

## SKP BRIL Q4FY23 Result Webinar

- **Mr. Navin Agarwal –SKP Securities Limited:**
- Good morning ladies and gentlemen, and thank you for attending this virtual meeting. It's my pleasure to welcome you on behalf of Black Rose Industries Limited and SKP Securities to this Q4 FY23 and FY23 financial results webinar. We have with us Mr. Anup Jatia, Executive Director along with Mr. Ambarish Daga, Joint CFO and Investor Relations Officer. This webinar is being recorded for compliance reasons and during the discussion there may be certain forward-looking statements, which must be viewed in conjunction with the risk that the company faces. We will have the opening remarks from Mr. Jatia followed by a presentation. We then open the floor for our Q&A session. Thank you and over to you Anupji.
- **Mr. Anup Jatia – Executive Director, Black Rose Industries Limited:**
- Thank you, Navinji. Thank you everybody for joining today our webinar to review the annual performance of the company. I hope everybody is doing well and staying in good health. Of course, the weather has been very hot recently, but please stay safe and take care of yourselves. I'd like to now start with the presentation and I'll hand over to Ambarish.
- **Mr. Ambarish Daga – Joint CFO & Investor Relations Officer, Black Rose Industries Limited:**
- Thank you, Anupji. While the presentation works let me just share a note of caution that this presentation might contain some forward-looking statements, which carry their risk. Yeah, I hope everyone can see the screen?
- **Mr. Navin Agarwal –SKP Securities Limited:**
- Yes, Ambarish.
- **Mr. Ambarish Daga – Joint CFO & Investor Relations Officer, Black Rose Industries Ltd:**
- Yeah, just a second.
- **Mr. Navin Agarwal –SKP Securities Limited:**
- Sure.
- **Mr. Ambarish Daga – Joint CFO & Investor Relations Officer, Black Rose Industries Ltd:**
- Just give me a moment while the video – yeah, so talking about the presence of Black Rose, Black Rose started as a chemical distribution company and we have very

strong relationships with the leading chemical manufacturing companies who are our principals based out of Japan, Germany, and Thailand. The distribution business caters to end user customers spread throughout India and also worldwide. From distribution in 2013, we moved to the chemical manufacturing when we set up South Asia's first acrylamide liquid plant with an initial capacity of 10,000 metric tons. Currently, the capacity for acrylamide liquids at our plant in Jhagadia is 32,000 metric tons per annum out of which 20,000 is for merchant sales and the balance 12,000 for our captive requirement.

- Next in the same chemistry, we started off with the polyacrylamide liquids which has an installed capacity of 40,000 metric tons per annum and it caters mainly to the ceramic tile industry based in Morbi. The company also started manufacturing N-methylol acrylamide with a capacity of 2000 metric ton towards the end of the last financial year. Then, we set up the acrylamide solid plant with a capacity of 3600 metric tons in May 2022 and that is helping us to boost our sales both domestically as well as internationally. The polyacrylamide solid is a project that our R&D team is currently focused on and we plan to set up a plant of 10,000 metric tons per annum once the R&D is completed. BR chemicals company is the 100% subsidiary based in Japan and is engaged in the local distribution and export of chemicals. The other legacy businesses of the company contribute to less than 1% of the total turnover.
- Moving on to the snapshot of the financials for the financial year 22-23, we see that due to the global headwinds there was a dip in the revenue as the year gone by saw steep fall in the chemical prices and at the same time lower demand, which resulted in a dip in the total revenue from operations by 18% on standalone basis. This was, however, supported with a stronger performance in the second-half of the year. As a result of the falling prices and the high cost inventory at the beginning of the year, the overall EBITDA also dipped to about 139 million for the year ended resulting in a lower PAT and lower margins. The overall EPS for the year stood at 1.29 per share.
- A snapshot of the balance sheet at the end of the year shows us that the company is in a very strong financial position with zero long-term debts and having the good cash flow. Cash flow from operations during the year stood at 225 million, which also resulted in the company being geared up to cater to the customer base during the course of the coming years. The inventories which were quite high at the beginning of the year have dropped substantially as the company has been able to liquidate the high cost inventory at the same time the debtor's turnover has also gone up significantly. The company's total debt equity ratio stood at 0.02, which shows the strong position that the company is in.
- Moving on to the financials on standalone basis. The total revenue saw a decline from the previous year as did the EBITDA due to the global headwinds. The expected turnaround of China after the COVID induced lockdowns did not materialize during the course of the year, which put additional pressure and created an oversupply position in the global chemical market. This impacted our revenue and EBITDA as well, however, new product addition to cater to the US oil and gas

industry during the year helped in bringing in additional revenue and profits to our distribution portfolio and provided impetus to our revenue as well as profits.

