



“AksharChem (India) Limited
Q1 FY2019 Earnings Conference Call

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MANAGEMENT:

**MR. MUNJAL JAYKRISHNA - JOINT MANAGING
DIRECTOR AND CHIEF EXECUTIVE OFFICER –
AKSHARCHEM (INDIA) LIMITED**

Moderator: Good day ladies and gentlemen and a very welcome to the AksharChem (India) Limited Q1 FY2019 earnings conference call. 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 are not guarantee the future performance of a 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 would now like to hand the conference over to Mr. Munjal M. Jaykrishna, Joint Managing Director and CEO of AksharChem (India) Limited. Thank you and over to you Sir!

Munjal Jaykrishna: Good afternoon and a very warm welcome to everyone. Along with me, I have 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 the Stock Exchanges and our website.

We started the quarter on a good note, Our topline increased by 19% on year-on-year basis. Our volumes for the quarter were better compared to the same period in the last two years. Q1 FY2017 was 2,023 metric tonnes, Q1 FY2018 was 2,161 metric tonnes and this quarter we did 2,310 metric tonnes. As I have been saying earlier also and would also like to reiterate once again that due to a lot of fluctuations in the realizations, our topline keeps fluctuating, but our volumes were good. This gives confidence that the demand for the product is good and rising steadily.

On the gross margin, it remained stable in the range of 35% compared to sequential quarter; however, the prices of our few key raw materials have increased compared to the same quarter last year. We have passed on to some extent and remaining we had to absorb internally putting pressure on our gross margins. We expect things to be normalized over the period.

During this quarter we completed the installation of CPC Green capacity of 480 metric tonnes. This has resulted in increase in our total capacity from 9,720 to 10,200 metric tonnes. After completion of this expansion, our VS capacity currently stands at 7,800 metric tonnes and CPC Green stands at 2,400 metric tonnes per annum. This expansion is in line with our vision of moving forward towards better product profile.

Coming to our H-acid expansion, it is under progress and its commercial production is expected to start from next quarter. Our other diversified line of speciality chemicals, which is, precipitated silica, the expansion is under progress and it is expected to be completed by end of this financial year and start commercial production from FY20 onwards. We expect operating leverage to start playing out once ramping of this capacity takes place.

Now I would like to update you on operational performance of the company for Q1 FY2019. Production volume, we did 2,393 metric tonnes for Q1 FY2019 and our current capacity utilization on blended basis stands at 98%. Net revenue from operations for Q1 FY2019 is Rs.75 Crores compared to Rs.63 Crores in Q1 FY2018 year-on-year growth of 19%. The EBITDA for Q1 FY2019 stood at Rs.8.5 Crores compared to Rs.12 Crores during Q1 FY2018. EBITDA margin for the quarter stood at 11.3% versus 18.9% during Q1 FY2018.

It was mainly due to sharp increase in the price of input cost, which we could not completely pass on to our customers. The profit after tax for the quarter is Rs.7.6 Crores compared to Rs.7.2 Crores in Q1 FY2018. The net profit margin for the quarter stood at 10% against 11.3% in Q1 FY2018. With this I would like to open the floor for question and answers.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Thank you for the opportunity. I missed your comment on your volume performance and I would like to know if you will be able to pass on your input cost further going ahead?

Munjai Jaykrishna: The production volume for Vinyl Sulphone was 1,913 metric tonnes and the production volume for CPC Green was 480 metric tonnes

Munjai Jaykrishna: The second question you asked me was passing on the raw material cost normally it takes three to six months, but this quarter it has been passed on and the realization have increased in this current working quarter. So usually it takes three to six months to pass on the raw material cost and similarly when raw material cost decreases it takes three to six months for the prices to come down also.

Keyur Shah: Okay, no problem. Thank you very much.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Sir my first question is on other expenses, other expenses seemed to have risen sharply, so can you help us understand if there are any one-off or any specific?

Munjai Jaykrishna: There is an increase in the depreciation. Also along with the increase in production and the ongoing capex that is going on some of the costs have increased. But it is not that significantly higher, yes it is little higher than, last quarter. Also it is relation to the capex going on in the company for the expansions.

Anand Bhavnani: Okay, so this would now be the quarterly run rate of Rs.1600 Crores, a ballpark number if the volumes remain similar, would that be the expectation?

