



“AksharChem (India) Limited
FY2018 Earnings Conference Call

June 04, 2018



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

Moderator: Ladies and gentlemen, good day and welcome to the AksharChem (India) Limited Q4 and FY2018 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 do 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 now hand the conference over to Mr. Munjal Jaykrishna, the 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 Stock Exchanges and our website.

It gives the immense pleasure to inform you that the company has received two awards during this year, first the best manufacturer exporter in medium sector from ECGC Indian Exporter Excellence Award 2017 and second the Trishul Award for outstanding export performance in dyes and intermediates for the year 2016-2017 by Chemexcil.

Before moving to the business update, I would like to inform you that the company has filed for AksharChem logo and its product pigment green 7, which we have acquired in the financial year 2018. Also to reward the shareholders for their continuous support the Board of Directors have recommended a final dividend of Rs.3.50 per equity share of face value of Rs.10 each for the year FY 2017-2018.

Now let me give you a quick update on the business and then we will take you to the financial performance of FY2017-2018.

Business update: FY2018 was a challenging year for the company due to increased volatility in crude prices, currency depreciation and volatility, disruption in key inputs availability required for our raw material because of ongoing China environmental issues. Having said that your company had put a lot of efforts and continued to focus on delivering performance. If you look at we have done on the volume front and our business continues to grow on volume basis every quarter making it more sustainable except in Q3 FY2018. As we had planned shutdown to carry out the process of streamlining utilities for capacity expansion of pigment green.

For FY2018 the total volume stands at 8,813 tonnes growth of 19% compared to last year and Q4 FY2018 we have done volume of 2,545 tonnes, which grew by 55% as against Q4 FY2017. This gives us confidence that the demand for our product is intact and we were able to get the business because of our best quality reliable products and over two decades of relationship with the biggest dye stuff houses and distributors in the world.

Revenue of the company keeps fluctuating due to high volatility and realization, movement in currency rate etc.

Coming to our input costs, as I mentioned a while back this year due to Chinese clampdown there was some disruptions in the key inputs availability of our raw material along with high volatility in the crude prices. All these factors resulted in increase of our raw material cost, still there was very high volatility in the basic chemicals leading to overall increase in raw material prices for us. We were not able to pass on the increase in the prices to our customers like we have done in the past.

We expect the prices to stabilize going forward. Once the prices stabilize, we will be confident and will be able to convince end customers for price increase. In this situation, where price fluctuations were very high, we are of the belief that we should continue to maintain relationship with our customers, workout on a long-term pricing that is the win-win for both the parties. It is expected that FY2019 will be a strong year for the domestic speciality chemicals sector on anticipation of a continued increase in demand for end users industries and tight global supply due to stringent environmental norms in China.

Speciality chemical end use industries such as textile driven application such as surfactants, paints, coatings, colorants would experience high growth in the medium term.

Now a quick update from the capex front, our expansion of green of 480 tonnes was completed in the last quarter of FY2018. Currently, our CPC green capacity is 1,920 metric tonnes and operating at ~95% utilization. Post expansion our capacity will be 2,400 tonnes, which we expect to start utilizing from Q1 FY2019. CPC green contributed to 32% of revenues in FY2018. In case of this business, there is no China factor and as a result prices and margins generally tend to be stable.

Coming to H-acid expansion, this is a new product for our company. We are expanding that 1,200 metric tonnes and expected to start commercial production from next quarter Q2 FY2019.

On our speciality chemicals business Precipitated silica, this new Greenfield project at Dahej with capacity of 10,000 tonnes per annum is expected to complete by this financial year and start commercial production from FY2020 onwards.

Total capex spent till date is Rs. ~34 Crores. During the year, we have formed relationship with 3 new clients; though currently they are negligible to our revenue share. We expect to leverage our relationship in the long-term by providing them quality products.

Now I would like to update on the operational performance of the company for Q4 and FY2018. Volume, we did 8,813 tonnes for the full year and 2,545 tonnes for Q4 FY2018. Current capacity utilization on the blended basis stands at 87%.

Net revenue from operations for Q4 FY2018 is Rs.77 Crores compared to Rs.46 Crores in Q4 FY2017 year-on-year growth of 67%. Net revenue for operations for FY2018 is Rs. 264 Crores. Vinyl Sulphone contributed to 68% of revenues and CPC green 32%.