- At the same time, towards the second-half of the year the international shipping and freight costs reduced significantly, which lends support to our export so much so that in the previous quarter our exports actually outstripped our domestic sales. The latter part of the year saw improved revenues as well as improved profit as the high cost inventories were consumed in the previous quarters. Overall, we see the chemical distribution turnovers stood at 196 million for the year compared to the manufacturing, which clocked in at 81 million.
- Moving on to the revenue and geographical mix. We see that there is no significant change in the distribution between manufacturing and distribution. The previous year saw 68% share of the distribution business while the current year ended at 70%. As we move forward in the coming quarters, we anticipate the manufacturing revenue to pick up and this balance being turning more towards the being equal. On the geographical distribution, we see that the exports have become 30% of the total revenue for the current year, which is a threefold increase in the percentage. This has been brought about by good demand in both the distribution as well as manufacturing divisions and new product additions at the same time due to reduced freight costs.
- Moving on to the financials related to the distribution segment. We see the overall revenue in the distribution segment was down by 16% from the previous year. This was mainly due to the falling prices of chemicals which led to lower realization as well as subdued demand in the domestic markets. This was somewhat made-up by the good demand we received from the US oil and gas sector, which helped us in increasing our overall revenue. The limited availability of certain key products also impacted our sales in products such as ethanalamine and meta cresol. Overall, we see that the top five products catered to about 79% of the revenue and about 4/5 of the total profit for the year.
- Moving on to the manufacturing division. Overall, the revenue in the manufacturing division reduced by about 24%. This was mainly due to the price realization being lower as we saw the key raw material prices fall by about a similar percentage during the year, the same will be highlighted in the upcoming slide. The company obtained the EU Reach registration, which has opened up the market for exports especially in Europe and we saw significant volumes in the latter half of the year in terms of export. The dumping by the Chinese suppliers continued unabated as there was an oversupply situation in China, which resulted in a negative impact on the acrylamide powder sales in the domestic market during the course of this year. The higher cost raw material which the company carried during the first three quarters of the year lead to reduce margins.
- However, the margins doubled during the final quarter of the year as the company was able to dispense the high cost inventory in the previous quarters. The overall slowdown in the Morbi tile market due to the high gas prices as an impact of the war

in Europe as well as the high raw material cost in the earlier part of the year, so the sales value of polyacrylamide liquids being impacted during the course of the year.

- Next, we come to the correlation between the key raw material acryl nitrile and the acrylamide prices during the course of this year where the acrylonitrile started at around \$1900 per metric ton during April. It ended the year at about 25% lower at \$1400 per metric ton and there was a significant drop in prices, which also led to lower realization for our finished product as is visible in the figures.
- Now, we move on to the outlook for the current quarter and I will request Anupji to take it forward from here.
- **Mr. Anup Jatia – Executive Director, Black Rose Industries Ltd:**
- Thank you, Ambarish. The chemical distribution business is well positioned to go during this quarter and well during this year based on the good support that we're getting from the suppliers. Suppliers are also expecting us to have higher optics which we are supporting them with and with these support from these suppliers, we're also able to provide the necessary competitive pricing to our customers over here. As Ambarish mentioned also meta cresol and ethanolamine, which were basically in reduced supply during the last year. We find this year that these supplies are going to be coming back. Meta cresol supplies have already started coming back. Ethanolamine also is expected to come back probably in Q2, so this will again add to our revenues as well as our profits. On the negative side, we feel that the US oil and gas industry where a lot of our exports are going from our distribution business may slow down in the coming months due to the recessionary sentiment, which is going around and because of the dip in the oil prices. This is one of the areas where we feel there may be some slowdown now in the US.
- In terms of the acrylamide liquid and solid business, the prices of acrylamide liquid fell again during Q1 FY24, this is largely due to the reducing raw material prices, but the prices of the product may stabilize in the coming months and maybe eventually start to go up maybe in the latter half of the year depending on how acrylonitrile which is raw material acrylonitrile demand changes in the coming months. The prices in the export market are actually currently more remunerative than the domestic market and due to this we have been exporting more volumes. Well, in the last month I would say our exports were larger than the domestic sales in fact also in the - I'm not sure if it was the case in the last quarter, but yes it has been in the last month for sure and the Chinese dumping of acrylamide powder continues, which does affect the sales of acrylamide powder for us in the domestic market. The one of the things where we're seeing a lot of changes is the EU Reach registration which we took and thanks to this investment we made last year, we are seeing a lot of new business opportunities coming out of Europe. Europe has been now looking at a Europe plus one policy, which means customers who are dependent solely on European supplies for their raw materials are looking for non-European sources for the same raw materials and this is where we are getting additional volumes coming in right now from Europe. We, also plan to improve our productivities in the quarter - next quarter with some new machinery and some equipment which is being

installed. This would actually help us reduce costs as well, so we feel that in Q2 we can see a lot of changes happening in terms of the profitability as well as the sales.