- Munjal Jaykrishna:** Yes that would be the expectation roughly.
- Anand Bhavnani:** Okay, there are no one-off in these?
- Munjal Jaykrishna:** No.
- Anand Bhavnani:** Okay and Sir just wanted to understand I think there are plans for us to get into CPC Blue as well which is kind of input for CPC Green, so I just wanted to understand any updates on it and what is the kind of plan there?
- Munjal Jaykrishna:** Currently the company is pursuing three projects only. First is H-acid, which has started trial production, and commercial production is expected next quarter. The precipitated silica product which is going on in full swing in Dahej and after that the pigment green expansion in Dahej. We have not undertaken the CPC Blue Crude, we do plan to undertake at a later stage but not at the current moment.
- Anand Bhavnani:** Okay and Sir Timeline wise, we are expecting precipitated silica to come online in which particular quarter?
- Munjal Jaykrishna:** Yes, we expect the commercialization in the first quarter of FY20 which is April next year.
- Anand Bhavnani:** I just wanted to understand what was the average realization for Vinyl Sulphone?
- Munjal Jaykrishna:** The average realization for Vinyl Sulphone last quarter was Rs.255 per kg.
- Anand Bhavnani:** Okay and Sir we are hearing that prices have risen in this quarter, so what are the current prices?
- Munjal Jaykrishna:** The current prices in the range of roughly Rs.300 per kg.
- Anand Bhavnani:** Okay, but is this price hike leading to any gross margin expansion or is it nearly passing on of the input price hike?
- Munjal Jaykrishna:** This is leading to some expansion of gross margins. During last quarter and last-to-last quarter, there was increase in the input cost but at that time there was no significant increase in the prices. As I had said earlier there is a lag effect of three to six months to pass on the price increase. So now that the prices have increased it is due to the China factor i.e. the Chinese costs being increased.
- Anand Bhavnani:** Okay, last one question I just wanted to understand what is the difference between high-density silica and precipitated silica that we are planning to manufacture?

- Munjal Jaykrishna:** We are trying to make a special grade of silica that is why we called it as specialty silica, which can be used especially for the export markets for higher end application of tyres like winter tyres and more fuel efficient tyres, so we plan to make that higher grade which can potentially fetch us a little higher margins and realizations.
- Anand Bhavnani:** Is this product also called high-density silica, precipitated silica?
- Munjal Jaykrishna:** We call it specialty silica, it can be called high density, but HDS is a different trademark of some company, so as these going to be having a different brand name and that is why we call it specialty disposable silica.
- Anand Bhavnani:** Who are the existing producers of this product in India and how?
- Munjal Jaykrishna:** In India, the significant player is Madhu Silica and overseas the significant players are Evonik and Solvay.
- Anand Bhavnani:** Okay, this will be primarily for exports is it?
- Munjal Jaykrishna:** We are targeting both export and domestic market, and domestic market is also growing, so we plan 50:50 mixes for both.
- Anand Bhavnani:** Okay, fine Sir. I will come back in the queue for additional questions.
- Moderator:** Thank you. The next question is from the line of Maharshi Patel from Pi Square Investments. Please go ahead.
- Maharshi Patel:** Can you provide me the price difference of Vinyl Sulphone compared to India and China?
- Munjal Jaykrishna:** Price usually evens out. Since last two to three months India has been exporting a lot to China, so the price balance is out. The Indian price is around Rs.300 per kg right now and the Chinese price is between Rs.320 and Rs.330So there is significant data showing of Indian exports to China since last three months and it is currently continuing.
- Maharshi Patel:** Okay and Sir what is the price for raw material Acetanilide? **Munjal Jaykrishna:** The raw material cost for Acetanilide also increased a lot. There was 44% increase due to some shortages in Indian oil internationally as well as domestically. The prices of acids went up, so the prices of caustic soda went up, so all raw materials went up significantly in the past three to six months.
- Maharshi Patel:** Okay and Sir what are the current inventory levels?
- Munjal Jaykrishna:** The inventory levels that we maintain are very standard inventory levels and there are not many fluctuations from last quarter to this quarter. It is almost same. We do not get a very high inventory. So it is very standard, there is no inventory led offsets.

