



“AksharChem India Limited Q2 & H1 FY18 Results
Conference Call”

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

Moderator: Good day, ladies and gentlemen, and welcome to the Q2 & H1 FY'18 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 the 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 this conference, you may signal the 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 & CFO of AksharChem (India) Limited. Thank you and over to you, sir.

Munjal Jaykrishna: Good Afternoon and a Warm Welcome to Everyone.

Along with me, I have SGA, our Investor Relation Advisors. I hope you have received our 'Result Update Presentation' by now. For those who have not, you can view them on the stock exchanges and our website.

Now coming to our "Results:" The first half of the financial year was challenging. This was largely because of the increase in the prices of key raw materials for Vinyl Sulphone due to the situation in China compared to the last financial year. However, during the first half, our gross profit margins remain stable. This implies that we have been able to pass on increase in raw materials cost to our customers from Q1. Further, in Q3, we have been able to take price hikes and therefore we expect our profitability to improve in the coming quarters. Apart from this, the adverse dollar/rupee rate has affected our realizations which is partially offsetted by volume growth.

During H1 FY'18, Vinyl Sulphone contributed to 68% of the revenues and CPC Green 32% of our revenues. The total volume of H1 FY'18 stands at 4,424 MT. Capacity utilization during the half year was approximately 83% on a blended basis. During Q2 FY'18 we have incurred a one-off cost of around Rs.1.5 crores towards major repairs at plant and for pollution treatment. If we exclude these one-off costs, then the normalized EBITDA margins would have been in the region of 19%. Thus we expect in H2 FY'18 our margins to improve on the back of better realizations and be in the range of 19-20%.

The company recently raised Rs.69 crores through QIP (Qualified Institutional Placement) to fund its capital expenditure. The CAPEX of Rs.175 crores is in Specialty Chemicals, Dyes, Intermediates and Organic Pigments. The work on CAPEX is progressing as per schedule and is expected to be completed within the next 12-months. The revenue from Brownfield expanded capacity of CPC Green is expected to reflect in the books from Q4 FY'18. Keeping in view the market conditions and the dollar/rupee rate, we expect the revenue for FY'18 to remain flat; however, we expect the market conditions to improve and with expanded capacities coming into play, we expect revenue growth of 15-20% in FY'19.

Now, I would like to update you on the Operational Performance of the Company for Q2 and H1 FY'18: The net revenue from operations for Q2 FY'18 is Rs.66 crores compared to Rs.63 crores in Q1 FY'18. The net revenue from operations for H1 FY'18 is Rs.129 crores. The rupee appreciation affected our realizations as more than 90% of our sales comes from exports. The EBITDA for Q2 FY'18 stood at Rs.11 crores compared to Rs.12 crores during Q1 FY'18. EBITDA margin for quarter stood at 17% Vs 18.9% during Q1 FY'18. EBITDA for H1 FY'18 is Rs.23 crores with margins of 17.9%. Profit after tax for the quarter is Rs.10 crores compared to Rs.7 crores in Q1 FY'18. Net profit margin for the quarter is 15.6% as against 11.3% in Q1 FY'18. PAT for H1 FY'18 stood at Rs.17 crores with margins of 13.5%. The company's total debt as on September '17 is Rs.1 crore. Debt-to-equity as on September '17 stands at 0x. Return on capital employed as on September '17 stood at 28.1% on TTM basis. Return on equity as on September '17 is 18.9% on TTM basis.

With this, I would like to open the floor for questions-and-answers.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, first, I would like to understand that the CAPEX what we are doing are more going towards Specialty Chemicals that is Precipitated Silica. Can you explain us in detail about the product? How do you see the future? What total turnover it can give us after this CAPEX?

Munjai Jaykrishna: We are putting in part of the expansion funds into this inorganic line Specialty Grade Precipitated Silica. With the 10,000 tons annual capacity this can give us a turnover of roughly Rs.80 crores on a full utilization basis. This is the product that will be going to the tire industry. We are going to focus on export market specifically more in the tire industry and we expect this market to grow at around 11-15% per year, so we expect to become slowly a major player in this product.

Sanjay Shah: Sir, this total capacity addition that is H Acid, Precipitated Silica, CPC Blue, how much total incremental turnover we can get it?

Munjai Jaykrishna: So the incremental turnover is going to be approximately around Rs.50 crores in the H Acid, Rs. 20 crores in the Green expansion, around Rs.70-80 crores in the Silica and around Rs.60 crores in the Greenfield expansion in Pigment Green in Dahej. So the total expanded turnover will be between Rs.200-250 crores.

