Management Discussion

Rajan Venkatesh - Managing Director & Chief Executive Officer, Laxmi Organic Industries Limited
Thank you very much, Ikra. So [Foreign Speech] from my side. A very good morning, good evening, good afternoon, depending on where you are dialing in from. With me, I have the pleasure of two other colleagues. One is Amit Jain, who is our CFO, and the second colleague is Harsh Goenka, who is the CEO and MD-designate who would succeed me as of November 14. So, the way we would like to play it out today is I would just like to take a quick snapshot on our Geared to Win strategy, what was the key levers that we had focused upon -- when I had almost started my journey with Laxmi, where are we? And between Amit and Harsh, they will navigate us through, you know, our very strong performance that we have continued to deliver into Q2 and also into the best first half for Laxmi.

And then we will open it up for question- and- answer. So about three years ago, we sort of, you know, really started off our Gear to Win strategy. There were five specific focus areas. One was safety in operations with a clear motto, every moment a safe moment at Laxmi. And this has really delivered very, very positive momentum and results and will continue to be a key focus.

Having now Rajesh Naik, as you would have seen, joining the Board as an executive director of operations, this only underscores Laxmi's commitment and importance through this topic. The second focus was strengthening our base technologies, with the recent setup of our world-scale Ethyl Acetate facility at Lote and our doubling of the Diketene facility at our Dahej setup, also being world-scale. In the Diketene derivatives, Laxmi lands up being globally top three. And this is very, very important.

So that's an important strengthening we have done. At the same time, we have stabilized our new technology platforms on Fluorination, and this has already started delivering us positive momentum, and we believe this will be an important growth engine moving ahead. The third aspect is always the customer. As we always say, customer first. Deepening existing customer relationship and ensuring new partnerships have been an important theme for us. The new partnership theme is something like Hitachi that we have achieved. For the new existing deepening relationship is -- will be the growth engine for our Diketene derivatives and essentials basket.

The fourth element has been streamlining systems and processes. And just as one very tangible example, the end-to-end digitization of our supply chain operations, which we called out in the last financial year, has taken exceedingly good shape and that will continue to be a focus area for Laxmi as we move forward. And last but not the least, diversity in workforce. Over the last three years, the percentage of women participating in Laxmi workforce stands at 10%. We were at 4% three years ago, and this actually brings us to be best in class in the Indian ecosystem when you compare us with either Indian peers and global MNCs operating in the Indian space. So I believe this sets the right baseline, as Harsh now comes into the new role and success me, and you know this will then form also the right platform for the organisation to move forward.

With that I hand over to Harsh to sort of get his reflections in for quarter through and moving ahead.

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Thank you. Thank you, Rajan. Good afternoon, everyone. Wishing everyone a happy Dhanteras today. Good afternoon to some old friends and old acquaintances I see on the call, and I'll be happy to take you all through the highlights of Q2 that we've just gone about. I'll start off talking a little bit

about market. I think customers have had -- it's been a mixed bag in Q2. We're given the volatilities, the peaks and troughs that we've seen, customers have moved back to buying on a just-for-now strategy where we are just about surviving for today and not really taking long, long-term bets. This was at the backdrop of Diwali where we still saw some growth coming in from the industrial segment while the pharma and agro segment remained fairly a mixed bag.

Coming closer to raw materials. R aw materials started off in Q2 falling down and with the Middle Eastern tensions rising, we saw that rebound and cross the previous highs from the -- from Q1. This was led again by supply chain disruptions, primarily in shipping, where we saw typhoons in Southeast Asia also impacted that tremendously. We also had a force majeure going on in Europe. All of this led to a fairly disruptive environment as far as raw materials were concerned, caused by volatility.

Performance of the company. D espite that backdrop, very happy to say that the company has performed well, in this time, we could record our highest revenue volume and EBITDA for H1 as a company. A nd that shows the resilience, the scale and the cost position that Laxmi endures in the markets that it plays in. Another positive, we've managed to commission Dahej . That has happened in this quarter. A nd the assets at Lote of Ethyl Acetate have also been commissioned. The specialties, while we had double-digit absolute revenue and EBITDA growth, we faced a higher fixed cost caused by the startup of Dahej assets, and some of the longer-term contracts that we had in place could not take on the higher prices of raw materials and shipping, which will be corrected in due course of time.