- Maharshi Patel:** That is all from my side as of now. Thanks.
- Moderator:** Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.
- Jatin Damania:** Good afternoon Sir. I just wanted to understand what was the CPC Green contribution during this quarter?
- Munjal Jaykrishna:** At the plant, we have H-acid also and with all utilities being in common, we are not giving the separate contribution margin between the CPC Green business and the Vinyl Sulphone business because now all the infrastructure is common; however, the CPC Green pigment margins remain to be absolutely stable as the last quarter and last-to-last quarter there is no difference. It is very stable so whatever volatility we see in increase and decrease in margins it is only because of Vinyl Sulphone prices.
- Jatin Damania:** You said that the raw material prices has been passed according to the lag effect Now we have actually seen that the prices of VS and H-acids increased significantly and noticed the sharp jump during the last couple of months. So do we expect the gross margin, which we have reported 35%, to further expand? Or do we expect that due to the increase in the input cost, the margin will remain at the same level?
- Munjal Jaykrishna:** No, we expect significant improvement in margin expansion, because the input cost increased last quarter, after that it was not increased if at all it is decreasing. Now the prices of the dye product are increasing, so I think in the dye intermediate industry we expect increase in the margin in the quarter and may be quarters coming ahead.
- Jatin Damania:** So we can expect the gross margin to expand, but because of the increasing other expenses, our EBITDA will be more or less similar or stable at same level right?
- Munjal Jaykrishna:** No, I am not saying that. The other expenses also is a result of the new projects going on and the EBITDA will expand if theses prices are to stay. The other expenses are inline with increase in production value comparing with previous quarter, so the production has increased and that is why the other expenses number is seen increasing.
- Jatin Damania:** Okay and Sir coming to your CPC Green business since the installation of CPC Green is already over, what is the incremental revenue that one can expect from CPC Green in this financial year?
- Munjal Jaykrishna:** The incremental revenue, suppose we get 70-80% of a new capacity going, around Rs.15 Crores to Rs.20 Crores of additional revenue.
- Jatin Damania:** And from H-acid because H-acid we will get the benefit for six months period only right?

- Munjal Jaykrishna:** Yes, H-acid we will get benefit for six months period and we should get around Rs.25 -30 Crores of revenue from that.
- Jatin Damania:** What is the current realization for H-acid compared to previous quarter?
- Munjal Jaykrishna:** The current prices of H-acid right now are around Rs.500. We are starting commercial production from next quarter, so I do not know the exact prices but I think six months back it was around Rs.350 or Rs.400.
- Jatin Damania:** There was couple of clients which are added in the previous quarter but the contribution from the same was marginal, so what is the status on those clients and what are the future addition for the clients?
- Munjal Jaykrishna:** We are constantly adding new clients, but the volumes with the new clients develop gradually especially in pigment business. With the 480 tonnes of additional capacity, will help to increase the wallet share from the existing clients and also develop new market and serve new clients, which will lead to substantial and gradual increase in the revenue from new clients. We are not able to share more details or specific details because of our non -disclosure agreements
- Jatin Damania:** Last question on your violet pigment Sir?
- Munjal Jaykrishna:** In the Violet pigment, the plant has started with small capacity and the products are under approval. These high performance pigments take long time for approval, so we hope that we should be able to get approvals by next quarter and then some commercial volume and realizations from next six months which is the second half of the year.
- Jatin Damania:** Probably can we assume the commercial operation again in FY20 with H-acid?
- Munjal Jaykrishna:** H-acid commercial operations from next quarter and for violet also we should get approvals next quarter, so we expect some commercialization and volumes from next quarter.
- Jatin Damania:** Thank you Sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Nikhil Vaishno of VD Investments. Please go ahead.
- Nikhil Vaishno:** Thanks for the opportunity. My first question is how do you see topline in FY2019 and what kind of margin you are looking for FY2019?