Sanjay Shah: Our more concentration is towards South Korea, Taiwan and Japanese market. So with these products also we are planning to sale in this regions or we are exploring some new region in that?

Munjai Jaykrishna: The same markets where our strength lies and also the European markets.

- Sanjay Shah:** More heard about and read everywhere right now is that Chinese factories are facing some pollution issues and they are struggling due to soaring gate cost and all. So how Chinese are heading towards as far as this industry is concerned?
- Munjal Jaykrishna:** Yes, basic chemicals in the last six months, the costs have really increased. China is struggling as far as costs are concerned because all the basic chemicals prices have really increased in China and as a result also in India. So in way it is good that even in our competing products, Chinese cost has increased, but in the other way some of our raw material cost have also increased. So, the increase in raw material cost usually have a time lag effect to pass on which is usually for our case around three months. So what happens is that price of raw materials keep on increasing, then we are not able to get any benefits of the price of the finished products being increased. So whenever the raw material increase is or the Chinese prices of basic chemicals will stabilize, after that we will get a benefit because in the time lag effect the prices for our finished products are also increasing now.
- Sanjay Shah:** So sir how far it is true that Chinese few companies are shutting down because it is very difficult to gauge that because they can start also any moment, that is what we understand about the Chinese industry, what is your idea on that, sir?
- Munjal Jaykrishna:** In our industry, in our specific products of late there has not been many plants that are shutdown. So there is not going to be any impact in our specific products right now but what generally some capacities are not able to run on full capacity, some plants do shut down, that is why on an average you keep on hearing a particular shortage of this product, but the main problem is the costs are increasing. So because of that, the Indian chemicals industry in my opinion should have a pricing power advantage for the next decade or two.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Systematix Shares. Please go ahead.
- Naushad Chaudhary:** A few book-keeping questions; I missed this point; you gave the revenue breakup between CPC and Vinyl Sulphone. Can you repeat this again?
- Munjal Jaykrishna:** Yes, revenue break-up in the last quarter was 68% for Vinyl Sulphone and 32% for the Pigments. The reason is that Vinyl Sulphone we had increase in volume growth so this increased. From next quarter onwards, the expanded capacity of the Green will come into play, so the revenue mix will slightly decrease from Vinyl Sulphone percentage.
- Naushad Chaudhary:** How was the YoY growth between these two segments?
- Munjal Jaykrishna:** The YoY growth for Vinyl Sulphone has been around 9% this year and the Pigment has been flattish, but with the expanded capacity coming in from next quarter there will be Pigment growth for Green.
- Naushad Chaudhary:** Can you give us the volume split between these two?

- Munjai Jaykrishna:** For Q2, Vinyl Sulphone was 1667 MT production and the Green was 443 MT and the sales was 1828 for the Vinyl Sulphone and 439 MT for the Green.
- Naushad Chaudhary:** We have seen around in this quarter 24% tax rate. Any specific reason for that? What can we expect for the full year, I see in the half year it is around 28-29%, would it be same for the next half or...?
- Munjai Jaykrishna:** The tax rate has been perfectly calculated as per proper depreciation methods, there is nothing unusual. For the full year, that calculation we have not done right now, so I am not able to answer that question for the tax calculations.
- Naushad Chaudhary:** Earlier CPC Green Brownfield 40 tons was expected in 3Q. Now you are saying it should start from Q4 FY' 18?
- Munjai Jaykrishna:** The benefits of this we will be able to get in Q4 FY'18 where the benefits in my opinion will be 50% and then benefits will be 80-90% from Q1 FY'19.
- Naushad Chaudhary:** Any update on our Violet 23 and H Acid brand?
- Munjai Jaykrishna:** Violet 23 also same as the Pigment Green, the benefit will come from Q1 FY18 and the maximum benefit will come from FY'19. H Acid plant will commence in Q2 of next financial year, so we will get full benefits in the next year working.
- Moderator:** Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.
- Jatin Damania:** Just wanted to check because the last quarter also we had mentioned that Violet 23 plant was ready. So have we done any trial production or has our product been approved by the various customers, what are the scene on that part?
- Munjai Jaykrishna:** Yes, the plant is ready, but we had not been able to align our utilities which we are doing in this quarter. So the Violet 23 trial production will also begin end of this quarter. So from next quarter we should be able to sample out the plant product and get some sales revenue for that.
- Jatin Damania:** So what is the revenue that are we expecting from Violet 23 at this point of time?
- Munjai Jaykrishna:** The revenue will start slowly because the market has to be developed. So we expect around Rs.20-25 crores revenue for next year for Violet 23. This year the fourth quarter will be minimal revenue because we will just be starting.
- Jatin Damania:** With this CPC Green coming in place in the Q4, can we expect the contribution of CPC in the overall revenue to go on 30-40% in Q4 or it will take much longer time?
- Munjai Jaykrishna:** that will take some longer time.

