"Tatva Chintan Pharma Chem Limited Q1 FY2022 Earnings Conference Call"

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ANALYST: **MR. RUSHAD KAPADIA - ICICI SECURITIES**

MANAGEMENT: **MR. CHINTAN SHAH - MANAGING DIRECTOR – TATVA CHINTAN PHARMA CHEM LIMITED**
MR. MAHESH TANNA - CHIEF FINANCIAL OFFICER - TATVA CHINTAN PHARMA CHEM LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Tatva Chintan Q1 FY2022 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rushad Kapadia from ICICI Securities Limited. Thank you and over to you!

Rushad Kapadia: Thank you Standford. Good evening ladies and gentleman and welcome to the Tatva Chintan Pharma Chem Limited Q1 FY2022 results conference call. We have with us from the management Mr. Chintan Shah, Managing Director and Mr. Mahesh Tanna, Chief Financial Officer. So without further delay, I would now like to handover the floor to Mr. Chintan Shah for his opening comments. Thank you and over to you!

Chintan Shah: Thank you Rushad. Good afternoon everyone. We heartily welcome you all to the maiden earnings call of Tatva Chintan Pharma Chem Limited. First of all I would hope that you and all your family members are safe and keeping well. During this COVID pandemic times, I am sure you all are taking the necessary precautions to keep safe. At Tatva Chintan, we have been maintaining the utmost hygiene norms and following all governmental regulations, in all our facilities. For us employee health and well being is paramount.

Now on to business updates, as you all are aware this is our first call after our IPO in July 2021. Our IPO was oversubscribed more than 182 times, a result of investor support and confidence in the company. We at Tatva Chintan are always on the lookout for opportunities to take the company to next level while maintaining a clear emphasis on long-term development with sustainable safe and green chemistry with strong focus on our R&D capabilities. It is a source of pride to see our employees' devotion and dedication to serving our stakeholders in these trying times. I am grateful to our team, our customers, our board of directors and all our well wishers for putting that confidence and believing in us.

For the benefit of new investors on the conference call, I will provide a quick overview of our company, our product facilities and our long-term strategy for the company. Furthermore, Mr. Mahesh Tanna our CFO will join me today to discuss the financial performance of the company.

We are manufacturer of specialty chemicals having four product categories. We manufacture a broad range of structure-directing agents (SDA). Our company is the largest and only commercial manufacturer of SDAs for Zeolites in India and the second largest globally. Zeolites have varied applications, including as catalyst and absorbents. Zeolites have proven to be active for the selective catalytic reduction, which is currently considered as one of the most preferred technologist for emission control in automotive and other applications. We are one of the largest producers of phase transfer catalyst (PTC) in India as well as one of the leading manufacturers across the globe. We are the only manufacturer of electrolyte salts for supercapacitor batteries in India. Supercapacitor batteries have varied applications in high energy storage devices for hybrid EV vehicles and solar energy storage devices.

We also make pharmaceutical and agrochemical intermediates and other specialty chemicals (PASC), which also include glyme where we are the only commercial manufacturer in India. We believe that our extensive manufacturing capacities, consistent growth initiatives, experienced management, global footprint, and high quality products distinguished us as a trustworthy provider of niche products.

Now coming to our manufacturing facilities, our company operates through two manufacturing facilities situated at Ankleshwar and Dahej. The Ankleshwar manufacturing facility and Dahej facility, which were established in 1996 and 2017 respectively. In addition, we continuously strive to improve our processes and infrastructure to help reduce our impact on the environment. In this regard, we undertake various green chemistry processes, such as electrolysis. Also, our Ankleshwar facility has been converted to zero liquid discharge facility in 2020. Our green chemistry is based on the principals of clean chemistry, minimum requirement of auxiliary substances, minimum waste &by-products, and safe chemistry.

I would now like to talk briefly about our R&D facility:

We have a dedicated R&D facility that is recognized by the Department of Scientific and Industrial Research (DSIR), Government of India at Vadodara,Gujarat with a state-of-the-art research and development infrastructure. Our R&D efforts are mainly focused on development of new products, improvement of our existing production processes, adoption of advanced production technologies and improvement of quality of our existing products. We believe that these capabilities enable us to explore among others, green and continuous flow chemistry processes which may give us a competitive edge in the future. Of the products developed in the last 10 years, 85 products have been successfully commercialized so far.

