Laxmi Organic Inds.

Operator: Ladies and gentlemen, good day and welcome to the Laxmi Organic Industries Ltd. Q1 FY27 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 touch-tone phone. Please note that this conference is being recorded. Before we begin, I would like to point out that this conference may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements do not guarantee the future performance of the company and it may involve risks and uncertainties that are difficult to predict. I now hand the conference over to Dr. Rajan Venkatesh. Thank you and over to you, sir.

Management: Thank you. Greetings from my side. A very good morning, evening, and afternoon depending on the time zone that you all are dialing in from. I hope you all continue to do very well. Before we get into the nitty-gritty, I had the pleasure of introducing Amit Jain, our new CFO, last time, but he is here with me in person for this call. Amit, welcome again on board to Laxmi. As I shared with the broader audience, Amit comes with 30+ years of deep experience across industries from pharmaceuticals, packaging, and chemicals. We are very thrilled to have him as part of our leadership team and as our CFO.

Coming to the chemical macro ecosystem, as I always do, I will talk a bit on the macro, then move to our key markets and applications. I will speak about our raw materials and how they have developed, provide an update on our projects, and then hand it over to Amit who will take us through the financials.

Reflecting back on Q1, the macro has been dominated by unpredictability and volatility—words that have been employed ever since the West Asia crisis unfolded towards the end of February into March. That dominated a big chunk of March and certainly April. We saw some easing out in the latter part of the quarter, but as we stand at the cusp of Q2, we are seeing a "2.0 version" of the West Asia crisis unfolding. That is the broader macro, and it is evolving daily.

If we look at the chemical ecosystem globally, structural shifts continue. There is almost a monthly call out of capacity restructuring, realignment, and shutdowns, primarily in Europe, Japan, and Korea. This remains an important element within the structural chemical ecosystem. As a result of this backdrop, we have seen large disruptions in logistics, including pricing. Everyone knows the Gulf of Hormuz and the Red Sea situations well. The availability of vessels and the recent large typhoon around the South China belt had ramifications for transportation globally and into India.

Regarding the key segments we serve, in Pharma Solutions, we have seen demand broadly stable on a quarter-on-quarter basis from Q4 FY26 into Q1 FY27, with certain nuances between our essentials and specialty business. In Agro Solutions, we have seen stability in demand despite the backdrop. In our pigments downstream, we have seen slight slackness. Printing and packaging remain stable, and our industrial solutions segment—including coatings and new age industries—has seen positive momentum.

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That being said, large gyrations in feedstock prices have made many customers and buyers far more cautious. We have seen a mix of buying behaviors: some are buying only what they need, some are overstocking for "just in case" purposes, and some are deferring.

Regarding raw materials, we saw large jumps starting in March and continuing well into April. It was only toward the end of May and into June that we saw moderation, especially for key raw materials like acetic acid. In the case of ethanol, we saw prices in North America moving slightly upward given its use in the fuel industry. We grappled with these spikes during Q1. For example, using March as a base of 100, we saw acetic acid spiking almost 200%. Methanol, a precursor for acetic acid, spiked even more.

On projects, our Dahej project continues to take very good shape. As we look into Q2 and Q3, the focus remains on mechanical completion and stabilization, followed by customer qualification in Q3, and a ramp-up in Q4 for Phase 2 of the Dahej project. We have a status slide in the investor deck for clarity. We also had a planned, scheduled turnaround at our Site 1 in the second half of May, which was concluded safely and on time.

Given the backdrop, you have seen our performance. This highlights what we have said before: in these cycles, larger players with economies of scale who can fulfill customer requirements are able to win. Laxmi prides itself on this. In specialties, we have seen a positive rebound, which remains a multi-year journey for us as Dahej takes shape. We are working diligently on a robust pipeline for our specialty vertical. With that, I will hand it over to Amit for the financials.

Management: Thanks, Rajan. I am very happy to be on board at Laxmi and look forward to helping steer the business through a challenging operating environment. My first earnings call at Laxmi coincides with one of our strongest quarters in the recent past. Against the backdrop of continued volatility and geopolitical uncertainty, we have delivered a strong broad-based performance in Q1 FY27.

Revenue for the quarter stood at 9,683 million, growing 40% year-over-year and 32% sequentially. This was mainly driven by a mix of volume growth and higher price realization. In addition to better pricing, our supply chain agility and procurement efficiencies contributed significantly to operating profitability, despite challenges from increased freight and energy costs linked to tariffs and coal prices.