- Jatin Damania:** You said in last quarter you are expecting the margins will be in the range of 21-23%. Now since you have revised the margin downwards from 19-20% and you have also taken a price hike in the third quarter, but with the December coming in and probably Q4 which is seasonally a low quarter for the Chemicals industry, do we expect the EBITDA margins to remain at such a higher level or probably it can be in the same level of 17-18% in the second half?
- Munjal Jaykrishna:** This year it is behaving a little differently. The reason for it to behave differently is like even if you see the basic raw material prices in November, they start coming down like everything comes down. So this year the reverse is happening. The raw materials since it did not come down, the markets did not pick up as much in the last past four- five months. So because of that we do not expect a drop at this time of the year which is usually the case. But usually the markets and the demand is really high around August, September and October of these products. So this year it was moderate. So then this year it will not go down also. So we expect going forward 19-20% margins to continue. We already got the price realizations from this quarter for example because of the time lag effect last quarter we could not get it. So this quarter already the prices have increased. So we expect to maintain 19-20%. The reason why I say now 19-20% is because I am taking into account that rupee will be around this much and the raw material prices will also be high. So given both these things, I am taking 19-20% as a figure that we feel we will be able to achieve in the last half of the year.
- Jatin Damania:** On your price realization front, since you have already increased the prices, can you help us what are the VS prices right now vis-à-vis last quarter and the CPC Green price?
- Munjal Jaykrishna:** The last quarter average prices of Vinyl Sulphone were Rs. 212 and this quarter the average prices would be in the range of Rs.240. CPC Green is stable, there is no difference. The margins have been the same and the prices just moves a little with the basic raw material prices and it passes on, CPC Green there is no major effect in the prices.
- Moderator:** Thank you. The next question is from the line of Parth Kotak from Fortune Finance. Please go ahead.
- Parth Kotak:** How do you see the Vinyl Sulphone prices going ahead for the rest of the year and the year next?
- Munjal Jaykrishna:** It is a very difficult question to predict; however, I feel that currently there has not been a super jump in the prices of Vinyl Sulphone like last year, like in the past two quarters, otherwise in the September-October is the peak time. So I expect now the prices to stabilize around Rs.240-250 levels for the remaining two, three months.
- Parth Kotak:** Are we zero-pollution emitting company or...?
- Munjal Jaykrishna:** Yes, we are zero-pollution company.

- Moderator:** Thank you. The next question is from the line of Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.
- Kalpesh Parekh:** Basically a couple of questions on CPC Green only. How is the business opportunity into the CPC Green business. We understand that this is very competitive space and there is a lot of competition, although we have a good edge over others. But how competitive this space will be and whether can we make a good margins in this space?
- Munjal Jaykrishna:** Yes, currently, most products are competitive, I mean, you have to have an advantage now. For the Pigment Green, we have got a track record because of our special grades and other quality markets what we have. We are currently and in the past also fetching reasonably high margins. We expect the same margins to continue going forward. We do not expect any unhealthy competition coming in because the margins should go down. So we expect stable margins for Pigment Green to continue. There is growth in the product. Also, whatever little capacity that is in China is getting more and more uncompetitive. So the pricing should not significantly change the margins on the Green.
- Kalpesh Parekh:** Like we also understand that Alpha Blue, Beta Blue has a good margin compared to others. So any major plans on that segment like you shared something on Blue front?
- Munjal Jaykrishna:** Yes, we are not focusing on Alpha Blue and Beta Blue. There are other companies who are in this business. We are not in Pigments, we are only into Green and now we have ventured into Violet.
- Moderator:** Thank you. The next question is from the line of Amod Joshi from SPA Securities. Please go ahead.
- Amod Joshi:** I was just wondering that we are adding the capacity of H Acid and H Acid being one of the most polluting dye intermediate. So are we also adding affluent treatment plant with this addition of H Acid?
- Munjal Jaykrishna:** Yes, the expenditure we have earmarked for H Acid includes the affluent treatment cost for setting up a plant and we are adding a moderate 100 tons capacity of H Acid so the affluent treatment plant also is coming for that capacity, yes.
- Amod Joshi:** The current number of expense to treat pollution is around Rs.12 crores which is around 4-5% of revenue. So how much increase is expected in these expenses if you could just give some idea?
- Munjal Jaykrishna:** H Acid, the treatment plant will come in common in this site, so will not be broken up environment expense product wise, because the pollution treatment plant on this site will be common. So the percentage of revenue on environment should be similar to what there is.
- Amod Joshi:** 4.5%-5%. so with increasing revenue, this ratio will stay constant?

