Management Discussion

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Good afternoon, everyone. On behalf of company, I would like to welcome you all Chembond Chemicals Limited First Analyst Investor Meet for Quarter Two and Half Year Ending Financial Year '27. Today on this meet we have with us the management Mr. Nirmal Shah, Chairman and Managing Director; myself, Kiran Mukadam, Company Secretary and Compliance Officer of the company; and Prachi Mahadik, Chief Financial Officer of the company. We will begin the meeting with a brief opening remark followed by presentation on financial result. After the presentation, we will proceed with question-and-answer session. [Operator Instructions]Please note that certain statements made during this meet may be forward-looking in nature. Such forward-looking statements are subject to certain risks and uncertainties that could cause the actual result on projection to differ materially from those statements. Chembond Chemicals will not be in any way responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements.Now, I would like to hand over the mic to Mr. Nirmal Shah for his opening remarks. Thank you. Over to you, sir.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Hi, very good afternoon, everyone. I'm Nirmal Shah, the Chairman and Managing Director of Chembond Chemicals Limited. With me in this room is Mrs. Prachi Mahadik, our Chief Operating -- Financial Officer. Together, we both will try to put some perspective on the quarterly results and half-yearly results that were just declared a few minutes ago. Apologies for the slight delay, there were certain technical issues for uploading these numbers on time, due to which this meeting had to be delayed by 15 minutes.We'll walk you through some common stuff which you already might be knowing about what the company does, so just for the benefit of people attending this meeting for the first time, and spend much more time on the numbers itself and questions From your side, which we will try to answer to the best possible extent we can. So let's not waste any more time. Let me just keep moving. So, Chembond, everyone by now would be aware that we had a demerger and the -- our parent organization itself was established in 1975. This is our 51st year. We have over 950 people. Last year, our consolidated revenues stood at INR290 crores, and our operations were run from three manufacturing sites. Our head office and the R&D center is situated at Navi Mumbai in Maharashtra. Our Board of Directors is unchanged from the last quarter: Professor Anirud Pandit; Mrs. Anuradha Paraskar; Mr. Ghelani; myself; Sameer; and Mr. Sushil Lakhani are the members of the Board of Chembond Chemicals Limited.Our core values, which have been with us ever since the start of the company, are as relevant today as they ever were. And we continue to work and abide and try to create as much customer delight as we can. Our businesses are structured in four buckets: the water technologies business is the largest; construction chemicals follows that; distribution is the third largest; and the cleaning and hygiene business is a joint venture with a German company called Calvatis, which formerly used to be a part of Reckitt Benckiser.So we'll talk a little more about what we have to offer for -- in water technologies. We do chemical solutions, we have equipment solutions that complement the chemical solutions, we do wastewater remediation, and there's a lot of traction happening in this space. And all of these are backed by very deep technical service team that's monitoring and controlling operations on customer sites on a daily basis. Our chemical programs are offered across cooling water, for boiler water treatment, for raw water clarification, effluent treatment and its recovery, foam control, so RO membrane treatment, fin cleaning, and drinking water disinfection.It's a cross-section of heavy and light industries that we

serve. And recent addition to this segment and of a sizable volume is the calls at the data centers that are being set up across the country. We'd be glad to inform that we are supplying to the largest telecom company and also to a lot of independent data centers, some of them international ones in Maharashtra as well as in other states. Our construction chemicals business is about modification of concrete used in infrastructure. We do sealants. A core area for us is the polysulfide and acrylic sealants. Waterproofing solutions are offered as a post-construction as well as during construction portfolio. And we have a range of powder products for repairing concrete or used grouts in engineering equipment foundations and for tile adhesives.Customer segments, as you would all guess, would be on all kinds of infrastructure, some industrial, and we work a lot through applicators and distributors to sell our solutions.Cleaning and hygiene business is a JV between Chembond and Calvatis. We have industrial and institutional segments within this company. It's run as Chembond Calvatis Industrial Hygiene Systems Limited. In the industrial portion, we serve large beverage, food processing, dairy, and brewing industries. And in the institutional applications, it's commercial kitchens, laundries, and housekeeping teams and departments in institutional installations.In chemical distribution, we import, stock, and sell various specialty chemicals. We structure them for construction chemicals. We have additives in paints and inks. These two form the largest component, some additives in water treatment, and then sealants and polyurethane coatings for an allied industry to construction chemicals.Coming to the H1 executive commentary, I'll let Prachi do a little bit of the talking now. And I will step in again to give you a little more context.

