

Dhivyansh Gupta

Hi, I have about five, six questions. So, I'll take one by one. Given that, plastics is the second highest contributor to our revenues and given this whole ESG and recyclable trend that is going, do you see any headwinds in the sector demand for 20 Microns?

Atil Parikh

No, that directly doesn't impact us in a way. So, yes, we don't see like a significant increase in the demand happening into our product.

Dhivyansh Gupta

So, what the end user client nature with respect to the plastic segment?

Atil Parikh

Basically, we are into PVC cables, we are into masterbatch producers and into polypropylene, polyethylene and PVC is a major plastic segment we cater to.

Dhivyansh Gupta

Understood. Coming to the second question, what are, let's say, pricing policy or dynamics with the customers, is it contractual for six months, what is the market kind of thing and what is the reset frequency if any?

Atil Parikh

So, there is no specific contracts that we usually do with most of our end customers. Yes, for export customers, we are bound with certain contracts for in yearly based or six-month base, but not for all, it depends on which distributor or which customer we are engaged with. In the domestic market, usually, it is more on the typical cycle of the quantities that we are usually doing with them. So, we just try and meet those demands which keep coming. The demands are not consistent, the demands keep changing, so that is the reason that we have to continuously work with our customers on regular basis, on a monthly basis to understand the demands that they might have, depending on their end demand that they would be having.

So, that is reason that in the past, I think 1.5 year we have been working very closely with the customers due to these rapid demands that keep coming. So, there is no fixed contractual system that we have in terms of that. In terms of pricing, we work on some major heads, if they keep changing, then definitely we work with our pricing strategies based on that. But it differs again from application to application, it differs from the product group to product group. So, it doesn't form one whole systematic approach that we do for the company.

Dhivyansh Gupta

Coming to the paint sector as such or let’s say general pacifiers for you. In their P&L, how much is your cost? As if paint is the INR 100, then 20 Microns product is INR 5, INR 0.05 or what's the kind of overall average with respect to the price?

Atil Parikh

So, in terms of volume which you consider, in terms of volume it is anywhere in the range of 20% to 40% depending on what kind of paint we are manufacturing. Every paint has a different formulation. So, depending on what paint we are manufacturing, a low grade paints being a distemper to a high-end premium emulsion paint that they are making to any other powder coating to industrial paint where we’re making, the formulations are very different. So, it is not easy for us tell you. So, every customer, every formulation is very, very different. So, there is no fixed base price or a base volume that would go into a certain formulation. They also keep changing the formulation based upon the market demand, that is how it works.

Dhivyansh Gupta

And I'm assuming the premium paints will have a higher share of Micron, Micron will have a higher share in them.

Atil Parikh

Well, again, if you make a premium paint, the volume which goes into the making the premium paint is lower, because they use more finer materials, but the price of that particular product will be much higher. So, that's how it works.

Dhivyansh Gupta

What would be any idea on the market share that we have respect to paint sector, multiple other product?

Atil Parikh

Again, it's very different because we only do a certain segment of products. When we deal with the paint industry, we don't do all the different products which are there. So, we don't have like a perfect market size that we can define in terms of where we stand. Because for every customer, we have a different ratio, against our competition where we stand.

Dhivyansh Gupta

Any ballpark number, if you can provide us roughly?

Atil Parikh

Unfortunately I don't have that figure. But we're trying to work on it to define in addressable market space. So, based on that if we have a number ready with us, we'll definitely share with you in the future calls.

Dhivyansh Gupta

Thank you. Next question is that I've been reading your Annual Report from FY15 and in every year there is a long list of new products that have been developed and the company mentioned. So, let's say in the last three years, whatever new products that we have launched, what is their sales contribution in our overall sales?

Atil Parikh

So, it will not be a very significant contribution, they will be anywhere in the range of between 5% to 6%. Because most of these products which we've developed, they would either be developed for one or two customers, or for a particular market segment, a smaller market segment or a specific industry segment. So, again, it will take time for these products to grow into the mainstream markets. So, we first deal these products with the customers who have demanded these products, once they work for them, then we share it with the main markets to go forward with. So, usually in the first few years, that is usually in the range of 5% to 6%. And then it kind of grows in the next two to three years to bigger size.