EBITDA for the quarter was 1,143 million, representing a growth of 272% year-over-year and 113% sequentially. To secure procurement efficiencies and ensure raw material availability, our net working capital increased during the quarter, which we expect will normalize over time. Our priority remains business continuity.

As the Dahej capex cycle nears completion, our term debt has peaked at approximately 6,100 million. We maintain a healthy net debt-to-equity ratio of around 0.3x.

Regarding business unit performance: specialty business revenue stood at 2,418 million, growing 17% year-over-year and 13% sequentially. Essential business revenue stood at 7,265 million, growing 50% year-over-year and 39% sequentially, supported by double-digit volume growth. This concludes the financial performance summary for Q1 FY27, and we can now open the floor for Q&A.

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Operator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Giriraj Daga from Vicharia Family Trust.

Giriraj Daga – Vicharia Family Trust: Congratulations on a very good set of numbers. My first question relates to the specialty products at Dahej. Could you clarify the total capex pending this year that is likely to be completed for commissioning? Second, will the entire 600 crore plus gross CWIP plus the remaining capex be capitalized in Quarter 2 as per expectations?

Management: As you are aware, Phase 1 was already capitalized, which was around 15-18% of the total capex. Roughly 85% of the capex for Phase 2 will be capitalized during the second quarter.

Giriraj Daga – Vicharia Family Trust: And what is the remaining capex to be spent this year? Will we need to find additional funding for what was spent in Quarter 1?

Management: For the full year, the estimate for all capex, including Dahej, will be between 125-150 crores.

Giriraj Daga – Vicharia Family Trust: You mentioned a Q4 ramp-up. Regarding FY28, what kind of incremental revenue should we look for from here?

Management: The reason we are looking at Q4 is because we need to get qualified by customers first. We are doubling our diketene derivative capability, and we remain well-diversified across industry segments. Our strategy is to go deeper into these segments. We are already seeing positive momentum in many key products within our diketene derivative segment this year. We will provide more guidance on FY28 later, but the ambition is for the ramp-up to occur in FY28, with a focus on FY29.

Giriraj Daga – Vicharia Family Trust: When you conceptualized this project about 2 years back—starting work around July 2024—are the margin profiles, ROIC, and ROE similar now compared to the pricing spreads at that point?

Management: You have to look at this in two phases. We have two distinct verticals: Essentials and Specialty. The Dahej project is a blend of both; 60% is dedicated to Specialty and 40% to Essentials. The product from Phase 1 is backed by a multi-year contract with a large global MNC. Phase 2 is an integration into the ketene-diketene setup.

In Essentials, certain margin assumptions took a beating last financial year, which is no surprise. However, this quarter, Essentials delivered an EBITDA close to 11-12%. Our Essentials business should be viewed over the cycle. We moved from low single-digit EBITDA to high double-digits recently. We expect that over the cycle, a mid-single-digit EBITDA is a fair estimation for Essentials.

For the Specialty business, our strategy was based on the fact that our site in Mahad was fully utilized. With this expansion, we become the number 3 producer of diketene derivatives globally. We wanted to expand our portfolio and penetration. Specialty business involves batch processes, seasonality, and campaign products. It is too early to say whether the original assumptions were right or wrong, but we believe they will pan out over a multi-year period rather than quarterly.

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Giriraj Daga – Vicharia Family Trust: Regarding the Essentials segment, how are margins looking for the coming quarter? Should we assume a mid-single-digit range from Q2 onwards?

Management: The Essentials business depends on feedstock and raw materials that settle almost daily or weekly. We must have immense agility. The best reference is to look at spreads. There are reports publishing spreads for products like ethyl acetate. We have seen spreads higher than the 12-year average of $215-$220. Regarding Q2, we are still sensing disruption from "West Asia 2.0" and the typhoon in South China creating bottlenecks. It is too early to say how Q2 will pan out, but these are the indicators we are monitoring.

Operator: The next question is from the line of Vanth from Robo Capital.

Vanth – Robo Capital: Thank you for the opportunity. I noticed margins grew to around 12% this quarter. Are these margins sustainable for the medium term?

Management: There is no simple answer. You must look at it by business unit. Essentials is a business you steer over the cycle. You will see swings; margins were under pressure in Q3 of the last financial year, and now in Q1, we see a large upswing. The key is our "right to win" through economies of scale and integration.

