"AksharChem (India) Limited Q1 FY18 Earnings 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 Q1 FY18 Earnings Conference Call for 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 risk 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 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, Joint Managing Director & CFO of AksharChem (India) Limited. Thank you and over to you, Sir.

Munjal Jaykrishna: Good morning and a warm welcome to everyone. Along with me, I have SGA, our Investor Relations Advisors. I hope you have received our result updated presentation by now. For those who have not, you can view them on the stock exchanges and our website.

Let me give you some color on dyes and pigments industry. Demand for these chemicals are increasing largely on the back of strong growth in the end user industries like textiles, paint and coatings. The Indian colorants industry is expected to grow higher than its end users on the back of increasing demand for high-grade paints and coatings, which contain more volume of pigments, increasing demand for high-quality textiles, low per capita consumption and commercialization of 3D printing to boost plastics usage and thereby specialty pigments market, a high growing packaging industry to drive high value specialty inks market. So we feel demand for dyes and pigments are expected to increase going ahead. As we all know what happened in China, post that this industry has seen some development both in India as well as globally. Developments such as stricter environment norms, tightening of environmental compliances, increasing demand for less and zero toxic colorants both by Indian and global players.

Looking at this scenario, we believe that there is a structural shift in the industry, and that the next 8 to 10 years for the chemical industry will belong to India. Indian players with an integrated business model, strong focus on R&D and quality, focus on less or non-toxic products and processes, with better effluent treatment plants are expected to gain significantly in the coming years.

Now coming to our results, during the first quarter of the financial year 2018, this quarter was good in volume terms. The para base that is Vinyl Sulphone volumes grew by 1.7% to 1,688 tonnes and CPC Green increased by 28.8% to 469 tonnes. Our realizations were affected on the back of rupee appreciation compared to the same period last year. Moreover, prices of raw materials for Vinyl Sulphone also increased to great extent to the tune of roughly 27%. All these factors in turn affected our margins and profitability for the quarter. However, the prices of raw materials have now stabilized and expected to remain stable in the coming quarters.

During Q1 FY18, Vinyl Sulphone contributed to 67% of the revenues and CPC Green contributed to 33%. CPC Green business has shown good volumes and growth traction and margins generally tend to be stable in this business. We have recently done CAPEX in this segment. The technical work for the Brownfield expansion of CPC Green is almost completed and production is expected to commence soon for the extended capacity. So we expect the contribution from this business to go up further. Capacity utilization for the quarter was approximately 80% on a blended basis. GST hasn't really affected us, as our major revenue comes from exports.

The company recently raised ~Rs. 69 crores through 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 the CAPEX is progressing as per schedule and is expected to be completed in the next 12 months.

Now, I would like to update you on the operational performance of the company for Q1 FY18. The net revenue from operations for Q1 FY18 is Rs. 63 crores, growth of 14.6% on year-on-year basis compared to Rs. 55 crores in Q1 FY17. Growth in the revenue is mainly attributed to volume growth and realization improvements in the VS and CPC Green business. The EBITDA for Q1 FY18 stood at Rs. 12 crores compared to Rs. 14 crores same period last year, a year-on-year de-growth of 16%. EBITDA margin for the quarter decreased by 690 basis points to 18.9%, this was on account of increased raw material prices of VS during the quarter and exchange rate realization effect. The profit after tax for the quarter is Rs. 7 crores compared to 9 crores in Q1 last year. Net profit margin is 11.3% as against 16.3% in Q1 previous year.

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

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: The first question, sir, I wanted to understand the update on our Violet Pigment 23 and when are we expecting this product to be commercialized?

Munjal Jaykrishna: Okay. So for Violet 23, the plant is ready and so is the Green expanded Brownfield capacity. Because the utilities are common, we have to do some alignment with our existing pigment ops, which can take a few days where our existing operations can be affected. So seeing the order book production situation, we will be finishing that in Q4, probably after Diwali. So as soon as we finish that, both our expanded Green capacity and the Violet plant will start. So mainly the plant is ready, but we need to do some alignment because the utilities are common, so some alignment needs to be done with the expansion of the Green Brownfield, the starting of the Violet along with our existing pigment operations. And that is why we have to find an opportune moment. We intend to do it in Q3. So the effect of that we should be getting in Q4, the volumes for the expanded capacity of Green as well as the Violet.

