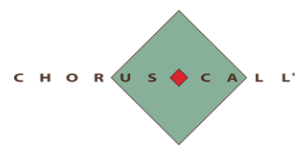




“Vidhi Specialty Food Ingredients Limited

Q4 FY '24 Earnings Conference Call”

June 12, 2024



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**MR. MIHIR MANEK – JOINT MANAGING DIRECTOR – VIDHI SPECIALTY FOOD INGREDIENTS LIMITED**

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**MODERATOR: MR. PARTH PATEL – ORIENT CAPITAL**



**Moderator:** Ladies and gentlemen, good day and welcome to Vidhi Specialty Food Ingredients Limited Q4 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Parth Patel from Orient Capital. Thank you and over to you, Mr. Patel.

**Parth Patel:** Thank you, Michelle. On behalf of Orient Capital, I welcome you all to Vidhi Specialty Food Ingredients Limited Q4 FY24 Earnings Conference Call.

From the management side, we have Mr. Bipin Manek, Chairman and Managing Director. Mr. Mihir Manek, Joint Managing Director. Mr. Mitesh Manek, Chief Financial Officer. I hope everybody had an opportunity to go through our investor deck that we have uploaded on exchanges and the company's website. A short disclaimer, I would like to say before we begin the call, this call may contain some of the forward-looking statements which are completely based upon our beliefs, opinions and expectations as of today. The statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties.

With this, now I hand over the call to Mr. Mihir Manek. Over to you, sir. .

**Mihir Manek:** Thank you Parth. Good afternoon, everyone. I extend a warm welcome to all of you on our Earnings Conference Call. First and foremost, I want to express my gratitude to each one of you for joining this call and for your continued support throughout our journey. Additionally, I extend a hearty welcome to those who are exploring our company for the first time. For the benefit of those who are new to our company, I would like to give a short background of company. Vidhi Specialty Food Ingredients was established in 1994.

Formerly, it was known as Vidhi Dyestuffs Manufacturing Limited and is a leading manufacturer of superior synthetic food grade colors. The company supplies colors to diverse consumer industries such as food and feed, confectionaries and bakery, pet foods, pharmaceuticals, beverages, personal care products, cosmetics, home care products, etc. Food colors form a critical component of any product's appearance and appeal.

With solid growth expected in the B2C user industries, growth prospects are favorable for the company owing to the company's strong product and service delivery. Our colors are being distributed and consumed in over 80 countries across five continents, meeting all the specific regulatory requirements for each region. The global food color market is estimated to grow at a CAGR of 4.7% from 2021 to 2026.



The global food color market is estimated currently at 50,000 tons, with the domestic market estimated to be around 3,000 to 4,000 tons. Vidhi being a synthetic food color manufacturer, envisages healthy demand for its products. And as the natural food colors market is fragmented and unorganized worldwide and faces many challenges on the fronts of stability, availability, adaptability sides.

The company has a fully equipped and functional laboratory accredited by the Bureau of Indian Standards, which forms the core of quality control department with dedicated R&D facility with a team of PhDs and qualified chemists. Constantly working on process engineering of the existing processes and on development of new products to enhance the product portfolio and offerings. Our company has two state-of-the-art manufacturing facilities, one located in the Dhatav village of Raigad district in Maharashtra and the recently commercialized Greenfield expansion in Dahej of Gujarat.

The Dahej plant began production on December 12th, 2023, following a successful trial run that began on August 27th of 2023. With this addition, the company's overall capacity has doubled from 325 metric tons per month to 675 metric tons per month. The total investment for this was INR70 crores, which was all funded through internal accruals.

I am referring to the Dahej SEZ plant. This Greenfield expansion will enable Vidhi to address the growing demand supply gap and will result in increasing better realizations as the company forays into new high-margin products. Our manufacturing facilities have been audited from time to time by various regulators and found satisfactory by them.

This includes the US FDA. Vidhi offers 14 colors in all, out of which 6 colors are approved by the US FDA to be used in the USA and in Canada. These stringent quality requirements act as a high entry barrier for competitors and also requires multiple years of customer approvals ranging from 4 to 5 years to a maximum of 10 years.

We are consistent with our transformation strategy to increase the manufacturing activities and gradually exit low-margin trading business. This coupled with better product mix and continuous improvement in operational efficiency will help the company to achieve lucrative margins. The fall in revenue from existing trading business will be offset by the new capacity expansion undertaken by the company, which is expected to further improve the profitability margins.

In FY2022, the revenue contribution from the manufacturing segment stood at 47%, which is now increased to 90% in FY24. The management is committed to add new value-added products in our newer facilities, which will improve our consolidated margins in the coming quarters. Vidhi enjoys a favorable export market for its products because of the high quality standards that the company has maintained and established relations with its long-standing customers.



Exports for the year stood at 82% as compared to 45% in FY22. We continue to penetrate into newer geographies and add new customers across diversified end-user industries and further improve our wallet share from our existing customers. With the new greenfield expansion, we focus to enhance product portfolio and improve operational efficiencies and operating leverage.