- Munjai Jaykrishna:** The topline in FY2019 on current business will be similar to what we have this quarter and every other quarter except in the last six months of the year we should see some increase in revenue because of H-acid and bit because of Violet and bit because of the CPC Green expansion so three of them added together might be around Rs.40 Crores to Rs.50 Crores to the revenue expected normally or what it was last year.
- Nikhil Vaishno:** What kind of margin you are looking for FY2019?
- Munjai Jaykrishna:** For Margins it is very difficult to predict in our business but we expect margins to improve from what we have in this quarter and we hope that the EBITDA margins for the year would be 15%+.
- Nikhil Vaishno:** And what is your tax rate in FY2019? What tax rate you are seeing in FY2019?
- Munjai Jaykrishna:** We are in full tax bracket, The tax rate is 33%.
- Nikhil Vaishno:** For H-acid what kind of margins you are looking at H-acid?
- Munjai Jaykrishna:** H-Acid and Vinyl Sulphone quite go hand in hand, so it is as difficult to predict as Vinyl Sulphone.; However, if I had to take a call for this year, the number would be 15% EBITDA margins is what we are looking at.
- Moderator:** Thank you. The next question is from the line of Naushad Chawdhari from Systematix Shares & Stock. Please go ahead.
- Naushad Chawdhari:** Thanks for the opportunity Sir. First thing I missed out on the volume numbers. You gave a breakup of CPC, Green and Vinyl Sulphone, if you can repeat it again Sir?
- Munjai Jaykrishna:** The production volume for Vinyl Sulphone was 1,913 metric tonnes, and the volume for production for CPC Green was 480 metric tonnes, the sales volume for Vinyl Sulphone was 1,817 metric tonnes and the sales volume for CPC Green was 492 metric tonnes.
- Naushad Chawdhari:** Thank you. Second thing on the margin side, if I look at your historical number when our Vinyl Sulphone prices realizations were around Rs.340 or Rs.350 at that time we had clocked around 35% to 37% of EBITDA margin and currently Vinyl Sulphone prices are at around Rs.300. Can we expect around 30 or above 25 kind of operating margins in the next two to three quarters?
- Munjai Jaykrishna:** Historically when the VS prices were in the range of Rs 340-Rs 350, the crude prices were lower. However there has been increase in the crude prices, which is a key input for our raw materials. This was slightly offset by the rupee depreciation. So looking at the situation, will not able to guide you on exact EBITDA margin numbers, but we expect better margins at this level of Vinyl Sulphone prices going ahead.

- Naushad Chawdhari:** And lastly on our phase II CPC Green expansion, earlier you know we were talking about this expansion to come on stream from 1Q FY2020 if I am not mistaken, so if you can rehighlight and retalk on this expansion and what is the decline now for this phase II expansion?
- Munjal Jaykrishna:** There is a slight delay in the phase II expansion of CPC Green. , So instead of FY2020, we will see the realizations for the phase II in maybe FY2021., We will try to get it earlier. Currently we are focusing heavily on getting the immediate volumes out of H-acid and the precipitated silica and then our focus will be on the CPC Green phase II.
- Naushad Chawdhari:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Good afternoon. Sir, you mentioned the realization from vinyl sulphone for Q1 FY2019 was Rs 255 per kg?
- Munjal Jaykrishna:** That is right.
- Shashank Kanodia:** What was the corresponding realization in Q1 FY2018?
- Munjal Jaykrishna:** The corresponding realization for vinyl sulphone in Q1 FY2018 was Rs.235 per kg.
- Shashank Kanodia:** And the prevailing is Rs.300 plus, so in Q2 onwards, you will be reporting Rs.300 per kg kind of a realization, right?
- Munjal Jaykrishna:** Yes hopefully if it stays this way.
- Shashank Kanodia:** Sir, what is your outlook on China? How do you see the sustainability of this realizations?
- Munjal Jaykrishna:** Right now there is no effect of one particular plant closing down or two plants closing down or all that. Most plants are working, closing, starting, closing, but basically there seems to be some pressure from environment side that they are not able to produce in good volumes and their costs have increased., So this is likely to benefit the Indian chemical industry on a whole, I would say for the coming long-term period of three to five years. Immediate effect, I am not able to make a call because China is very unpredictable, you suddenly feel they are so out of the game and then they are back, they decide to dump their goods then there is some conference or a party meeting and then six months they could be out, so it is very unpredictable but as of now India is in a more advantageous position, the pricing power lies with India.
- Shashank Kanodia:** Lastly, I think we have another group company, are you allowed to venture into CPC Blue crude?

