



“Q3 & Nine Months FY2018 Earnings Conference Call
of AksharChem (India) Limited”

February 19, 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 Q3 and nine months FY2018 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 involves 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 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 everybody. 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.

During this quarter, the plant was shut down for ~15 days in order to carry out the process of streamlining utilities for the capacity expansion of CPC Green and also to commission the Violet plant. CPC Green capacity is expanded by 480 tonnes per annum, which will be available from Q4 FY2018.

As indicated last quarter, we will be able to pass on the increase in raw material cost to the customers. As you can see our raw material cost as percentage of sales has been decreased to 58.5% for Q3 FY2018. First nine months of FY2017 i.e. last year was an exceptional year due to Chinese environmental issues. The prices of the product were very high, so the decrease in revenue was largely on the back of correction of realization compared to last year; however, since then the prices have now normalized as compared to last year.

Our business continues to grow on volume basis making it more sustainable. For nine months of FY2018, the total volume for nine months FY2018 stands at 6268 metric tonnes grew by 10% compared to same period last year and for Q3 FY2018, the volume is 1843 tonnes grew by 25% as against Q3 FY2017. During nine months FY2018, Vinyl Sulphone contributed to 68% of the revenues and CPC Green contributed to 32% of our revenues.

The other capex is progressing as per schedule and is expected to be completed in the next 12 months. To focus on implementing our growth strategies and expansion plan the board has appointed me as CEO of the company. Henceforth I have resigned from the post of CFO. Mr. Sunil Rane has been appointed to look after the role of CFO and I would continue to be Joint Managing Director and CEO.

The company has also received SME Business Excellence Awards for the Best Global Business and Chemicals and Pharmaceuticals 2017 by Dunn & Bradstreet.

Now I would like to update you on the operational performance of the company for Q3 and nine months FY2018. Net revenue from operations for Q3 FY2018 is Rs.59 Crores compared to Rs.66 Crores in Q2 FY2018. Net revenue from operations for nine months FY2018 is Rs.188 Crores. EBITDA for Q3 FY2018 stood at Rs.9 Crores compared to Rs.11 Crores during Q2 FY2018.

EBITDA margin for the quarter stood at 15.1% vs 17.0% during Q2 FY2018. EBITDA was lower, which was impacted due to increase in employee expense. Employee cost was up as we released the salary increment of FY2017-2018 during this quarter. EBITDA for nine months FY2018 is Rs. 32 Crores with margins of 17.1%. Profit after tax for the quarter is Rs.8 Crores compared to Rs.10 Crores in Q2 FY2018. Net profit margin for the quarter is 14.1% as against 15.6% in Q2 FY2018. PAT for nine months FY2018 stood at Rs.26 Crores with margins of 13.7%. With this I would like to open the floor for questions and answers.

Moderator: Thank you very much Sir. Ladies and gentleman, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Jatin Damania and Kotak Securities. Please go ahead.

Jatin Damania: Good afternoon Sir. Sir just wanted to check if you can help us with our revenue contribution of VS and CPC in the third quarter of FY2018 along with the volume respectively?

Munjai Jaykrishna: You want in tonnage?

Jatin Damania: Sir tonnage.

Munjai Jaykrishna: So tonnage of Vinyl Sulphone was 1433 metric tonnes, which was a 34% increase over the last quarter and Green was 409 metric tonnes, which was almost flat like last quarter and the sales was Rs.41 Crores for Vinyl Sulphone and Rs.18 Crores for the Green. I gave you the three months sales now I will give you the nine months. I will just come with a sale figures, I am just pulling it up. Meanwhile can you just continue with any questions?

Jatin Damania: Sir second just wanted to check now that things are project all the utilities has been streamlined when do we expect Violet 23 to come into place?

Munjai Jaykrishna: Violet production commenced this quarter and the trial production and everything is going on, so we expect the sales to be started from next quarter onwards the sales for the Violet.

Jatin Damania: So it will be from the Q1 of FY2019?

Munjai Jaykrishna: That is right yes.

