



“AksharChem (India) Limited Q3 FY17 Earnings
Conference Call”

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MANAGEMENT: MR. MUNJAL JAYKRISHNA – JOINT MANAGING DIRECTOR & CFO,
AKSHARCHEM (INDIA) LIMITED

Moderator:

Ladies and gentlemen good day and welcome to the Q3 FY17 Earnings Conference Call of AksharChem (India) Limited. This conference call 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 future performance of the company and involve risks and uncertainties that are difficult to predict. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Munjal Jaykrishna - the Joint Managing Director and CFO of AksharChem(India) Limited. Thank you and over to you sir.

Management:

Good morning and a warm welcome to everyone. Along with me, I have my team and SGA our Investor Relations Advisors. I hope you have received our results update presentation by now. For those who have not, you can view them on BSE and our website. This is our first conference call with investors and analysts. So, let me start with a brief introduction of our company, AksharChem (India) Limited. AksharChem is in the space of Dye intermediates, Vinyl Sulphone and Pigment business which is CPC Green. 82% of our revenue comes from exports and the rest from domestic market. We are one of the fastest growing Vinyl Sulphone manufacturers in India and our presence in this business is now for over two decades. We began commercial production of this product with a capacity of 600 metric tons per annum in '91 and our current capacity for this product is 7800 metric tons per annum. Vinyl Sulphone is an intermediate used in the Dye segment which goes to the textile industry. We are the largest exporters of Vinyl Sulphone in India with over 45% share in exports. This product contributes 60% to our top line. For this product, we have over two decades of relationship with some of the biggest dye houses in the world from Taiwan and Korea. Our company is one of the most trusted and reputed Vinyl Sulphone suppliers to the world's leading chemical companies.

Coming to Pigment Green; it is a new business which we acquired from Asahi Songwon Colors in FY15. The capacity was 1440 metric tons per annum when we acquired and recently we expanded it to 1920 metric tons per annum. In this business, we are one of the largest exporters from India and among the largest players globally with a global market share of 10% roughly. This contributes 40% to our top line. The end-user industry for these products are plastic, paints, rubber, inks and leather. AksharChem sells its products to over 20 countries with major share over exports coming from Japan, Taiwan and South Korea. We have long term contracts with leading global customers. For CPC Green, China is a very small manufacturer in this product; hence we do not face any competition from China. There is no China factor in this product. The revenue between Vinyl Sulphone and Pigment business is 60 to 40 currently.

Our State of Art Manufacturing facilities are in Mehsana in Gujarat covering 100,000 square meters which is strategically located in the chemical belt of Gujarat. We manufacture the best

quality reliable products and thus we have had zero product returns in the history of the company. We are one of the most environment friendly chemical companies across the globe. We have internationally recognized processes that ensure minimum waste generated per unit, we treat wastes to permissible limits before disposal and emit fewer pollutants as well as recycle and re-use water. We make a conscious effort to treat effluents before they are released. For this, we spent roughly Rs. 10.8 crores on pollution treatment expenses in the year FY16. We have been conferred with various awards over the years from the Chemical Export Promotion Councils, Gujarat Dyestuff Manufacturers Associations, Federation of Indian Exports Organizations, Export Credit Guarantee Corporations among few others.

On the Industry in China, Indian production of Dyes and Pigments is expected to grow at 11.4% CAGR till 2019. There has also been reduction in support by Chinese government for our Chinese competitors in terms of tighter pollution control norms, increased penalty for non-compliance including higher fine and imprisonment, increased disclosure, reduction in subsidies, appreciation of Chinese Yuan. There has been a structural change in the industry where the Chinese players are not able to pull down the margins as they used to anymore and as a result the outlook for this industry has become very positive for the foreseeable future.

The company is managed by an experienced board and in view of the long-term sustainability of our business; the Board has approved a capital expenditure upto Rs. 175 crores to be done over a period of 12 to 18 months in the field of Organic Pigments, Specialty Chemicals and Dyes & Dyes-Intermediates.