Dhivyansh Gupta

And the bigger would be around?

Atil Parikh

That will go up to 10%.

Moderator

Next question comes from Darshit Borah from Robo Capital. Please go ahead.

Darshit Borah

Hi. So, congratulations on the good results. I just wanted, not specifically a guidance, but just to view on revenue going forward in the next two to three years, say by FY26. I mean, you've given some guidance on like 15% to 18% for FY24. Has that changed? And also for the future?

Atil Parikh

So, that will continue to remain the same. So, our goal internally is that would be kind of markets that we are in, in terms of even the turbulent times where we have seen in the past, we continue to be steady at a 15% to 18% growth levels YoY and that is what our internal goals are. Definitely, with the addition of capacities in the future that we might have, once we put them into use, and we will have a clear picture on where we will further our growth compared to the traditional 15% to 18%, that we expect that at least for the next two year 15% to 18% growth levels is the ideal goal for us.

Moderator

Thank you. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad. Next question comes from Sanjeev Damani from SDK Consulting. Please go ahead.

Sanjeev Damani

I'm the same person who visited you in the last AGM. And congratulations for excellent numbers. And we know that you are very much investor friendly and very transparent with all the investors. So, thank you very much for being so good. We wish your company to be market leader and main supplier to all the paint industry. Now, I would like to understand only one thing that who are our nearest competitor as far as raw materials meant for paint industries are concerned? That's my first question. Is there any listed player?

Atil Parikh

No, there are no listed players in the competition. We have few international players. And again, when we look at the competition, they will be different for each product group. So, for calcium carbonate we have a different competition base, for kaolin will have a different competition base, for talc we will have a different one. So, we'll not have a general competitor across the board, like 20 Micron's product range that we are offering. So, again, each segment will be represented differently. So, we have many competitors in calcium carbonate, we have few competitors in talc and kaolin. So again, it differs. So, this is not the right way for me to name them, but I think we can take it on a different level when required.

Sanjeev Damani

Now, emerging from the discussion that took place in this meeting only, I just want to understand that we have a share in all kinds of paints being manufactured in India. I mean, can you kindly confirm that we have some material to supply for all kinds of paints, whether it is oil based or any other. Can you kindly confirm?

Atil Parikh

We supply to marine paints, we supply to automotive coatings, we supply to powder coatings, we supply to industrial paints, we supply to decorative paints. So, all paint segments are part of our core group.

Moderator

Thank you. Next question comes from Utkarsh Patel from Motilal Oswal. Please go ahead.

Utkarsh Patel

So, I just wanted a broad view about your vision for the company, right? Let's say, today, we are at a particular size, right. So as a company, how do you see this company evolving over a period of next three to five years?

Atil Parikh

In what terms are you looking at?

Utkarsh Patel

I'm talking in terms of revenue, profits, so we have any internal targets for next five years, let's say we want to reach here in 2027 or 2028?

Atil Parikh

Yes, so we have our own target. So, as I mentioned to you that we have a target of 15% to 18% YoY growth. Now, the company has started to evaluate potential projects for expansions internally in India and abroad, we are also exploring the potential to add more mines into our additional reserves. We are also looking at potential strategic initiatives and opportunities to various JVs & collaborations for the growth factor. So, there are some high-investment projects which we are supposed to be looking at now. But due to the turbulent conditions in the markets globally, we are taking a cautious approach with that, with the changing market dynamics. And so, we keep looking on this major outlook.

And so, we'll have some clarity of thoughts regarding our potential CapEx plan, which will be put to use and which will be contributing to the total revenue growth for the coming five years, so that is currently being worked upon right now. So, we are currently going with our regular CapEx plans. But with the recent JV, which we're forming and various other projects which are in the pipeline, discussions are currently ongoing with various different people across India and globally. So, as and when these things start shaping up and the disclosures can be made, we will be announcing these things in the coming months.