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
Hi. Good afternoon all. So coming to the financial part this is a half year executive commentary. So for half year 2026-'27, our consolidated revenue stood at INR182.25 crores, higher than last half year by 32%. And segment-wise, you can see water technologies is higher by 28% on account of good order book growth. Construction chemicals, we focused more on sales expansion in few territories in West, in Gujarat, Maharashtra, which contributed to 30% increase. Distribution at 86% higher as compared to last half year and cleaning and hygiene, 59% over last half year.Coming to EBITDA, at INR22.55 crores. So higher by 2% over last half year. And our consolidated profit before tax is at INR19.79 crores, higher by 2% as compared to last half year. Actually here what we have seen in quarter one and now again in quarter two, our material costs have gone up and this material cost have eroded our profitability. So in spite of higher volumes, the profit before tax still remains at same level in absolute numbers, and as a percentage to sales, it is down, and on account of material cost going down.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yeah, I'd just like to add here that the costs have been increasing at a pace that's faster than us being able to pass them on to our customers. There is a little bit of delay in customer acceptance because these increases have been happening repeatedly through this last six months ever since this Iran war has broken out. Even today and even yesterday, we've been receiving some inputs on material costs further increasing. It's an extremely volatile situation and something that we haven't experienced in all these years. It's even more volatile than it was in COVID because COVID at least material costs did not go through the roof.Here, there is a little bit of fatigue at our end. Our sales teams, by the time they finish one round of price increases, there's already another one to go back to the customers and seek. And there doesn't seem to be any immediate end in sight because all the predictions that we've heard, we've read about articles indicate that there will be stability soon, but that's not really being delivered. But we continue to maintain efforts on broad-basing our sales

growth. So revenues grew on the back partially due to price increases, but a major component was the volume growth. You'll see later in this presentation a little more about that.

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
Coming to next slide on revenue track. So this is a quarter-wise comparison for Chembond Chemicals on a consolidated basis. These are last 10 quarters. So here we have covered financial year '24-'25, financial year '25-'26, and the current two quarters, quarter one, quarter two of financial year '26-'27. So quarter two financial year, current year, it is at INR95.8 crores. Over quarter one, revenue has grown by 11%, and if we compare quarter two of last financial year, it has grown by 31%. So revenue has grown on a --Coming to profitability track of Chembond Chemicals Limited consolidated numbers, these are EBITDA and profit before tax numbers. Again, quarterly comparison of last 10 quarters. So quarter two of current financial year, our EBITDA is at INR8.4 crores and profit before tax is at INR7 crores. In quarter one, EBITDA was INR14 crores and profit before tax was at INR12.8 crores. So if we see this track from quarter four, our quarter one has gone down and quarter two has further gone down. This, as updated by Nirmal, material cost has gone up and profits have eroded in quarter one and quarter two as compared to quarter four. And all the earlier quarters, if we see.This is on a half-year financial performance. So current year April to September as compared to last year April to September. Revenue, we see there is a sales growth of 32%. So we are at INR182.25 crores as compared to INR138 crores in last half year. Operating EBITDA for current half year is at INR22.55 crores, which is 12% of sales, and last half year it was INR22.20 crores, which was 16% of sales. Profit before tax, we are at INR19.79 crores, which is 11% of sales. And last half year we were at INR19.39 crores, which is 14% of sales. Absolute numbers, it has remained same, but as a percentage to sales, it has gone down.Coming to sales volume, this is quantity in metric ton. Here we have divided our sales volume into water treatment chemicals, construction chemicals, and trading and industrial hygiene. So water treatment chemicals, our volume in this half year is at 13,343 metric tons, whereas last half year it was 9,268 metric tons. So volume has gone up in water treatment. Construction chemical, if we see, the volume actually has gone down, but sales have gone up on account of price increase. So from 1,988 metric tons, we are now at 1,330 metric tons. Trading and industrial hygiene, the volume has gone up from 690 metric tons to 1,367 metric tons.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yeah, I'd like to add a little context to construction chemicals. Our product portfolio also underwent a change. We had a higher sales contribution from our sealants business as opposed to the admixtures last year, and that is also one of the reasons. So all this reduction of about 550 tons is not due to reduced or increased prices. It's also due to a change in the product mix sold. And so, at a Group level, we talk of revenue -- about 82% of our revenues come from water, 8% from construction chemicals, 9% this year from distribution and 1% from industrial hygiene. It's pretty much in line with what it was, but we are increasing the share of some of the other businesses at the cost of water treatment.