We serve clients in India and also export to over 25 countries, including United States of America, China, Germany, Japan, South Africa, and United Kingdom. Additionally, we have two wholly owned subsidiaries in USA and Europe to facilitate our international operations. Our product portfolio's diverse applications have enabled us to develop a large client base across variety of industries.

Now, where do we go from here, I think we are well-positioned to exploit the widespread growth opportunities, especially in green chemistry. Some steps, we think are our top priorities in coming few years are:

- While we plan to continue strengthening our current product portfolio, we intent to diversify further into products with the potential for high growth and higher profitability.
- We plan to invest approximately INR 239 million into further expanding our R&D capability at Vadodara from the IPO proceeds. We are aiming to identify and implement cutting-edge technologies for process and product development where we are deploying electrolysis and continuous flow chemistry with the goal of increasing productivity, quality and cost efficiency, as well as adding newer products into portfolio with an aim to promote green and safe chemistry.
- We are a niche chemical supplier to a number of our clients and have developed a reputation as a preferred supplier over time. Our long-term goal is to leverage these partnerships by maximizing cross-selling opportunities presented by our diverse product range and a broad customer base.
- We have already kicked off capacity expansion plans at our Dahej facility on the existing available land. We intend to invest approximately INR 1,470 million from IPO proceeds for this purpose. We expect this new facility will be available by Q4 of FY 2023.

This concludes my planned remarks and now I would like to handover the call to Mr. Mahesh Tanna, our CFO, to take us through the financials before we open the floor for Q&A. Thank you all.

Mahesh Tanna: Thank you Mr. Shah. Good afternoon everyone. I would like to briefly touch upon the key performance highlights with the quarter ended June 2021 and then we will open the floor for the question and answers.

On the revenue side,

- Q1 FY2022 Total revenue at INR 1,098 million versus INR 517 million in Q1 FY2021, a growth of 112.38% on year-on-year basis and almost flat on quarter-on-quarter basis.

Looking at the EBITDA,

- Q1 FY2022 EBITDA (including other income) at INR 288.01 million versus INR 105.13 million in Q1 FY2021, growth of 173.96% on year-on-year basis and growth of 6.44% on quarter-on-quarter basis.
- Q1 FY2022 EBITDA margin at 26.23% versus 20.33% in Q1 FY2021 and 24.32% in Q4 FY2021.

Despite the challenging environment, we have delivered our performance, margin of the company have expanded by 590 basis points on year-on-year basis and 191 basis points on quarter-on-quarter basis.

Now coming to the profit after tax,

- Q1 FY2022 PAT at INR 231.46 million versus INR 67.10 million in Q1 FY2021, a growth of 244.95% on year-on-year basis and 9.60% on quarter-on-quarter basis.

This resulted in the earnings per share being at

- INR 11.52 during Q1 FY2022 versus INR 3.34 in Q1 FY2021, which is 244.91% increase year-on-year.

We have got listed on 29th July 2021 and subsequently we got IPO funds for our capex. We have already kicked off the excavation work at the project site and started issuing work orders, mobilizing resources and will accelerate work in coming days. As on date, we have not yet utilized funds from IPO process for capex.

That concludes the updates on financial and we will now open the discussion for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.

Nav Bhardwaj: Good evening gentleman. Congratulations on a great set of numbers. My key question would be in this troubling times where most of the companies are getting raw material pricing pressures, how have we managed in order to increase our margins and second would be that as we are majorly an export oriented company what is the situation in terms of packaging, shipping, and moving our product abroad in these troubled times where most of the companies are facing when it comes to shipping?

Chintan Shah: We are fortunate that most of the raw materials that we are using have remained more or less stable, also in the past we have instances when raw material prices had been fluctuating but by virtue of the products that we are into and based on our long relationships with the customers, we were fortunate enough to pass on certain price increases to the customers. Now coming to your point of logistics, yes that is definitely a big challenge in these days, so to manage this challenge we are maintaining quite a healthy pipeline of raw materials as well as certain stages of finished products as well so that we are able to meet the desired timelines given by the customer. Also as you know we have two overseas subsidiaries, so our key market areas US, Europe, we try to maintain an emergency inventory stock for the key customers so this typically helps in case of any kind of delay that we perceive, we are able to cater to those delays from our warehousing locations. In terms of managing the dispatch schedules because it is definitely a severe scarcity in terms of containers availability or shipping line schedules, we have defined dispatch schedule quite in advance, so basically we try to get our bookings at least three or four weeks in advance wherever it is possible so that we are not getting issues in terms of maintaining those dispatch schedule. So fortunately yes we have faced some issues but not in a big way.