Now I would like to update you on the operational performance of the company for Q3 and nine months FY17. The revenue for Q3 FY17 is Rs. 72 crores, growth of 44.5% year on year basis compared to Rs. 50 crores in Q3 FY16. The revenue for nine months FY17 is Rs. 207 crores, a growth of 48.4% year on year compared to Rs. 139 crores during the nine months FY16. Growth in this revenue is mainly attributed to better realization and the volume growth in Vinyl Sulphone and CPC Green businesses. The EBITDA for Q3 FY17 stood at Rs. 27 crores compared to Rs. 10 crores over the same period last year, a year on year growth of 180.7%, the EBITDA margin for the quarter improved by 1850 basis points to 38.2%. EBITDA for nine months FY17 is Rs. 73 crores, a growth of 200.5% year on year compared to Rs. 24 crores during the nine months FY16. The improvement is on the back of better efficiency, better product mix, better pricing for the product. The profit after tax for the quarter is roughly Rs. 18 crores compared to Rs. 5 crores in Q3 last year, a year on year growth of 246.5%. The net profit margin is 24.5% as against 10.2% in Q3 previous year. The PAT for nine months FY17 is Rs. 45 crores, a growth of 256.8% year on year compared to Rs. 13 crores during the nine months FY16. The company's total debt as on September '16 is Rs. 12 crores. The long-term debt is Rs. 8 crores and short term is Rs. 4 crores as on September '16. The debt to equity of the company as on September '16 stands at 0.1x, the return on capital employed for September stood at 47.5%, and the return on equity for the same period is 32.4%. With this, I would like to open the floor for questions and answers.

- Moderator:** Sure, thank you very much. We will now begin the question and answer session. We have the first question from the line of Nikunj Doshi from Bay Capital. Please go ahead.
- Nikunj Doshi:** The numbers have been really good, so can you just explain the revenue growth in terms of volumes of each product and value in each product, means how this growth has been achieved, a little more insight into it please?
- Management:** I will answer about both these products separately. In the Dye Intermediates, we have had a 7.5% volume growth and the remaining growth has been due to the increase in the price realizations. In the Pigment business, we expanded to the capacity from April and there has been a 15% volume growth, so largely in Pigment, the increase has been due to volumes, so this has been a combination of both these factors.
- Nikunj Doshi:** Okay and in Vinyl Sulphone exactly what are the raw materials and how they have behaved in this year?
- Management:** The Vinyl Sulphone, the main raw materials are based of aniline oil, ethylene oxide among to name a few and they have been relatively low compared to last year because of crude oil prices being down there has been a little effect of crude derivatives on these products.
- NikunjDoshi:** And in terms of the supply of this raw material is it imported or are there domestic supplies?
- Management:** We have almost negligible imports of raw materials for both the products and all the materials are available indigenously.
- NikunjDoshi:** So, this rupee volatility; how does it because you have majority exports, so rupee depreciation helps the company or it does not change much for the company?
- Management:** The rupee depreciation helps the company on a longer term to become more and more competitive against China; however, we have a policy where we hedge on contracts. So, the short term benefit we are not considering.
- Nikunj Doshi:** And our major exports you mentioned is to Taiwan, Korea and Japan, so there we have contacts in dollar terms or it is in local currencies out there?
- Management:** Only a very small portion of our business is in Euro's. Majority of the business is in dollars.
- Nikunj Doshi:** Can you give breakup of this Rs. 175 crores CAPEX that we are planning, where are we spending this?
- Management:** We are going to announce shortly the detail breakup but right now the guidance I can give at this moment is, we are going to spend in three separate fields, all of chemicals; Organic Pigments, Specialty Chemicals and Dyes & Intermediates. So, these three fields are where the investment is going. We are going to give the exact breakup in due course.