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
Coming to expense summary, again a half year to half year comparison. This is as a percentage to sales. So material cost for current half year is at 56% of sales, whereas last half year it was 46% of sales. So material cost has drastically gone up. Employee benefit is at 20% of sales and now it is 17%, so it has gone down. Other expenses as a percentage to sales are 15%, whereas last half year it was 18%. So we see here the major cause is material cost, which has gone up from 46% in last

half year to 56% in current half year of financial year '26-'27.Coming to our employee strength, this we have compared as on 31st of March 2026 as compared to 30 September 2026. The composition here, we have divided it into sales, technical services, plant operations, support, and R&D. So as on 31 March, the total strength was 920, and now it has gone to 940. And the division is technical services were at 674 numbers, and now they have gone up to 694. Our sales force, 91, and now it is at 97. Plant operations stable around 65 employees, support staff from 71 to 66, and R&D from 18 to 19. So this is the employee strength what we have overall, Chembond.That's it on financial presentation. Nirmal, you want to add something?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
No. So I think without spending more time on this, I'd like to open up the session for questions. Yeah, Kiran?

Questions & Answers

Zaki Abbas Nasser - Analyst
Hello? Yes, can you hear me?

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Yeah, please, sir.

Zaki Abbas Nasser - Analyst
Yeah, good afternoon, Nirmalji. And I think as you mentioned that we have we have been undergoing cost pressure. Our EBITDA margins this quarter have fallen, I think, to around 8%, 8.5%. How do you foresee these going ahead, sir? At least what would the aspirational EBITDA margins be? Do you think by the end of this year or early next year we could get back to that 15%, 15.5%?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes Mr. Naseer. What we are finding is that, there have been multiple issues. One is the first round of increases that happened on -- in the Q1, which was driven by a lot of these solvents. Q2 has been driven by key components that are being imported from China due to fluctuation in currency as well as the availability and the material cost. So all three factors came in together. Q3 has been as of now the same as Q2 with supply chains not easing yet, freight rates also being higher, and availability continuing to be a challenge.There's a little fluctuation also in domestic markets. Some materials are suddenly going through the roof due to unplanned shutdowns by a couple of the manufacturers. And an import and export country has also not been able to ship out that material because of the shutdown in their country. So these are some time-specific issues that we feel should ease out in some time. But unfortunately, we become so cautious that it's becoming very difficult for us to put any kind of -- provide any visibility to how soon we can normalize. We take solace in the fact that the volume growth, our teams are putting in all the effort, and just the whole fatigue aspect is one thing that we will definitely overcome. But the silver lining is that, once these prices start normalizing, usually we found that there's a couple quarters of tailwind, so we would not need to reduce prices.A lot of the new businesses that we've acquired in these last couple months are at the higher prices, so they will continue to deliver those margins, higher margins. And when costs come down, those margins can improve. So I think double-headed challenge. One was earlier we were able to maintain a 10% top line. We made a lot of changes. We started adding focus on growing the business and the volumes. And now we've come across the situation. Should normalize? Hopefully

by the end of this financial year.

Zaki Abbas Nasser - Analyst
But sir, we can't put -- we have seen a growth. Sir, we have seen a good growth in the top line. So -- and generally Q2 -- H2 is better than H1. Do you at least see that trend sustained going forward, sir?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Very much so. So the order book is very strong. There's also all the continuing orders go well into the next financial year. So there is no doubt that this momentum will continue for the remainder of this year. And Q4, which has historically been a high quarter, high sales and profit quarter. Should also be nothing different this year.

Zaki Abbas Nasser - Analyst
Sir, what is the biggest threat to a business as you see it? See, because we are a very customized kind of specialty chemical company. So do you think there is any risk from the source manufacturers in terms of setting their own products in the company, or no? I mean, there's a moat enough in our business.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
I am unfortunately not able to fully understand or comprehend your question. But if I got it right, you want to know whether there is customer stickiness. Is that the question?