- Jatin Damania:** Sir in the last couple of quarters we have seen that because of the lower realization and lower operating leverage our margin has been coming down on a sequential basis and last quarter, we have recorded a margin of 15% though it also includes the increase in the employee expense how do we see the margin going ahead for FY2019 and FY2020 once your expansion plans falls in place?
- Munjal Jaykrishna:** The margins have been going down mainly of course one is the sales price came down significantly from last year, but apart from sales price, the rupee and the raw material cost are the two main reasons for the margin going down. So going forward if you are asking question I would say the margins would continue to be between 15% and 20% it depends on the favourability of the rupee and the raw material cost, which has been very volatile like last quarter the rupee was the strongest, the crude oil also was always going high. So when it reverses, this will slightly improve, but we expect that the current levels will be between 15% and 20%.
- Jatin Damania:** Do we expect the prices of the VS and CPC Green to be stable on our current level or we expect much more volatility going ahead?
- Munjal Jaykrishna:** CPC Green has been stable and I see no change what has been. There is no change. There might not be expected to change. Of course the little rupee appreciation was only negative, but for the CPC Green the prices have been very stable. Of course Vinyl Sulphone is very difficult to predict even today as we say Chinese situation is not very comfortable, the costs are high, so there is a scope of prices going up, we hope the price will go up for at least moment, I cannot make a forward-looking statement on the prices to come, so we can only take for example this prices to continue as a guideline.
- Jatin Damania:** Sir, if you can tell me what are the current VS prices in China and what are the current VS prices in domestic market?
- Munjal Jaykrishna:** In the domestic market, currently the VS is priced at around Rs.240 while in China at it is priced significantly higher at around Rs.300.
- Jatin Damania:** Okay and last question, all the plants are coming like CPC Green the second phase of expansion will be completed in next 12 months, so where do we see the contribution from precipitated silica to come in place?
- Munjal Jaykrishna:** From Q1 FY2020.
- Jatin Damania:** Okay Sir that will be in the next financial year only?
- Munjal Jaykrishna:** Yes, that will be next financial year. In this year, we will get contributions of H acids from next quarter onwards, so we should get the contribution of H acid for the full year and this coming financial year 2019.
- Jatin Damania:** H Acids also will be starting from FY2019 only?

- Munjal Jaykrishna:** Q1 FY2019.
- Jatin Damania:** Leaving beside the silica where do we see the incremental revenue coming from and how much that will be from H acid CPC Green?
- Munjal Jaykrishna:** The incremental revenue will be coming mainly from three expansions. One is H acid. From the H acid, the incremental will be approximately Rs.50 Crores, the additional revenue, for Green expansion we are doing in Dahej additional revenues of around Rs. 100 Crores will be expected and also for the silica additional revenues of around Rs. 100 Crores will be expected.
- Jatin Damania:** This Rs. 250 Crores a larger portion of that means Rs.150 Crores will see in FY2019 and another Rs.100 will flow in FY2020 right?
- Munjal Jaykrishna:** No. Only the H acid Rs.50 Crores will flow in FY2019 and the remaining Rs.200 Crores will flow in FY2020 full
- Jatin Damania:** Okay Sir. Thank you. That is all from my side. If I have any further question I will join back in the queue.
- Munjal Jaykrishna:** Just a clarification. The Green expansion of 480 tonnes what we have currently completed is not included in this Rs. 250 Crores, this is the new expansion capex is what I talked about.
- Jatin Damania:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Sandipan Ghosh an individual Investor. Please go ahead.
- Sandipan Ghosh:** Good afternoon Sir. Congratulations Munjal Sir and Sunil Sir for the new chairs as CEO and CFO. Sir I had two basic questions. Firstly Sir I am very much confused, what is the exactly Violet 23 and CPC Blue because in the capital expenditure plan I do not see any Violet 23, please can you explain?
- Munjal Jaykrishna:** The Violet 23 expansion we had done. it is a small product and we have just started on a small scale, so we did out of internal accruals, so we had not put up the project as part of the new capex. We funded it from our internal accruals. It is a just like pigment green, it is pigment violet in which the same distributor network is going to be used. So we are just slowly getting into another variant of pigments like pigment green and since it was a small capex we did out of our own internal accruals, it was mentioned in the larger capex along with H acid or the green expansion or the silica expansion.
- Sandipan Ghosh:** Okay Sir and about CPC blue, I do not see you are mentioning any why it is contributing to revenue, is this kind of backward integration for CPC blue?

