



“AksharChem (India) Limited
Q4 & FY2019 Earnings Conference Call

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

Moderator: Ladies and gentlemen, good day and welcome to the AksharChem (India) Limited Q4 & FY2019 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements do not guarantee the future performance 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 now hand the conference over to Munjal M. Jaykrishna, the Joint Managing Director and CEO of AksharChem (India) Limited. Thank you and over to you Sir!

Munjal M Jaykrishna: Good afternoon and a very warm welcome to everyone. Along with me, I have SGA, our Investor Relations Advisors. I hope you have received our result update presentation by now. For those who have not, you can view them on Stock Exchanges and on our website.

I am pleased to announce that the Board of Directors have recommended a final dividend of Rs.3.50 per equity share which is 35% of face value of Rs.10 per equity share for the year FY2018-2019.

Financial Year 2019 has ended on a positive note with topline growth of 22% Y-o-Y. Our growth was led by increase in volumes, change in product mix and higher realizations. On volume front, we have achieved Y-o-Y growth of 9% with a volume of 9,562 metric tonnes. On product mix, we have introduced new products H-Acid along with a change in product mix of Vinyl Sulphone and green. On realisation front, Higher realizations were largely due to environmental situation in China which we expect to stabilize from its peak in the coming financial year, part of which is reflected in our Q4 FY2019 realizations.

However, our profitability was impacted due to several internal and external reasons. Our gross profit margins were impacted on back of high volatility of crude prices along with currency fluctuations, which was beyond our control. Also there was disruption in supply of a few of the input raw materials resulting in increased cost of production. We normally take a lag of two quarters to pass on the prices which also impacted our gross margins in Q2 and Q3 FY2019.

Our EBITDA levels were impacted due to higher expenditure due to new capacity addition of H-Acid. Our company started manufacturing of H-Acid where initially we faced teething troubles with quality and yield. This led to one-off losses. However, now we have been successful to resolve these issues and it has stabilized. Our company has been continuously putting effort and are focused on expanding geographic footprint, adding new clients. During the last six months, we have developed seven new relationships. Though as of now they are negligible to our wallet share, we expect to leverage our relationship in the long run by providing them our quality products. Going ahead, we expect good business from them.

To service our clients on a continuous basis, we have strengthened our capabilities through capacity expansion. Our expansion of CPC green of 480 MTPA was completed in the first half of financial year 2019, this has resulted in an increase of our green capacity from 920 to 2,400 MTPA. Though our plant setup is completed, utilization will soon begin. CPC green contributed 29% of our revenues in FY2019. In this business, there is no China factor. As a result, the price and margins generally tend to be stable.

Coming to H-Acid expansion, the company has completed this project in the first half of this financial year. This is a new product the company has added in the dye intermediates basket. Current capacity available is 1,200 MTPA. We had started manufacturing of H-Acid in Q3 FY2019 when we faced some teething trouble in terms of quality and yield. During Q4 FY19, we have been partially successful to resolve the issues and production has normalized. Our main objective to setup H-Acid plant is to target export market and to serve our existing customers. To achieve the quality standard of our customers, we worked rigorously and took twoandahalf months to achieve the quality as per the customers' requirement. It gives me pleasure to inform you that finally our samples are accepted in the month of April 2019 by all our customers and we have been successful to get orders from the prestigious customers. Going ahead, we expect a little higher utilization of the capacity.

On our Specialty Chemicals Business - Our product Precipitated Silica is under progress. This is new Greenfield project at Dahej with a capacity of 10,000 MTPA, commercial production is expected to start in the second half of FY2020. The total Capex spent till date is ~Rs. 77 Crores.

There has been strict enforcement of environment regulations in India. Also globally the environmental laws are only getting stricter. We being one of the most environmental friendly company stand a better chance in this market. Our company puts a lot of efforts and adheres to the environmental norms pertaining to effluent treatment expenses. We have been consistently spending on the pollution treatment expenses. We have spent Rs.16 Crores towards pollution treatment expenses for the FY2019.