EBITDA for Q4 FY2018 stood at Rs.10 Crores compared to Rs.8 Crores during Q4 FY2017, a growth of 25%. The EBITDA margins for Q4 FY2018 were 12.6%. It was lower due to sharp increase in input cost, which we could not pass on with the customers. EBITDA for FY2018 is Rs.42 Crores with margins of 15.8%.

PAT for the quarter is Rs.5 Crores compared to Rs.9 Crores in Q4 last year. Net profit margin for the quarter is 6.4%. PAT for FY2018 stood at Rs.31 Crores with margins of 11.6%. The company has nil debt as on March 2018.

Debt to equity as on Mar'18 stands at 0.0x. Return on capital employed for March 2018 stood at 18.6%. Return on equity for the same period is 12.9%.

With this I would like to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Sir you mentioned about the silica expansion at Dahej, can you help us understand what would be the revenue potential of this particular project once its starts contributing from FY2020?

Munjai Jaykrishna: So as I mentioned, we will be starting silica in FY2020 in Q1 and we expect on our initial capacity of 10,000 tonnes. The contribution of silica to be around Rs.80 to Rs.90 Crores to add to the revenue for the full year, on full utilization.

Anand Bhavnani: What kind of EBITDA margins this particular segment is likely to have?

Munjai Jaykrishna: I would tend to comment that the EBITDA margins would be similar in line to our current chemical business. On a long-term, my view would be between 15% and 20%.

Anand Bhavnani: For our existing products do you anticipate EBITDA margins to be same as they were in Q4 or it can improve from here, what is the outlook for FY2019?

Munjai Jaykrishna: My output would be slightly positive as last year because of crude the raw material prices are very high, we could not pass it on, meanwhile the end product prices are just showing signs of improvement revival because of Chinese prices increasing, so I do expect from Q2 of this year the prices will increase and the margins will be slightly better.

- Anand Bhavnani:** Last question, in terms of product prices we heard in market that H-acid prices have risen to between Rs.500 and Rs.600 per kg and are we seeing that price for our contracts or our contracts are kind of long-term contracts and we might not see benefits, how does it work for us?
- Munjal Jaykrishna:** We do not have many long-term contracts, etc., but usually we have some quarterly contracts, the prices of intermediates like H-acid and Vinyl Sulphone have just started to rise and our company is likely to see benefits from Q2 onwards.
- Anand Bhavnani:** Can you confirm Sir the price rise for H-acid at the moment?
- Munjal Jaykrishna:** The price of H-acid currently in the market is around Rs.700.
- Anand Bhavnani:** Okay, fine Sir. I will come back in the queue for any more questions.
- Moderator:** Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.
- Jatin Damania:** Good afternoon Sir. Just to carry on with the earlier question, can you help us in knowing what was the H-acid realization in the previous quarter and Vinyl Sulphone realised in the previous quarter?
- Munjal Jaykrishna:** We do not manufactured H-acid yet, so I am not calling our realizations, but the market price of H-acid during the previous year on an average was around Rs.350 and Vinyl Sulphone was on an average around Rs.240 roughly.
- Jatin Damania:** What are the prices of VS right now?
- Munjal Jaykrishna:** It has increased and the prices are above Rs.300 approximately.
- Jatin Damania:** Sir as you have highlighted that your pigment that CPC green has already was on stream in the last quarter and the benefit that you likely to see in FY2019 starting first quarter, so just wanted to check about the phase II expansion plan, which was likely to come, what is the status on that phase 2 expansion plan?
- Munjal Jaykrishna:** The plan is underway, the expansion is underway, but physical work on the site has not yet begun right now, only the silica in common utilities, common infrastructure work on the site has begun, we expect the new capacity, which we just added 480 metric tonnes will take care of our growth for the next one to one-and-a-half years, so that within one-and-a-half years we expect the greenfield to begin there, so we expect construction to begin shortly may be within the next three to six months.
- Jatin Damania:** So that means can we expect the phase 2 expansion will largely flow in 2021?