- Munjai Jaykrishna:** CPC blue is only meant for scale captive consumption, there is no additional revenues from CPC blue when we put in, currently we have undertaken the projects of green expansion in Dahej, the silica expansion in Dahej and H acid expansion here besides completing the green expansion and violet expansion here. So after that we will be focusing on CPC blue, but yes it will not be contributing to revenues.
- Sandipan Ghosh:** What are the capex for it? Is it the raw material for CPC Green?
- Munjai Jaykrishna:** It is a raw material CPC Green.
- Sandipan Ghosh:** What will be the advantage? Are you more concerned about the raw material prices for CPC Green?
- Munjai Jaykrishna:** It is just like as a little contribution margin increase because of captive.
- Sandipan Ghosh:** So what is the margin expectation in Silica, 26% can it possible higher of 25%?
- Munjai Jaykrishna:** That is what we have planned and we standby that because of the grade what we intend to make.
- Sandipan Ghosh:** Okay, Sir from the previous concall I heard you have Vinyl Sulphone and CPC Green EBITDA margins at around 20% right?
- Munjai Jaykrishna:** It is expected to be. Today I have given a kind of 15% to 20% because of the environment of the rupee and the raw material, so when this becomes favorable we see it around 20% and currently the rupee and the raw materials last quarter have been unfavorable, so the EBITDA margins have been around 15%.
- Sandipan Ghosh:** Increase in Raw material prices are for Vinyl Sulphone right and not for CPC Green right?
- Munjai Jaykrishna:** No, the CPC Green has been stable. The raw materials whatever little increase it comes it gets absorbed so that is not much impact on finished goods as well as raw materials on CPC Green. For Vinyl Sulphone, the price of raw materials is quite volatile like caustic soda, Aniline oil etc. So these sort of raw material impact the margins.
- Sandipan Ghosh:** By using the revenue mix of CPC Green and Silica, so would not we be stabilizing the raw material I mean stabilizing this EBITDA margin also right?
- Munjai Jaykrishna:** Yes. Vinyl Sulphone is only the volatile product, these margins are stable and silica, we expect it to be as stable as the pigment business, so the volatility of EBITDA margin will decrease after these two Green expansions and Silica.
- Sandipan Ghosh:** Point taken, Sir about the debt, you have taken the QIP fund raising now what is the debt portion have you planned to take will give it back to us and what is the source of this debt, are you going to take some foreign currency loans?

- Munjai Jaykrishna:** Sorry, can you repeat the last line what you said?
- Sandipan Ghosh:** What is the debt you are going to take for these capex number one? Number two is, are you taking any foreign currency loans for the debt or are you continuing to SBI as we previously did?
- Munjai Jaykrishna:** In the closing parts of the project, we do plan to undertake a debt of around Rs.30 Crores to Rs.40 Crores, we do not currently intend to take it right now because of the QIP proceeds and internal accruals, but in the closing part of the capex we might take and at that time we will consider foreign currency loan as well as rupee loan, which is more favorable to answer that moment because even if we take foreign currency loan of Rs.30 Crores odd, we can offset it again to our exports so it is consideration, but right now we have not fixed up whether we are going to take Indian currency loan or foreign currency loan and the debt portion currently is zero, but we expect it to be taken only in the last project completion part of the project.
- Sandipan Ghosh:** Sure Sir. Thank you.
- Moderator:** Thank you. We have next question from the line of Akhand Pratap Singh Way2Wealth. Please go ahead.
- Akhand Pratap Singh:** Good afternoon Sir. Sir my question is on the China part actually, because a lot of capacities were shut down or operating at lower utilization level so and government is planning to shift few plants in the chemical SEZ, I read somewhere so how much time it will take and like how India will be impacted due to that first question is that? And second part is that like we are adding the capacity and many Indian players are also adding the capacity. We are expecting a growth of around 11%, which is as mentioned in the presentation, but if I am added all capacities all companies, which are setting the new capacities actually the growth is much higher than the 11% so going forward what will be the outlook on the prices because the Indian capacities will also come and Chinese plant, which are supposed to shift in the chemical SEZ. So new capacity and the plants with Chinese plant were operating at the lower utilization then the utilization will improve and new capacity will come so wanted to know the outlook on the industry like the prices,demand growth like these things?
- Munjai Jaykrishna:** So when I answer this question for pigment business the Chinese outlook does not affect at all so then I will be answering this question only for the Vinyl Sulphone business because pigment business is not affected by the Chinese prices or Chinese capacity as it is Indian centric product.Regarding the Vinyl Sulphone business, the Chinese coming back or shifting to SEZ, is not what information we have or what we can expect. In fact even today I just mentioned Chinese prices are more than 20% higher than Indian pricesboth the cost as well as finished products. So in China,they are continuously facing not only environment problems, but cost issues because of which the market is shifting to India not only the dye intermediate market but also the dyestuff market is shifting to India from China. Because of that Indian products are available at a lower cost in the export market. Many companies are adding capacities, as China is loosing export market share due to increased cost which has been taken over by India. So the additional capacities can be absorbed easily as the production is reduced in China. As far as we are

concerned our markets for Vinyl Sulphone are predominantly Korea and Taiwan and these markets are relatively unaffected by shift of dyes from China to India.