Utkarsh Patel

Okay, perfect. Just a follow up to that. Let's say, in terms of our existing infrastructure, what level of capacity utilization will we be working at?

Atil Parikh

So currently, our own manufacturing, we are operating at around 85% of our capacities. But we have a model of our own manufacturing, toll manufacturing and contract manufacturing. So, if we look at these three models, then we have enough room available for future growth. Because what we do is that the regular run of the mill products, which are there, we do it in toll and contract manufacturing. And all the more advanced technology products and more final products, which are there, that we do in our in-house manufacturing. So, that distribution keeps happening every quarter. So, that's how we keep on growing and with minimal CapEx that we intend to do.

Utkarsh Patel

Okay**.** And your own manufacturing will be the major piece, right? Toll manufacturing and contract manufacturing will be a smaller part, right?

Atil Parikh

Yes, that's right.

Utkarsh Patel

Okay. Just wanted to understand one more thing. Let's say, last year H2 was slower compared to H1. So, we were at INR180 crore-INR190 crore in the H1. But H2 was significantly slower. I think 10% 15% slower than H1 last year. So, do we see any particular trends like that this year as well? And if there is any seasonality aspect to the business, maybe if you can clarify on that?

Atil Parikh

Post COVID, we have lost the seasonality aspect. So, we don't fall under that category anymore. It's kind of even cycle across the year. But yes, as I mentioned before in one of the questions that the market dynamics keep changing. So earlier, we used to have a clarity on a six months vision as to how the market is going to behave. But now that six months horizon has come down to two months, three months. So, the market keeps changing every two months. But it's hard to predict. But yes, we have our internal statistical department which kind of maps it in a way that we kind of balance our portfolios and try to maintain the H1 as well. So, we try to remain stable and try to grow, if possible, in H2 as well.

Utkarsh Patel

Understood. Just one final question. We have a debt of closer to INR 100 crore as of now, right? Do we have any plans to repay it or do we see this going up in the future?

Atil Parikh

When you look at the debt, total debt components, there are multiple components as a part of that. So, if you look at our long-term debt, it is just in the range of INR 8 crores to INR 10 crores. So, that we will be repaying it within the next few months. And apart from that, we have our fixed deposits, which is also part of the overall debt, if you look at it. And we have discounting that we only do with many of the big customers, that is also a significant component as part of that whole debt cycle. So, they will continue to remain in the way it is. But yes, the long-term debt we will be getting mostly in the next couple of months or in the next few year quarters.

Utkarsh Patel

Okay. Because I was looking at your interest expense, you have an annual interest expense of closer to INR 17 crores to INR 18 crores versus your debt which is closer to INR 107 crore and INR 108 crore. So, I'm assuming the interest cost may you are incorporating the discounting charges, et cetera, as well.

Atil Parikh

Yes, that’s right.

Moderator

Thank you. Next question comes from Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah

Good afternoon, sir. Thanks for the opportunity. So, what is the contribution of the export revenue in our business?

Atil Parikh

So, we usually are in the range of 15% to 16% of our overall revenue is export business.

Dhiral Shah

So, are you looking to more on the export side?

Atil Parikh

So, the mix would continue to remain the same. Most go in the domestic market the same way we’re going to export market as well. So, the export potential keeps changing with the changing dynamics again. So, our main focus in the future, especially in the next one, one-and-a-half year is going to be more of Asia, like Middle East, Southeast Asia, the Indian subcontinent. So, that is going to be our main focus, because in Europe and America we're not seeing a significant growth happening in terms of the economy, and South America for sure. So, these are the areas we are more focused on.

Dhiral Shah

And sir, what is the overall market size of the product that we're dealing in?

Atil Parikh

As I mentioned in the previous question, we don't have a defined market size that we work on. Because every product, every industry we serve in works very differently. So, we only do a certain segment of products, and not all the products out of that whole market size. So, it's difficult to make a judgement that way.