The board strives for a bright future for the company with overall growth and turnover, as well as profit through expansion of its production facility. Now I would like to hand over the call to Mr. Mitesh, who is our CFO, so he can discuss the financial highlights. Please take over, Mr. Mitesh.

**Mitesh Manek:**

Thank you, Mr. Mihir, for that. First of all, I would like to extend a very warm welcome to everyone present in this call. Allow me to discuss the Q4 FY24 financial performance of the company.

The consolidated revenues for the quarter stood at INR80.6 crores versus INR89.5 crores in Q4 FY23, thus registering a degrowth of 9.9% on a year-on-year basis, but on account of the gradually exiting trading business. As far as margins are concerned, the EBITDA stood at INR16 crores as compared to INR12.2 crores, thus registering a growth of 31.2% year-on-year. Our EBITDA margins for Q4 FY24 was 19.8% as compared to 13.6% in Q4 FY23.

The PAT also stood at INR10.5 crores versus INR8.8 crores, hence registering a growth of 19.3% year-on-year. And our PAT margin for the quarter was 13% as compared to 9.8% in Q4 FY23. Moving to the year-end annual performance, the consolidated revenues for the year stood at INR303 crores versus INR404 crores in FY23. The EBITDA in FY24 stood at INR57 crores versus INR55.8 crores in FY23. The EBITDA margin improved significantly in FY24 from FY23.

The margins stood at 18.8% in FY24 as compared to 13.8% in FY23, thus improving by 500 basis points. The PAT stood at INR36.4 crores in FY24 versus INR37.7 crores in FY23, registering a degrowth of 3.3% but only because of the higher depreciation cost arising out of the start of operations at the new Dahej facility. The company has also declared a final dividend of INR1 per share i.e. 100% per equity share having face value of INR1 each for the financial year 2023-24 as a final dividend.

I would now like to open the floor for questions and answers session.

**Moderator:**

Thank you very much, Sir. The first question is from the line of Ranvir from Nuvama Wealth. Please go ahead.

**Ranvir:**

Thank you for taking my question. A few questions from my side. Facility wise, can you give us the capacity utilization by end of FY '24?

**Mitesh Manek:**

What would be your other question?



**Ranvir:** In this industry, because of the trading portion, we are reducing and manufacturing is increasing. As far as competition is concerned, how are we placed in the market? Who are the other players in the same line of business? If you could deliberate that would be helpful. Also, if you could give some kind of margin profile we have seen improvement. What kind of margin we can see in the next couple of years? So that if you could guide.

**Mitesh Manek:** To answer your first question, we expect a monthly production of about 250 tons coming out of our Dahej facility. In the third quarter of FY '24- '25. We expect the plant to be running at full capacity by the end of FY '24- '25.

Coming back to your question on the kind of competition that exists. Currently, as far as synthetic food colors are concerned there are only three players as far as Indian manufacturing is concerned. One of them is ROHA Dyechem. The other one is Neelikon Food Dyes and Chemicals. And the third one is Vidhi. These are the only three serious players as far as food colors are concerned.

Other than these, there are two American based companies. One of them is Sensient of USA and the other one is Dye Star of USA. Which is a relatively smaller company to Vidhi, Roha and Sensient. So, the entire synthetic food color industry revolves around these five players. As far as Vidhi is concerned, as far as competitiveness is concerned based out of India and because of our low overhead structure and because of our expertise in raw material procurement and marketing strategy and our ability to serve the customers as required and on time, Vidhi enjoys a considerable advantage worldwide because our quality, our product and is extremely famous world over and highly sought after. So, I hope that answers both your questions.

**Ranvir:** So, competition in the sense actually I wanted to understand more on the volume the kind of total volume demanded and how the share of these competitors are there. So, how in India and as well as global markets, what is the total demand in terms of metric ton?

**Mitesh Manek:** So, the total demand for synthetic food colors is estimated at around 50,000 metric tons a year. Out of which, Roha Dyechem would contribute around 10,000 metric tons a year. Vidhi's specialty as you know stands at around 8,000 metric tons per year once Dahej is running full steam.

Neelikon would stand at close to 2,000 metric tons a year. Dye Star would stand at around 3,000 to 3,500 metric tons a year and the rest of it. But of course, as I said earlier also, Dye Star is not performing very well in losing market share. So, their volumes will come down and the rest of the market share lies with Sensient.

**Ranvir:** Okay, still I think because it's a 50,000 metric ton market, so I can count this as 10,000 if Roha is 8,000 roughly Vidhi. And Neelikon how much you said?