Nav Bhardwaj: That's great to hear, so we had good quarter and this is extra things in a capacity expansion that we have done, is this assumption correct that our EBITDA, is this maintainable run rate?

Chintan Shah: Basically as you know we are into four different product categories and it is a broad portfolio of products within each individual category so defining individually product margins are definitely different among the products, so there may be certain variations at times when you have a different product mix that you sell quarter-on-quarter basis but more or less we are pretty much confident that we will be able to maintain a healthy EBITDA margins.

Nav Bhardwaj: Fair enough. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Pawan Kumar an investor. Please go ahead.

Pawan Kumar: I want to know regarding supercapacitor battery what is your future plan?

Chintan Shah: We are manufacturer of the electrolyte salts for supercapacitor batteries, so basically you can say that we are manufacturing the heart of those batteries. This is the most important part of the battery material, probably it seems you are pretty much aware that supercapacitor batteries have variety of applications that are coming up, currently you have successful applications into regular automotive cars for the start and stop function as well as you have already existing commercial applications into hybrid EV vehicles as well as a very strong upcoming demand in terms of applications into solar energy storage devices. So supercapacitors are nothing but high energy storage devices, so we foresee that this is a category which has a very good potential for future growth.

Pawan Kumar: But your revenue from that is only 1% or 2% right?

Chintan Shah: Yes, so this is basically a new category, the commercial applications are just beginning to be explored and deployed so this is kind of an initial phase of the technology adoption and going forward we may see some interesting times to come.

Pawan Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Saurabh from Asian Market Securities. Please go ahead.

Saurabh: Thank you for the opportunity. if you could give us the breakup in terms of revenue from SDA, PTC and other segments for Q1 FY2022 versus last year same quarter?

Mahesh Tanna: This quarter our SDA has contributed around 52% and that has actually also contributed around 41% in FY2021, PTC has contributed around 21.5% and for FY2021 PTC contribution was around 27.5%, electrolyte salts has 1% contribution during this quarter as against the 1% for FY2021, and PAC has 25% contribution during this quarter versus annually 31%.

Saurabh: Okay and just wanted to understand better in terms of this cycle is there any quarter where we see a better growth or better revenue on the quarterly basis?

Chintan Shah: Basically it all depends on how the customer schedule their production campaigns so based on that there is definitely possibilities of having variety or change in terms of product mix that we sell on quarter-on-quarter basis but there is no impact in terms of being seasonal or something like that, it is purely based on how customers plan their production campaigns and based on that we are able to sell particular products from particular product category.

Saurabh: If we look at the percentage growth in SDAs, it is definitely much better in this quarter so how should we look in terms of the full year and how is the order book position?

Chintan Shah: You are aware that the applications of SDAs are going into manufacturing of specific Zeolites and this application goes primarily into two categories, which we are catering to, one is into manufacturing of refining catalysts and another for emission control in to BS-VI emissions norms, so going forward we see it has a good future because the world over you see most of the governments are pressurizing on going towards better environmental control so this product typically you should see a good demand in coming years as well.

Saurabh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Jagvir Singh from Shade Capital. Please go ahead.

Jagvir Singh: Congratulations for the good set of numbers. Just want to understand where we see our company in the next three to five years and what is the impact of China plus One theory in our company?

Chintan Shah: In terms of seeing our company over the next three to five years, I would say we are positioning ourselves to be a superspecialty manufacturer, so if you see our product range in terms of SDAs, we are the sole manufacturer in India. In terms of electrolytes salts for supercapacitors, we are again the sole manufacturers in India, even the glyme, which is a specialty chemical having applications as solvent again we are the sole commercial manufacturer in India, so this is how we intent to position ourselves to be into chemistries which are sustainable, which are green chemistries, which are predominately R&D driven where you may find it difficult to see competition creeping in, so this is how we intent to position ourselves into niche chemistries as well as niche product areas and in terms of China Plus One policy question, our pharma and agro intermediate segment, the last category where we are into, this primarily has come into existence because of the China Plus One policy, so our existing customers you know the large pharma and agro customers predominately knowing our R&D capabilities had approached us in point in time and given us this opportunities, which we were able to successfully cater to. This whole category is basically thankful to the China Plus One policy, which is now typically contributing about 25% to 30% of our revenue and we see these kind of opportunities coming our way much frequently than we would have anticipated in earlier years.