Dhiral Shah

Okay. So, when we do a business with any of our clients, so we consider margin as a percentage, or do we calculate on an EBITDA per ton basis?

Atil Parikh

Pardon. I didn't get your question.

Dhiral Shah

So, our margin, we consider on a percentage basis or is it on EBITDA per ton basis?

Atil Parikh

No, it depends on how we work on the margins. Again, for every product group that we work in, based on the market demand and market scenario our margins get worked upon, so we don't have a fixed way of working on the margins. Our pricing kind of gets defined by the market conditions.

Moderator

Thank you. Next question comes from Janish Shah, an individual investor. Please go ahead.

Janish Shah

Yeah. Hi, sir. Congratulations on a good set of numbers and showing consistent growth over last few years. Just I have a few questions basically with regard to the margins and the way you are steering the company in the next few years. Just to take you a little back, I think 2019, the company was making an EBITDA margin somewhere close to like 14.5% and subsequent to that there has been a decline and now it is going back again to that 14%, 15%. Is it been attributed only to this cost improvement? I mean, saying the reduction in the costs or how sustainable the margins at 14%, 15% look like? You mentioned about that it's a usual business, but just wanted to get some more color around that.

And the second question is, with regard to the efforts which you’ve been making to accelerate the growth with adding new products, and also the cost savings measures which you have taken. How do we see the margin trajectory moving in the next 3 years or so with regard to the company? And lastly, when we look at the return ratio has been improving, especially the return on capital and return on equity, where do we see this business has a potential to stabilize in terms of the return ratios on a three to four years basis? Thank you, sir.

Atil Parikh

So now when we look at the margin, specifically, the margins usually get driven by the product mix in our scenario. So, since we have a larger product group, so again, depending on the market scenario, if there's a higher demand for the lower value products compared to the higher value products, then definitely the margins can kind of get beaten up. But if there's stable demand coming in from all different segments of all different industries, in an equal contribution, then definitely the margins remain in the current growth that we're seeing in the range of 14% to 15%.

And if you look at our global industry average, 14% to 15% is a very stable margin, which the global companies in this segment, in the industrial mineral space which they operate in from many, many years now, they usually are within this margin brackets. In our case, definitely we are on the growth trajectory, and we want to incorporate more and more value-added products and that is what our internal goal is that we try to create more cutting-edge technology products, which kind of benefit the customers in their formulations. So, that is where the margins would come into picture.

Now, in terms of Nano, which is one of our subsidiaries, we are working on specialty chemicals and functional additives. Now, we are working there since many years now to develop many new products for the same kinds of industries that we are part of. And now here we see that there is a significant improvement in the margins, which is possible, but that could only happen when we reach a certain turnover in that particular group because we are currently operating with older machinery, the yield which is there is not as per the required ratio. And so, because of that, we are kind of struggling with some of the raw materials that we are also needing. So, we are kind of exercising our way through stabilizing the Nano operations. Once that gets stabilized in a better way, the overall company margins will also kind of improve.

Similarly, we are also expecting a growth in the export markets as well, where we see more higher margin contribution. So once that will also kind of help us in terms of reaching a certain goal that we have, definitely the overall margin landscape would also improve.

Janish Shah

And just another question with regard to your raw material sourcing, I think you have had trouble and challenging period during the last two years when the entire logistics globally went haywire. How are we now relooking at the sourcing strategy for the raw material to ensure the growth doesn't get suffered for the kind of raw material?

Atil Parikh

We're in a much better time right now, we don't see much of erratic movement happening in terms of the logistics and in terms of the imports that we do. Procurement department is continuously on the move in terms of getting at the right products at the right time. So, I think we are in a much better place than we were 2 years back. And looking further, we have a great procurement team globally and we are exploring the resources across different parts of the world, and we have access to various different products and raw materials available from various different territories, and so I think we should not be much afraid of the future, because I think we know our raw materials and where to source them from. So, I think that we're clear about it.

Janish Shah

And maybe the last question is, you mentioned about the CapEx, which is going to happen in the years to come. Can we just get some understanding on the quantity as like what kind of amount which we are going to invest in various projects or next 2 years or 3 years' time?