Akhand Pratap Singh: This is my question. Okay. Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor: Good afternoon Sir. First question with regards to Acetanilide prices, how they are moving as of now and what is the trend you foresee there?

Munjal Jaykrishna: What happened was apart from the effect of crude oil in the past three to four months because of the winter situation in China, almost all of northern Chinese capacities of many products were down because they were using the coal first priority to generate heat for the people so to control the ambient air, many plants were shutdown so this included some plants of caustic soda as well as Aniline oil, because of that there was a shortage of these products for few months and the prices of Aniline oil and acetanilide acid shot up by around 25% to 30% in the last quarter and we expect now that the winter has eased out, these productions are becoming normal there, Aniline oil, acetic acid, caustic soda so we expect from March onwards these prices to stabilize the rationalized.

Ankit Gor: As of now what is the price of acetanilide?

Munjal Jaykrishna: The acetanilide average price is around Rs.110.

Ankit Gor: Rs.110 and Sir we also have seen increase in other cost, which is mainly led by increasing fuel and power cost any other reasons there Sir?

Munjal Jaykrishna: No. Fuel and power cost one as you known the volume growth has been there. Secondly the H acid construction is going on, thirdly the fuel cost, there was also cost of coal. Because of same situation of shortage is so because of this reason the fuel cost also went up a little.

Ankit Gor: Okay and Sir this quarter tax rate stood at 15% and how should we look at it for full year basis and next two year basis, we might get lot of incentives for capex in our tax rates? What is the fair assumption there Sir? Tax rate what could be that Sir for the full year and next two years what could be the fair to assume what number?

Munjal Jaykrishna: So the tax rates difficult to right now depending on the profitability but currently we are not under MAT so we are paying taxes even higher than MAT, but with the current capex is coming on with the depreciation coming on we should be better planned for the taxation percentage will come down for next year onwards.

Ankit Gor: Correct for further nine-month tax rate was around 24% for the first nine-month?

- Munjal Jaykrishna:** That is right.
- Ankit Gor:** Should be in that range for the full-year and probably next two years as well is it fair to assume that way?
- Munjal Jaykrishna:** Full year tax percentage will expect it to be just approximately under or around 30 and next year we expect tax rates to come significantly because of the expansions that are coming in place.
- Ankit Gor:** Okay and Sir my second last question is on overall CPC Green environment we did not see much of volume growth there was it mainly because of plant shut down and if it is how much that would have cost us in 15 days plant shut down in terms of revenues?
- Munjal Jaykrishna:** We lost 15 days production of the pigment business in the plant shut down so that is 15 days quite significant so we lost several growth of sales or production in this quarter because of this. So 15 days production we lost and accordingly sales also otherwise they would have been sales growth, which we hope to see this quarter because new capacities also come in.
- Ankit Gor:** But Sir was not the plant shut down so we could have stored inventory in CPC Green pigment side and did it plan wise or how it is Sir?
- Munjal Jaykrishna:** We are constantly having order book positions and we could not really plan to produce additional inventory to keep it for that time.
- Ankit Gor:** Okay and Sir will it be possible to quantify revenue loss because of this 15 days shut down?
- Munjal Jaykrishna:** The revenue loss would be around 15 days production is around 80 metric tonnes, I would say the revenue loss of pigment green, so 80 metric tonnes into 400.
- Ankit Gor:** One thing the previous participant asked our sales breakup of Vinyl Sulphone and CPC Green for Q3 FY2018 if you can provide that, that will be great?
- Munjal Jaykrishna:** So the sales breakup was 41 Crores for the Vinyl Sulphone and around 18 plus Crores for the Green.
- Ankit Gor:** Okay Rs.18 Crores. Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Raj Shah, an Individual Investor. Please go ahead.
- Raj Shah:** Good afternoon. I wanted to understand that the raw material prices were at 42% last year I think around Q3 and it has gone up to around 60% and now it has come down to 58.5%, are we thinking of it going back to 42% or what range will it be at?