Naushad Chaudhary: And how much time it takes to acquire customer for this product?

Munjal Jaykrishna: We have put up a very small capacity for Violet, so the acquisition time should be long, in the sense, six months to one year. But there are other applications where the customer acquisition can be within two months or three months because of the customers being same as our Pigment Green business and the same distribution channel, so our customers know the company. So in some products, the acquisition time of customers would be two to three months, otherwise largely six months.

Naushad Chaudhary: And sir, our margins, where we have been guiding for 25%, 26%. But in the first Quarter, we have seen around 20%, 19% OPM. So was this just one-off? What is your expectation for the full year FY18? And what would be the long-term margin you would guide to us?

Munjal Jaykrishna: Right. So there are two reasons why margins are lower than our original guidance. And then I will come to the new guidance. But the two reasons are, one, we said like last quarter especially the raw material prices were very high of some raw materials like Chlorosulphonic Acid and Acetanilide. These pressures are starting to normalize now and one of them has normalized, the other one is about to normalize in maybe next month. So the raw material prices were one of the reasons why some of the margins were shaven off in the last quarter and this is expected to normalize from this quarter onwards. Then the second reason was, last year we got an average dollar realization of 68 during the same time. This time we are getting a dollar realization of roughly 64. So all this sudden appreciation we have not been able to pass on and there has been a decline in margins because of that. So that is affecting us and even though we have a good hedging policy, the effect is going to be there. So because of these reasons, I expect that the raw material effect to go away or it has largely gone. The second factor will depend on what the rupee-dollar plays out. So because of that, if I have to give new guidance, I would give between 21% and 23 % now.

Naushad Chaudhary: For this financial year?

Munjal Jaykrishna: Yes.

Naushad Chaudhary: Okay. Sir, can you help us understand more about what drives these raw material prices? As we understand, this is not basically the crude derivatives, we get this raw material from the steel plant, right. So what exactly drives these raw materials prices?

Munjal Jaykrishna: So one of the raw materials, the basic input is dependent on China. So one of the raw materials increased because of some shortage of that in China and that is specifically aniline oil, the raw material for Acetanilide. And Chlorosulphonic Acid, there was a little shortage in the last quarter because of that the price has increased and also there was actually a shortage. So sometimes shortages of raw materials pan out and the prices for raw materials increase. But largely, this effect has gone and I don't expect this effect to be there in the coming quarters. So that is why from 19% EBITDA margins, this effect I have taken out. Now, the other effect of 2% or 3% because of the currency, that I'm still keeping on because I don't know what is going to happen to the currency, it's very volatile. So last year, what happened was we got all favorable factors, low raw material prices, high exchange rate, I mean, the rupee-dollar being 68, so that is the reason why last year was a phenomenal year.

Naushad Chaudhary: Okay. So if we have to split a margin between new VS and CPC Green, so what would that be? How much margin we have made in VS and how much in CPC Green?

Munjal Jaykrishna: So we are not in the position to break it up because now, we are not doing segment profitability because of the utilities etc. being common. But right now, I can largely say that pigment margins have always been very stable. There is not much change due to raw materials or the market situation or there is no China factor in that. So that margin is largely stable as expected. The Vinyl Sulphone margin sometimes is volatile and currently the Vinyl Sulphone margin is down because of the raw material prices, but that is coming up from this quarter onwards because that situation has gone. So both roughly look like having a comfortable margins above 20% for both products.

Moderator: Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: Continuing with the earlier question regarding Brownfield CAPEX in the Violet 23. Sir, as earlier, we were planning to commence this production in Q2. So now, do we expect with the revised plan the commercial production from both these plants will start from Q4 of FY18?

Munjal Jaykrishna: Q3, we will start, but we'll get the effect of turnover from Q4 because Q3 we will just be starting. So as I said, since this is a Brownfield, all the utilities and all have to be aligned with our current Green operations. We are having the strong order book position for our existing Green, where we have not been able to disturb it to accommodate the expanded Green as well as the Violet. So all this, we plan to do together in this Q3. So in Q3, it will be completed and we will start getting the turnover in Q4.