- Mitesh Manek:** Neelikon is small, it's around 2,000 metric tons.
- Ranvir:** Still, this is just 18,000, 20,000, 23,000 tons. So, I think these four players constitute only half of this market.
- Mitesh Manek:** Dye Star you should put at around 3,000 to 3,500 metric tons. And there is also another company called the Daiwa of Japan who are also manufacturing synthetic food colors. But their market share is restricted to the Japanese territory itself and they make around 2,000 tons a year as well.
- Ranvir:** Okay, fine. And this is the 8,000 we are saying that post the Dahej expansion. We are not including that Roha expansion right now?
- Mitesh Manek:** No, this is only the existing facility Roha and with the new expansion which we have thrown open in December in the Dahej.
- Ranvir:** And the third comment, I wanted your commentary on the margin, how the margin looks like in next couple of years?
- Mitesh Manek:** So see, like you have seen, the margins have already seen a vast improvement of close to 500 basis points itself from year 2023 to 2024. And as the Dahej comes, the Dahej goes full stream. And like how Mr. Mihir also said, we are also now introducing certain high-value, high-margin products. With the full introduction of all of that and by improving our product mix, which we are constantly in the exercise of doing, our margin should -- we would not be surprised if we would add another 500, 600 basis points in the next year or so.
- Ranvir:** Okay, so a scope of significant expansion is still there. Despite this, we have already increased our return margin. Yes. And if I can add one more that on the Dahej facility the expansion, what is the peak revenue potential of the Dahej? And if the Roha comes into picture then what would be the peak revenue from Roha also? And timeline also if you could get for a Roha facility.
- Mitesh Manek:** So, the peak revenue potential from Dahej would be roughly INR250 crores to INR300 crores once the facility goes full stream. And I believe you are talking about the next expansion for Roha.
- Ranvir:** Yes.
- Mitesh Manek:** Right now, we would not like to comment on our third expansion on Roha because currently it is under statutory approvals, etc. And once we get a slightly more clearer opinion on when we would start production out there and when we would get the approvals in fact, which is when we would like to release some forward-looking statements on that expansion in Roha.
- Ranvir:** Okay. But this is environment clearance is pending. That is where the current status is.



- Mitesh Manek:** Environmental approval is pending. Yes.
- Ranvir:** Okay. Thank you. That is all from my side.
- Mitesh Manek:** My pleasure. Thank you.
- Moderator:** Thank you. The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.
- Priyank Chheda:** Hi, sir. Congratulations for a great set of numbers. My question is if you can spell out some basic data points on FY '24, what was the manufacturing segment volume growth and what was the utilization of the existing plant of 3,900 tons? And what was the volume contribution from the Dahej SEZ plant for three months, which was operating? Would be great.
- Mitesh Manek:** See, the contribution that came out of Dahej for the first three months, which is the last quarter for FY '24 was rather small. It stood at around 220 metric tons, 230 metric tons coming out of the Dahej facility. Because even though we threw it open in December, you know, we had to slowly and steadily ramp up production in Dahej and we didn't want to take things very fast.
- So, however in the April-May-June quarter, we have seen much better contribution from the Dahej facility, and it will only continue to grow. As far as manufacturing and trading, I believe you are looking at numbers or you want figures?
- Priyank Chheda:** Manufacturing volumes, if you can spell out as a total volumes, what was the manufacturing volumes in FY '24 or maybe a Y-o-Y growth would be helpful?
- Mitesh Manek:** I will speak in terms of volumes because that will give you a slightly better idea. For 2023, the total manufacturing volumes stood at 3,300 metric tons, which for 2024 stood at 3,800 metric tons, registered a growth of 500 metric tons out there. And it had some contribution from Dahej also, like I told you, around 220 metric tons to 250 metric tons.
- Priyank Chheda:** Perfect. So, 3,800 metric tons for FY '24 includes 220 metric tons of Dahej SEZ, correct?
- Mitesh Manek:** Yes, that's right. Perfect.
- Priyank Chheda:** Now, coming to the gross margins from the manufacturing side. So, you did allude about 500 basis point improvement that you saw in FY '24. That is also a function of your trading revenue going down, right? So, it has to naturally come up as and when we take out trading revenue. So, in fact, to do a life-to-life comparison on the manufacturing side, your margins have broadly remained flat as far as our calculation goes. So, how should we look ahead? Manufacturing gross margins are around 44%, 45%. How should we look ahead? What should be the margins that we should think of in terms of gross margins?



**Mitesh Manek:** See, I'll tell you one thing. The trading revenue for the year 2022-'23 stood at INR123 crores. As against the trading revenue for 2023-'24 stood at only INR31 crores. And now that you are seeing an increase of 500 basis points as far as EBITDA is concerned, which means whatever additional EBITDA that we've been able to bring out has been all contributed to the increase in the manufacturing revenue which we have seen compared to 2022-'23.

So, now that we continue to substitute trading with the manufacturing revenue and with Dahej coming on full steam, it gives us economies of scale, economies of manufacturing, reduces our fixed costs, overheads, distribution costs, marketing costs, etcetera. And we will be able to improve our product mix to an extent where we have not reached so far because of the production constraints which we faced in Roha.

All of this together along with the new products which we have spoken about, all of this will help our operating margins improve further by 500-600 basis points. So, multiple factors favouring the way we work and the way the new facility allows us to work is what will bring about the change in the operating profit.

**Priyank Chheda:** So, again, we have been tracking your company for long now. What was FY '24 manufacturing EBITDA margins? If you can spell out that, it will answer many of the other questions.