Looking ahead to the -- towards the next quarter and next half of the year, we see a few things cut out for ourselves. The first is stabilization of Dahej . While Dahej has started stabilizing and getting customers qualified remains a key and top priority. We have our next plant at Lote Vaayu being commissioned. With our partnership with Hitachi, we look forward to that and we are confident of getting the specialty business back towards the mid-teens in this period of time as well. Lastly, I'd like to put a word out for Rajan.

A big thank you to Rajan for the time that he spent at Laxmi establishing a strong foundation, doubling down on our asset bases our technologies and really putting a strategy where we played to our strengths. So you've Rajan, thank you. You've left a permanent image with us on the culture of the company, and we shall proudly take that ahead. I would also like to take the opportunity to thank the Board for giving me the responsibility to lead the company ahead. I look at Laxmi as having a large runway ahead of itself. We have strong asset bases in India with great technology platform and leading market positions, which sets us up for a lot of potential. And I look forward to working with our customers and colleagues to delivering that. Thank you.

I'll hand over to Amit to take you through the detailed financials.

Amit Jain - Chief Financial Officer, Laxmi Organic Industries Limited
Thanks, Harsh. So wishing everybody a very happy Diwali and the New Year. As Harsh mentioned, that against the backdrop of continued volatility arising from the geopolitical situation, we delivered a strong broad-based performance in Q2 FY '27. Revenue for the quarter stood at INR1,082.7 million, growing 55% year- on- year, driven by strong double-digit volume growth higher price realization resulting from the timely pass-through of increased raw material, energy and freight costs. In addition to better pricing, our supply chain agility and procurement efficiencies contributed significantly to the growth in operating profitability during the quarter despite challenges arising

from raw material shortages, vessel availability issues, shipping delays and increased freight and energy costs. The EBITDA for the quarter stood at INR1,080 million, representing 191% year-on-year growth.

As communicated during the last quarter, to secure procurement efficiencies and ensure the timely availability of the key raw materials, our net working capital continues to remain at an elevated level. However, we expect this to normalize over time. In the current volatile operating environment, our priority remains ensuring uninterrupted supply and business continuity. At the beginning of this quarter, the Dahej Phase 2 was partially commissioned, and the remaining facilities are expected to commission in the coming quarter.

Our focus over the next few quarters will be to stabilize this new facility and obtain customer qualification and ramp-up volumes. Further, I am pleased to inform you that Project Vaayu, the investment we are undertaking as a part of our partnership with Hitachi, remains on track for commissioning in Q3, with volume ramp-up expected over the following quarters. With our capex cycle nearing completion, our term date as of 30 September stands at approximately INR610 crores. We continue to maintain a healthy net debt-to-equity ratio of 0.28. Our ROCE improved from 4.9% last year to 10.3%, in September '26 on a trailing 12-month basis.

If we drill down to the business unit performances, the specialty business revenue stood at INR2486 million, growing 36% year- on- year. The business delivered strong double-digit revenue and EBITDA growth. In specialties, our focus remains on driving demand and increasing utilization of our new capacities, entering new products, applications and industries, and developing long-term partnerships with the customers. In Essential Business, revenue stood at INR8,341 million, growing 61% year- on- year driven by double-digit volume growth and agile pricing actions to pass on cost inflation to the customers. In essentials, our focus remains on maximizing volumes and operating our assets at a scale, drive -- driving operational excellence and cost competitiveness, and maintaining our leadership position in India while actively pursuing the export opportunities.

With this, we'll now open the floor for questions- and- answers. Thanks.

Questions & Answers

Operator
Thank you very much. We will now begin with the question- and- answer session. [Operator Instructions] The first question is from the line of Rahul Singh from RR Securities. Please go ahead.

Rahul Singh - Analyst, RR Securities
Sir, congratulations on good numbers. So I have basically two questions. So first one is, once again, essential business has seen healthy EBITDA margin in Q2. However, our sense is that the gross margin or the spreads during the quarter were not as high as the first quarter. So firstly, wanted to get a color on how spreads moved during the quarter and whether it is trending now. And also wanted to understand how Laxmi has been able to maintain the EBITDA despite gross margin falling from the peak of quarter one.

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Sure, sure. No, Sachin, thanks for that. So Sachin, as you can -- sorry, Rahul. Rahul, thanks for that. So I think the business of essentials remains volatile, and our ambition as a company has always

been that you operate in the in a way that you have scale and leading cost position that enables us to make money across the cycle, whether raw materials and prices are moving up or down. You have to make money at both ends of the curve and you measure your profitability over that.