- Moderator:** Thank you very much. We have the next question from the line of Veena Patel from iWealth Management. Please go ahead.
- Veena Patel:** So just commenting on the performance of this quarter; so how much would have been the split quantity from both the divisions?
- Management:** The ratio would be 60-40.
- Veena Patel:** Okay, since we have undergone an expansion in the pigment division, so would that not be contributing on the higher side?
- Management:** With this expansion, it is 60-40 because the realizations for Vinylsulphone have been high. But however, I would like to point that in future with our further pigment expansion coming up this ratio would be more in favor of pigments in the future.
- Veena Patel:** Okay, so currently how have the realizations of the Vinyl sulphone moved, so what was in Q3 FY17 and what was it vis-à-vis previous year's quarter?
- Management:** The realizations of Vinyl Sulphone in Q3 was good, it was much higher than the previous quarter, our margins for Vinyl Sulphone was very high for this Q3. The pigment margins have been stable all throughout, the pigments margins have increased not because of price realizations only because of the extra productivity bringing down the cost.
- Veena Patel:** Sir I wanted to know the realizations, what was the price of Vinyl Sulphone that you realized for this particular quarter?
- Management:** Roughly, Rs. 350 per kg.
- Veena Patel:** Okay what was it for Q3 FY16?
- Management:** That data I do not have with me at the moment, I would be glad to give you later on.
- Veena Patel:** And sir one last question, you just mentioned about the expansion that you had undertaken, so currently how much would be the capacity for the pigments division?
- Management:** The pigment division currently we are producing 1920 metric tons, we are operating at almost 100% and we are expanding to 2400 metric tons on this Brownfield site and then there will be other further expansion of pigments also which we will announce in due course.
- Veena Patel:** Okay so previously you had a capacity of 1440 metric tons on annual basis?
- Management:** Right, from April 1st we expanded it to 1920 metric tons, so currently it is 1920 metric tons.
- Veena Patel:** Okay 1920 and this is including even the small expansion you had undertaken for the byproduct also, the copper sulphate?

- Management:** No, the other expansion for the other pigment is going on, I have not included the other pigment violet expansion in this capacity.
- Veena Patel:** On this 1920, how much is the utilization?
- Management:** Almost 98%.
- Moderator:** Thank you. The next question is from the line of Ankit Agarwal from ICICI Bank. Please go ahead.
- Ankit Agarwal:** Just wanted to understand more regarding the market, so regarding Vinyl sulphone and the CPC pigment, if you could just give a brief overview of who are the key global competitors and how is the competitive dynamics changing and what is the reason for RM expansion in this quarter?
- Management:** Once again I would like to answer these two separately for the Vinyl sulphone and for the pigment, for the Vinyl sulphone competition is only between India and China and there has been a structural change, a fundamental change in the costing of the Chinese manufacturers, they have been dominating this space for 10 years due to slack environmental or safety standards, very cheap labor, etc. and now across the board in the Chemical sector the costs of Chinese makers have increased, so this has given us the pricing power in Vinyl sulphone to the Indian manufacturers among other chemicals to be able to get more margins, as far as pigments is concerned we do not face any competition from China, there is no Chinese story, almost 90% of the pigment green produced is from India, due to the Chlorination technology because India is very strong. So, our competitors in India are all in India right now for the green. For that the margins have been very stable over the years.
- Ankit Agarwal:** Okay and second part of the question is regarding the margins expansion, so if you really see as compared to last year our margins have expanded significantly, the RM costs has increased by only 10% but our topline has increased by around 45%, so if you could just give a brief breakup for both products why have the margins increased?
- Management:** Right, for Vinyl sulphone the margins have predominantly increased; one of course we have increased our output by 7.5% but more because the final product has increased because of lack of Chinese competition, the Chinese are finding it difficult to produce with tighter norms in China and for greens the margins have increased significantly because of better output because of the expanded capacities from 1440 to 1920, because other costs have remained the same. So, our EBITDA margins have significantly jumped because of this and they are likely to further increase after the next sort of expansions.
- Ankit Agarwal:** I was referring more to the RM costs. So, in the RM costs the operating leverage should not really kick in. So, from the RM cost perspective we have increased significantly from around 56% to around 42-43%, so around a 10% increase in the RM cost year on year, so what is the reason for that?