- Munjal Jaykrishna:** So AsahiSongwon makes CPC Blue Crude from High-Stall, its another solvent base and we use from another solvent base. We can make CPC Blue crude under the agreement arrangement. We can make our own CPC crude provided we feel that there is additional justification of that much savings then we will go for it. Currently, we are not focusing on the raw materials. Currently we are focusing on the current projects which we have on hand.
- Shashank Kanodia:** Wish you all the best. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Archit Joshi from HDFC Securities. Please go ahead.
- Archit Joshi:** Thank you for the opportunity Sir. Just needed one clarification, as per some news that came out in the media there was a shutdown in three to four provinces in China and prices of Vinyl Sulphone were at Rs.300 per kg, so just wanted to know if this is true and if it was, then how is that we are not able to capitalise on this opportunity?
- Munjal Jaykrishna:** There was environmental trouble in a few provinces and because of this Vinyl Sulphone prices has gone up and because of this currently we are getting higher realizations. However, in terms of our sales pattern, usually a lot of our customers rebook quarterly so when the previous orders are there we execute the previous orders. So last quarter we were executing most of the previous orders., We should be able to get the price benefit. a little more this quarter.
- Archit Joshi:** Thank you. Thats it from my side.
- Moderator:** Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.
- Rohit Nagaraj:** Thanks for taking my question. I just had a question on the Precipitated Silica business. What kind of revenues are we targeting from this business when it goes to maybe 80% to 90% utilisation and when can we achieve it? And what are the margins that we are expecting?
- Munjal Jaykrishna:** It all depends. We are optimistic. Once we get our product range of Silica executed well, we should be able to get margins of roughly between 15% and 20% like the remaining businesses. But as far as the revenue is concerned, first year we may be targeting revenues of around Rs 70 Crores to Rs 80 Crores and then subsequently we will increase the utilisation and get better revenues.
- Rohit Nagaraj:** This 60 Crores to 70 Crores revenues would be at what utilisation level?
- Munjal Jaykrishna:** Around 60% or 70% utilization levels.
- Rohit Nagaraj:** Will we be able to get a good amount of demand in the market and will we be able to get to 100% utilization level in the second year?

- Munjal Jaykrishna:** We should be in the second quarter. As we see that the market for toothpaste and tyres both is quite robust.
- Rohit Nagraj:** One more question on H-acid. Will H-acid come up in current quarter right?
- Munjal Jaykrishna:** The trial production has already started We expect the commercialization from next quarter.
- Rohit Nagraj:** Will this entire quantity be sold outside or out of it will be consumed?
- Munjal Jaykrishna:** As per our dye intermediate policy around 85%. will be outside., So 85% we target exports and 15% for the domestic market.
- Rohit Nagraj:** Okay, fair enough. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Preeti Sharma, Individual Investor. Please go ahead.
- Preeti Sharma:** Good afternoon Sir. I was looking for what will be the working capital debt in FY2019?
- Munjal Jaykrishna:** We do not expect significant, but we will have to take significant debt in FY2019 and similarly not much working capital borrowing also because our cash flow management is tight and we expect good cash flows also to come this year. So may be to complete the last of the projects we might undertake some debt but probably not in FY2019.
- Preeti Sharma:** Could you share the production capacity expected in FY2019 for CPC Green?
- Munjal Jaykrishna:** CPC Green for FY2019 would be 2400 metric tonnes.
- Preeti Sharma:** Okay, I actually had missed out these things and for H-acids?
- Munjal Jaykrishna:** Currently H-acid would be 1200 metric tonnes per annum.
- Preeti Sharma:** what is the next big opportunity the company is looking at?
- Munjal Jaykrishna:** Currently we are looking at expansion of our revenues and we are expecting at stabilizing the EBITDA on the current product mixes by adding H-acid and CPC Green and a little bit of diversification. So the next opportunity if I were to make a call, it would be on major expansion in the silica business.
- Preeti Sharma:** So what will be the key risks the company will be facing for this expansion?