**Mitesh Manek:** The entire EBITDA margins for FY23-'24 were almost coming out of the manufacturing business.

**Priyank Chheda:** The total EBITDA of FY '24 was contributed by manufacturing. So, zero EBITDA contribution from trading. Is that correct?

**Mitesh Manek:** A very small EBITDA came out of trading. Not too much. The entire EBITDA was contributed to the manufacturing. What happened was, mainly in '23-'24, we were concentrating on clearing out the trading stock which would allow us to almost exit out of it completely.

**Priyank Chheda:** We have got it, sir. Given the prices were on the downward trend, we thought that we would have done some EBITDA loss on that side. So, this is the reason why I was asking about the manufacturing EBITDA margins. My second question is on the combination of macro-micro. 85% of our revenues do come from the exports which are into the regions where your global markets industry growth is expected to be somewhere around 5%.

There is no significant demand-supply change which is happening. So, what gives us the confidence to completely ramp up the Dahej SEZ plant within a year's time. If the scenario is such that there is any global capacity shutdown, then it may be easy. What gives us the confidence to give this kind of a target where almost double the size you would utilize it in a year?

**Mihir Manek:** So, Mr. Mitesh, can I please take this question if you don't mind?





**Mitesh Manek:**

Please go ahead.

**Mihir Manek:**

So, this is Mihir here. I will answer this question. Now, with regards to your question that how we are so confident that we will be able to successfully ramp up, I would like to say that, see, even currently we have an order book which allows us, if we can make as per the requirement already that we have the existing order book, we can achieve full, we can ship out all the production that we will be able to get even after the Dahej facility is maxed out.

So, it is not a question of whether we have the demand or not, but the question is how soon we can overcome all the bottlenecks, etcetera that we are having, the new facility also we are making certain changes for which, we needed this time. And as we scale up, we already have the kind of demand.

We also have certain additional approvals from new customers, some very large accounts that are at very advanced stages. And these are some very sizable accounts. So, which we are confident of wrapping up over the next few months.

So, the order pipeline is, we are 100% confident is not an issue, which is otherwise we would have never planned a third expansion in Roha after the Dahej. If we don't see or if we don't have such kind of confidence about our ability to market the capacities that we are investing into, right?

**Priyank Chheda:**

Very clear, Mihir bhai. Thanks a lot for answering that question. Just a last question on my side for you. Domestic sales are yet a very small size versus the available market, the demand of around 3000 tons and 3500 tons. Any specific local strategy that we have in place? Would it be fair to assume that incremental volumes would also go towards servicing the domestic market?

**Mihir Manek:**

Good question. See, what we had to unfortunately do so far was to neglect the local market because as far as the export market is concerned, you ship out in container loads. So, each order is, beginning from \$70,000-\$80,000 can go up to \$400,000 single PO. Whereas when you are servicing domestic customers, it could be anything from a INR20,000 order to a INR25 lakh order or INR50 lakh order.

But the average size, ticket size of each order will be much smaller in the domestic market. You will need a lot of more marketing bandwidth. And the kind of demand that we have been experiencing from the export markets, we were not being able to do justice to our existing customers also.

So which is why we were not very keen on approaching certain key accounts that we already have on our radar in the domestic market also which now we can take over -- which we can now take into our hold once we are further scaling up the production at the Dahej. So as we get more quantities available for sale, we will be acquiring newer accounts from the domestic



market. We have already built a very good marketing team for that also. So we are confident of increasing our domestic sales. You will see remarkable growth in the domestic sales over the next 12 months.

**Mitesh Manek:** In fact, I would like to add to that, that the process has already began. And for the financial year '22-'23 where our domestic revenue from manufacturing stood at INR8.18 crores, I'm happy to inform you that for the year 2023-'24, that revenue has almost tripled to INR22.59 crores. So that process that Mr. Mihir was talking about has already began. And we will only improve upon these numbers with the coming years.

**Priyank Chheda:** Perfect. And if I have to just squeeze in one more question. So given a large account order book that we had for the exports, given the domestic strategy that we have to fulfil our Dahej SEZ capacity, and the focus is clearly on a higher value item, right, higher value SKUs, higher value molecules, high margin products. So would it be fair to assume there would be a slightly improvement in the average selling price that we have seen in FY'24 to FY'25, '26 and '27? Any progress ahead.

**Mitesh Manek:** Absolutely. The average unit selling price per kilo has to improve as we bring in newer products and improve our portfolio mix. It will.

**Priyank Chheda:** And if I have to recalculate the guidance that you have given for INR250 crores of Dahej SEZ by the capacity, roughly average selling price comes to around 10% higher than what you have already clocked in FY'24. Is that understanding broadly right?

**Mitesh Manek:** According to our estimates, the average selling price per kilo should improve by more than 10%.

**Priyank Chheda:** Okay. And you cater to a very broader set of industry, which is cosmetic -- from cosmetics to food and beverages to pharma and pet foods. So which can be the segment where you would see a very nonlinear demand jump coming up or maybe your customers or in the segment where you are not there, where you can see a very nonlinear growth coming up in those segments? And if possible to give us a broader contribution from each of the segments would be helpful.