The recent incident in Jiangsu in China has led to implementation of strict environmental regulations. This has caused temporary disruption in many segments with both prices and supply being impacted. It is not expected that this will continue for long, but gradually companies will adhere to higher levels of safety norms and production may come back on stream. For Q4 FY19, Our topline increased by 5% YoY with a volume growth of 4%. We have achieved 12% volume growth Q-o-Q, with 2,643 metric tonnes. Increase in volumes is on back of new product addition and increase in capacity utilization. It gives us confidence that the demand for the product is intact and we were able to get the business because of our best quality reliable products and over two decades of relationship with the biggest dyestuff houses in the world.

Now I would like to update you on the financial performance of the Company for Q4 & FY19. We did 9,672 metric tonnes for the full year and 2,575 metric tonnes for Q4 FY2019 in terms of production volumes. Current capacity utilization on blended basis stands at 85%. Net revenue from operations for FY2019 is Rs.323 Crores as compared to Rs.264 Crores for FY2018, a growth of 22%YoY basis. Net revenue from operations for Q4 FY2019 stood at Rs.80 Crores compared to Rs.77 Crores for Q4 FY2018, a growth of 5%YoY basis. Dye intermediates contributed to 71% of the revenues and pigments contributed 29% of the revenue, Growth in revenues is mainly on back of higher volumes and higher realizations due to China situation.

EBITDA for FY2019 stood at Rs.35 Crores with margins at 10.7%. EBITDA for Q4 FY2019 stood at Rs.5 Crores with margins at 6.7%. Margins were impacted on back of increased other expenditure incurred on the new capacity addition of H-Acid during the financial year 2019.

Profit after tax for FY2019 stood at Rs.23 Crores with margins of 7%. Profit after tax Q4 FY2019 stood at Rs.4 Crores with margins of 4.6%. The company has borrowed Rs.11.5 Crores during the year, this is the working capital loan, however on net level, our company is a net cash company. Debt to equity of the company as on March 2019, stands at 0.04x. Return on capital employed for March 2019 stood at 12.8%. Return on equity for the same period is 8.8%.

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. Anyone who wishes to ask a question may please press “*” then 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press “*” then 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Tanmay Mehta from SBICAP Securities. Please go ahead.
- Tanmay Mehta:** Thanks for the opportunity. Sir, I would like to know the prices of H-Acid and Vinyl Sulphone during the quarter and what are their current prices?
- Munjal M Jaykrishna:** Currently the price of Vinyl Sulphone is ~Rs.230 per kg and H-Acid price is Rs.425. For Q4 FY19, the average price of H-Acid was Rs.392 per kg and Vinyl Sulphone was Rs.242 per kg.
- Tanmay Mehta:** So, the prices are largely flat. Okay. Sir what is the raw material environment like. You told that the price has started stabilizing?
- Munjal M Jaykrishna:** The prices of acids had become extremely high in the last quarter. The prices of acids like sulphuric acid, sulfonic acid, alkalis chloro, , caustic flakes, caustic lye, they have started to come down from May onwards. However during the months of January, February and March, the acid prices were largely very high,.
- Tanmay Mehta:** Okay. Thanks a lot.