Zaki Abbas Nasser - Analyst
Yes, sir.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yeah. Yeah, yeah. So yes, of course, customer stickiness is definitely there. Our customer attrition rates are extremely low and new business keeps growing. In fact, even some of the customers that we do lose or we do let go experience poor treatment performance from our competitors and do want us to get back. And that is the case in two or three of the accounts that we had lost last year, which we are back into at better prices and higher margins.

Zaki Abbas Nasser - Analyst
Sir, some light on the AI data center clients of yours, sir. How is that segment panning out and what kind of demand do you foresee going ahead on that?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
So we -- the top telecom company, all their data centers are being treated by Chembond's water treatment. There's also NTT, Yotta, and a couple others, Control+S, large data centers. Each of these is taking up our automated solutions. So they have an online monitoring and feed control system. Remote monitoring is what they seek. So that's one component. And the other is the makeup chemicals that they need, which is not significantly large. But the sheer numbers of these in a concentrated locality provides an opportunity which pays for itself by better monitoring teams and routine customer visits.

Zaki Abbas Nasser - Analyst
And sir, before I come back to the queue, the taxation -- so we have ended up paying, I think, 35% in the half year. So why is that?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Taxation, yeah, I'll just let Prachi talk about why our track, but I believe it would be a lot related to the capital gains on redemption of investments, and on some of it would be -- so Prachi, can you pull that out and throw some light? We can come back to this in a few moments.

Zaki Abbas Nasser - Analyst
That'll be fine, sir. Thank you.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, thank you very much.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Thank you. Mr. Ritesh?

Ritesh - Analyst
Yeah, hello thanks for the opportunity. Am I audible?

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Yeah.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, sir, please. Yes, sir.

Ritesh - Analyst
Yeah. Thank you, Nirmal bhai. Good afternoon. Sir, just wanted to know, this margin erosion is across the segments, or is it more into the distribution because its growth is quite high at 86%? That's number one.Second, in construction you said that there is a product mix change. If you can give some more insights into it, why sealants are more and admixtures are less? Is there a change of strategy or something on that? It will be helpful for us.Third, on employee base, on -- can you give us idea what is this technical service employee base? It's quite unique for the -- to us. And also 18%, 19% employees to sales ratio is also quite high for the comparable companies in the chemical segment. So how are you different and what we can envisage this in years ahead? Thank you, sir.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Awesome. Thank you very much, Riteshji, for posing these questions. I'll take them not necessarily in the order you asked. Chemical segment is divided, it's very, very versatile. You would have polymers, you'd have refining products, you would have clothing, you would have so many different segments within chemicals.We cater to a specialty chemical segment, and within specialty chemicals, our business is highly customized and customer-centric. Our teams are deployed at customer sites monitoring and treating their water treatment, water systems day in and day out. Large sites demand a larger team because the business value and the complexity is significant. Our teams are qualified, they are chemists or chemical engineers. They need to know what chemical processes are. And they -- our customer base includes refineries, steel mills, power plants, to petrochemical complexes, and to the small ones like institutional hotels and hospitals. So with the larger segments, we need to have our teams deployed. Within that large site, there are multiple applications. One could be in raw water treatment. That's the fresh water that is taken into the factory premises. Then we treat the cooling, the process water applications. So we would treat boilers, we would treat RO membranes, we would treat cooling towers.And then there's the waste

water that's generated that needs to be treated before it is discharged into public domain again. So for that also, we have to have around-the-clock monitoring, feed control, and make sure that the discharge meets the regulatory norms. So for all of these, there are certain requirements that the customer puts up front. Our bids and prices incorporate the cost of manpower and technical support that needs to be provided. As you would understand, water is not stagnant. It is dynamic in quality. Seasonal changes as well as source changes as well as certain leakages from within the factories can disturb the water balance and the quality, which needs immediate course correction in team -- terms of the treatment we provide. So that's why we need people in the field.Our -- I think our employee cost as a percent to sales used to be even higher in the past periods, has come down because it's a higher top line this quarter for sure. And it's been like this for ever since we've started this business because this is something we thrive on.I think one of your questions was also on the product mix in construction chemicals. Yes, there were certain orders that we had for admixtures. Those projects came to an end, so there was no more future supplies to those projects, and that sales was replaced by a proactive action by the team to build up customers for regular moving items. And those were the sealants. Sealants, we have over the years gained a good reputation for performance, and it's the preferred benchmark in the industry in polysulfide sealants that the Chembond sealant is considered to be T1. So that's what's getting back some customers on sealants, and we are also aggressively pushing. We also repurposed one of our lines in the plant in Gujarat to make additional quantities of sealants, so we are able to churn out more volumes for that.Was there any other segment question that I missed? If I have --