- Munjal Jaykrishna:** 2021 yes.
- Jatin Damania:** Sir coming on to your sharp drop in the margins as you highlighted that it was because of the increase in the raw materials, so just want to check since we sign more of quarterly contract, so the recent spurt in VS prices will not see any benefit in Q1 right?
- Munjal Jaykrishna:** The prices are just improved like 10 days back it started improving, so already we are in June right now.
- Jatin Damania:** Right, so the benefit will come from the second quarter?
- Munjal Jaykrishna:** Yes, that is what I expect yes largely.
- Jatin Damania:** Sir just wanted to understand can you help us with knowing how was the violet production in the – how is the violet facility running in this current quarter?
- Munjal Jaykrishna:** The violet facility totally put up started, it is a very small plant and the product approval for violet take a lot of time, so we have given out the roll of the samples for approval, I expect regular production to start only after four to six months because it takes product approvals might take about six months.
- Jatin Damania:** Last question from my side since we have closed this year at almost around Rs.264 Crores of the revenue, what is the incremental revenue can we expect in FY2019 because it is only CPC that is going to come in place in the first quarter, which is 480 tonnes and H-acid of 1200 tonnes, probably it will come in the second half, so what is the incremental revenue that we are expecting from both these facility in FY2019?
- Munjal Jaykrishna:** So realizations vary a lot on prices. So if I have to make a revenue call I would not be able to provide a number, I would like to say that from next quarter onwards we should be able to add around 80% of the new green capacity and on an average for two quarters of FY19 around 80% and 70% of new H-acid capacity It also depends on the prices of H-acid, sometimes it is Rs.700 or sometimes is it Rs.400 So it is difficult for me to comment. But I have provided the utilization percentage what we should be able to produce and sell.
- Jatin Damania:** So that means 80% of the incremental volume of both the new facility will come in this financial year for the CPC for 12 months and H-acid for the nine months?
- Munjal Jaykrishna:** Yes, CPC also you can take for nine months and H-acid for may be six months.
- Jatin Damania:** Last question Sir regarding this raw material prices coming back you said what is the lag effect that we follow in terms of the passing on to the customers?
- Munjal Jaykrishna:** Usually around three to six months.

- Jatin Damania:** It is only around three to six months. Okay Sir that is all from my side. If I have any further questions I will get back in the queue.
- Moderator:** Thank you. Next question is from the Anand Bhavnani from Sameeksha Capital. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity again. Can you help us understand the capex plan for FY2019-2020?
- Munjal Jaykrishna:** The capex plan the H-acid expansion will be over next quarter as we had planned. The pigment green Brownfield is already over, the silica is under construction and it will be over in Q1 FY2020. The Greenfield in Dahej we expect to see by around Q3 or Q4 FY2020 also, so that is currently what is on table and what the company is actively working on.
- Anand Bhavnani:** Outlay for silica is how much the overall capital?
- Munjal Jaykrishna:** Capital allocation would be around Rs.75 Crores to Rs.80 Crores.
- Anand Bhavnani:** How much would have you already spent in FY2018?
- Munjal Jaykrishna:** Totally we have spent Rs.34 Crores between silica and H-Acid till now.
- Anand Bhavnani:** Okay. So H-Acid is almost complete, so how much would be for H-acid out of that Rs.34 Crores?
- Munjal Jaykrishna:** It might be around Rs.25 Crores.
- Anand Bhavnani:** Okay, so silica we have just spent Rs.9 Crores, so roughly around 20-odd Crores?
- Munjal Jaykrishna:** This is till April, so significantly higher because today we are in June.
- Anand Bhavnani:** Yes, if I were to think in terms of financial year 2019, additional capex in silica is about Rs.70 Crores from April 1, 2018 to March next year would that be the right way to think?
- Munjal Jaykrishna:** That is right. I can say that.
- Anand Bhavnani:** Okay and Sir for Greenfield expansion for CPC Green at Dahej, how much is the capital outlay?
- Munjal Jaykrishna:** As you know, you know original prices of steel, cement everything elapsed; it has gone up so we would be spending around Rs.40 Crores for that.
- Anand Bhavnani:** Okay and this is expected to begin in FY2020 am I correct?