- Moderator:** Thank you. The next question is from the line of Ayush B from Equitas. Please go ahead.
- Ayush B:** Hello Sir! I wanted to understand about the recent China situation about the explosion in Jiangsu. There have been a lot of closures and plant shutdowns. How is that impacting us ?
- Munjal M Jaykrishna:** Yes, the crackdown in Jiangsu was mainly because of safety norms required to be maintained. The situation was that whole area was impacted. In that area there were not any Vinyl Sulphone and any H-Acid plants I believe, but there were other chemical plant, but at the same time, the whole country's safety policy had got stricter. Some plants were made to shutdown for safety reasons, but because of which the prices in China went up in other plants. However the prices in India did not go up so much because in India the situation is not of a shortage. So in India the prices remain largely stable. Although they have gone up like as you see for H-Acid. For example, H-Acid which is a more volatile product, the prices have fluctuated. Average price was Rs.393 per kg last quarter and now it is around Rs.425 to Rs.430 per kg. So there has been a little impact.
- Ayush B:** Sir, do we export anything to China?
- Munjal M Jaykrishna:** No, we personally do not have any exports to China.
- Ayush B:** But India as a whole, does it exports dye intermediates to China?
- Munjal M Jaykrishna:** So, when this sort of situation arises in China, then Indian material goes there. So some exports have started to China.
- Ayush B:** Do you believe that now the exports will increase? Going ahead, because of the environmental problems in China, do we expect the places where China used to supply there India will also be able to supply?
- Munjal M Jaykrishna:** Yes, we have been believing that for a very long time. Whenever a situation like this happens, like a great disruption and all other various issues in Chinese economy then a weakish trend follows. Later you hear suddenly for six months again China has relaxed a little, so the tightening in China has not come as strongly as we expect it., So it has come, but as we know on and off because of the other economic problems, they keep on giving it a little leeway. So there has been impact, but not that great.
- Ayush B:** Sir, we have spent ~Rs.16 Crores on pollution expenses this year right?
- Munjal M Jaykrishna:** That is right. As you know, H-Acid as a product requires a lot of pollution treatment. After H-Acid started, the pollution treatment expenses increased and that is resulted in increase in other expenses.

- Ayush B:** But Sir from 2015 also our pollution expenses have been at least Rs.10 Crores minimum. So will this Rs.10 Crores number continue going ahead?
- Munjal M Jaykrishna:** Because of H-Acid the new number is likely to continue. This year what we have incurred, it is not likely to reduce. The expenses on H-Acid requires a lot of environment treatment cost.
- Ayush B:** Do we have a zero waste plant currently or not?
- Munjal M Jaykrishna:** Yes, we have zero discharge facility.
- Ayush B:** Okay. Sir now our margins as you know reduced significantly in the past two quarters, so what kind of normalized margins can one expect going ahead?
- Munjal M Jaykrishna:** Honestly speaking, during the previous quarter we took a much larger hit in H-Acid. This current quarter that went by also was impacted by H-Acid. For our other products like Vinyl Sulphone and pigments, business was largely intact, however the H-Acid hit continued. The reason for H-Acid hit was due to the pollution expenses which went up. Secondly the capacity utilization was still around 80%, during quarter 4 and we expect the capacity utilization to reach 95%. Secondly our export samples were not approved last quarter, they just got approved this quarter. So the realizations will increase. These lower realizations was one of the reasons.
- Ayush B:** Right that is what I am asking, what kind of normalized margins should I expect from AksharChem going ahead, because I guess in the past two to three years, the margins were abnormally high because of China situation. Now they have started correcting a little, so what kind of normalized margins can I expect?
- Munjal M Jaykrishna:** See right now, the market is not gung-ho. The H-Acid market is also down, the Vinyl Sulphone has tapered off, the market is average right now. So, with average margins I expect the business to continue in the same fashion of Vinyl Sulphone and green. But the only thing that once the H-Acid teething problems will stop, I think overall it should show a 2% to 3% maybe increase in the EBITDA margins.
- Ayush B:** Okay, Sir one more thing I wanted to understand. What was our rationale to venture into H-Acid product, when we know that H-Acid is the most polluting plant?
- Munjal M Jaykrishna:** It is a polluting plant but at the same time, it is a very volatile product. So, sometimes it gives very good margins. Secondly there were a lot of chemical synergy between Vinyl Sulphone and H-Acid. The raw material for one product is the other one's by product and vice versa. So, even the long-term, sustainability for both plants to sustain together is a lot easier.
- Ayush B:** Coming to our pigment division, it contributed ~ 29% to our sales right?
- Munjal M Jaykrishna:** Right