Atil Parikh

So, we are still working on the same, we have not finalized the plan, because if we had a plan in place, we would have shared with the investors. So, because of the changing market dynamics, as I mentioned to you, we are continuously reworking these projects from our side to see if we need that at this point of time or should we postpone it to the next year. So, that is the reason that we are continuously evaluating and putting it across our board. And our board is also actively considering various growth opportunities in both the parent and subsidiary companies. So, once we have more clarity on this, we will share with you more detailed updates in due course of time.

Janish Shah

But if you can just share some ballpark number that will be helpful.

Atil Parikh

We don't have a number. So right now, for the next six months to one year, we will be just doing the traditional CapEx of INR 10 crores to INR 15 crores that we usually do in terms of upgrading our machineries and bringing in more machinery. So, that is something that we would be doing, but the significant amount of CapEx plan which is there is something that we are still reworking on. So, we will share with you more updates in due course of time.

Janish Shah

Thank you. And just to confirm, you said for 15% to 18% growth, that in like for next few years or at least for the next 2, 3 years. Can it happen on the current, kind of you require like our investments in the capacities or the existing facilities are?

Atil Parikh

We would, but not with a significant CapEx. We can manage that with minimal CapEx plans in terms of adding basic CapEx that we do YoY with the addition of few machineries that can be achieved.

Moderator

Next question comes from Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar

So first of all, I just wanted to understand on your value-added. I mean, in the press release as well you mentioned about this value-added product along with this construction chemicals and mineral fertilizers have garnered significant interest. So, just wanted to understand what is the share of this product right now, in terms of revenue mix and how do we see that going forward? And what's the margin differential, I mean, on your normal product and value-added product?

Atil Parikh

So right now, the mineral fertilizers and construction chemicals don't contribute a very significant amount of revenue to the overall top line. We are still in the growing phase. So, in 20 Micron construction chemicals, what we do is, we have a range of different waterproofing products, which are based on the mineral technology, which is something relatively new, which no one else was doing in the Indian market. So, that was something, that was out of the box, and we decided to venture into that. And we're taking it quite slowly, we're not spending too much money on in terms of the brand name and advertising. So, what we're doing is slowly and steadily working on the Tier 3 and Tier 4 markets, and we are trying to build a distribution network in some of the states and then taking it slowly and steadily into pan India.

So, in the next 5 years, we see this growing at least 5 times of what we are today. So that is what we are expecting in growth, both the segments of mineral fertilizers and 20 Micron construction chemicals. Mineral fertilizers, we are basically into manufacturing of mineral based fertilizers, where we use most of our own minerals with some external components, which are natural ingredients, and we try and make the mineral fertilizers which are substitutes for the organic fertilizer and basically used for organic farming. So, our main target is to create a distribution network in the rural parts of the countries in the more of the farmer segments and urban landscapes as well. And we have to go through a certain licensing process through the government and these things take time and so we are taking it slow and steadily. And so these definitely will see a significant growth in the next 5 years.

Deepak Poddar

So currently this is what? 1%, 2%? I mean, 1%, 2% of revenue currently.

Atil Parikh

Yes, exactly.

Deepak Poddar

I mean, in 5x what's the current reference point? I mean, 5x I understand, but without a reference point we'll not understand, right?

Atil Parikh

Yes. So, we currently will be at INR 10 crore revenue right now. So, it will grow INR 250 crores maybe in the next 5 years.

Deepak Poddar

INR 10 crores revenue, I mean FY23 you're talking about out of INR 700 crores?

Atil Parikh

Yes.

Deepak Poddar

In FY23. So, that we expect to be INR 50 crores in next maybe what 5 years?

Atil Parikh

Yes.

Deepak Poddar

And my second question revolves around your margins. I mean, you mentioned in your press release as well that you maintain current margins that we are doing, EBITDA margin for FY22 to remain in a similar range as the existing with the likely improvement of 50 to 100 basis point.