- On the PAM liquid side, the sales of PAM liquid especially the basically the ceramic binder that we said in Morbi has been quite stable even during Q1 and we have chosen to basically prioritize on our quality and our service rather than chasing after the falling prices in the market and we intend to maintain our market share and gradually increase the market share with improved product. On the NMA side, the N-methylol acrylamide, we have been receiving repeat orders from our regular customers, some of these are multinationals, and now our product is undergoing still further approvals at domestic end users as well as overseas end users. So, we're expecting in the next quarter, we should see a fourfold increase in the sales of this product.
- The ongoing and upcoming projects; so currently as we all know, we have been working on the research and development work on ceramic binders as well as the acrylic dispersants, which is the polycarboxylates and polyacrylamide solids. We are also conducting currently a feasibility study for a specialty chemical project in collaboration with a Japanese company. This was discussed also in our last webinar briefly and we are currently also now discussing two potential tool manufacturing projects with US and European companies. This will again further add to our revenues and to our manufacturing growth.
- The next slide, the manufacturing business CapEx slide. This is pretty much the same slide we've been sharing in the past quarters. This basically tells you the availability of further expansion in each of these products, so when you see acrylamide liquid current capacity is  $20 + 12 = 32,000$  tons. We have further space available to expand to another 60,000 tons. This is what basically this means. So, this chart is telling you and it also tells you how much of CapEx has already been incurred overall at the plant, which is 58 crores, which is more or less unchanged I believe from the last quarter's results numbers.
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Thank you very much. Over to you, Navinji.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- Thank you, Anupji. Thanks for that comprehensive presentation. Friends, we now open the floor for Q&A. Anyone wishing to ask a question, request you to please raise your hand. We'll unmute you and take your question. Let's wait for a couple of minutes as the questions line up.
- Friends, anyone with a question request you to please raise your hand.
- Guess, the presentation has been quite comprehensive enough.
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**

- Yeah. That's what I was just going to say, that I think our presentation has been quite comprehensive. We've been learning from every webinar we do, we try to incorporate the questions which we normally get.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- Yeah, there's a big difference between what it was when we started ten quarters back.
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Yes.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- Okay, we have a question from Vineet Agrawal. Vineet, please unmute yourself and go ahead.
- **Mr. Vineet Agarwal – Participant:**
- Good morning, sir, and thank you for the opportunity. Sir, I have a few questions. I know you don't provide the volume numbers. Can you please discuss qualitatively whether our FY23 volumes were higher or lower than FY22 comparatively? And also, Quarter 4 of corresponding years?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- You are talking about acrylamide?
- **Mr. Vineet Agarwal – Participant:**
- Yes sir, acrylamide and PAM, both.
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Okay. I don't have the numbers in front of me. But I believe quantitatively, the volume in 2023, FY2023 were slightly lower than what we had in FY22 on the acrylamide side. However in Q4, the volume was greater than all the other quarters. So we saw an increase in Q4, whereas we saw dips in Q1, 2 and 3. But especially in Q2 two is when we saw the major dip in volumes, if I'm not mistaken. But in Q4, we saw an increase. And on the PAM liquid, due to the slowdown in the Morbi market and the shutdowns which happened during FY23, the volumes of FY22 were lower, I believe, than FY22. However, our profitability has actually increased even despite the lower volumes due to the lower raw material costs that we had during FY23 compared to FY22. So, in terms of margin, we have an improvement. In terms of volumes, we have a reduction.
- **Mr. Vineet Agarwal – Participant:**