Jagvir Singh: In terms of numbers, any target, internal target for the next three years?

Chintan Shah: See basically the product portfolio is good, the areas where we are into is also very niche and quite fast growing, so I would not be able to put up exact numbers but we see a good growth over the next three years.

Jagvir Singh: We had a super growth in the last three years, so I just want to understand can we continue with this trend?

Mahesh Tanna: if you look at our expansion plan, we are seeing some opportunities in our current product portfolio, hence we are expanding our capacities so that we can meet the future demand, obviously there is a growth and we are actually targeting to achieve the potential growth available to us, and hence we are going for capex.

Jagvir Singh: Thank you very much. That's it from my side.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Good evening. Thanks for the opportunity. if I refer to your opening remarks, you did mention capex for existing products as well as a newer one, just trying to understand the newer opportunity better, how much time does it typically take for us to get a product approval for the newer ones and accordingly commercialize and sale appropriation there?

Chintan Shah: So Ankur by virtue of the products that we are into these are the high purity substances, very special applications, the end markets are super sensitive so because of that the entry barriers are very strong, so anything that we develop today typically takes about anywhere between two to six years or probably sometimes even seven years to go into full scale commercialization, so this may happen in steps right from sampling to pilot scaling to production campaign and then to a final commercial production campaign, which may end up anywhere between two to six years of a timeframe. So of course the product entry barrier is very strong so anything that comes in to acceptance levels is also taking a lot of time, but I think this is simultaneously also a benefit for us because the same issues would be faced by any upcoming competition if any would have to undergo similar process, so nothing can come into competition overnight.

Ankur Periwal: sure and will it be fair to assume that there will already be a work in progress products on which we would have done our R&D historically and probably those approvals are expected over the next coming year?

Chintan Shah: Yes it is an ongoing process, basically if you see our R&D has three verticals where we work through, one is a normal organic synthesis which is a typical organic synthesis lab, where we do a lot of phase transfer catalyst and pharma and agro intermediates applications, then we have another lab where we do electrodialysis where we typically end up doing lot of structure directing agents and possible new organic molecules, which we can convert from conventional chemistries to electrolytic chemistry, which is of course a green chemistry and the third and the most recent vertical that we have since about last one-and-a-half two years is vertical where we are focusing on developing continuous flow chemistry processes, so we do have products in pipeline in all the three verticals. There are certain products which have already been supplied in terms of samples, certain products have been on pilot scale, certain products are into advanced stage of production trial, so yes we are in queue with lot of opportunities going forward.

Ankur Periwal: Sure, next question on our contracts with the customer. You did mention that raw materials are pretty stable for us in the last quarter and there was no significant impact on the margin, how are the contracts termed, is it the proportion of long-term, short-term and the pass through of raw material inflation if any?

Chintan Shah: So basically the way the major customers that we are working with is functioning, not on actual contract basis but most of this major part of our business works in terms of annual forecast system. So typically a customer indicates this is the potential volume that they would buy for this year and probably the next year as well, so typically a one or two year forecast is being given and this is basically being given to ensure because the products where we are into there are very few global manufacturers as well so this kind of forecasting system has been designed so that we can keep ourselves updated in terms of our production capabilities or wherever we may foresee a short fall, we can take adequate actions well in advance. So we do not have any such long term contracts or stuff like that but it is based on forecast systems that we clearly understand what potential demands would be in this year and probably the next year as well. Again to answer the later part of your question, we had instances last year because of COVID times when the COVID pandemic happened, there were lot of products which vanished because of supply issues and there were drastic impacts on raw material pricing as well, availabilities were an issue so we were fortunate enough by way of our relationships with customers or probably the way we have shown transparency to the customers when we were in a benefit mode, we have passed on those benefits to customers in the past and similarly when we were in a trouble time, customers also equally supported us by absorbing those kind of raw material cost increase so that is the reason probably why we could even have a good last year when everyone practically was struggling in terms of margins.

Ankur Periwal: Sure. That's helpful and just one followup to the earlier one for the newer products that we are doing and for the existing portfolio that we have, how much is more cross-selling, which is basically existing customers we are selling more products or the newer products are being made for those clients and how much of it will be largely for the newer set of clients and customers for whom we would have gone for a product approval, etc.