- Management:** The raw material cost has increased; 10% increase is that the question?
- Ankit Agarwal:** Yes, raw material gross margin increase by 10% in pigment business, why have the margins in raw material increased in pigment business?
- Management:** The margins in pigments are also, one is we have got better realization, second the raw materials have been very stable. Raw material prices have not really moved in the pigment business much, so whatever realization has increased is due to better marketing, better price maybe because of little better currency and more efficiency of the plant. Because the pigment margins have been more or less stable.
- Management:** Mainly because of the increased capacity overhead rates have been bettered significantly.
- Moderator:** Thank you. We have the next question from the line of Dimple Kotak from SKS Capital. Please go ahead.
- Dimple Kotak:** Sir I would like to understand the outlook for the future prices for Vinyl sulphone, will this be firm at this level, are you seeing increase or decline in stability and the second is that what would be the margins going forward. Are these margins sustainable?
- Management:** That is a very good question, I hope 35-40% margins are sustainable in every business, however I do not think these margins will be sustainable for any business including our business, so I do not want to make any forward calls but I would say these margins are not sustainable on a very long term basis, the margins will come down but there has been a structural and fundamental change in which the pricing power is with Indians and in these products going ahead, we should be able to maintain margins between 27 and 30%.
- Dimple Kotak:** Okay and what will be the outlook for the Vinyl sulphone in the long-term and the near term as currently you have said the prices are 350 per kg, so going ahead what do you see?
- Management:** See for Vinyl sulphone this is not like a consistent quarter-on-quarter measurable product. It is also a lot of seasonal demand for dye stuff for example from December Christmas time to Chinese New Years' time, there is usually a slack in demand in textiles so the prices come down and usually from the second quarter of March, the prices go up, so there is also a lot of seasonality involved in this. So I would like to answer this question on year-on-year basis. On a year-on-year basis, we feel comfortable that India will have the pricing power and we should be able to maintain between 27% and 30% margins for this product as well.
- Dimple Kotak:** Okay, so that means a lean period is during this time and in the first half of the year, you have a stronger period.
- Management:** That has been usually historically the case, yes.

- Dimple Kotak:** Okay, and what is the market share for both the businesses, dyes and pigments for the major products.
- Management:** The market share, our market share for Vinyl sulphone globally is 8% and for pigments it is 10% currently.
- Moderator:** We will take the next question from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.
- Suvarna Joshi:** I had three questions more on the macro front, one you mentioned about CAPEX in three businesses that is organic chemicals, there will be specialty chemicals, and dye intermediates so could you just throw light on what these specialty chemicals are likely to be that is one? My second question is more on this Chinese competition specifically for Vinyl sulphone. We mentioned that there has been a structural change, so how long do you think it will take for the Chinese companies to really pose a formidable threat to India which currently India is enjoying, that is my second question and my third question is you mentioned about some competitors for pigments in the Indian business, sir can you also just help us understand which are the competitors for AksharChem in the Vinyl sulphone business and what is your outlook going forward.
- Management:** Right, I will answer all your three questions. Regarding the CAPEX, I can just clarify that the organic chemicals is not the right word, organic pigments that is currently the pigment genre we are making, so I cannot disclose anything at this moment beyond what I have given because that is all are given on the stock exchange, so I will be able to throw light on it in the near future. As far as second question goes about the Chinese people coming back, the Chinese enjoyed this pricing power and dumping and low cost manufacturing for 10 years, so my view on a macro level is that 10 years, I am not talking of Vinyl sulphone here, on a macro level, 10 years' Indian Chemical company should enjoy the pricing power and 10 years our margins should fundamentally change and this industry should do well for 10 years in India that is my personal view. And as far as the third question is concerned regarding Vinyl sulphone there are other makers in India as well to name a few Bodal Chemicals, Kiri Dyes, Shri Pushkar, Bhageria Industries, there are a few makers in India and all of them are enjoying higher realizations due to the Chinese structural change.
- Suvarna Joshi:** Sure, sir if you could just allow me one more question, if we see some time back we had seen that Vinyl sulphone prices had hit a high of about I mean crossed 500, then they came down to about 420 odd levels and currently we are seeing prices in the range of 350 odd levels, so what do you think. Sir how do you think these prices will pan out going forward.
- Management:** As I said, I don't remember our selling at Rs. 500 ever, so the prices were stable around Rs. 350, they are down at the moment a bit little because of the dyes demand in this season. In going forward, I still feel India will have the pricing power and we will continue to enjoy substantially high margins for the next couple of years at least. I might call it 10 years but I am just making call for the next couple of years.