- And this is for the full year?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Yes.
- **Mr. Vineet Agarwal – Participant:**
- And sir, can you also provide a possible average realization for Q4 as well as for a full year FY23 for acrylamide and PAM liquid?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- We've already shared the chart with the realizations showing on the same for acrylamide. And for PAM liquids, like I mentioned in the last webinar, we had reduced the prices by Rs. 2 per kilo during the last quarter.
- **Mr. Vineet Agarwal – Participant:**
- So any further correction expected in FY24?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Yeah, these prices will keep changing based on the raw materials. So prices will constantly change depending on how the raw material prices move. That's what the chart is trying to show that with the changes in raw material, how the realizations have changed. But what we are doing, as I said, is we are focusing more and more on export volumes where the realizations are higher. So you may see realizations in the domestic market coming down, but getting balanced out by the higher realizations which you get in the export market. In either case, the realizations are still profitable and there are no issues with...even if the prices fall, we are well profitable of those businesses.
- **Mr. Vineet Agarwal – Participant:**
- Sir, coming to Acrylonitrile, it was mentioned that in April 2022 it was 1900, which has fallen to 1400 March 23. So can you provide the average price for full year?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- What do you mean by average price? You mean our average buying price?
- **Mr. Vineet Agarwal – Participant:**
- Yes, sir.
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- We do not share that information.

- **Mr. Vineet Agarwal – Participant:**
- Okay. And sir, in March it has gone down to 1400. Any market indications? How do you see going forward?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Yeah, going forward, acrylonitrile is still reducing. It is currently at around \$1200 levels. So prices have continued to fall. But fortunately now we do not carry high stocks of raw material. So since we are now working on a very lean stock position, we are able to take advantage of the falling prices immediately. This will help improve our margins in the coming quarters and in this quarter.
- **Mr. Vineet Agarwal – Participant:**
- And the margin improvement will be gradual, am I correct?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- No, margin improvements have already taken place. Like Ambarish mentioned, we have doubled our margin on acrylamide in the last quarter, and we will continue to have...
- **Mr. Vineet Agarwal – Participant:**
- Sir, I was talking about our peak margins, which were around 11-12%. That will come gradually or you expect it in FY24 itself?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- I'm sorry, are you talking about Acrylamide or are you talking about the whole company?
- **Mr. Vineet Agarwal – Participant:**
- Overall.
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Overall margins on distribution also, the margins have improved now. If you see, our Q4 margins have improved over Q3. So this margin improvement is gradually taking place as the prices start to stabilize, as our stocks start to become better managed in terms of not having too much stocks at high inventory costs. So as those stocks will reduce and as we are able to run more on a Just-in-Time basis, we're able to take advantage of the lower raw material costs coming in.
- **Mr. Vineet Agarwal – Participant:**
- Thank you, sir.



- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- The margins are expected to improve, yes.
- **Mr. Vineet Agarwal – Participant:**
- That's all from my side.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- Thank you Vineet. Friends, anyone with a question, please raise your hands and we'll take it up. Anupji, we have a couple of questions on the Q&A board. May I take them?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Yes, please do.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- This question is from Amit Bhagadia. Can you share details about the toll manufacturing plants, size and CapEx and by when?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- No, currently we cannot share any of those information. It is all under secrecy agreements.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- Thank you for that. There's a participant who calls himself or herself 'Anonymous Attendee'. Can you quantify the possible revenue growth for FY24?
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- I'm not sure if I would be answering questions from anonymous attendees. I think they should be ready to disclose their name when they're asking the question.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- I completely agree with that. Friend, if you can please change your screen name or login name, maybe it'll be easier for us to take the question to the management.
- We have a question from Ankit Babel. Ankit, please go ahead.
- **Mr. Ankit Babel – Participant:**
- Yeah, so I'll ask the same question. So sir, the point was that in FY22 your revenue was around 343 with an EBITDA of around 13%. Now the expectations were very high from FY23 numbers, like a 15-20% growth and 15% margins. But I understand

there were a lot of macro headwinds and the results were not to that extent. So now, considering the fact that most of the things have normalized now, either the freight rates or the raw material prices have stabilized, even the macro environment is stable, demand is coming back. So what is your outlook in terms of numbers for FY24 at the standalone level, in terms of your revenue and EBITDA margins, including both distribution and manufacturing, taking together?

- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**

- Okay. So yes, you're right that a lot of things have started to stabilize. But one of the things that we've learned from the previous quarters and the previous year especially, is that uncertainty is still always very high. Things can change very rapidly and that's what we saw last year. Between FY22 and FY23, things very rapidly changed. So I would not like to give numbers to tell you something which we expect for the entire FY24. I prefer to speak more on a quarter-to-quarter basis, which is when I have some....where I still have the necessary visibility to some extent. So I do understand your question, but just in order to avoid having misleading information, I would like to stick to giving my outlooks, which I have done today also mainly on Q1 and Q2. So coming to that range of time, what I can see is that we do see that there is some level of stabilization in the market. But that said, prices are still falling. Whether they are the distribution products or whether they are the acrylamide raw materials, prices have not stopped falling, they are still falling.
- The difference that has happened is, especially in our case, is that earlier we carried heavy inventories of raw materials as well as with expectation of increase in demand, which didn't happen during FY23 and that took us a few quarters to basically get out of. And that's why you see a lot of the numbers of FY23 as you do. If at that time we did not carry those levels of stocks, those levels of inventories in anticipation of the increasing demand, our profitability and margins would not have been hit the way they were hit. So what we have done, we are playing cautious. Our focus is now on maintaining inventories at reasonable levels, but closer to minimum levels. Not minimum, but closer to minimum levels so that we are able to follow our sales along with the raw material price falls, because customers expect prices to be corrected the moment they know raw materials have come down and this is what we have to plan our procurement on. So a lot of the margin improvement that you will see in these coming quarters is going to be from better procurement planning. The demand still locally is not as strong as it used to be back in FY22. Demand, of course, it depends on the product and depends on the area. But for example, in the Morbi, the PAM liquid side, for example, the demand is not back to what it was in FY22 still on acrylamide as well. A lot of acrylamide actually goes into that same market. So again, the demand in that sector is not as strong as it used to be.
- On exports. Demand on the export side from Europe, if you see the overall demand of the region, it is not increasing. But our demand or our sales into those regions is increasing because customers are now having the necessity or the need or the desire to spread out their raw material sources. So this is where we are seeing our advantages and this is where we are seeing openings for our company. And that is

why our exports are increasing more and more right now. So this is really the direction that the company is taking. I would like to say that we should be able to grow our revenues by 10-20-30% in this year. But again, these are statements which we will have to gradually make. I cannot tell you that today. We will discuss this quarter-to-quarter on these webinars and then we'll be able to update you with better information.

- **Mr. Ankit Babel – Participant:**

- But sir, is it fair to assume that in the first half, that's a near term outlook, you can do at least a double digit kind of margins? Because as you said that our inventory levels are low, we are cognizant of this fact that we are keeping inventories low. So in the near term, can the margins be double digit?

- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**

- Our gross margins even today are double digit on most of the products that we sell.

- **Mr. Ankit Babel – Participant:**

- No, I'm talking about the EBITDA margins.

- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**

- Even the EBITDA margins, for example, on our manufacturing side, they are in double digits even today.

- **Mr. Ankit Babel – Participant:**

- Okay. Sir my second question is on your PAM Solid project. I mean, it's in that R&D phase since last one year now. So when do you expect the construction to start and why it's taking so long time?

- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**

- So, like I said last time, the project requires a lot of very detailed research. India does not have this technology available. It's not like I can hire somebody who knows this research in and out. And we just simply start applying. These technologies require time to be developed, and we want to basically develop this technology in-house so that we are able to have freedom in sales of our product. That being said, there is a lot of work happening right now over there, and I can't disclose too much right now. But whenever there are changes which need disclosure, we will come to you. But there are some developments ongoing which hopefully we'll be able to share with you soon.

- **Mr. Ankit Babel – Participant:**

- Thank you so much, sir.

- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Thank you.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- Thank you, Ankit. Friends, anyone with a question, please raise your hand and we'll take it up.
- In the presentation and the opening remarks, I think they've answered the questions. Friends, anyone with a question, please raise your hand.
- In case nothing comes up we'll just wind up then. Anupji, over to you for your closing remarks.
- **Mr. Anup Jatia - Executive Director, Black Rose Industries Limited:**
- Yeah, okay. So thank you everyone for joining the webinar today. I would just like to leave you with the feel and the sense that we have currently within our organization. But the mood is relatively good, the mood is of improvement, the mood is of better results, better opportunities, and a lot of new developments which are going on. So it's difficult to share that on a webinar. But whenever we are able to, again have, for example, our AGM and other things in physical mode, I think that's something that I would like to share with all of you more. But, yes, things are looking good, things are looking better, and we hope that in the next webinar we can share more information with you and any of these new developments that we are working on, whenever something comes up, we would like to share with you as soon as we can as well. So thank you and all of you have a great day. Thank you very much.
- **Mr. Navin Agarwal - SKP Securities Limited:**
- Thank you, Anupji. Thank you, Ambarish. On behalf of SKP securities, thank you to everyone for participating in this webinar. In case you do have any follow up questions or something is remaining unanswered, please feel free to write to me. My email address is there on the invite, and we'll take it up with the management. Thank you once again, Anupji and Ambarishji and have a wonderful day.

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