**Mitesh Manek:** See, I will tell you one thing. As such the growth that is expected by the company would come from all major categories of end user industries which we are catering to currently which is beverages or food or feed or pet foods or other such industries but where we do expect some sort of nonlinear growth that the company is expecting would come from the personal care industry, the healthcare industry, the beauty products industry, cosmetic industry, pharmaceutical industry, leak detectors industry, inks, etcetera. This is where we are expecting the company to achieve a nonlinear growth in the quarters and years to come.

**Priyank Chheda:** Thank you.



- Moderator:** Thank you, sir. The next question is from the line of Gokul Maheshwari from Awriga Capital Advisors LLP. Please go ahead.
- Gokul Maheshwari:** Yes, thank you for my question. Sir, just one on the capex for the Roha, this is a brownfield expansion?
- Mitesh Manek:** So the expansion which would happen in Roha would also be on a fresh piece of land, hence making it a greenfield expansion only.
- Gokul Maheshwari:** Okay. Sir, I understand that it is subject to approvals from the environmental listing, but in terms of the challenges which we face in the age with respect to some delays in commissioning the expansion, what learnings can you really implement over here where the expansion is happening just once the approvals are in place and assuming demand is in place, the commissioning should happen. Do you envisage some challenges apart from environmental control approvals?
- Mitesh Manek:** No, there are no other challenges which are envisaged as far as the second expansion is Roha is concerned. And also, you know, need I remind you that as far as the Dahej expansion is concerned, the whole world faced an unprecedented period of COVID-19. During which, you know, nobody knew what the next month or the next quarter would bring as far as restrictions on construction, availability of workers, availability of steel, cement, etcetera, is concerned, you know, and how their prices would react when the supplies would come in.
- So that was a period which each and every company should be excused off as far as any sort of delay in commissioning a project or anything is concerned. However, our team has done an excellent job by limiting the damage that the delay could have done by working through that period very judiciously. And we've done some Herculean efforts still to minimize the effect or the delay. However, no such -- we don't expect any such delays to happen as far as the second Roha expansion is concerned.
- Gokul Maheshwari:** Great. And your average realizations have been around \$7-\$8 on your manufacturing business. I'm not asking for year one or two, but more directionally over a three to five-year perspective as we move up key chain addressing to more value-added products, how do you see the realizations...?
- Mitesh Manek:** The realizations per kilo would jump above \$10 per kilo comfortably over three to five years period.
- Gokul Maheshwari:** Thank you so much and all the best.
- Mitesh Manek:** My pleasure.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.



- Saket Kapoor:** Namaskar, sir, and thank you for this opportunity.
- Mitesh Manek:** Namaskar.
- Saket Kapoor:** Sir, firstly, a small point. For this financial year, our installed capacity is up from 350 to 675. And the benefit of the expanded capacity we experienced in the fourth quarter.
- Mitesh Manek:** No. See, like I explained a little earlier on, the Dahej facility is expected to contribute 250 tons a month from the third quarter of FY'24-'25. That is the quarter starting October '24. So in financial year '24-'25, we have still not seen Dahej in full flow. However, from the third quarter onwards, it is expected to contribute 250 metric tons per month. So our capacity in use is 325 tons at Roha and 250 tons from Dahej for October '24 onwards.
- Saket Kapoor:** Last point, sir, come again, sir.
- Mitesh Manek:** So our expected capacity utilization would be 325 metric tons from the Roha facility and 250 metric tons from the Dahej facility October '24 onwards totaling to 575 metric tons per month.
- Saket Kapoor:** Okay. This is on the installed capacity of 675?
- Mitesh Manek:** That's right. Yes.
- Saket Kapoor:** Okay. And then, sir, when we speak about the capacity reaching 1,000, so when will that balance 325 will kick in, in which quarter?
- Mitesh Manek:** For which the environmental -- for which the permission from the environmental authorities is awaited in our greenfield expansion in Roha. Once we have that, only we can confirm when the additional capacity would come online.
- Saket Kapoor:** Okay. Because in your presentation, slide 12, you speak about our capacity being at 1,000 for '24-'25 expected.
- Mitesh Manek:** Correct. But the point is we are awaiting environmental clearance as far as our second facility in Roha is concerned. We have a lot of infrastructure out there which is ready. As far as our other facility in Roha is concerned, a lot of infrastructure, buildings, etcetera, are present out there. So once we get the environmental clearance, it would not take us too long to retrofit machinery, etcetera, and start production out there.
- Saket Kapoor:** Sir, on an absolute basis, what was our tonnage for the fourth quarter then, taking into account the expanded capacity, ramping up also, what was the tonnage for the fourth quarter?
- Mitesh Manek:** You mean March 24 you are talking about, last quarter March 24?
- Saket Kapoor:** Yes.