Ritesh - Analyst
Third one was on margin. Is margin erosion across the segments, or is it more in the distribution side?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
No, it's across the segment, not so much in distribution, because as a total percent -- distribution is still about 8% or 9% of the total. So water is the major concern, and we were just doing a quick calculation that had margins even remained at Q1 levels, our profit would have been higher by about INR20 crores. So that's the erosion in numbers just because of these raw material prices that have shot up.

Ritesh - Analyst
If I can add a couple of more questions. So you mean to say you have a product business also and there is a service element to it because you need to have your technical staff?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
That's right, that's right.

Ritesh - Analyst
Sir, if you can give some idea what percentage of revenue is catered by this technical staff?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
80% of our business revenues come from businesses that need manpower dependencies and are driven by technical solutions. And about 15% to 16% is purely driven by product sales. And the remainder is a hybrid where the basket is sold. So some products and some technical selling.

Ritesh - Analyst
So if your people are to this refinery or to their water treatment plant's, can we say that you have some moat to that extent that the client will not run away from you just for a pricing purpose?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yeah, that's true. Yes, very much so. And that's what I mentioned, our customer attrition rates are very, very low. And even in instances where we have lost, where the customer has -- customer is not running away from us, they're throwing us out. They've actually invited us back and agreed to pay a premium to solve their issues created by a competitor.

Ritesh - Analyst
Only one last question. Any revenue concentration, if you can give like top 10 customer revenue concentration or something?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
No, actually that's something that's a little too specific, and it's something that we really wouldn't want to be discussing in this forum.

Ritesh - Analyst
Thank you very much, sir. It's very helpful for us.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Thank you.

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Yes, I think the next question is from Siddharthji. Yes.

Siddharth - Analyst
Thank you for the opportunity. Am I audible?

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
Yes.

Siddharth - Analyst
Good afternoon, Nirmal. In the previous calls, you had mentioned about these new age industries like solar panels, copper plants, and data centers. So approximately what percentage of our water revenue comes from these new age industries?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Roughly about 7% to 8% so far.

Siddharth - Analyst
Okay. And do you see this concentration growing in the next three years?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, if this industry continues to execute all the projects that are in the pipeline, we expect it to hit about 12% to 15%.

Siddharth - Analyst
Okay. And just a last question so these customers, are they on tenders or are they on contracts?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
In the initial phase, they come with the technology supplier's contract. However, with the performance that we deliver, they end up becoming bid contracts, and in the bidding, there is usually a premium that they are willing to pay for somebody who has already delivered.

Siddharth - Analyst
Okay. So you can negotiate better prices with them?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Correct. Better prices, not necessarily, but yes, they would want to continue to work with us.

Siddharth - Analyst
Okay. Thank you.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, sir. Thanks.

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Jinal. Hello?

Jinal Sheth - Analyst
Good afternoon. Yeah, hi. Am I audible?

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Yeah, yes, sir, please.

Jinal Sheth - Analyst
Yes. Good afternoon, Nirmal. Just -- I mean, I heard your comments on the margin side, and obviously that -- since that was a big hit. I just wanted to understand, since your commentary has been very positive on sales, on growth ahead. What is driving this positivity, if you may kind of -- if you can break it down?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, hi, Jinal. Most of the segments that we cater to, not only most, all the segments have seen volume growth. Whether it's -- it's across the board, there's not one industry that is slowing or which has slowed down. Refining, petchem, chemical manufacturing, agrochemicals, fertilizer, power, steel, cement, every segment, Jinal, has experienced growth.