Chintan Shah: I would say 75% of the new product development campaign that is being carried out day in and day out is probably for the existing set of customers, so it does not mean that let us say for example a customer of SDA uses an x product and in future they intent probably to use a y product, so those kind of R&D opportunities come to us, the developmental part of futuristic products also come to us so I would say 75% for the existing customers and probably 25% to tap the unknown territories or the unknown customers.

Ankur Periwal: Sure. That's very helpful. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Archit Joshi from Dolat Capital. Please go ahead.

Archit Joshi: Thanks for the opportunity. my question is largely on the SDA side of the business, we do appreciate the fact that we have decent bit of R&D muscle and we are trying to introduce new products and the growth in SDA would largely be more than the other segments that we have, I was just trying to understand on a very qualitative basis as to on SDA side how are we planning to grow higher than the industry since you have mentioned in the DHRP also that is a largely concentrated market, so what kind of marketing strength, business development strength would be required and how are you seeing this business grow maybe on a three year or five year basis?

Chintan Shah: So if you see these kind of technologies where the SDA deployment happens, basically global companies where most of this new developmental work happens is typically in the geographies of US and Europe, so these are the defining geographies from where this technologies are arising, so basically to have an advantage or let us say not to have disadvantage in those geographies, we have established our wholly owned subsidiaries in US as well as in Europe and in both these locations we have very well experienced people taking care of our marketing and presenting Tatva Chintan in front of the customers, so probably this has shown extremely good results you can see the growth in terms of SDA that has happened in the last three to three-and-a-half years of timeframe and beauty of this whole part is it took us two, two-and-a-half years to establish confidence with the customer because since we were new supplier at that time, the confidence had to be built, which eventually we could build up a good level of confidence with his customers in terms of supply ability, in terms of consistent quality, packaging and logistics and maintaining stocks at various locations and meeting the delivery schedules. Because of this consistent delivery of excellent services and quality of the products and also meeting with their pricing part also, so you need to be competitive at the end of the day, because of all these virtues the beauty is that now we have started getting invitations to participate in the development products for the future demands, the next future SDAs, what would be it like the customers are doing a lot of R&D work in terms of applications into automotives or into catalyst applications or refining catalyst applications or chemical catalyst applications so these kind of newer molecules are coming by our way where we are able to deploy our R&D capabilities and start to offer our services and once you have this opportunity, the most important benefit that you derive is they have done a development using your product so the first opportunity when it comes in terms of commercialization would definitely come our way, so this is something very important development that has happened over the last one, one-and-a-half years' timeframe.

Archit Joshi: You mentioned earlier in one of your comments that FY2021 probably could have been better year because some of the products could have been going into key applications like autos, they must have seen a higher volume growth so let us consider that your volumes in those brackets would probably come back to normal but what about the new products, how is the acceptance that you would be going ahead maybe three years, five years down the line, how much time do they take to accept your new product and try and apply it in different other segments or in auto product matters, so how can we see growth happening on the new products?

Chintan Shah: This is an ongoing continuous process, this process got little bit delayed or got derailed during the COVID times where even the R&D teams of our customers had to work from home, so most of this approval process has almost come to a standstill but I believe since November of last year, things have been back on track, of course some of the approvals which we were expecting to happen in this year probably are delayed by almost six month timeframe, but in terms of existing demand of the product it has been back on track since November of last year and this approval process is an ongoing process and as I explained in one of the earlier questions this is a strong entry barrier area where typically it is a two year to six year timeframe where you get approvals and you see commercialization happening.

Archit Joshi: Right, okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Thanks for this opportunity. just one question from my side, what type of order book are we carrying in hand as on date?

Chintan Shah: As I told you we typically have a good order book for the next six months' time, so up to December we have a visibility because that is the way the system works so you get those kind of orders probably three or four months in advance where you are able to execute them on time because most of these SDAs are kind of the products where we are predominately into export so the lead time to the customer is also quite high, whereas this whole system typically works in terms of forecast system so in terms of order books, I would say we have good decent order book up to December that is the visibility.

Nikhil Rungta: Okay. On the margin side, you have mentioned that you have decent visibility on the margin though some variations might be there but it should be a good number, just wanted to check from the current level of the margins of the current quarter do you see our margin expansions from these levels as well or on a sustainable basis, I mean the current quarter's margin would be sustainable.