So we've seen this over the last 30 years being in this business, that the business will remain with its ups and downs and you could experience that as quarters, maybe even many ups and downs within quarter. But resilient performance across cycles is what we strive to achieve, and that's what you're seeing actually come through. I hope that could answer both questions to some degree.

Rahul Singh - Analyst, RR Securities
Digit volume growth on year-on-year basis in the essential business. So however, are we seeing any impact from the disruption to the transit routes or availability of material, etc? And how should one see volume growth for this year and then going forward? And we have put up considerable capacity at Lote. How do you see that ramping up over the coming years, and by when should one expect to reach peak revenue potential?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Sure. So I'll address it in three parts. The first is shipping and disruptions. Yes, that remains completely on top. We have to operate very -- in a very agile manner in this environment, and that's just the new game we have to play. The world is like that, and we don't see any change, but you have to be on top of that. So yes, there are disruptions even now towards raw materials. The predictability that used to be there is very, very different in our environment today. Similarly, on the outbound side, when we move west of India, w e do see disruptions -- shipping ships not berthing or going full, and it's a -- it's an environment which you live in. We have performed well in this environment, as you've seen in Q2, and our endeavor and our focus will remain to put our heads down and deliver similarly when times are volatile.

Coming to the second, on volume, this quarter itself, uh, on a Y-o-Y basis, we've delivered almost 18% to 20% volume Growth. As our assets come on stream, you will see that play out. As far as specifically Dahej is concerned, we are on track where the plant has been commissioned. We are stabilizing within Q3, and the ramp-up will start in Q4 after all the customer qualifications are complete.

Rahul Singh - Analyst, RR Securities
Thank you, sir. That's it from my side.

Operator
Thank you. The next question is from the line of Manoj Mehta from Mehta Investment. Please go ahead.

Manoj Mehta - Analyst, Mehta Investment
Thank you, sir. So my question is, in the specialty segment, we had one product going offline. Just wanted to confirm whether that product was there in Q2 last year and is the base comparable for this quarter? You have mentioned in the presentation that raw material price increase could not be passed on to contracted customers. So is that transitionary or the contracts don't allow for price escalation at all?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
So I heard two questions, Manoj. I'll respond to both. The first is the quarters are comparable. It was not there last year, it's not there now as well. That product has gone off. The second question with regards to your contracts. Yes, the contracts would reset in due course. Our contracts tend to be all the way up to a year. As those contracts come up for renewal, those effects will be will come in and will be seen in the PM.

Manoj Mehta - Analyst, Mehta Investment
Okay, sir. And, like, how much of the specialties business is contracted? Are you looking to go for more of non-contract kind of model going forward to insulate from raw material price volatility?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Oh, see, the specialty business, Manoj, is a wide basket. Contracts in that business it's not a CDMO business where you've got contracts for a very long duration of time, and it's a very different business model. Specialty business over here allows us to have contracts as short as six months up to a year. These keep on kicking in and they will pass on with lag, especially when you've got shipping which has come in and bit the margin of that. So is it possible to pass through? Yes, just as they come up for renewal, the customers are already aware of the situation that we face today.

Manoj Mehta - Analyst, Mehta Investment
Okay. A nd on the specialty side only, the EBITDA margin has come down to around 12% for H1, and margins have come down drastically last few quarters. So can you give some color on how the business is shaping up? Should we expect to get back to a 20s kind of margin range or are we structurally down to this low teens sort of margin bracket now?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
So Manoj, I think the ambition is to move the business back to mid to high teens. That's where will land up playing. Dahej fixed cost is what's dragging also a part of the business down today. As those volumes start kicking in, that will also help push the EBITDA up.

Manoj Mehta - Analyst, Mehta Investment
Okay. And lastly, employee cost has gone up considerably from Q1 to Q2. So what has driven this increase? Has the expenses related to Dahej acility now reflected in the P&L? And will we see expansion rate going up further?

Amit Jain - Chief Financial Officer, Laxmi Organic Industries Limited
Yeah. S o there are two impacts Manoj, it's basically one is Dahej cost is no coming in that. Second is in Q1 there are certain reversals on the ESOPs, so that number looks lower in Q1 and that's how it is showing high.

Manoj Mehta - Analyst, Mehta Investment
Okay. Thank you so much. Thank you.

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited

Thank you.