- Munjal Jaykrishna:** Yes.
- Amod Joshi:** Sir, this is a Dye Intermediate industry. So are we planning to go for a forward integration into Dyestuff or is there any plans for that?
- Munjal Jaykrishna:** There are no plans at the moment, but I cannot rule that out. In the long term we may think of.
- Moderator:** Thank you. The next question is from the line of Dinesh Kotecha from KRIC. Please go ahead.
- Dinesh Kotecha:** I just wanted to know last time we had discussed in this concall that our expansion of Rs.175 crores will be from Rs.70 crores roughly from the QIP and the balance from the internal accruals and debt if needed at the last stage of expansion. Any change in that program?
- Munjal Jaykrishna:** No, there is no change in the program. Currently it stands like that only, first, utilizing the QIP proceeds then internal accruals and if needed we will be using debt in the last stage of the products, otherwise we will have a war chest for some other expansion plans also if that is not required.
- Dinesh Kotecha:** One question outside the presentation. What is the impact of Gujrat election on our company? Is that any adverse expectations from the Gujarat election results on our company?
- Munjal Jaykrishna:** What does politics have to do with our business? There is no impact at all on elections.
- Moderator:** Thank you. The next question is from the line of Pratik Barasia, he is an individual investor. Please go ahead.
- Pratik Barasia:** I wanted to understand when will all the expansion be commissioned? What is the turnover we are expecting after all the expansion is commissioned like when will we see the entire benefit of it?
- Munjal Jaykrishna:** The expansion benefits of H Acid which I am saying approximate figures which will give Rs.50 crores turnover and the Pigment Green Brownfield expansion which will give approximately Rs.20 crores turnover, so the Rs.70 crores turnover will be availed in the full year FY'19- basically and the turnover of around 70-80 crores for Silica, that is around Rs.130crores turnover will be availed from FY'20 in the full year, so that is what we expect, I am not saying small things like this quarter the Pigment Green will get 50% of the turnover in the Q4 FY'18. But I am just saying general around 70-80 crores will be in FY 18-19 and around 130-140 crores will be in FY 19-20.
- Pratik Barasia:** That will be an increase the revenue by ~ Rs. 200 crores.
- Moderator:** Thank you. The next question is from the line of Nitesh Avanthkar, he is an individual investor. Please go ahead.

- Nitesh Avanthkar:** Sir, I would like to know what is the impact of dollar on the company, now the dollar is depreciating against rupee, so do you see any benefits on this?
- Munjal Jaykrishna:** The dollar has been relatively strong, so I would not deny the fact that this affects our margins, like last year same time we were realizing Rs.68/dollar, now we are realizing Rs.65/dollar, so we can pass on but it never quite easily passes on the whole thing, so this has definitely effect on the revenue as well as the profitability, so if this dollar goes back to Rs.66 and Rs.67, it will have a positive effect on our company.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Systematix Shares. Please go ahead.
- Naushad Chaudhary:** Can you give us the VS and CPC Green volume number of last year same quarter?
- Munjal Jaykrishna:** The last year Vinyl Sulphone production was 1,328 MT and this comparative quarter is 1,667 which I just said earlier and for sales last year same quarter was 1,686 MT and this quarter was 1,828 MT, volume growth has been 9% for sales and Vinyl Sulphone 25% for production. CPC Green there has been almost negligible change in the volume, production has been down by 2% because we were running at almost 100% capacity, and the sales has been down by around 15-20%.
- Naushad Chaudhary:** 90-92% is the optimum level we can reach to CPC Green?
- Munjal Jaykrishna:** Yes, we did run last year 100%, but this year was 91%, so we hope to bring it to 95%.
- Naushad Chaudhary:** It should be for VS utilization as well?
- Munjal Jaykrishna:** VS utilization, it is difficult to achieve 95%, last year we were at 77% or something, this year we are at 83-84% or something, we can go up a few more points to 87-88%.
- Moderator:** Thank you. The next question is from the line of Abhishek Dutta from Prabhudas Lilladher. Please go ahead.
- Abhishek Dutta:** Sir, just wanted to know any particular reason this raw material prices from China are going up?
- Munjal Jaykrishna:** In most of the basic chemicals, the environment is supposed to be the reason why the production is coming lesser in China in most of the units, so that is going on because of that. Even today's news item, you must have read about same things happening to Caustic Soda line. So it is not only like they are very polluting products because of which is happening, but because of the environment problems in China, their production capacities are being curtailed to an extent, I am not saying that they are not doing well or the plant is closed down and the costs are going up. So these are the two reasons why the prices of basic raw materials are going up here.