Chintan Shah: Earlier also in one of the questions I told that we are into variety of product categories and number of products in each individual category, with each of them have a different variety of margins, so it is usually very difficult to gauge as in terms of quarter-on-quarter basis because the product mix keeps on changing, this you can even observe from our past one year or two years records you may see there is a different product mix that keeps on happening so based on what product mix we are able to sell, the margins may vary plus or minus but I think we are more or less in the range where we expect that these are sustainable margins.

Nikhil Rungta: Actually what I wanted to check that if I look from next few years timeframe say two to three years' timeframe so currently we are at 24% margin level, do you see the sustainable margin to be at 24% or say 26, 27 odd percent type of things?

Chintan Shah: I would rather prefer to choose a range rather than picking up a specific number, I would say plus or minus 2% range let us say from 23% to 27% or 28% margin is what I would like to choose, again this going forward when you are asking in terms of 3 to 5 years of range, I would say the things that we are doing in R&D if things click up well and we are into a better categories or better efficient products or very niche categories, then this can expand so it all depends on how successful we are in terms of developing the products, though we are very hopeful that we are doing a very good job when we are talking of developing new products or developing newer technologies but probably I do not have a very clear and very precise answer to this, but I would say margin range of EBITDA of 23% to 27%is what I would presume is pretty much sustainable.

Nikhil Rungta: That's quite helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Dhruv from HDFC Asset Management. Please go ahead.

Dhruv: Thank you. Relatively a smaller thing but the interest cost seems significantly increased on q-o-q basis and even on a y-o-y basis is it some abnormal there?

Chintan Shah: No basically we were into this IPO mode, so lot of our surplus funds got drawn into meeting with those ongoing expenditures. also if you see our numbers in the last five or six months or so right from January quarter onwards so January to March and then again this quarter, there is a very significant sudden growth in terms of sales so that is also caused us to expand our inventories, also our debtors collection has shot up because of very high increased sales so this has caused us to use larger amount of our working capital cycle, now once we have sold the products started selling higher volumes from January onwards and the realization have started to kick in, this has probably a temporary phenomenon where two factors coincided, one is the IPO expenses for which our surplus cash got drawn into and secondly significant increased revenues you see so because of that our working capital requirement shoot up drastically. this is probably the reason why you are saying an increased outflow in terms of interest.

Dhruv: Got it. and similarly there is an increase in the other income also again it seems one off but if you can help us here?

Chintan Shah: This is basically coming from the export benefits you know you have those duty drawbacks and stuff like that but I think precisely this answer can be given by Mahesh bhai.

Mahesh Tanna: This is predominantly coming from foreign currency fluctuations.,

Dhruv: This can probably continue on high level, so this one thing from your previous answer is there a significant difference in terms of the working capital cycle, when I say working capital cycle including the inventory, the purchases you make and the suppliers that you pay between our SDA business and non-SDA business part of which is of course forward integrated, so I am not sure how we can mix it?

Chintan Shah: I would say this is a very good question because what happens in SDA particularly, SDAs and electrolyte salts are particularly two categories where customers also produces on kind of campaign basis, so they have multiple suppliers for the same products so when they are running the product using our raw material, our demands may shoot up and then again come down to a little lower levels when they start using the competitor's product, so because of this what happens is that there may be a lean phase but we continue to produce so that when the uptake comes we are able to meet the delivery demands because the large quantum is ordered at a very short span of time, so this is virtually impossible to meet from a zero inventory level so to cater to this kind of typical business nature, at times you may see a larger inventories because we are continuously producing but not selling for a few weeks and then suddenly the demand sets in and then we are able to meet those short lead time demands the comes up, so this is the typical nature of the business and with increased forecast that we had so that was bound to happen that our inventories were going to be piled up otherwise we would never be able to meet with the delivery schedules of the customers.

Dhruv: You mentioned that you typically get a relatively an annual focus on your customers that approximately this is the volume that I would be demanding and is it fair to understand this is the annual broad number and on a moving basis we keep giving you say a three-month target or say two-month number that this is the actual quantity that I want is that how it functions?

Chintan Shah: Right absolutely basically our quarter in advance is what it works because typically it takes about four to five weeks as a lead time from shipment from our factory to customer's factory 5 or 6 weeks, so typically it is a quarter advance intimations that we get about the potential demands and they start placing orders accordingly.

Dhruv: So annual number to plan yourself better and then quarterly focus for delivery schedules.

Chintan Shah: Precisely.