Jatin Damania: So sir, in Q3, that means in Q3, will we take the maintenance shutdown in Q3 to realign the old facility with the new facility?

Munjal Jaykrishna: I won't call it a shutdown, but yes, small disturbance in the operations of existing Green has to be done because of the utility alignment. So that we are trying to see how minimal it will be, but that is exactly the reason why we could not do it last quarter because as you saw, we have got high Green volumes, so because of the Green order book position, we have not been able to do that alignment, but we have now planned out properly and we plan to do it immediately after Diwali. So it will be done in this quarter. Yes, there will be a small alignment because of which for a few days, the existing Green operations can be disturbed, but we will make it up in volumes.

Jatin Damania: So sir, that means the current CPC Green order book that we have, it will be get over by the Diwali. So that means the second quarter we will see a good volume as far as CPC Green is concerned. But three and four, we might see a dip in CPC Green volume, right, if I'm not wrong?

Munjal Jaykrishna: No. I don't think, we will see a dip in Green volumes. What I meant is we have to do the alignment of utilities for starting our Violet and the Green expansion because of which, for a few days, our productivity can be disturbed. But then the expanded productivity will come in. So next quarter, I do not see any dip in the volumes of Pigment Green, but the growth will come from Q4.

Jatin Damania: And sir, coming to the second question, so what are the current VS and H-Acid's realization?

Munjal Jaykrishna: So currently H-Acid, I'm not aware right now exactly, but Vinyl Sulphone realizations currently are in the tune of around Rs. 240 to Rs. 250.

Jatin Damania: And sir, as now, we are guiding new margins in terms 21% to 23%. Now suppose if the crude, which is currently hovering at the same level, if it goes around by 10%-15% higher and if any further revamp at Chinese happens in terms of the raw material of Acetanilide, what will be the margin protection, I mean, once our pigment facility starts, do we still see that margin will be in range of 21%, 22%, once our pigment comes in place or there is further downside to the revised guidance as well?

Munjal Jaykrishna: As far as our pigment margins are concerned, even the raw materials are stable and there is no effect even of Chinese raw materials because there is no China factor or no raw material shortage because of which, it can effect. And as far as the crude is concerned, our history shows that the crude prices get absorbed into the product within a reasonable time period. The problem we have is, when there is a sudden shortage because of some reason in the local market or something. So even in the Vinyl Sulphone, what the raw material prices increase was not because of China, it was because of a little shortage in the domestic market of some acids. So these shortages do happen, maybe once in a year or something. But they are not largely expected or anticipated to be a regular feature. So I do not see because of that the marginsgoing down. However, I see that because of our expanded capacity of pigments, our pigment margin can go a notch up because of the more volumes in the pigment business once expanded capacity comes in.

Moderator: Thank you. Next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir, can you guide us, the last year, what were the range of prices for Vinyl Sulphone as in the maximum and the minimum increase and the average for the whole year for us?

Munjal Jaykrishna: Sure. The average realization of Vinyl Sulphone in FY17 was Rs. 271 per kg and FY16 was 175. So last year, in the full year FY17, it was Rs. 271. But I'll just tell you, these prices cannot be taken per se because it entirely depends on the crude levels.

Shashank Kanodia: For us, like Q2 and Q3 were quite bumper quarters last year. So within, we had something like 35% plus EBITDA margins. So what were the Vinyl Sulphone ranges in that particular quarters?

Munjal Jaykrishna: Sure. In that particular quarter, I don't have the figures right now, but that time, it was two of our best quarters where the Vinyl Sulphone prices were probably in excess of Rs. 300.

Shashank Kanodia: For this quarter, it was roughly around 2.5 as in...

Munjal Jaykrishna: Rs. 250.

Shashank Kanodia: Yes. So what is the outlook going forward and how are you seeing any capacity shutdowns or additions in China?