- Moderator:** The next question is from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.
- Anand Bhavnani:** I wanted to understand our hedging policy since 82% is exports, how much do we hedge our exports.
- Management:** We do not have import and 100% of 82% of export is we hedge on contract-to-contract basis. We have a zero-risk policy foreign exchange.
- Anand Bhavnani:** Okay, so we are always hedged, whatever sales we make, on quarter-to-quarter basis.
- Anand Bhavnani:** Yes, on a quarter-to-quarter basis we cover and sir you have mentioned that our raw material ethylene oxide is sourced internally and it is a significant input, with the crude price firming I think the prices have firmed up and sir just mentioned that Vinyl sulphone prices are soft now, so is it that the margins are currently very high and they are already mean reverting, they are coming down, are you seeing this happening? And second about ethylene oxide, we heard that Reliance as one of the major suppliers so it tends to get to charge prices that it feels comfortable with, so is it true or do we have additional sources in India?
- Management:** In India, Reliance is the only supplier and traditionally and historically, we are able to pass on the margin so in fact our profitability over a 15-year period is usually higher when the raw material costs are higher. Temporarily the ethylene oxide prices go up but usually they reflect in higher realizations because the cost always goes up; however, ethylene oxide let me say is that not the major raw material, the effect of ethylene oxide is not so high on the cost of Vinyl Sulphone.
- Anand Bhavnani:** Okay, so which would have the significant input, I think sulfur would be the significant input is it.
- Management:** Yes, sulfur would be one, aniline would be one.
- Moderator:** The next question is from the line of Ashutosh Garud from Reliance Wealth. Please go ahead.
- AshutoshGarud:** Can you explain the Q-on-Q dip in your topline this quarter.
- Management:** The Q-on-Q dip on topline in this quarter would be due to slightly realizations coming down. The price coming down of Vinyl Sulphone over the previous quarter.
- AshutoshGarud:** Okay and what is the volume growth you have seen Q-on-Q.
- Management:** We don't have the figure at the moment for Q-on-Q growth, I didn't bring it with me.
- AshutoshGarud:** Sir, but would there be a growth or it would be flat?
- Management:** It would be flat roughly.

- Moderator:** The next question is from the line of Rahul Singh from Ampersand Capital. Please go ahead.
- Rahul Singh:** Yes, I just had one question on the volume growth going forward for the next for fiscal 2018 and 2019 especially with the expansions which are coming up, what kind of volume growth on a blended or a weighted average basis you would be envisaging for Vinyl Sulphone and CPC green and the other projects which are coming up, all put together what is the volume growth you are targeting for the next 2 years?
- Management:** For the new CAPEX it is difficult for me to answer this, because I have not yet specified the CAPEX's. I would answer this question for my current two products. Currently our capacity utilization over in the last two quarters for Vinyl Sulphone has been roughly 73%, we hope to increase this capacity utilization by at least 10% to 15% in the coming time, so there can be volume growth in that. For pigment business, we are currently operating at 98%; however, very soon our capacity is increasing from 1920 to 2400, so we should see a substantial volume growth for the pigment business. This is not for any new expansion. We have already incurred this part of this expenditure. For the new CAPEXes, we will be able to announce shortly the topline affect and the volume that we will be generating.
- Rahul Singh:** Okay, typically for your kind of business assuming a steady state price of Vinyl Sulphone and CPC Green and other pigments, for a CAPEX of let say Rs. 100 what is the kind of revenues you can generate from that, if you can give a rough idea or should we take the past as the indicator of that, that itself would help? I mean what is typically the asset turnover of any CAPEX in your kind of business assuming a steady state price as I said?
- Management:** Typically, if you see our past it has been quite good asset turnover, maybe we are one of the highest in industry if I am not wrong. However, going forward seeing the different product mixes approximately our asset turn can be around 2, but that would depend on different products having different asset turns.
- Moderator:** The next question is from the line of Archin Joshi from B&K Securities. Please go ahead.
- Archin Joshi:** Sir, you had mentioned that the volume growth for dyes and pigment was 7.5% and 15% respectively, so was this on a quarter-on-quarter basis and if yes then can you give out the volume growth for 9-month basis and YOY.
- Management:** This is on 9 months' basis, the volume growth of 7.5% and 15% was on the 9 month of previous year compared to the 9 months of this year.
- Archin Joshi:** The volume growth for Vinyl Sulphone and CPC green on a YOY basis, so third quarter '16 vs the third quarter '17.
- Management:** Okay, that I don't have at the moment, we will be able to give you that later, we have not got that figure of the previous quarter.