- Moderator:** Thank you. The next question is from the line of Nihar Shah, individual investor. Please go ahead.
- Nihar Shah:** Sir, you mentioned that you cannot rule out foraying into the Dyestuffs capacity expansion. Just wanted to get the hypothetical timeline on that, if you decide to set up the plant now, what will be the timeframe that would actually require for you to start operating it?
- Munjal Jaykrishna:** We have not conceived plans as of yet, so it is difficult for me to give the timeline because for this year we have our hands full with these expansion projects we have taken up, but if we start operating might require three years.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** I missed the earlier part. What are the prices prevailing particularly for Vinyl Sulphone as well as the CPC Green as of now – have we seen any price decrease in this current quarter?
- Munjal Jaykrishna:** I answered this question earlier, but I will just briefly answer it that the prices in this quarter have increased over the last quarter and there is the raw material time lag effect also takes place like the raw material prices increased or increases in three months. So we have been able to get the better realization in this quarter. The Pigment prices are stable; there is no effect for that.
- Umesh Patel:** In terms of revenue mix, from your Pigment segment, what is it in terms of automobile and others?
- Munjal Jaykrishna:** I also answered this; last quarter was 68% and 32% Vinyl Sulphone to Pigment business and in future the Pigment will be around 35%.
- Umesh Patel:** So Vinyl would be lower at around 60-65%. Okay. In the second half, how do you look overall demand scenario as well as the financial?
- Munjal Jaykrishna:** The markets are not looking as euphoric as last year, the markets are looking stable and we are confident of passing in all this raw material cost to cover our margins as we have just said in the call earlier.
- Umesh Patel:** So the margins will remain stable at EBITDA and PAT level what we reported in the first half, right?
- Munjal Jaykrishna:** Yes, that is what we have said that 19-20% EBITDA is what we expect.
- Moderator:** Thank you. We will take the last question from the line of Nagraj Chandrashekar from Laburnum Capital. Please go ahead.

N Chandrashekar: I had a question on long-term sustainable margins for you in the current business and on the new capacity you are adding. Are these 18-20% margin sustainable over a thick five-year period based on the increased cost of Chinese producers when we have to add the environmental and safety management expenses right now in there, do we have a cost advantage that would mean that we can maintain this 18-20% margins over a long run or are these purely commodity products where you could see large wins over a shorter-term period and not that much forecastability going forward?

Munjal Jaykrishna: Currently, our industry and us we are having, as you said rightly 18-20% margin Now these, the margins sustainable or not. now these margins have come down because of the strong rupee as well as the raw material price increase. So, considering these two factors to be constant right now, we do feel that our industry is in a position to sustain these margins for relatively long time. The reason is that the Chinese costs have increased. There is not only about environment as people see one or two plants closing down or producing less, it is the cost of labor, the cost of safety management, the cost of environment management, all are increasing in China and traditionally these cycles which country has the pricing power for a long-term last for like 15-20-years, not considering last 2-3-years, but before that 15-20-years China always had the pricing power and now I feel that Indian chemicals industry should have the pricing power of 15-20-years and thereby these margins should be sustainable. As far as the product being a commodity, yes, some of our products are commodities, but within the commodities also, we make special grades which differentiates us and also other companies are also making different grades which have been differentiating and getting a higher margin. So we believe that 18-20% margins as you said would be sustainable for 3-5-years.

Moderator: Thank you. Ladies and gentlemen, that was the last question. 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 your queries. For any further information, kindly get in touch with me or Strategic Growth Advisors, our investor relations advisors. Thank you once again.

Moderator: Thank you. On behalf of AksharChem (India) Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.