Specialty is a different story. Last year, we called out that key feedstocks had a deflationary effect over the FY25-26 period, which impacted the segment along with the phase-out of one key product. We have had a positive start to this financial year for Specialty, and with Dahej taking shape, I remain confident we will navigate the coming years positively.

Vanth – Robo Capital: Revenue grew nearly 40% from the last quarter. Can you provide the split between volume and price growth?

Management: At the enterprise level, volume growth is around 10%. The rest comes from price and product mix. We have multiple products, so variables depend on geography and mix.

Operator: The next question is from the line of Abu Rafa from Wealth Catalyst.

Abu Rafa – Wealth Catalyst: Given the strong start, how do you expect the Essentials business to perform for the rest of FY27?

Management: Again, Essentials is cyclical. We steer it with agility through procurement, supply chain, and manufacturing. It is too premature to provide a full-year outlook, but we will play to our strengths as we have in the past. Clocking EBITDA in the 11-12% range gives us the confidence to expand and win.

Abu Rafa – Wealth Catalyst: Could you comment on the demand environment for acetic anhydride, particularly from the pharmaceutical sector?

Management: During Covid, we saw a big increase in paracetamol capacity, which linked to anhydride requirements. While that became muted recently, we are now seeing positive momentum in the market for anhydride.

Operator: The next question is from the line of Rohit from 361 Capital.

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Rohit – 361 Capital: Congratulations on a strong set of numbers. On Project Vayu, where are we currently, and what is the timeline for revenue recognition over the next 2 years?

Management: Project Vayu is taking good shape. We anticipate mechanical completion in early Q3, and the ramp-up with our partner will start thereafter.

Rohit – 361 Capital: So for FY28, we should have this capacity available for volume and revenue scale-up?

Management: Yes, that is the line of sight.

Rohit – 361 Capital: Regarding electrochemical fluorination, we were the first to start in India. Where are we in terms of customer engagement and visibility?

Management: We believe we remain the leader in electrochemical fluorination. We have a robust new product development pipeline for our specialty business, and we are leveraging this technology platform for some of those projects. We will make our partnerships public in due course.

Rohit – 361 Capital: During Q1, was there any contribution from the fluorination part of the business?

Management: There was some, but not to the full extent because of the delayed monsoon. We could not fully utilize that setup, but we remain positive for the remainder of the year.

Rohit – 361 Capital: In the base quarter last year, did we have the revenue from the one molecule that has since been discontinued?

Management: No, the phase-out molecule did not contribute to Q1 FY26.

Operator: The next question is from the line of Manav Mehta from Mehta Investments.

Manav Mehta – Mehta Investments: While specialty revenue growth has been decent, we have seen margin pressure for the last couple of quarters. Is this transitory, or is the margin profile fundamentally lower now? What is a sustainable steady-state margin?

Management: Last year was impacted by two elements: the phase-out of a key product accounting for 10% of revenue and deflationary feedstock pricing. If feedstocks fall by 25%, customers seek price adjustments. Secondly, our Mahad site was previously fully utilized, so we had to "bottom slice" our portfolio. With new capacities in Dahej, we can now offer products that we previously couldn't produce.

Raw material prices are now moving upwards, which provides some momentum. Specialty business should be viewed annually or over a 2-3 year period due to batch processes and campaigns. We might not immediately return to the 20-25% margin range we once enjoyed as we ramp up new capacities, but we are now the number 3 producer globally. We saw positive momentum in Q1 for many key specialty products.

Manav Mehta – Mehta Investments: Post-commissioning, what is the annualized depreciation? Should we expect debt reduction or will it stay stable?

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Management: Depreciation will go up starting next quarter when Phase 2 at Dahej is capitalized. An incremental 7–7.5 crores per quarter is a tentative estimate for the depreciation. Regarding debt, repayment will start next year and continue for 5 years.

Operator: The next question is from the line of Vijay, an investor.

Vijay – Investor: Could you quantify the expected revenue from Dahej?

Management: We expect mechanical completion and stabilization in Q3 of this financial year. We will really see those revenues flowing in during FY28.

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

Management: Thank you all for participating and for the interest shown in Laxmi. I would like to thank the whole Laxmi team for operating in this evolving backdrop to deliver these outcomes. I also appreciate our customers who have supported us during this transition. We remain committed to all our stakeholders. Thank you all. Upward and forward.

Management: Thank you.

Operator: On behalf of Laxmi Organic Industries Ltd., that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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