- Archin Joshi:** Okay sir and sir FY16 versus FY15 if you can give the volume growth for VS and CPC.
- Management:** That is the 9-month figure that I have got with me.
- Management:** That is 7.5% of growth in the Vinyl Sulphone and about 15% in CPC green.
- Archin Joshi:** Sir, yearly I am asking, FY 16 and FY15, so how much did you grow?
- Management:** What I suggest is while we are pulling out the figures, we can address the next question, I will just give you as soon as I have that figure.
- Archin Joshi:** Yes, sir my next question was about the import prices for Vinyl Sulphone now that you have just mentioned that the Indian dye intermediate companies are enjoying a better realization, I just wanted to understand, what would be the prices for Vinyl Sulphone by the Chinese players that are coming to India. Are they significantly lower than the Indian players?
- Management:** It has to balance out, because if they are significantly lower, the Chinese intermediates will be selling in India, but the problem is if Chinese sells here, Indian sells there, the total production is in short supply. So the prices eventually increase, the Chinese over the last year and year and a half have hardly exported any Vinyl Sulphone to India. They are not in a position due to the cost structure going high, so even as soon as the Chinese New Year is over, 50% of the textile processing market is in China, so the demand open up there, they are not able to export anywhere but the Chinese will have to import Vinyl Sulphone from India.
- Archin Joshi:** Right sir, and sir one last question, if I can just squeeze in, what would be the current capacity for Vinyl Sulphone?
- Management:** 7800, so I will answer your question, the year-on-year growth FY15-16 for Vinyl Sulphone it was (+6%) and for CPC green it was (+8%).
- Moderator:** Thank you. We will take the next question from the line of Jigar Jani from Edelweiss. Please go ahead.
- Jigar Jani:** I have two questions – first is that on the Vinyl Sulphone side, we have a utilization of 73%, is it right.
- Management:** That is correct.
- Jigar Jani:** Yes, and the Brownfield expansion that we are coming to 2400 tons in CPC green that is likely to come online by when sir.
- Management:** The Brownfield means right now we are 1920, so we are just adding around 500 tons.
- Jigar Jani:** That is likely to come online by what time.

- Management:** By the middle of next quarter.
- Jigar Jani:** Okay, we mentioned that we have 8% market share in VS, sir that is global market share we are talking about?
- Management:** Yes, global market share.
- Jigar Jani:** So the entire market for VS would be around 100,000 tons?
- Management:** Yes roughly, that is our estimate.
- Moderator:** The next question is from the line of Chintan Modi from Motilal Oswal Securities. Please go ahead.
- Chintan Modi:** Sir on your CAPEX part, can you just highlight like the new products that you are getting into category largely organic pigment, dyes and specialty chemicals, would this be totally different from what you are doing exact right now and if you can just highlight what kind of products that you intend to do and what areas you intend to focus within specialty chemicals, also if you can highlight what chemistry would be your focus?
- Management:** I cannot answer much, but I will just answer this much, the organic pigment is the same thing as the pigment we are doing green, we might add more of that or I might add a variety of other organic pigments. So, it is exactly the same chemistry and the same customer base, the same distribution channel. So, the organic pigments is similar to the pigments we are doing right now. The dyes and dyes intermediate also would be similar to what we are doing, not Vinyl Sulphone but some other dyes and intermediates and the specialty chemicals will be something different which we will have to first inform the stock exchange before we can comment on that.
- Chintan Modi:** Okay, but you would be catering to the similar kind of industry, I mean within the same chemistry you would be doing the specialty chemicals or something new.
- Management:** The specialty chemicals can be a little different.
- Chintan Modi:** Okay, what would be your current strength in terms of chemistries?
- Management:** See, I then again, I will be going to that particular chemistry and specifying the product. So I would like to wait for this question. Of course, our company is very strong in organic chemistry, that is what we are doing since 20 years. So I would not like to specify on because that would lead to the specialty chemicals question, which I would like to refrain.
- Moderator:** We will take the next question from the line of Paras Adenwala from Capital Portfolio. Please go ahead.