Dhruv: Got it. That's very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Neeraj Runthla from Mega Profits Consulting. Please go ahead.

Neeraj Runthla: Congratulations on the good set of numbers. So in the news we have heard something about supercapacitor batteries being manufactured in India maybe in next five years by Reliance in joint venture with Ambree. Does the product which you manufacture going to these or it is not?

Chintan Shah: When you talk of supercapacitors, so each supercapacitor would require an electrolyte solution to feed into that so this is where we are in to, this is exactly the chemistries and electrolyte salts what we produce are going into application of supercapacitor batteries, yes we are in to those similar kind of product ranges.

Neeraj Runthla: So may I ask you then currently for electrolyte salts you do not have any customers in India as of now?

Chintan Shah: That's true.

Neeraj Runthla: So going forward in India let us say Mr. Modi highlighted yesterday regarding the clean mission, which he has so we would have ample of number of opportunities for the chemicals, which you manufacture to be used in India to be supplied maybe in collaboration to let us say companies in Europe or let us say to produce hydrogen, so would that be a fair assumption?

Chintan Shah: I think that's an assumption but I am also equally optimistic as you sound today so this is what we also expect to happen and I hope it happens sooner than later.

Neeraj Runthla: So that's about what I wanted to ask.

Chintan Shah: And that's why you know see particularly despite of electrolytes salts just having about 1 or 2% of our overall revenues, we still continue to show it as a separate category and not merge it into specialty chemical category this precisely the reason where we feel this is kind of a destructive technology that is coming up in terms of energy storage devices and we are also equally optimistic as you sound and we hope for the best to come in the near future.

Neeraj Runthla: May I ask you maybe in your presumption how much is the horizon should we look at for better understanding of let us say your complete utilization of electrolyte salts, which you will be manufacturing maybe three years, four years, five years down the line.

Chintan Shah: I would say four to five years would be a fair assumption though most of these categories, I mean supercapacitors, already China is growing very rapidly and our products are very well accepted into this market also probably supercapacitor end use may not be in China it may be elsewhere in the world but most of the supercapacitor production as of today is coming out from China and Korea, those are the tough markets to crack or to be into but we are pretty much successful in pushing our electrolyte salts and gaining popularity in terms of acceptance, in terms of good quality but I am not very sure probably whether one or two years down the line you may see a large scale supercapacitor manufacturer in India but yes four to five years' timeframe for the Indian market is a fair estimate.

Neeraj Runthla: I just have one last question so let us suppose if the electrolyte salts is put into the battery for consumption so what may be the life of the battery, which would be it will be lasting for, is it continuous process or is it requires to be replaced?

Chintan Shah: Basically when you talk of conventional batteries, you are talking of charging discharging cycle running into 1000s of times, probably 10 to 15000 times of charging discharging cycle so these batteries typically last you for 2.5, 3, 3.5 years so every 3, 3.5 years we end up changing the batteries in our automotives. Now when you talk of this kind of supercapacitor batteries, the beauty of these batteries is where you have this kind of batteries which run for a charging discharging cycles running into 100000 times and even larger so typically about 25 to 30,000 times of charging discharging cycles and running into few 100000 times so theoretically and this is where you know good quality of electrolyte comes into picture, so let us assume that your electrolyte has certain inherent impurities then this will tend to kill the battery sooner so this is the reason why it is such a super strong entry barrier area where the quality of the electrolyte will eventually define the life of the battery, so this is where we are coming into picture into the super pure grade of electrolyte salts without which you will not have a long life of the battery. So your certain level of impurities can even end up into explosions of the batteries, which you typically sometimes hear in the news that this battery exploded so this is one of the prime reason where the electrolytes solution is not up to the mark or of the desired quality or having certain impurities typically moisture, which leads to generation of hydrogen or oxygen gases and then it ends up into an explosion.

Neeraj Runthla: Okay, fine that answers my question. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Chintan Shah: This is Chintan Shah, Managing Director for Tatva Chintan, I thank you everyone for your questions and we hope we have been able to answer most of your queries, I would also like to thank all our stakeholders for their continued support and for participation in our first conference call. If we have missed out on any of your questions, kindly reach out to our IR Advisor-Christensen and we will get back to you offline. Thank you once again and we can now close the call.

Moderator: Thank you very much. Ladies and gentleman, on behalf of ICICI Securities that concludes this conference. We thank you all for joining us and you may now disconnect your lines.