Operator
Thank you. [Operator Instructions] The next question is from the line of Chetan Doshi from Tulsi Capital. Please go ahead.

Chetan Doshi - Analyst, Tulsi Capital
Yeah. Good afternoon and congratulations on good set of numbers. My first question is regarding Dahej facility. What is the current status of customer qualifications and trial runs for Phase 2? And what percentage of peak utilization do you expect to achieve by end of financial year '28? And second question is regarding that agrochemical intermediates which we phased out. So has the drag from the legacy agrochemical intermediate phase-out completely bottomed out or still some activity is going on in that?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Sure. So let me just take it. I heard you want the commentary on the Dahej ramp-up and ag. Okay. So Dahej, I think very it's quite simple. The plant is commissioned, the core blocks, all of them have started. You are now in the stabilization phase of this quarter. Where our ambition is to stabilize the plant. There's a tech -- that's a technical word where we will achieve what we believe are capacities, etc., from this asset. Parallelly, customer qualifications would happen.

Most of these products are existing products that we have already made, so the customers are very well known to us. And that is -- but since it's a new plant, we still require customer qualification to go to happen, which will take its time. FY '28 is really the first year where you will see a full set of operation -- full set of revenue coming out of this asset. And that's the period in which you'll start seeing the scale-up. We in our business plan, we always assume a 3three year to full scale. Ambition is always to do that faster, but that's the baseline in which we operate rate.

Regarding ag, ag today, as I mentioned in my opening comments, it's a mixed bag. You do see some amount of green shoots coming about where capacities and manufacturing is back. That's reflected in some ag company results that will be visible as well. Yet you also have on the same side excessive capacity that remains a concern in China. And intermediate players are always faced with a conundrum whether to source the end active or produce the intermediates in their respective geographies, not just India. And that's a general challenge around the world which we don't see changing dramatically in the short term.

Chetan Doshi - Analyst, Tulsi Capital
Okay. I f you allow me, can I ask one question?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Sure, Chetan .

Chetan Doshi - Analyst, Tulsi Capital
This is regarding ECF, that is ramp-up. How is the customer traction progressing for new Fluorochemical specialty products, and what is the current capacity utilization for Fluorination setup compared to your target?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Sure. I'll try and answer that to the best we can but to give you comfort, customer qualifications have gone -- and have gone on very well. We are qualified in multiple countries across multiple customers in a new set of applications where Laxmi did not play earlier. That has given us a big boost of confidence to look at this business and grow this business, which was the original ambition which we've had, and capacity utilizations remain at a fairly high level across the Board.

Chetan Doshi - Analyst, Tulsi Capital
Congratulations and wish you all the best. Happy Diwali to the entire team. Thank you.

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Thank you, Chetan.

Operator
Thank you. The next question is from the line of Jigar Shah from Elevate Research. Please go ahead.

Jigar Shah - Analyst, Elevate Research
Yeah. T hank you for the opportunity. So my first question is, by when will the entire facility for Diketene be commissioned for commercial supplies and how should one look at the ramp-up over next, let's say, next two to three years?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Okay. Y ou can repeat my line, Jigar. Thanks. As I'd mentioned earlier, Dahej is commissioned in my opening comments as well, within at the towards the end of Q2. The company's focus remains to stabilize the plant. Customer qualifications would happen in parallel within Q3, and ramp-up really starts at Q4. FY '28 remains the first year of full operations where you will see the revenues largely kick in.

Jigar Shah - Analyst, Elevate Research
Got it, sir. I think I missed your opening remarks. Yeah. S o my second question is that we have seen a couple of people from the leadership team leaving in the last few months, and which has coincided with them also moving out now. So just wanted to get your thoughts on the entire human capital that has been built over the last couple of years. How do you see that now, and how differently or similarly should one expect to see Mr. Harsh running the show now? Should we expect any change in the quarter plan or roadmap?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
So let me answer the last question first, and then I'll hand over to Rajan on the team. See, I -- just to be clear, I've been part of the company, part of the strategy, a part of this for a very long time. The assets, the customers, the colleagues are very close to me. So a strategic shift. Our focus remains today we've established and doubled our asset base. Fulfilling that asset base is our immediate-term priority. We have several adjacencies which we will play to our strengths, and that remains the strategy that we have today. On the people topic, I'll pass it on to Rajan.