Atil Parikh

Could you give the reference?

Deepak Poddar

Yes. So, we're just talking about the reference point. I'm just trying to understand what's the reference point here we're talking about?

Atil Parikh

15% is the reference point, as I mentioned to you, it's a global average. 15% is the reference point we mentioned.

Deepak Poddar

So, with the likely improvement of 50 to 100 basis points, I mean, next 1 to 2 years we expect 50 to 100 basis point improvement over this 15%.

Atil Parikh

Yes.

Moderator

Next question comes from Hiten Boricha from Joindre Capital. Please go ahead. I repeat question comes from Hiten Boricha from Joindre Capital. Please go ahead.

Hiten Boricha

Thank you for the opportunity. Sir, I have been looking this company for the first time so maybe my questions may be a little basic. So, the first question is on the raw materials. So, what kind of raw materials do we have currently, which has the major parts of our raw material and can you give the price kind of that materials, where are sourcing from that, et cetera?

Atil Parikh

Well, I think, I'll need to give you a brief background in about this, because raw material basically we need to source it from the mines. So, each product that we make, the raw material usually is in the form of the ore and then we grind that to manufacture our products. So, basically, we use a lot of domestic raw materials and we use many imported raw materials also for the same.

Hiten Boricha

Can you name some of them, what are the major raw materials?

Atil Parikh

So, all the raw materials would be the same as the product group that we have like calcium carbonates, talc, mica, quartz, silica, so these are, the same raw materials for the same product group, so there's no distinction in that.

Hiten Boricha

So, we buy this from the third party, we don't own any mine or anything?

Atil Parikh

We do have 5 mines as mentioned in the opening remarks. We do have 5 mines in different parts of the country. So, we operate our own mines, and we also procure from outside, and we also procure from international resources also, because some products that you manufacture you will need to have the access to various different resources from where you can manufacture these products.

Hiten Boricha

Okay. And sir, you mentioned, we have been running at 80%, 85% capacity utilization. So, what's the exact capacity we have currently?

Atil Parikh

85%.

Hiten Boricha

The capacity in terms of tons?

Atil Parikh

450,000 metric tons.

Hiten Boricha

450,000 metric tons, okay. So, I have like couple of more questions, but I believe that will be moved. Basically, it’s just a request from my side sir, if you can upload the detailed presentation or anything like that on for investors, it will be very good for us.

Atil Parikh

You can get in touch with our Investor Relations people. They have all the presentations available with them, and if you need more information, they will be able to explain the company better to you in a concise way.

Moderator

Next question comes from Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal

Sir, my first question is on the standalone business. So, what kind of capacity utilization do we have there, and what kind of CapEx plans do we have?

Atil Parikh

I think I mentioned to you that we are working at 85% capacities for the standalone in 20 Microns itself. And since we are working on a mix of own manufacturing, toll manufacturing and contract manufacturing, we have sufficient capacities available with us as of now, at least for the next few quarters, so we will be able to manage the growth that we are anticipating. And in that time, minimal investment growth plans are there in terms of the CapEx, which we will be incorporating in for some of the additional machinery that we will be putting in to do.

Ayush Agarwal

So, given that, we will exhaust all of these capacities in the next maybe one year, should we not be thinking about a CapEx plan to expand capacities?

Atil Parikh

Yes, so as I mentioned, we are working on the CapEx plans, and because of the changing market dynamics, we don't have a fixed CapEx plan as of now, because every product group that we are part of will require some sort of a CapEx plan to be designed. But we are continuously reworking on that and once we have a final plan ready with us, we will be sharing more updates with all of you. But as of now, we don't see any bottleneck happening, at least for the next 1.5 years in terms of the capacities.

Ayush Agarwal

Understood. Any plans to increase the share of kaolin business, as I understand the margins are much better there?

Atil Parikh

Yes, so again, it's a part of the CapEx plan and that is something that we are working on currently, which is a priority. And so again, as mentioned before, the kaolin is quite high capital investments project and we need to keep the future market scenario into consideration. So, looking at that aspect, we will be working on a CapEx plan, which is more feasible and we will be sharing updates with you in some time.