Munjal Jaykrishna: Yes. We see that the environment issues still continue in China and because of that the product is in kind of, I'm not saying shortage, but there is a big demand for Indian intermediates. So I see the price of intermediates like Vinyl Sulphone going up in the quarters to come. That is our reading of the situation.

Shashank Kanodia: Okay. So coming on the CPC Green part, so among the segments that you mentioned plastics, rubber, ink, paints and leather. So what is the contribution as in the industry usage type if you can guide us?

Munjal Jaykrishna: The end use, you mean?

Shashank Kanodia: Yes.

Munjal Jaykrishna: So the end use for our market is largely into plastics and coatings, around 80% of our pigment goes in, the Green goes in coatings and plastics. And then the remaining is divided between inks and textiles. But the plastic and coatings market is very robust and internationally, we've got a very stable market in both these segments in countries like Japan, Korea and the US.

Shashank Kanodia: Okay. And one of the major raw materials of CPC, it would be again Phthalic anhydride or?

Munjal Jaykrishna: Yes, it will be Phthalic anhydride.

Shashank Kanodia: Phthalic anhydride. And what are the procurement costs for it, like Rs. 70 a kg for us straight away?

Munjal Jaykrishna: Yes, it is volatile but Pigment Green immediately, we are able to pass on the margins because our history of Pigment Green is that the margins are relatively stable. So as soon as the raw materials goes up in the next quarter or something, immediately the prices are compensated. So the effect of raw materials is not that uncertain in Pigment, it gets factored in quite easily, unlike the Vinyl Sulphone where sometimes one or two quarters it can be volatile.

Shashank Kanodia: Okay. Now sir, coming on the expansion plan. So you have got a very interesting expansion plan. So what is the time lag that you'd like to associate with it? Which capacity gets commissioned when? And when we see the peak revenues hitting for us?

Munjal Jaykrishna: Right. So the Brownfield expansions, both of them, first of all, the Pigment Green expansion, Brownfield will be completed in Q3. So that capacity will be available from Q4. The dye intermediates that is H-Acid plant will be completed in end of Q4. So we should be able to get revenues from Q1 of the next financial year for the H-acid dye intermediates. And for the Greenfield expansions of the precipitated silica and the Pigment Green, we plan to commission this around Q4 of 2018. So the benefits of that will be largely in the full year 2019-2020 for those two. So basically in '18, we will get the benefits of the expanded Green, the Violet and the H-acid. And in '19, we will get the benefits for the precipitated silica and the Pigment Green field.

Shashank Kanodia: Okay. And this largely, all facility will give us 2x the CAPEX spend right, the turnovers is roughly 2x…

Munjal Jaykrishna: Yes, the turnover is 2x, yes, that is what it is projected.

Shashank Kanodia: Okay. So sir even in the best case scenario, so the peak profitably that we hit off roughly 50 odd crores last year. So we might not touch that in FY '19 itself, right, because of incremental depreciation and interest cost?

Munjal Jaykrishna: So the operational profitability of last year was around 45 crores, but I am not predicting that much in advance, but I feel that with our H-Acid expansion through and the pigment additional expansion through, we should be on track. I don't see any problems. Actually, I'm not comfortable answering the profitability over two, three years forward like that.

Moderator: Thank you. Next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.

Umesh Patel: Two things, wanted to know. Sir, can you tell us the proportion contribution of India and China in global dye intermediate industry? And what was it before FY 15 and as of now? I mean, have we seen any contribution in this segment going up in terms of market share for India as well as for our company as well?

Munjal Jaykrishna: I would think that before three or four years, the Chinese contribution in dye stuff was more than 60%, I would think to my best estimate. Although, these figures have not been certified or verified because it is difficult to verify Chinese figures. But I foresee, as time is going that Indian share is truly increasing. And currently, I would say, it should be around 50-50.

Umesh Patel: So you mean to say that India has been able…

Munjal Jaykrishna: It is largely expected that the Indian share will go, actually the dyestuffs and intermediate exports to China has started now, which is very rare because before few years, there was only imports, now exports have started and this is the beginning.

Umesh Patel: So in the next two, three years maybe, as you said in your earlier remarks that structural story is taking a place for specialty chemicals. So do you see that, I mean, big MNCs are now keen in moving towards the Indian market to focus around or do you have anything…?