- Mitesh Manek:** The total tonnage was 1,300 metric tons.
- Saket Kapoor:** Okay. So, 1,300 metric tons was for the quarter.
- Mitesh Manek:** For the quarter ended March 24, yes.
- Saket Kapoor:** Okay. That means around 435-440 was the monthly average.
- Mitesh Manek:** That's correct.
- Saket Kapoor:** Okay. So, taking into account the higher utilization, this is going to be the trend, or we will be experiencing this to go up on every quarter basis and then from the third quarter, the 550 number will come into play?
- Mitesh Manek:** So as far as the first quarter of the financial year is concerned, you will see some rise, of course. You will see some rise in the second quarter also and from the third quarter onwards, we've already given you the guidance of 250 tons coming out of Dahej, you know.
- Saket Kapoor:** Right. And to reach the optimum level of 675, will at the exit of the current financial year, we will be running or for us our business, we run at 885 only? That's right.
- Mitesh Manek:** So in another two quarters or so, you will see the Dahej facility running at full steam.
- Saket Kapoor:** This post the third quarter, sir?
- Management:** That's right.
- Saket Kapoor:** Okay, sir. And I missed your point about the EBITDA margin expansion. Definitely, our margins like on a year-on-year basis on the total revenue has gone up by 400 basis points. We are likely to add another 400 for this year? I missed your comment there, sir.
- Mitesh Manek:** Not necessarily for this year, but we are likely to add another 400 to 500 basis points once we have substantial contribution coming out of Dahej and once we have some contribution coming from the new product line, which we spoke about here.
- Saket Kapoor:** Okay. And this product line sir, can you give a differentiation? What are we trying to explain?
- Mitesh Manek:** I have already pointed out the end-user industries to you. And as of now, we would not like to further indulge more information on or detailing on these products as it is better for our investors and the company.
- Management:** See, why we are refraining from doing this is because these are all products where they have been developed from grounds up by our own R&D team. All the processes, the entire technical know-how is proprietary.



- Saket Kapoor:** As a percentage of sales, what is our R&D expenses?
- Management:** Mr. Mitesh, you can please answer this.
- Mitesh Manek:** Our R&D expense would come to around 4%-5% of our sales. And I would like to point it out to you that we do not belong to a pharmaceutical sector or something like that. So while we have a well-defined R&D facility and a lot of things going on, it does not necessarily always have to have a huge burden on the company's expenses.
- Saket Kapoor:** Okay, but for FY24, we have spent 4% of our revenue as R&D expenses. That is INR12 crores.
- Mitesh Manek:** Yes, or a little less also.
- Saket Kapoor:** Sir, I will join the queue again. Thank you.
- Moderator:** Thank you. The next question is from the line of Pavan Kumar from RatnaTraya. Please go ahead.
- Pavan Kumar:** Sir, I wanted to just ask about the working capital cycle. So, currently we are working at almost like 120 days, if I am right. So do we expect the working capital cycle to remain at the current levels? And also, secondly, on the capex side, what incremental capex would be required, especially on the Roha side, for the facility to be fully commissioned once the environmental clearances are there from here on? Yes, these are my primary questions here.
- Mitesh Manek:** So, as far as the working capital cycle is concerned, I would like to inform you, I'd like to give you two figures first. The total bank limit utilization as on 31st March 2023 stood at INR50.50 crores, which has gone down drastically to INR19.43 crores, as on March 2024. Now, the point is that as the business continues to plough back profits and as it continues to generate positive cash flow quarter after quarter, of course, the bank limit utilization and working capital cycle has to come down, which it is showing from our figures.
- With regards to your second question about the Roha expansion is concerned, we expect around INR50 crores outflow, INR40 crores to INR50 crores outflow, and which will all be done through internal accruals, because we have, we are a cash surplus company and have no problems in, on this scale.
- Mihir Manek:** One last thing I wanted to check was, if I'm right, somewhere when we were operating, again, around the year FY'20 or before, our working capital days used to be almost like 200 days, that kind of level. What has structurally changed to actually bring down those working capital days?
- Mitesh Manek:** The cash flow that we are generating quarter after quarter, which we are, of course, employing in business, is the reason why our working capital requirements have come down. I would also



like to point out to you our current ratio, which in the year 2021-22 stood at 2.32, which has now improved to 4.80.

So, as against the current liability base of INR39 crores, we have a current asset base of INR187 crores, which shows the strong financial position which the company is maintaining at all points in time and improving upon it, as quarters and years go by. Rather, the entire expansion also wherein we put in INR70 crores was totally funded by internal accruals.

**Mihir Manek:**

No, sir. What I was referring to was, previously we used to have issues like having to buy full container load worth of raw materials to actually properly function, and because of which our inventory requirements were pretty high. But now, when I look at your balance sheet, the inventory levels are much lower. So, I was just wondering what has changed there?

**Mitesh Manek:**

See, what happens is, there are two or three reasons why this has happened. Substitution of certain imported raw materials by domestically available raw materials, which comes in much smaller lot sizes. Some of the naphthalene-based raw materials we have started buying locally from India.

So, we do not have to import in a very major bulk quantity from outside, and we can have smaller transactions with local companies. And also, the transit period from world over has increased to world over because of the whole Red Sea crisis, etc. So, some substitution of raw materials from imported to local, especially naphthalene-based ones, and also our exit from the trading business means that some of the inventory which we are holding for our trading business has also all been liquidated. So, it is a two-pronged reason why our stocks have come down.