- ParasAdenwala:** I just wanted to check under the same promoters you have two specialty chemical companies, Asahi Songwon and AksharChem, what is the logic behind having two separate companies.
- Management:** The logic was one was Site Synergy, you know the pigment green business was located on the same site as the Vinyl Sulphone business. So now we are able to utilize lot more efficiently, the utilities, the manpower, the environment treatment facilities, etc. Secondly, that Asahi Songwon Colors is our sister company and that is being managed by my brother. I am managing AksharChem (India) Limited.
- ParasAdenwala:** Alright and secondly, you know there is too much of concentration in two class of products – Vinyl Sulphone 60% and 40% from green pigments. By when do you see the company de-risking itself you know if you can just clarify on that?
- Management:** So, we have started the CAPEX process and we feel most of our CAPEX's will come into production 18 months from now.
- ParasAdenwala:** So, the contribution from Vinyl Sulphone and everything should drop to what?
- Management:** I cannot answer that but that will be much lower than current.
- Moderator:** We will move to the next question. We have the next question from the line of Rahul Soni from Baljit Securities. Please go ahead.
- Rahul Soni:** Sir can you please highlight why exactly the cost structure for the Chinese players have increased?
- Management:** I would say 10 or 15 years back, the Chinese Government as we all know was following a very expansionary policy producing at any cost, even environment, so they had all those Chinese plants located at all parts of the country, some on the rivers, some in the middle of the cities, so these plants were not sustainable in a long-term. So, some of these plants had to undergo a lot of environment kind of acts and safety acts. Recently the Chinese government has tightened because of which Indian products were not competitive because India was some of our companies were already environment conscious from the beginning. So we were under constant cost pressure which led to very low margins for around a decade for this product, I am not talking about this product, I am talking of the whole chemical industry. The whole industry was under pressure and now as a thumb rule the costs have gone up of not only labor but mainly of safety, environment, cost of water and now the Chinese Government because of the development of China, which has taken place across the industries is not saying that you grow at any cost, now you have to follow the norms.
- Rahul Soni:** So, they have also cut down their production capacities in last 10 years?
- Management:** They had to, by force.

- Rahul Soni:** Okay, so what percentage of production capacity has been cut to by the Chinese player in last 2 years just a rough figure.
- Management:** It is very difficult for us to get Chinese percentages of production but some plants have stopped operation, some are operating at a low capacity, because of which there is a kind of shortage in the market because of which the realization is high and Indian players have the pricing power. So I am not able to get the exact percentages of what is the Chinese production drop but there must be around 20% if I were guessing one.
- Rahul Soni:** So this scenario of reduced production capacity and high labor cost will stay for next how many years do you think?
- Management:** See exactly on a quarter-to-quarter basis it is very difficult for me to predict or even on a 6 month' basis but as a promoter I am extremely confident that the next 10 years belongs to the Indian Chemical industry and thereby we are committing this money on CAPEX's in this industry.
- Rahul Soni:** So, this was mainly the reason for your increased realization or increase in your pricing power?
- Management:** For half of our business, 60% of business, yes, but for the pigment business, China is not a factor. So pigment business because of our expansion our topline and bottom line went up, so there is two separate things, for 40% of our business, there is no impact of China.
- Rahul Soni:** The realizations have also increased significantly, so is there increase in demand also?
- Management:** The demand has not been very strong last year but now this year the demand is expecting to be robust from mid-March onwards.
- Rahul Soni:** Okay just because the Chinese supplies has come down you have an increased pricing power?
- Management:** That is supply but demand you asked me about demand, it is expected that the demand is going to be very robust from mid-March onwards and much better than last year.
- Moderator:** Thank you very much. Due to time constraints, that was the last question ladies and gentleman. I would now like to hand the conference back to Mr. MunjalJaykrishna for any closing remarks
- Management:** Thank you very much everybody. I take this opportunity to thank everyone for joining the call. I hope we have been able to address all your queries. For further information, kindly get in touch with me or strategic growth advisors, our investor relations advisors. Thank you all once again. Good day.
- Moderator:** Thank you very much. On behalf of AksharChem (India) Limited that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.