Munjal Jaykrishna: Absolutely. I think it's a trend and it is largely expected to continue that the sourcing dependency for these MNCs is shifting from China to India. And this, I believe will continue for the next two decades.

Umesh Patel: Okay. Sir, second thing, what I think actually I heard from industry sources was that there are also some issues, the Gujarat based companies are facing in terms of the stringent government norms and 30% of the existing, I mean, specialty chemical business capacity is also right now facing a problem. So just wanted to know your view, is it true or is it just, I mean, a rumor kind of thing? What is exactly the status of industry scenario over there in Gujarat?

Munjal Jaykrishna: Even especially in Gujarat, the environmental norms are much tighter than other parts of the country, there is no doubt about it and the government keeps on taking action. But if you see the companies with good environmental management, they are not having that much of a problem and they are managing. So companies will actually have to spend on treatment both in terms of the CAPEXES as well as operational cost on treatment. That is why our cost on treatment is increasing every year. So we have to differentiate ourselves and we have to comply with the government norms. Yes, the government norms are tightening and the productivity within Gujarat also is affected. There is no doubt about it that not only China is getting stricter, even Gujarat and India is getting stricter.

Umesh Patel: So are we sufficient to, I mean, follow the stringent norms at peak level also, I mean, that the wastage will be easily absorbed by our effluent treatment plant or we need to do some CAPEX in the near future?

Munjal Jaykrishna: So we are constantly upgrading our treatment plants, but we are competent and our track record shows that we have been able to comply with the norms and we will keep on continuing to do so. Every year, time to time, we keep on doing some CAPEXES for environment, which we will continue to do, how to better improve, how to reduce cost of environment treatment. But compliances are the foremost and we will continue as we have been doing in the past to comply with these norms.

Umesh Patel: In terms of sir, CPC Green, is there any dye competitor, I mean, in India as of now?

Munjal Jaykrishna: Yes, there are four or five, in fact CPC Green, Indian companies. Indian Pigment Green manufacturers constitute of around 80% to 90% of their market because this product is not made in China to a large extent. So yes, there are four or five competitors in India, but Green is a very niche market, so customer acquisition takes a lot of time, sometimes more than four, five years. So unlike a lot of chemicals, the customer base doesn't change. So everyone is probably having their own set of customers. So even though there is competition, we keep on adding and acquiring new customers. We generally don't lose customers.

Umesh Patel: So, as of now, what is the market size in terms of volumes or the installed capacity for overall India for CPC Green?

Munjal Jaykrishna: Sure. The total Green capacity, I would rate globally at around 22,000 metric tonnes roughly. And out of that, 80% would be in India.

Umesh Patel: And we are one of them, right, out of that 4-5 players, who is right now having market share of 80% to 90%.

Munjal Jaykrishna: Yes. Yes. So currently, our market share would be 10%, which we intend to take it up to around 17% after both our expansions.

Umesh Patel: Right. So post your expansion, what would be the revenue potential at 100 peak, I mean peak utilization rate for CPC Green?

Munjal Jaykrishna: You mean to say after our both Brownfield and…

Umesh Patel: Yes, correct. Post, in which would take place in FY20?

Munjal Jaykrishna: Yes. So we would be 2,400 tonnes capacity in the Brownfield site. And in the Greenfield site, we will be also 1,800. So between two of them, we should be 2,400 plus and then we assume to utilize around 80% of the capacity.

Umesh Patel: Right. So then in that case, I mean, what would be the revenue potential from your existing plus Brownfield plus Greenfield at 80% level?

Munjal Jaykrishna: So revenue could be, say around 4,000 tonnes, so it would be close to around 200 crores, around 180 crores, 190 crores.

Umesh Patel: Yes sir, in terms of raw material, what I understand is we are getting raw materials from IG Petro, am I right?

Munjal Jaykrishna: No, we are not directly buying from IG Petro, IG petro makes Phthalic, we don't manufacture Blue crude yet, so we buy Blue crude. So the manufacturers who make CPC Blue crude buy Phthalic from IG Petro, we don't directly buy.