Jinal Sheth - Analyst
This is interesting, Nirmal, because -- I mean, when we are tracking some of these industries, I mean, obviously, it's a mixed bag what we hear. So I'm simply trying to understand, has there been a change lately that is helping us with the strong growth? I mean, something on the regulatory front? I don't know. I'm just kind of trying to understand because, I mean, in the last few years back and in the last couple of years, I mean, there's a clear bump up in the pace of growth that we are at, right? So I'm just trying to understand what has changed. Is it -- obviously, I am -- and I know last time you did mention about newer products that have been introduced as well that's helping. And then you did answer the previous one where the new age. So I'm just -- I mean, what is that change that has led to the strong growth?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
So what, yes, primarily it is an expansion of the volumes being produced by these industries. Second is their effort on water conservation and recovery. They are trying to reuse as much water as they can. And as a result of which they continue to need better designed treatment programs. There's also certain amount of regulatory change and the move in public sector from elemental chlorine to using other oxidative treatments, but that impact in our performance has been not even 4% to 5%. So that uptick is not driven primarily by regulatory -- regulations, basically mandates.

Jinal Sheth - Analyst
Okay. And so, finally, I mean, I know that your commentary for this year is strong, but when you see the opportunity in front of you and when you're talking to clients, do you believe that this growth and opportunity can sustain for the next few years?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Next few years.

Jinal Sheth - Analyst
I mean, I'm trying to get a gauge of the opportunity, right? I'm not trying to hold you to a guidance or something. Yeah. So you can resolve your -- yeah.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
No, we expect, of course, the industry, because see, I look at it as an overall, we're seeing certain positive indicators on the country and its exports that are happening. The free trade agreements are only going to make it easier for Indian companies to export. There's more and more products that are getting into the manufacturing domain within India, which did not exist a few years ago. So this momentum is going to continue, and I don't see that stopping within a year or two. These are long-term commitments that companies and industry makes, so they are likely to continue. Coming to -- so we are very, very excited about this opportunity. And at the same time, with these cost pressures, I am positive because I don't think anything at this level is sustainable, number one. Number two, even if it is, our teams are working on alternates that we could develop or use that could probably reduce our reliance on these specific materials. So our work has to be to come up with alternates and in the face of adversity still come out with winning solutions. So our teams are capable and are aligned to doing this on a continuing basis, and that's what gives me confidence that this growth is good for us and we will be able to tide over this situation.

Jinal Sheth - Analyst
That's fantastic. And lastly, Nirmal, how are you seeing the competitive landscape? Any changes there, or it's the same, or --

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
No, it's pretty much the same. There's been, of course, a little bit of change in one of our competitors who's been taken over by another process chemical manufacturing company, and I think that transition phase will last for a few more quarters. And we expect that, and I continue to maintain that that should be a positive for us because it's a larger, better organized company.

Jinal Sheth - Analyst
Perfect. Thanks a lot, Nirmal, and good luck to you and the team.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Thank you. Thank you very much.

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Mr. Madhur.

Madhur - Analyst
Sir, thank you for the opportunity. Sir, so, firstly, if you could help us understand that how should I look at our margins going forward, because you mentioned that we have been able to pass on some raw material cost increases to our customer. And if you can help us understand how is the execution cycle of these projects and when can we expect the increased margin or the realization improvement that you have taken with customers to reflect in our margins?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yeah, so Madhurji ours is a continuing business. It's not like an equipment supply that will end with one project. So 90% of our water business is driven by the chemicals, which are like a consumable, and most of the contracts are either annual or biannual, so two-year contracts. They come up for renewal. Public sector contracts are fixed price, very difficult for us to revise those prices within the contract period unless we terminate the contract ourselves. Private sector, they are much more reasonable. They will listen, they'll talk, evaluate, and pass on at least a portion of the increase that we would seek.New bids and new tenders, new proposals are constantly being submitted. Those are submitted at prices that would factor in the current material costs. And again, those would also result, if it is a positive result, in orders that would be for one or two years. So this kind of a cycle will continue. So it's a continuing business, it's not a one-off.Pipeline, when I say pipeline for equipment, I think our book would be about INR15 crore to INR20 crore as of now for this financial year. And on chemical sales, everything else is a continuous business. Overall, maybe 25%, 30% of our total sales in water comes from PSU, which are fixed price contracts. I hope I've been able to answer your questions.

Madhur - Analyst
Yes, sir. So, sir, would it be fair to assume that over the maybe next one or two quarters, our margin might be on the -- there could be some pressure due to if the raw material prices don't decrease in proportion to the extent where the price lag happens with our customers. Is that a fair understanding?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yeah, so as long as everything else is constant in the current situation, if the Iran war diffuses completely and crude and all logistics lines come back to pre-war levels, we expect that in one or two quarters we should be able to see all the effects of the cost increases be overcome.