**Mihir Manek:**

Thank you so much.

**Mitesh Manek:**

My pleasure.

**Moderator:**

Thank you. The next question is from the line of Ranvir from Nuvama Wealth. Please go ahead.

**Ranvir:**

Thanks for follow-up. The question related to that trading business, you commented that trading business has significantly reduced, and that business is because that was the stock which we were carrying and wanted to clear. So, in FY'25, the trading business will be zero? Or we still have some products there to sell?

**Mitesh Manek:**

See, we are estimating the trading business to be zero only as far as FY'24, FY'25 is concerned.

**Ranvir:**

And the volume number what you gave, that included the trading business also?

**Mitesh Manek:**

No, the volumes I've spoken of were only for the manufacturing business not of trading.



- Mihir Manek:** That's right.
- Ranvir:** Thank you.
- Moderator:** Mr. Jain, I have unmuted you. Kindly proceed.
- Jain:** Thank you. So, just wanted to understand, what are the FY '25 volumes we are aiming? You have indicated from the second half of the year, but collectively for the year, what would be the volume compared to 3800 metric ton last year?
- Mitesh Manek:** The volume compared to last year would be, the total volume would roughly stand around 4600-4,800 metric ton for the entire year.
- Jain:** All right. And this will include the existing line of products or we are going to see contribution from the higher value, higher margin products? Let's speak of the enhancement coming in.
- Mitesh Manek:** Some contribution from the high value, high margin products will also be seen in this year.
- Jain:** Okay. So, about that, what kind of enhancement we are aiming? You don't have to allude to the kind of players, but what kind of enhancement is this going to be compared to what we have been making in the last 4, 5 years?
- I just want to understand the direction that we are going in as a result of the R&D, because all this process approval also in the past you have said takes 4-5 years. So, just wanted to understand how our efforts are going to yield going forward.
- Mitesh Manek:** So, we have been working on these products for the last 3-4 years. All of them have already been developed on the lab in pilot scales. Most of the approvals are almost in place or we are due to receive it any moment. And we have also started manufacturing and promoting these products to several countries worldwide where we have already started supplies and it will only keep increasing. So, we have been on it for quite a lot longer than - it's been close to 4-5 years that we have been working on these products.
- Jain:** And these new products that we have developed over the last 3-4 years, say after a couple of years, could it account for 10%-15% of our volumes or much more than that?
- Mitesh Manek:** Around, we see it at around 15%, it can go higher also. But I would safely say around 15% of our total volume.
- Mihir Manek:** But in terms of the absolute, see in terms of, Mitesh I am trying to say that in terms of tonnage it could be 15% but in terms of revenue it will be much higher.
- Mitesh Manek:** Maybe more than 30%. In terms of revenue contribution, yes, not in terms of tonnage because these are low volume, high value, high margin products.





- Jain:** I understand. So, of course, that would be perhaps 20%, 25% of the revenue also. That is also possible, right?
- Mihir Manek:** Possibly even higher, yes.
- Jain:** Also about the order book that you were saying, it's quite encouraging that we have these approvals, and the pipeline is strong. Is it possible to give us some color as to how this order book is placed? I mean, we already have executable visibility going into FY '26. Is that what you were indicating?
- Mitesh Manek:** Yes, absolutely.
- Jain:** At the full installed rated capacity, that's what you are saying?
- Mitesh Manek:** Yes.
- Jain:** Okay. And lastly, these approvals that we have got, is it from new client additions on the international side? And I am hoping some domestic ones as well? Or is it only that we are increasing wallet share from existing clients? If you could give some color on what these key logos are going to be, whether it is pet care or pharma or F&B. However, you can add value to this point.
- Mitesh Manek:** We are pocketing several high-profile clients world over in territories where we might be present, but to those who we have not been supplying so far. So, it's not only the existing client base, we are taking in a lot of new large multinational corporations and other such clients. But a lot of this growth that is envisaged will be from the export side. Of course, we will continue to grow our local market also, but most of the push we are seeing from the export side.
- Jain:** Okay. And any further licenses, approvals, compliance requirements that we need for pushing our products in regulated markets or to top MNCs or we already have it all?
- Mihir Manek:** Let me elaborate on this for a moment. See, we already have approvals from U.S. FDA. And in addition to this, we follow various quality systems like ISO 9001: 22000. We are GFSI compliant. So, that's to show we have approvals from other various FDAs like the Korean, Iranian. So, even the individual Thai FDA.
- So, as far as the regulatory part is concerned, let me assure all of you all that Vidhi's Hallmark is its quality and its readiness to be the first one in the industry to adopt newer quality standards. In fact, Vidhi was the first company in the whole of India, the first food colour company to adopt ISO 9001 in the year 1998. So, that has always been our endeavour.
- Jain:** Excellent. And my last question is on our innovation. I am seeing that even new companies are developing and launching products in medical inks or in use of heat transfer products or for



use in semiconductors. So, do we also have our products which will be applicable to these areas?