Umesh Patel: Okay. So what is the imported proportion and the domestic proportion of raw material?

Munjal Jaykrishna: For us, it's all domestic. We have no imports.

Umesh Patel: No imports, okay.

Munjal Jaykrishna: No imports in either of the products.

Umesh Patel: Okay. And in terms of hedging policy, are we having plain vanilla kind of thing and entering into forward contract for three months or what?

Munjal Jaykrishna: Yes. We generally cover our exports on export-to-export basis and we don't take risks at all. But however, sudden appreciation of the rupee and the continuous appreciation of the rupee what we have seen in the past six months, we have not been able to pass on all of that in the new prices that we do.

Umesh Patel: Correct. So last month, since past two quarters, have we increased any prices or we are still at par?

Munjal Jaykrishna: No, we are increasing, because if you see from 68 to 64, if we lose all of that, then we will lose 7% of the profit because of the currency, but that's not the case. We keep on passing on margins, but at least, I would say a 2% or 3% drop would be there because of exchange rate because we can't pass it on altogether. And I would say that would be the same for all exporting companies.

Moderator: Thank you. Next question is from the line of Akhil Parekh from Nirmal Bang. Please go ahead.

Akhil Parekh: A question regarding raw material, like we have been hearing lot of news in terms of the prices of Phthalic Anhydride has been moving upwards. Are you seeing any kind of that pressure on the raw materials side? Are you seeing any increase in raw material prices especially last quarter or so?

Munjal Jaykrishna: So because of the crude moving up from say $40 to $55 example, because of that Ortho Xylene and Phthalic prices would move up because of that there would be a small movement in the prices of CPC Blue crude, which we buy from the market. But as I said in our pigment business, this is largely passed on without much of a problem. So we are not seeing this as a reason for pressure build-up for our margins for pigment business. But yes, the prices of crude have been moving up and the prices of Phthalic have been moving up, yes, that's right.

Akhil Parekh: Okay. And sir like, we lately also obviously because of the Harvey, we are reading news, there are shutdowns of oil refineries in the United States. Are you expecting any kind of increase in raw material prices because of that?

Munjal Jaykrishna: No, not directly, but indirectly, see, most of these chemicals are not exported from India, for example, the ethylene oxide and stuff. So directly, the Indian company is increasing prices of them is not there. But yes, you can say, overall, if there is imbalance and the production is disturbed for a large period of time, some prices of key petrochemicals can go up leading to increase in prices of raw materials. But that to us doesn't seem to be that significant a factor as suddenly shortages that happen in the market, which is more of a significant factor to us.

Akhil Parekh: Okay. Sir, my second question is regarding this Vinyl Sulphone, which is still like 67% of the total sales come from Vinyl Sulphone and it's still a function of how the raw material prices for Vinyl Sulphone behave. So after all the capacity expansion, which you are planning, how do we see the contribution of Vinyl Sulphone may be in another next three years, maybe by 2020, how do you expect sales segmentation?

Munjal Jaykrishna: So in three years, if we see our company, we see the revenues would be almost equally divided into three businesses. One is the dye intermediate business, one is the pigment business, and one is the specialty chemical business. That is our vision for the company. And within the dye intermediate business, around 70% of the revenues will come from Vinyl Sulphone within three years if I were to predict that. So it will be 70% of 33%. So around 20% of the revenues would come from Vinyl Sulphone after three years, it is what our prediction is.

Moderator: Thank you. Next question is from the line of Zeeshan Bagwan from L&T Mutual Fund. Please go ahead.

Zeeshan Bagwan: Sir firstly, on the IPO proceeds, how much of that has been put to use currently?

Munjal Jaykrishna: I haven't got that figure exact in front of me, so I would not like to say that. But I'll come back to you on this for sure. It's not collected exactly, but yes, the expansion plans are going on as per schedule, I can say that much.

Zeeshan Bagwan: Okay. And sir, secondly, when you have guided for the Greenfield expansion of silica project to be completed in next 12 months, is it right to assume that you'll take another six months for the product approval and therefore the revenues from that particular product, which is silica, precipitated silica that will come only after the product approval? So it's like starting today that might take at least 18 months, 18 to 24 months?