Rajan Venkatesh - Managing Director & Chief Executive Officer, Laxmi Organic Industries Limited
I think the most important element is to, you know, acknowledge the backdrop where we are operating and chemicals continues to be subdued and volatile, a s I'm sure you're also hearing it from other peers. So for us, as a very responsible management and company, we need to actually maximize the impact from all the roles that is going on. So while now if you see Harsh's leadership team that has a great blend of very experienced colleagues who have been with Laxmi for more than seven to eight years, and you have colleagues who have been with us for the one to two year time horizon. I feel it leaves us as a great blend for and as a platform to move forward.

Jigar Shah - Analyst, Elevate Research
Thank you very much.

Operator
Thank you. [Operator Instructions] The next question is from the line of Rajik Shah from Ascent Capital. Please go ahead.

Rajik Shah - Analyst, Ascent Capital
Yeah. A couple of questions, sir. So how is the Fluorination business shaping up, and are we on track for around INR150, INR 160 crore of peak revenue from the business for FY '27? Am I right?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Sure. Rajiv, you want to complete the other questions? Then I'll answer altogether.

Rajik Shah - Analyst, Ascent Capital
Yeah, yeah. Also, sir, about the Hitachi, when the Hitachi will be over and about that, right? And when will the commercial supplies to Hitachi begin? Can you throw some light on the margin profile of the Fluorination business also? Yeah.

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
So Rajiv, I'll try and answer both. The Fluorination business, as mentioned , we've had several customer qualifications in new industries and in various countries and various sites. That allows us to operate the plant at a good utilization level, which is therefore reflective in the business ambition that we had said about and the revenues that you mentioned are in line with what the company will achieve in FY '27.

As far as Hitachi is concerned, what I'd like to clarify is Hitachi is one of the customers for this product. This product has a long runway ahead and several customers across the world. We are anchoring with Hitachi and are targeting to commission the plant within Q3. And again, I'd mentioned that earlier as well. Once that is commissioned, you will have your time that the plant will take to sample it out and qualify with customers, which is a longer process. Revenues will really kick in largely in FY '28. Okay. I think Rajat got dropped, but thank you, Rajat, if you're still listening.

Operator
Thank you. [Operator Instructions] Next, we have a follow-up question from the line of Chetan Doshi from Tulsi Capital. Please go ahead.

Chetan Doshi - Analyst, Tulsi Capital
Yeah, thank you for taking a question. As I heard that given the past pressures and geopolitical disruptions regarding high shipping and logistics surcharges, how are the current freight charges trending and what portion of export contracts allow us to, you know, pass the cost?

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Sounds great. I think that's something we grapple with every day. The essentials business tends to be a little bit more short-term in nature where you're able to pass on freight quickly. The specialty business is a little bit more long-term, so that becomes till the next contract renewal comes up, that's where you really have to take on that hit. As far as the shipping market is concerned, we still see large volatility. The recent changes in the U.S. have not yet materialized to action on shipping, while stock market has a far faster impact. We'll just wait and see in the next second half of this month as to where that lands. But our endeavor will remain to remain to be agile and capitalize on all opportunities that come, irrespective of how freight moves.

Chetan Doshi - Analyst, Tulsi Capital
Thank you.

Harsh Goenka - Chief Executive Officer and Managing Director-Designate, Laxmi Organic Industries Limited
Thank you, Chetan.

Operator
Thank you, ladies and gentlemen. That was the last question. I would now like to hand the conference over to Dr. Rajan Venkatesh for closing comments. Over to you, sir.

Rajan Venkatesh - Managing Director & Chief Executive Officer, Laxmi Organic Industries Limited
Thank you very much. So let me again first start by thanking the entire Laxmi team. What you see here is a complete team effort which has manifested in our performance. And Harsh -- like Harsh nicely called it out, in down cycles or up cycles is a team that makes a difference. So big thank you from my side and the entire Laxmi management side to the whole Laxmi team.

Second point, wishing Harsh, who already understands his business very well with 15 years of legacy already inbuilt in here, very, very forward success. He is bestowed with a very strong team, and I know he himself is very excited to move the needle in the positive direction. And also to all stakeholders, a big thank you and a gratitude from myself. It's been a pleasure to engage with all of you guys. Again, wishing you all a very happy Dhanteras and an upcoming Diwali and festive season. Thank you all.

Operator
Thank you. On behalf of Laxmi Organic Industries Limited, that concludes this conference. [Operator Closing Remarks]