- Munjal Jaykrishna:** The production we expect Q3, Q4 FY2020.
- Anand Bhavnani:** Okay and we have not spent any single rupee at the moment Rs.40 Crores?
- Munjal Jaykrishna:** We have spent on planning and engineering stages.
- Anand Bhavnani:** Sir in terms of price hike you mentioned in the presentation that caustic soda prices have been high. It is one of the key ingredients. Can you help us understand like what kind of price hike can you take even the caustic soda price increase in the coming quarter?
- Munjal Jaykrishna:** Caustic soda I think they are on the decline now, it is peaked in Q4 last year. Last quarter was little lower. This quarter is expected to be little lower I think that it is on the way down now.
- Anand Bhavnani:** Okay and Sir what kind of price hikes are we expecting to pass onto the customers over the coming couple of quarters?
- Munjal Jaykrishna:** For pigment green our business is very stable. We usually are able to pass on all costs, which keep our margins intact for Vinyl Sulphone. There is lot of volatility in the prices and it does not have take correlation with the raw materials as we saw last year raw material increased and yet we could not pass on and now we are seeing reversal of trends, raw materials are beginning to decline and the prices are beginning to pickup. So there is no direct relation that is volatile product intermediates.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Systematix Shares and Stocks. Please go ahead.
- Naushad Chaudhary:** Thanks for the opportunity. Sir in your opening remark you mentioned you have added three new customers in last quarter, if you can elaborate more on this, these are domestic customers or export clients for which product are these customers?
- Munjal Jaykrishna:** We have added three new customers for exports for our pigment business, just for competition we would not like to name the customers what we have added, the three new customers for our pigment business and there also export based.
- Naushad Chaudhary:** Quantitatively if you can share or what kind of expectations you have from these customers in the next two to three years as right now?
- Munjal Jaykrishna:** It is too early to comment; however, I can say that they will be helpful in filling out the new green capacity.
- Naushad Chaudhary:** Okay second thing if you can share your volume data of CPC green and Vinyl Sulphone of last quarter for FY2018?

- Munjal Jaykrishna:** Yes. So the volume I will give you for the quarter it is for Vinyl Sulphone, the volume is 2012 and 533 for the green.
- Naushad Chaudhary:** 533 as against the previous financial year quarter?
- Munjal Jaykrishna:** Previous is 1260 and 384 respectively.
- Naushad Chaudhary:** Thank you. Thats it.
- Moderator:** Thank you. Due to time constraints, we will be able to take one last question. The last question is from the line of Anil Shah who is an individual Investor. Please go ahead.
- Anil Shah:** Good morning. I wanted to what is the capex in FY2019 other than Rs.70 Crores you spend for, is any other capex would come in?
- Munjal Jaykrishna:** Any other capex in this coming year that is all I have listed is this.
- Anil Shah:** Just tell me what is the price for CPC green currently?
- Munjal Jaykrishna:** Currently it is around Rs.475 - Rs.480.
- Anil Shah:** What was our realization in the last year?
- Munjal Jaykrishna:** The last year was little lower because of the crude oils, raw material went up little and finished products also went up little. The margins are almost the same as last year.
- Anil Shah:** Okay and what is the price for violet going currently?
- Munjal Jaykrishna:** Currently, we have not sold commercially the violet, it is all under testing, approvals etc., but the price is roughly around \$35 a kg.
- Anil Shah:** Okay. Is there any other expansion we are thinking other than these products currently?
- Munjal Jaykrishna:** No, not at the moment.
- Anil Shah:** And usually what is the rate with the silica sells?
- Munjal Jaykrishna:** It depends. It sells between around Rs.60 and Rs.65 to around Rs.90.
- Anil Shah:** That is the range it is.
- Munjal Jaykrishna:** Yes.
- Anil Shah:** Thank you.



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Moderator: Thank you. We will take that as the last question. I now like to hand the conference back to Mr. Munjal Jaykrishna for closing comments.

Munjal Jaykrishna: I take this opportunity to thank everyone for joining the call and hope we have been able to address all your queries. For any further information, kindly get in touch with me or Strategic Growth Advisors, our IR Advisors. Thank you once again.

Moderator: Thank you very much. On behalf of AksharChem that concludes this conference. Thank you for joining us. You may now disconnect your lines.