Munjal Jaykrishna: Yes. That is why I just said that the silica revenues and profits, we can assume from the year 2019-2020. However, there is a wide market for this product. So till our intended products might take six months as you're right, but there is, to fill up the capacities initially, whereas you know the other markets which the approvals can be done in a month or so. So we will start getting the revenues from maybe Q4 of FY 19, but largely, the 2019-2020 will be the year where the full potential of that plant will be seen.

Zeeshan Bagwan: Okay. And sir, for the Greenfield expansion, for CPC Green, would you require a product approval again for the new Greenfield facility?

Munjal Jaykrishna: No, not at all. It is not a new facility, it is within the same facility. And that is why, in fact, it took time for this alignment within the plant. So no new approvals would be required for that.

Moderator: Thank you. Next question is from the line of Suvarna Joshi from Axis Securities. Please go ahead.

Suvarna Joshi: Most of my questions have been answered, but just had one question. You mentioned to one of the participants earlier that Vinyl Sulphone prices are expected to either remain at this range or go upwards over the next two to three years. Please correct me, if I'm wrong there. So in that case scenario, if we are expecting Vinyl Sulphone prices to rise upwards, wouldn't we also see some volatility on our margins because the RM prices like we mentioned for Q1 FY18 have impacted our EBITDA margins? And that was largely because of the Vinyl Sulphone raw material that was required. So how do you see these things affecting our EBITDA margins or are you still confident of achieving the 21% to 23% guidance that you have just given in the call today?

Munjal Jaykrishna: So when I said the Vinyl Sulphone prices are expected to go up, I expect the margins to improve in the years to come because of the way the Chinese production situation is panning out. So I presume that Indian companies and our margins will increase in the years to come. So because of the raw material prices, this was a temporary one quarter effect. This much effect we got because of some shortages of the raw materials. This happens once in a year or sometime because of some raw material going in shortage. But more or less, when the Vinyl Sulphone prices come up, directly the raw material prices don't go up that much and our margins tend to increase. So the guidance I gave 21% to 23%, I'm confident that we will be able to meet that.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Nirmal Bang. Please go ahead.

Akhil Parekh: Sir, my question is regarding precipitated silica. If I understand correctly, this business has a better business economics as compared to the other products we have, like the H-Acid or Vinyl Sulphone. Is there any specific reason why we have pushed this product on a back burner as against the H-Acid or CPC Green right now?

Munjal Jaykrishna: No, we have not put this on a back burner, this is on a Greenfield site. So it takes slightly more because the infrastructure is being created there on the Greenfield site. The H-Acid and the Brownfield Green expansions were on the current facility where we already have all the infrastructure ready. So we could execute the projects much faster. On a Greenfield side, it take little longer to get all the infrastructure organized because the precipitated silica is coming up at our new site at Dahej. While the H-Acid and the Pigment Brownfield expansion is at our existing site. So all the infrastructure, even some of the utilities everything was ready. So the expansions took less time.

Akhil Parekh: And sir, I missed the timeline for this precipitated silica, you said it will be operational by end of FY19, right?

Munjal Jaykrishna: Yes, end of FY19, it will be operational.

Akhil Parekh: So sales, we should see in FY20 basically?

Munjal Jaykrishna: Yes.

Akhil Parekh: How much we are expecting for asset turn on this, on 65 Cr?

Munjal Jaykrishna: On silica specifically?

Akhil Parekh: Yes, on silica specifically.

Munjal Jaykrishna: On silica specifically, maybe initially 1.5x, initially.

Akhil Parekh: Okay.

Munjal Jaykrishna: There is a reason for that also. We are making the infrastructure like usually a little for expanded capacity. So once the first phase of what we are putting up kicks on, then adding the volumes will become much easier.

Akhil Parekh: Okay. And sir, the raw material for this would be?

Munjal Jaykrishna: Raw material would be silicate and soda ash.

Akhil Parekh: That we will be procuring it from domestic market?

Munjal Jaykrishna: Yes, from domestic market. It is not largely raw material dependent, it is, I would say, a technology dependent product.