- Munjal Jaykrishna:** Of course there is risk for precipitated silica as it is diversification So there is a little risk in diversification like H-acid is going for the same customers, so there is little less risk involved. So as a risk strategy, currently the company is not very aggressive on risk, but if need be, we will raise debt or get in any new products. We are going a little slower but surely footed on our expansion plan and we are focusing on just adding one substantial product every year. So this year we will be adding H-acid, next we will be adding precipitated silica and the year after we will add some other products. So we are going a little slower on our expansion keeping our risk profile a little low.
- Preeti Sharma:** So how do we see the company growth from here in three years?
- Munjal Jaykrishna:** In three years, I had initially also said that we expect the revenues to double from current levels.
- Preeti Sharma:** That is it. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.
- Sarvanan V:** Thanks for the opportunity. Sir as you had rightly mentioned about risk of diversifying into a new product, which will entail seeking out to new customers, so there are two things I wanted to understand. You had mentioned Q1 FY2020 commercial operations would start. So by then which means when the commercial operation starts we are confident of the chemistry success that means you have successfully moved to a new chemistry. What is the customer acquisition timeline here because it is a speciality grade I am sure your customers would need some testing period?
- Munjal Jaykrishna:** So the timeline for international market is longer. So for international market depending on some customers the timeline would be between 6 to 12 months for accounts. However for the Indian market the timeline is lesser, it is between 3 and 6 months for the tyre to toothpaste industry. There are other industries like salt and few other industries in which the timeline is even lesser. The plan can get running quicker but only if the profile of the customers improve the realization will increase, so we will be targeting the longer approval profiles also.
- Sarvanan V:** When does that process starts in terms of the test batches ?
- Munjal Jaykrishna:** First quarter 2020.
- Sarvanan V:** Okay, but for the next year, you are looking at 60% to 70% utilization is mostly domestic markets and the immediate customers that you can acquire?
- Munjal Jaykrishna:** Yes.
- Sarvanan V:** Okay, understood Sir As regards to the chemistry success, are you confident of achieving it?

- Munjal Jaykrishna:** We have made the proper tie-ups of technology and we have ensured that we have the correct capability otherwise we would not have ventured into this product.
- Sarvanan V:** I was more referring to the timelines because I am sure you are going to achieve success?
- Munjal Jaykrishna:** Of course this is a business, there is risk in every business, but yes we are confident of achieving success and we are confident of achieving the correct product technically in the first quarter 2020.
- Sarvanan V:** If I heard your earlier calls, that so far total capex consumed is about Rs.65 Crores?
- Munjal Jaykrishna:** Total capex will include the infra cost of the site we are developing between the pigment business and silica business. The cost of the project would be higher than Rs.65 Crores and also there has been some increase in the prices of steel, cement etc., So there will be some overruns to that figure.
- Sarvanan V:** You had mentioned this could give you Rs.70 Crores to Rs.80 Crores. So I was trying to compare with what is the fixed assets to turnover ratio?
- Munjal Jaykrishna:** The asset turn is lower in this product compared to my current business for sure.
- Sarvanan V:** Okay and the second question is other income it has gone up sharply, is there any forex element and forex part? how do you hedge the risk?
- Munjal Jaykrishna:** No, there is hardly any due to the forex part. The other income is mainly due to some investments that we have and those investments are appreciated that is all.
- Sarvanan V:** As regards to forex we are completely hedged?
- Munjal Jaykrishna:** Yes with regards to forex there is not much. We completely hedge of forex according to the orders; We do not take much risk on the forex.
- Sarvanan V:** So there are no open positions?
- Munjal Jaykrishna:** No.
- Sarvanan V:** Okay Sir. All the best.
- Munjal Jaykrishna:** And also there is some dividend received on mutual fund investments so that is also reflected.
- Sarvanan V:** Fine Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Ankit Gore from Systematix Shares & Stock. Please go ahead.

- Ankit Gore:** Thank you Sir. Heartening to hear a long awaited good times to come. Sir my question is with regards to raw material, we said we could not pass on some RM hike, was it in Vinyl Sulphone?
- Munjal Jaykrishna:** For the pigment business usually it is very steady, it is just passed on in a few months without much problem. So there was sharp increase in the cost of acetanilide, caustic soda etc., which did not reflect in the Vinyl Sulphone prices in the last quarter.
- Ankit Gore:** Okay and my next question with regards to what is the major raw material for precipitated silica?
- Munjal Jaykrishna:** It is soda ash and silicate just like raw form.
- Ankit Gore:** Okay and this is procured locally?
- Munjal Jaykrishna:** Yes, it is all procured locally from within that range. There is soda ash plants very close as well as silicate plant very close, so raw material is not a key factor., The key factor will be the quality what we make and. the technology what we use.
- Ankit Gore:** Sure, my next question is with regards to if you see three, four years down the line obviously does your drawing board also consists getting into dye stuff since we have VS and H-Acid in our kitty now?
- Munjal Jaykrishna:** Yes, we have considered that. We have not yet made any plans for that, but that would be under consideration.
- Ankit Gore:** H-acid current capacity is around 1200 tonnes, if we consider to expand this capacity with the present setup, we can go up to what?
- Munjal Jaykrishna:** We will be doing it stage wise. The first plan for the first phase is expansion to 1,800 metric tonnes. It can be done without much change in anything. Then the addition of the second phase would be another 1,800, but that would be a full blown new plant setup only here. Because we have the permissions for that.
- Ankit Gore:** What is the revenue breakup this quarter from CPC Green and Vinyl Sulphone?
- Munjal Jaykrishna:** The revenue breakup is 69% revenues from Vinyl Sulphone.
- Ankit Gore:** Okay. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Aditya K from Nalanda Securities. Please go ahead.
- Aditya K:** Good afternoon. Sir I would like to know the prices of CPC Green in this quarter?
- Munjal Jaykrishna:** The average realization is Rs.479 per kg.