Madhur - Analyst
Got it. Sir, so I was -- sir, if I look at your gross margins, they've -- not considering these two quarters, but FY '26 versus FY '24 levels, they've improved. So how should we look at our gross margins going forward considering we are moving into these new age industries where our product might be much more critical as well as the quantum or the business with our customers like refineries is growing. So can we expect this to move to 40 [Speech Overlap]

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
No. So see, there is nothing like more critical and less critical. Water is a critical element for any industry, and if not treated well, it can cause several production-related issues and downtime and higher costs for the customer. So whether it's a data center or a refinery or a power plant, water is equally valuable and important to be treated well. So from that perspective, there is nothing that needs to be more weightage to water treatment.And new age industries, when I say that, I'm saying that industries that did not exist in India, they've started to come up. And as a result of which the market itself is expanding. These industries did not exist in India until two, three, four years ago, and now we see that there's -- they are becoming a sizable component of industrial manufacturing. So that's what I mean by new age industries.

Madhur - Analyst
Got it. Sir, so what metric should we look at? So considering -- so what metric should we look at for the margin improvement for Chembond as a business together, would it be more driven by the chemistries that we provide, or would it be more driven by us manufacturing whatever purchases that we are buying?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Madhurji, I don't think I can throw anything more than what we've already been talking last 30, 40 minutes. There's not much more to add to help you understand this. Margin improvement will come when costs will reduce. Everything else is in its position, in its place. So it's not that our capex has driven interest costs up, nor has employee costs shot up through the roof. So all those are still where they were. It's only the material costs that have hit us. And as soon as those prices cool off and the effect of price increases sets in, margin improvements will be seen.

Madhur - Analyst
Got it. Sir, just one final question from my end. Sir, can I ask one final question?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yeah, sure.

Madhur - Analyst
Sir, so just one, sir, how would be our competitive intensity versus an EPC or a water treatment solution provider? So what is the competitive advantage or right to win that Chembond has versus these integrated players who are building the plant as well as providing these chemicals together as a service to their end customers, whoever that might be?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
I think the relationships that we have and the credentials that we carry still make us a preferred choice because all the other EPC companies that are not into chemicals do not want to award their chemicals business to our competitors who are doing everything themselves. So from that standpoint, we are a preferred vendor to those companies, and we have a couple partnerships, or I would say informal or formal partnerships, in place with these large equipment companies, where we are their preferred partner supplier. Thank you.

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Yes, Mr. Lala Ramji.

Lala Ram - Analyst
Hello, good evening. Am I audible?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, very much sir. Thank you.

Lala Ram - Analyst
Good evening, Nirmalji and the management team. I have three questions. The first one is, you made a remark that your profits would have been higher by INR20 crores if prices in quarter two would have been similar to quarter one. Were you referring to the EBITDA or PBT for the first half in that remark?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
I was referring to the product margin itself.

Lala Ram - Analyst
The gross profits?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
That's right.

Lala Ram - Analyst
For the entire half year? Correct?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Q2, at Q1, yes. For six months it would have been, yeah.

Lala Ram - Analyst
INR520 crores. Okay. Got it. Also, the second question is, if I look at your quarter two versus quarter one, the fall in gross margins is not very dramatic. It is just a 1% drop from 42.7% to -- 43.7% to 42.7%. So the bigger pain actually has come from other expenses, which has gone from INR11 crores to INR16.5 crores. So can you throw some more light on what exactly has happened there?

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
So our revenue mix has got technical service as one of the revenue. Here we employ our labors. So there are few customers from wherein we have got technical service orders. So labor cost has increased in other expenses. And also, to some extent, freight cost and traveling cost has increased. So this has contributed to increase in our other expenses.

Lala Ram - Analyst
Okay. Got it. Third question is, if I look at your employee base, majority of them are into technical services. So does that mean all of them are at the customer site?

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
Yes.

Lala Ram - Analyst
Okay. So what is the scope of cost optimization in this line item with, say, remote monitoring and any other developments in technology?

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
So these costs are like when we receive order, the employee call -- the labor and employee call number is specified in our order, and that is the service what we have to provide. So that is what we are currently following. So I don't see any optimization in terms of number, so that would still remain the same.