Akhil Parekh: Okay. And this again the market is export based market for this?

Munjal Jaykrishna: Yes. We are largely going to focus on the export market, that's been our strength.

Akhil Parekh: Okay. How much is the export right now, total?

Munjal Jaykrishna: Export, last quarter results was 90%.

Akhil Parekh: So will remain same you are saying even after the expansion, this proportion?

Munjal Jaykrishna: Yes, after expansion also, we foresee that our exports would be above 85%.

Akhil Parekh: Okay. Sir, and the last question in terms of CPC Green, how much is the order book in terms of tonne for FY18, would you be able to quantify?

Munjal Jaykrishna: I will not be able to quantify in terms of tonnage, but what I can say is that the order book is full for the next four months, five months, so that is the reason why we have not been able to align the Violet and the Green expansions. But now, we have made provisions that because we have to do it. So in this coming quarter, we are going to do it. It's a very healthy and strong order book position we are having. And that is the reason why you see even the growth of the revenues in the pigment business.

Akhil Parekh: Sir, this Violet 23, how much is the expected sales?

Munjal Jaykrishna: So we have put up a very modest capacity of 120 tonnes. So the expected sales first year may not be that much because the approval process is a minimum of six months for that. So even if we achieve 50%, 60% utilization in the first year, I think that should be good.

Akhil Parekh: Okay. So the RM for this is, for Violet 23?

Munjal Jaykrishna: So these are basically high performance pigments. So we will be importing some of the raw materials from China, like, in our existing businesses, we don't have a lot of imports from China. But in this, we will be importing some of the Violet crudes and some raw materials from China.

Moderator: Thank you. The next question is from the line of Jigar Jani from Edelweiss. Please go ahead.

Jigar Jani: Just a couple of questions. So can you just tell me how are we going to fund the 175 crore CAPEX, I know that QIP is 69 crore that is completed, the rest would be internal accruals or we are planning any more debt for the CAPEX?

Munjal Jaykrishna: So largely, they will be from internal accruals. The debt, we will take a little debt when we approach the last part of the project, but right now, we'll be funding it largely from the internal accruals.

Jigar Jani: So debt would be mainly for the precipitated silica project, if any?

Munjal Jaykrishna: Yes, that's right.

Jigar Jani: Okay. And sir, in the opening comments, you mentioned that there was a 28% rise in volumes in Pigment Green. Was that right?

Munjal Jaykrishna: That's right.

Jigar Jani: Yes. So any new customer acquisitions that we have seen because that's a sharp rise or any new capacity that has come online because when I compare your year-on-year capacity, it's gone up by around 5%, so just wanted to understand?

Munjal Jaykrishna: Yes, we have added two or three new key customers in last quarter, we have.

Jigar Jani: And these are like long-term contracts that you have had with these new customers?

Munjal Jaykrishna: Yes, usually, all the customers we acquire are on a long-term basis, we have launched in few new products. So largely, the new customers have been acquired for the new products that we have launched, which we launched two quarters back. So this business is expected to be permanent for the new customer acquisitions.

Jigar Jani: Okay. And would it be possible to name the customers or?

Munjal Jaykrishna: I would like to avoid that for business perspective.

Moderator: Thank you. Ladies and gentlemen, we will be taking the last question from the line of Dinesh Kotecha from KRIC. Please go ahead.

Dinesh Kotecha: Sir, I would like to know, what are the road blocks that you see in our attribution of the expansion?

Munjal Jaykrishna: So right now, everything is going as per plan. So I don't see any hindrances, obviously finance is not a hindrance, the permissions are in place and the execution is going on, the team has been built. So I don't see of the execution road blocks as having problems and we are fairly confident of executing our expansions as we have envisaged earlier.

Dinesh Kotecha: The competitive pulls and pushes which are there in the market, you know, pricing wise and reduction of the prices and discounts and all that, if it is there at all?

Munjal Jaykrishna: No, we are not seeing that as a concern for our businesses.

Moderator: Thank you. I would now like to hand the conference over to Mr. Jaykrishna for his closing comments.

Munjal Jaykrishna: Yes, thank you everybody. 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 IR Advisors. Thank you once again.

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