- Ayush B:** What was the contribution of dye intermediates to our sales?
- Munjal M Jaykrishna:** 71%
- Ayush B:** So coming back to our pigments division, the China situation does not impact our pigment segment at all?
- Munjal M Jaykrishna:** The pigment green that we make is currently an India centric product. There are hardly any players in China because of the chlorine technology. So, it is more India centric, but right now the pigment market has subdued and it is not like gung-ho. Therefore the margins of pigment are a little lower than what they were a year or two back.
- Ayush B:** So going ahead, where do we plan more expansion? In intermediates segment or pigment segment?
- Munjal M Jaykrishna:** In case of Dye Intermediates, we might debottleneck a little in H-Acid to increase capacity. But we are not planning any significant expansion for dye intermediates. Later in future, we may plan expansion in pigments. But right now we are focusing on our expansion project of precipitated silica at Dahej which we intend to commence in this current year before December. So once that happens, then we will focus on pigment expansion, but not dye intermediates largely.
- Ayush B:** Okay Thank you Sir..
- Moderator:** Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.
- Manoj Garg:** Very good afternoon gentlemen and thanks for taking my question. While understanding that FY2019 was a tough year due to raw material issues in China and other H-acid related initial teething issues in terms of the capacity expansion. So if one has to take a view for the next two to three years, how do you see the business evolving both in terms of topline and the bottom line?
- Munjal M Jaykrishna:** In terms of topline, we are confident about H-Acid for the quarters to come. Going ahead, we expect 95% utilization and able to add to the topline and also the topline will be added by the specialty chemicals division which is expected to start this year. In terms of topline, we feel we will continue to achieve around 15% or so in topline growth. As for bottom line, the dye intermediate is very volatile, as you know, last three years because of China and other reasons there was extraordinary market and the margins were very high. Right now it is a little lackluster market, so we hope that the market sentiment turns around. The bottom line with reference to EBITDA can be expected roughly only between 10% and 12% as it goes now, if this market persists. But the markets every two to three years tend to be volatile on both ways, so we hope the market for dye intermediate improves.

- Manoj Garg:** Given that there was a plastic ban in India, had it impacted any of your pigment sales?
- Munjal M Jaykrishna:** No, we do not have much market in India. Even for the pigments it is all 85% to 90% export centric. So the plastic ban in India did not have any impact. We have all long-term exports related paint and ink customers. Therefore these things do not impact us.
- Manoj Garg:** And given that you know the challenges in China, I have been told that off late a lot of Chinese companies are looking at India for sourcing requirements like CPC Green and other pigments and products. So how do you see the scope for Indian companies to now export into China given these challenges which they are going through?
- Munjal M Jaykrishna:** It has already started and we are also exporting pigment green to China and it is an important customer. We are not major into China because for dye intermediates, we have long term commitments and contracts with Taiwan and Korea. But our other co-producers have already started exporting to China. So as Chinese cost increase, India will get opportunity and Indian share will grow for sure.
- Manoj Garg:** I just wanted to check with you like when you look from an industry perspective, it is a 4 to 5 billion dollar kind of market globally in terms of pigment. But when you look at the Indian companies, there are handful of companies and secondly if you look at in terms of scale, you know scale is very minuscule compared to the opportunity which it offers from a global perspective. So what are the challenges in terms of scaling up this business and how Indian companies can obviously participate in growth opportunities given that what are the challenges the companies are facing at this point of time?
- Munjal M Jaykrishna:** As we know, the dye stuff market in India is expanding. So, there is growth of ~ 15% to 20% YoY, and we are taking away China's share. The textile industry globally is not growing more than may be ~3% to 5% but the Indian dye stuff exports are growing at ~15% to 20% at least, so India is gaining share at the expense of China and there is an opportunity. But at the same time, the domestic competition companies are there. So blindly expanding into products where some of the products already have sufficient capacity, is not what we are looking at. We are looking at putting our money in some more specialized products and hence we are into this expansion of diversified product with specialty chemical precipitated silica.
- Manoj Garg:** That is all from my side and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Sagir Khericha from Chartered Capital. Please go ahead.
- Sagir Khericha:** Sir, I have a balance sheet question, so we have raised Rs.11 Crores in working capital as you said, so going ahead with the capacity expansion, what kind of a debt profile do you think the company will have?