Lala Ram - Analyst
Got it. One final question is, in the previous calls you have mentioned about the vision of INR1,000 crores. Can you talk what we have done over the last few months with respect to this vision? Maybe new categories, new segments, new geographies, whatever you can share.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
I think a lot of it, it's across the board, and I think the revenue growth itself would be an indicator that some of those are obviously delivering the goods. We had aimed that in three years we'd be at that number. So one was an organic growth, and that's something that we are pushing. Second was to grow the smaller business within the company operation, and that's also what we're trying to achieve in the distribution, in the cleaning and hygiene, as well as in the construction chemical space. So both of these are something that we can do within our company. And the third is looking at inorganic opportunities. So every now and then we keep receiving certain teasers on opportunities of where the company could acquire some businesses. We keep evaluating them. Some are worth getting deeper into, and we do evaluate them. And if it's something that seems logical and synergistic, we try to dive a little deeper. So that's the third leg on which we expect to hit this.

Lala Ram - Analyst
Okay. Just one follow-up on this point. With respect to inorganic opportunities, what is the framework there? What kind of acquisitions would we like to do? And specifically product, or whatever you can share in terms of framework.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
I mean, there's a -- it needs to be synergistic. It needs to be an area in which we have some credible presence and strength. And it needs to be of a size that we can digest and manage to operate without creating constraints for the continuing business. Pretty simple and logical from that perspective. We don't want to get into something unconnected, something fancy, and something unsustainable.

Lala Ram - Analyst
Okay. One final question if I can pitch in?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
I think I'm now running into finals a lot. So yeah, let's hear that. Yeah, go ahead.

Lala Ram - Analyst
Yeah, sure. So I think we have done a very good job with cash flow in the first half. So want to understand if we are looking to use that to say by doing buyback or increasing dividend payout or anything of that sort.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yeah, we would surely be looking at it because if there's not an immediate need for this cash, then we'd like to return it to all our shareholders.

Lala Ram - Analyst
Got it. Thank you so much and wish you all the best.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Thank you very much. Yes, sir, Zaki.

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Mr. Nasser?

Zaki Abbas Nasser - Analyst
Yeah, sir. So, Nirmal bhai, you mentioned INR1,000 crore aspiration three years down the line. So what capacities have -- are we already sitting on for this aspirational number, sir? And what -- if required, what capex would further be required?

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, I think this is something I answer every quarter or every time we interact with all of you. So our products are formulations and capacity is not a constraint. We have large enough plants and that our small incremental expansions are yielding magnified capacity expansions. So addition of a warehouse section would increase the material handling capacity multifold. Adding two reactors would increase capacity multifold. It is not linear or constrained by the -- the processing cycle is short. So -- and the businesses that we are into, addition of capacity is not a multi-year project. It may at most take two months to expand. The plants are made and designed in a way that it is modular expansion. Whether it's on inside the shop floor or an additional block or building to be made, they can be expanded without disturbing the running operations of the plant.So from that perspective, that's the least of our concerns. Our concerns are typically towards profitability management and cash flow management. On cash flow management, we've done, I think, a credible enough job. On profitability management, we've tried, but due to some reasons beyond our control, we have not been able to deliver to our own expectations, and I'm sure your expectations too.

Zaki Abbas Nasser - Analyst
Thank you, sir. Best wishes for the balance sheet.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, sir. Thank you. Thank you very much. All right. I think there are -- Mr. Lala Ram, do you still have a follow-up question or it's raised from the previous question itself?

Lala Ram - Analyst
Yeah, it's raised from previous question.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Okay, okay. So great. I think we've reached the end of our time anyways. And if there are no more questions, Kiran, can we conclude this meeting?

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Yeah, yes, sir, please.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Okay. Thank you, everyone.

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
Thank you.

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Thank you all. Thank you for attending.

Prachi Mahadik - Chief Financial Officer, Chembond Chemicals Ltd
Thank you all, and wish everyone a happy Diwali.

Nirmal V. Shah - Chairman and Managing Director, Chembond Chemicals Ltd
Yes, I wish everyone a happy Diwali festivities ahead. Thank you.

Kiran Mukadam - Company Secretary and Compliance Officer, Chembond Chemicals Ltd
Thank you.