- Aditya K:** Rs.479 per kg and What was price for CPC Green in the last quarter Sir?
- Munjai Jaykrishna:** Last quarter probably was around Rs.465 -to Rs.470per kg, but that time the raw material cost were also lower, so the margins are very similar. The raw material usually gets passed on easier for the pigment business.
- Aditya K:** Okay and also I wanted to know the prices of naphthalene in this quarter?
- Munjai Jaykrishna:** The naphthalene prices are around Rs.85 per kg and the import prices \$1,050 per MT.
- Aditya K:** Also can you highlight how is the situation in China, so are they going to bounce back going ahead or like will you be able to continue the market what we have?
- Munjai Jaykrishna:** This is very difficult question to answer because it is so unpredictable when everyone expects that the world will go like this. Chinese sometimes changes policy, so I am not going to make a call that if it is going to remain like this. But in my view and my guess that China will find it difficult to compete with India for the coming three to five years, what happens in next two or three months, how they behave is very difficult. But currently their production cost is much higher than ours and environmental problems are much greater than our. It is unlikely that very soon they will be able to compete with us, but once again they are always unpredictable.
- Aditya K:** Okay Sir. Thank you for the opportunity.
- Moderator:** Thank you. The next question is from the line of Anant Bhagnani from Unifi Capital. Please go ahead.
- Anant Bhagnani:** Thank you for the opportunity again. Sir I just wanted to understand as per my reading that in silica, Tata Chemicals also acquired a company and they are doing heavy investments, so would we be directly competing with Tata Chemicals in this business?
- Munjai Jaykrishna:** Tata Chemicals has announced silica acquisition in South India of a similar capacity what we are putting up. However, Tata Chemicals' main focus is salt because they will use it for the raw materials. So yes for the salt industry we would compete and then they have also announced new technologies like DENO technology as a means of production. So we are in different technology, so I do not know that other than salt what industry they were focused on We are going to focus on tyre and toothpaste for sure I do not know if they are focusing on this industry.
- Anant Bhagnani:** They told that they are focused on tyre, they too are focusing on tyres for the silica. Green technology as compared to other chemicals when silica replaces as an input for tyres it is considered Green. So it is kind of environmental footprint is lower, so they have clearly showed their intention.
- Munjai Jaykrishna:** That is right. Then we would be directly competing with them..

- Anant Bhagnani:** So in that sense I am just trying to understand what is India's current kind of consumption and how much would it be produced locally vis-à-vis imported in case of silica?
- Munjal Jaykrishna:** India's current consumption is increasing as you know the tyre and toothpaste industries are both growing very fast. All the tyre companies are growing very fast, so consumption wise it is growing. The capacities wise it is like one lakh tonne in tyres in India only., So there is addition of 10,000 tonnes from our side and I cannot say it is 10,000 tonnes addition because the plant in South India has already put up by someone else and Tata has bought it, but yes Tata will be also stakeholder in this market.
- Anant Bhagnani:** 10,000 tonnes we are putting up. 10,000 tonnes roughly Tata has and the total demand for silica in India is around one lakh tonnes, would that be the right assumption?
- Munjal Jaykrishna:** Only for the tyre industry. But for all the other industry extra.
- Anant Bhagnani:** It is for tyre only, so how is this being currently met by the tyre industry one-lakh tonnes of silica?
- Munjal Jaykrishna:** There is Madhu Silica who supplies and one or two very small players. Also that Evonik who supplies to the local market and also there is a huge export market like Madhu Silica exports more than 50% of its production.
- Anant Bhagnani:** Okay, so Indian market is partly met through imports, partly domestically and domestic producer export also. Is it likely different grade t?
- Munjal Jaykrishna:** Exactly, it is different grade for different applications of tyres and toothpaste.
- Anant Bhagnani:** Okay and fine Sir. In case of Vinyl Sulphone we have learnt that sulphuric acid prices are up due to shutdown in Vedanta unit, so are you seeing any possibility of this pressure leading to margins remaining stressed and how are you managing your sulphuric acid supplies?
- Munjal Jaykrishna:** Absolutely, this has been the problem for the past two, three months ever since the Vedanta issue and the prices of many other raw materials - direct sulphuric acid, chlorosulphonic acid, thionyl chloride all raw materials are up because of this and they continue to remain up because of sulphuric. But at the same time the Vinyl Sulphone price has increased, so there has not been any pressure on the margins because of this, but this also is one of the reasons why our margins for the last quarter or what we are discussing this current call are affected. Also Vedanta is an issue.
- Anant Bhagnani:** Okay and you see this sustaining for at least two, three more quarters?
- Munjal Jaykrishna:** I would think at least this quarter and one more quarter acid prices should be up.
- Anant Bhagnani:** Okay, fine Sir. I will come back in the queue. Thank you.

- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Thanks for taking my question. My question again is related to silica. What kind of functionality does it offer on the tyre or toothpaste, it is just filler or it is having some kind of functionality?
- Munjai Jaykrishna:** Toothpaste is more of a filler but for the tyre as the functionality of it helps the tyre have better traction of the road. It helps the tyre to reduce the fuel consumption in winter tyre and it helps to grip on the snow., So there is functionality depending on the quality of silica.
- Rohit Nagraj:** Okay and what percentage of silica is used in the tyres or toothpaste?
- Munjai Jaykrishna:** The percentage of silica in tyres differs a lot. But you can say 4% to 5% as an average ballpark.
- Rohit Nagraj:** Okay and toothpaste also similar?
- Munjai Jaykrishna:** In Toothpaste on an average 4% to 10% is used .It depends on the type of toothpaste. There is abrasives toothpaste, and normal toothpaste. So it depends, in abrasives toothpaste, use is a lot more, so 4% to 10%.
- Rohit Nagraj:** And as I was going through your presentation, in the last four years we have spent significant amount on pollution treatment expenses. I understand we have been putting the ETP plant etc., so similar kind of expenditure will be done henceforth also or the capex cycle on ETP plants and pollution control equipments relatively at the flag end of it?
- Munjai Jaykrishna:** Yes, the constant modification, upliftment of technologies for environment control and expenditure for pollution control, I would say is in line with the previous years. We will constantly be doing in the future as well, because we need to build sustainability.
- Rohit Nagraj:** Whenever we were able to be put up new plant, so part of this expenditure is accommodated with that capex or this is something, which is over and above?Do we need to do every single year?
- Munjai Jaykrishna:** So every single year, we do some upgradation with some newer technology especially for using plants. For the new plant, obviously we do some of the capex with the plants setting up and then every year if we get better technology or some better solutions, we pursue that.
- Rohit Nagraj:** And our plants currently are zero liquid discharge, going ahead will there be decline in discharge?
- Munjai Jaykrishna:** We are going for discharge for all of our products and in our current location there is zero liquid discharge.
- Rohit Nagraj:** Okay and just last question what would be the capex for FY2019 and FY2020 based on the existing projects?

- Munjal Jaykrishna:** The H-acid is over so most of the capex has already been done.
- Rohit Nagraj:** For FY2020, it will be predominantly for silica?
- Munjal Jaykrishna:** This year FY2019, most of the capex is for precipitated silica, it may be along with the infra cost amounting to approximately Rs.80 Crores.
- Rohit Nagraj:** But it will be capitalized in FY2020?
- Munjal Jaykrishna:** We are trying for FY2019.
- Rohit Nagraj:** Okay, fair enough. Thank you so much Sir.
- Moderator:** Thank you very much. As there are no further questions, I now hand the conference over to Mr. Munjal Jaykrishna for closing comments.
- Munjal Jaykrishna:** I take this opportunity to thank everyone for joining the call. I hope we have been able to address all the queries. For further information kindly get in touch with me or Strategic Growth Advisors, our IR Managers. Thank you all once again for your valuable time. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of AksharChem (India) Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.