**Mihir Manek:** We have our products which are like even the cosmetic industry we spoke about. It's a \$60 billion industry globally and growing. So, and possibly the fastest growing industry in all developing markets because as disposable incomes increase, women get more money to spend. The highest spend is on cosmetics. And as more and more women are going out with all the social media and everything. So, the use of cosmetics is blowing up like the growth is crazy in those sectors.

Personal health care and hygiene is something where there is explosive growth. Small people eating out, working, they don't have time to cook at home. So, all these are high growth sectors. In India, going ahead, we see a quantum jump in demand of our products.

**Jain:** That's on the cosmetic side is perhaps appears that we have an outside share which will only grow. But I was just asking of these new areas where small companies are launching products?

**Mihir Manek:** Semiconductors and all is not where you would use food grade colors or such kind of colors. So, you are talking about two totally different. Now, how can you find use of our colors in the solar industry or the semiconductor industry?

**Jain:** Or medical inks or those kind of things, yes.

**Mihir Manek:** So, we are already, like Mr. Mitesh already elaborated, we are already developing products which are used in some specialty inks. So, we can't give you the exact application because then it creates – like we again told you that all of this is proprietary products. So, we can't go much very specifically we can't talk about these products. But we have given you a very clear and broad idea about where these products are used and where they find application.

**Jain:** I appreciate the color you provided and just a small suggestion is perhaps sometime this year or by the end of this year, if it's possible to give the contribution coming in across segments, whether it is cosmetics, F&B, pet care, so on and so forth, it would give us even more depth of understanding if you can consider that.

**Mihir Manek:** We have noted this.

**Moderator:** Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Suhrid Deorah from Paladin Capital. Please go ahead.

**Suhrid Deorah:** I just wanted to clarify a couple of numbers. Firstly, I think you mentioned FY '24 tonnage was 3,800. Is that correct?

**Mitesh Manek:** Yes, that's right.



- Suhrid Deorah:** So, with that number, your approximate realization per kilo works out to about INR800. But I was also trying to reconcile this number with what you were saying for the new Dahej plant. And I think you mentioned 350 tons a month and a maximum realization of INR300 crores. So, that works out to a per kilo realization of about INR700. So, there seems to be a disconnect because of historical numbers...?
- Mitesh Manek:** I'll tell you one thing. What happens is that some of the newer products which we have introduced and which we are also going to introduce will all be made in Roha. They will not be made in Dahej. Which is why the per kilo contribution of products from Dahej may not be able to scale further. When you look at Roha that is where the increase in per kilo revenue realization will come.
- Suhrid Deorah:** So, I think it's fair to assume that the blended realization per kilo will start moving northwards of 800.
- Mitesh Manek:** As far as realization per kilo is concerned, let's not take it in Roha and Dahej terms. Let's keep it on a blended term.
- Suhrid Deorah:** Understood. The second question I have is that I think there was a comment made that the tonnage expected for FY '25 is about 4,500-4,800 tons. Is that correct?
- Mitesh Manek:** Yes, around 4,500-4,800 is the expected tonnage.
- Suhrid Deorah:** Are you guys being conservative because you're already at a run rate of 440 per month, if I'm not mistaken?
- Mitesh Manek:** To some extent, we are being conservative. This figure can only improve as Dahej continues to produce more and more quantity per month. So, this is a bare minimum. You can take 4,800, 5,000 tons as a bare minimum, what we are looking at as far as '24, '25 is concerned.
- Suhrid Deorah:** Yes, I mean you're already at a 5,500 ton run rate. I would expect it to be even higher as you mentioned Q3 will be the inflection point?
- Mitesh Manek:** No, we are not at a 5,500 ton run rate, my dear. We are at 300-320 tons in Roha plus Dahej is expected to contribute 250 tons per month only from the third quarter of the year. So, the first two quarters, Dahej would not be contributing 250 tons. So, only when that happens...
- Suhrid Deorah:** Okay, I think I just want to say, maybe I extracted it from a comment made by a previous participant who said that you all did 1,200 to 1,300 tons roughly in Q4.
- Mitesh Manek:** Yes, we did turn around close to 1,200-1,300 tons for Q4. And there was a lot of bought out colors as well which we will be substituting with our Dahej production. So, in all, 5,000 is the minimum that we are looking at.



- Mihir Manek:** 5,000-5,500, yes.
- Mitesh Manek:** Yes, 5,000 - 5,500 is realistic, which we would like to outperform.
- Suhrid Deorah:** And by the end of next year, end of FY '25, you will be at the run rate of full utilization which is close to 650 tons per month across all plants?
- Mitesh Manek:** 675 tons per month.
- Moderator:** Thank you. As that was the last question for today. I would now like to hand the conference over to Mr. Mihir Manek for closing comments. Over to you, sir.
- Mihir Manek:** **Thank you.** So, thank you so much everybody for joining us. I hope we have been able to answer all your questions. In case you have any further questions or queries, you may please contact the Orient Capital team who are our investment relation partners. Thank you so much for being a part of the Vidhi Specialty Food Ingredients Limited earnings call and I wish you all well.
- Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of Vidhi Specialty Food Ingredients Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.