- Munjal Jaykrishna:** Number one as normally in summer this problem of Chinese raw material shooting up goes down, so we expect the prices to come down because of that and also crude oil from 70s it has come to 60s and high 50s also, so because of that raw material should come down, so we do not expect it to come that low, but yes we expect it to come lower and lower in the coming quarters.
- Raj Shah:** But we will not be able to pass on the cost, which of the raw material cost to our customers?
- Munjal Jaykrishna:** Normally it takes one to three months effect to pass on either ways for increase or decrease.
- Raj Shah:** Let us say 80% of the Vinyl Sulphone capacity is in India, so I am guessing there is some advantage that Indian players have, what advantage is that?
- Munjal Jaykrishna:** 50% of the Vinyl Sulphone capacity is in India and others in China, but the cost of raw materials go up in India and China as well because what happens is even if the raw materials are made in india once the problem happens in China the companies also take advantage by increasing the raw material prices, so the raw material costs even solved between India and China.
- Raj Shah:** When our raw material cost you add 42% of revenue, our crude was low and the raw material prices are also lower?
- Munjal Jaykrishna:** Also sales realization was higher.
- Raj Shah:** And you had other income in the last quarter and this quarter, so what is the other income for?
- Munjal Jaykrishna:** That is from our treasury management. We do treasury management successfully since many years and also some of the QIP funds temporarily got in that additional revenue.
- Raj Shah:** If we remove that then our PAT has gone down significantly the last two quarters?
- Munjal Jaykrishna:** That is right.
- Raj Shah:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Sandipan Ghosh, an Individual Investor. Please go ahead.
- Sandipan Ghosh:** Numbers you tell like H acid is contributing 50 Crores, CPC Green 100 Crores more and Silica 100 Crores so these are revenues at 100% capacity utilized?
- Munjal Jaykrishna:** The revenues at 100% capacity utilization you are asking only for the expansions or total you are asking?
- Sandipan Ghosh:** Only the expansion figures that you are giving, what is the capacity at least you can achieve this?
- Munjal Jaykrishna:** The numbers what I told you this we achieve it around 80%, 85% capacity utilization.

- Sandipan Ghosh:** So, this Rs.250 Crores of additional revenue that is going to be clocked within the next two years?
- Munjal Jaykrishna:** Yes that is right.
- Sandipan Ghosh:** Sir why 80%, I see back in 2013 you got 94% capacity clocked up after that it has been 74% to 80%, what is the reason exactly? The demand was picking up to achieve 100%?
- Munjal Jaykrishna:** No it is not that like to go up to, we have been in these products for so long to achieve 90% utilizations, so as time goes up in two years 80% is a fair target and when in time goes from 80% to move on to 90% or something is a possibility, but right now for me to say immediately 90% would be little too aggressive, but eventually yes our track record says we can achieve 90%.
- Sandipan Ghosh:** You mentioned the 15% export growth in your presentation, of course the seasonal things apart so that means 15% CAGR is a growth then within three to four years we have to maintain more than 90% to be in the competition or since we obviously take a large share of export?
- Munjal Jaykrishna:** Yes eventually after two years the utilization will go up and the revenue growth will go up, but I am putting it at 80% because it is what I know I am going to achieve in two years, then anything more than that will be good, but our track records says that we achieved 90% utilization and the market should be there also.
- Sandipan Ghosh:** Last one is about the production loss can you quantify the exact amount of loss in the metric tonnes?
- Munjal Jaykrishna:** So around 3.5 Crores of revenue loss for the pigment business can be considered because of the production loss of 15 days of Green.
- Sandipan Ghosh:** What is the price of Aniline going on right now and what is it was in Q3 can you tell me?
- Munjal Jaykrishna:** I will tell you acetanilide in Q3 was Rs.86 in last year FY2017 and this year it is Rs.110.
- Sandipan Ghosh:** These are Q3 numbers right?
- Munjal Jaykrishna:** Q3 numbers FY2017 versus FY2018.
- Sandipan Ghosh:** All the best to you, actually more capacity and much and much topline and bottomline.
- Munjal Jaykrishna:** Thank you so much for your wishes.
- Sandipan Ghosh:** Congratulation for the new chair. Thank you.
- Munjal Jaykrishna:** Thank you so much.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I would now like to hand the conference over to Mr. Jaykrishna for closing comments.

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

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of AksharChem India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.