Ayush Agarwal

Understood. And similar plans about 20 Microns Nano, what is the utilization there and any CapEx plans there?

Atil Parikh

No, we do not require any CapEx there, because we are just working right now. We have sufficient capacities in 20 Microns Nano. Our main focus is to increase the product range there and the market penetration there. So, that is what the goal is going to be in Nano for the next 2 years. Once we reach a certain market penetration and a top line, then we will be putting more efforts into more of investments in Nano. But as of now, we have sufficient capacities there.

Ayush Agarwal

Understood. And my final question is on our interest cost, it is on a declining trend, but it is still very high if I just divide the interest cost by debt on our books. So, it is up about 15%, while debt costs are not so high in India. Any reasons why our interest costs are so high and when can we expect it to go back to 8%, 9%, 10%?

Atil Parikh

So, I think it was addressed in one of the earlier questions also that the debt component includes our long-term debt or short-term debt and our fixed deposits and our fully discounting. So, the wholly discounting portion which is there has a much higher interest rate compared to the regular debt interest rate that we have, and that is the reason that it is showing on a much higher side.

Ayush Agarwal

Why you need that sir?

Atil Parikh

That is because we have to service our major customers or the bigger customers who have a significant amount of share. So, for that we do that which has been a typical practice of ours for many years now, and so that is one of the reasons that it is showing on a higher side. Otherwise, our regular debt, which is there, our long and short-term debt, that definitely is quite low, and is still expected to go much further down with our improved ratings and our improved financial performance.

Moderator

The last question for the day comes from Shrinjana Mittal from RatnaTraya Capital. Please go ahead.

Shubh Shah

Hi. I'm Shubh, speaking on behalf of Shrinjana. I have basically three questions. So, first of all, you mentioned that we also import some of the raw materials. So, what are these raw materials? And second, we are utilizing our mines at 85% capacity, then why do we need to import?

Atil Parikh

So, to address your question, we are importing all different kinds of raw materials from various different countries, we are also utilizing a lot of domestic resources within India and we are also utilizing some of the resources from our own mines. Now, to make certain products, which is demanded by the end user industry than our end customers, the Indian raw material does not suffice to the requirements, and so it is a requirement by the customers that you have to use a certain kind of raw materials to make those products. And to get those raw materials, we need to import them from different parts of the world.

So we have access to raw materials from different areas, we currently have our own subsidiaries in Malaysia and in Vietnam, where we procure a lot of calcium carbonate from there and we bring it into India. We have toll manufacturing there as well, we also process those materials in India as well. So that is one of the reasons. Whenever the Indian raw materials does not suffice the requirements of the markets, you will need imported raw materials.

Shubh Shah

And is their percentage lead in terms of the cost of these raw materials? Import versus domestic?

Atil Parikh

So, basically we have about 40% of our raw materials is imported and 60% is domestic.

Shubh Shah

Second, can you throw some light on the product wise margin?

Atil Parikh

Product wise margins, I will ask my IR team to send it across to you.

Shubh Shah

And the last question is are leases which are basically lease from the government, that do they show in accounting?

Atil Parikh

Pardon? I didn't get your question.

Shubh Shah

So, basically, we have leased 5 mines, and so where do the lease or the rent payments show in accounting.

Atil Parikh

So, I've shared with you in the opening remarks the entire reserves that we have for the different mines that we have leased.

Shubh Shah

Sorry, no I'm not asking about the results. So, the rent payment or the lease payments.

Atil Parikh

There's no rent payment or lease payment for these mines. Basically, how it operates that you need to pay a royalty on each metric ton that you mine out of the entire mines. So, that is basically one of the heads of royalty paid that you would have, which is the part of the entire. So, there's no lease or rent or any rent that you pay to the all the mine.

Moderator

Thank you. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good day.

Note:

1. This document has been edited to improve readability
2. Blanks in this transcript represent inaudible or incomprehensible words.