Munjal M Jaykrishna: One of the reasons why we had to borrow this is because so far our cash cycle was very small due to our profile of Vinyl Sulphone and green which is all export centric business, but for H-Acid we have not been able to export over the last six to seven months, so we had to offer credit in this market situation and only because of H-Acid we had to utilize this working capital. Now, going forward, we see the exports of H-Acid to increase and so the working capital requirement will not be that much. We do not expect the borrowing to go at any point of time more than you know. Right now it is 0.04x and we do not wish to go beyond 0.2x even after six months when all the plants start. So, we do not expect much borrowing.

Sagir Khericha: Could you just throw some light on this whole pollution thing that you said. So you spent Rs.16 Crores on pollution control in your company. So are other companies in India not spending that much on pollution control and how does AksharChem benefit from this compared to everyone else?

Munjal M Jaykrishna: I do not really want to comment on any other companies, everyone is probably doing their part, I just want to say that we are into a zero discharge environment and for zero discharge we burn all the effluents, so the cost of burning effluent keeps on increasing as other costs are also attached like the cost of coal, energy, manpower etc.. H-Acid requires good quantity of water and because of H-Acid, the pollution treatment expenses have increased this quarter.

Sagir Khericha: Okay Sir, thank you.

Moderator: The next question is from the line of Pravin Sharma, an individual investor. Please go ahead.

Pravin Sharma: Good afternoon Sir. Sir, I just wanted to understand from you the pigment demand supply scenario currently because it has been sluggish for quite sometime. Secondly you mentioned that after precipitated silica, you will look at expansion in pigment division, so what kind of product profile we will be looking when we will be considering the pigment expansion?

Munjal M Jaykrishna: Currently, as I said, our efforts are towards getting the precipitated silica plant to start immediately. After that, depending on the market situation, we will look at the pigment expansion, we have kept it ready we may go in for the pigment green, another Greenfield expansion, what we had originally thought of. So, that is what currently we are looking at because you know if the pigment market picks up a little, there is enough growth in pigment of ~5% to 6% and then we can become one of the world's leading manufacturers of that. We already are, but we can be a dominant player, so we might look at expansion of pigment green in the initial stages.

Pravin Sharma: Sir, what are our EBITDA margins in the pigment currently?

Munjal M Jaykrishna: Currently the EBITDA margin in our pigment is ~20%. As there is no China story, the focus is to get new markets, we have not been able to increase our revenues a lot, but the margin of 20% EBITDA margin is intact for the pigment business.

Pravin Sharma: For the Vinyl Sulphone you mentioned that the current price is Rs.230 and last quarter it was Rs.242, am I right?

Munjal M Jaykrishna: Yes, it keeps on fluctuating like month to month, that is right.

Pravin Sharma: Sir, in light of this trade war, I think the pigment is something which is in the list of the tariff which is announced by China. So as far as they are importing, so in light of that and in light of other chemicals, do we see large amount of disruption because at the end of the day lot of these things would be imported from US and we would be supplying to US and from there it will be going to China, so do you see a large amount of disruption as far as our particular products are concerned?

Munjal M Jaykrishna: Because of China trade war, I do not see any disruption because the pigment green is exported not from China, only from India to US. For Vinyl Sulphone and H-Acid also, China does not have much export market, it is mainly sent to Indian market.. The only thing because of disruption is if Chinese economy slows down, they tend to relax their environment, so that can be a negative disruption if it happens.

Pravin Sharma: But there would be a market scenario you know evolving in China wherein they would be importing a lot of this stuff from US and now they will be looking at other suppliers, especially pigment wherein India is the leader in pigments?

Munjal M Jaykrishna: Yes there would be, but already they are importing only from India and not from US. US and China have no business in the pigments that we are making. But you are right, if you look generally our pigments there will be impact. There are some pigments specifically that are made in US or made in China and exported to US mainly these azo pigments or high-performance pigments.

Pravin Sharma: Sir, as far as our application is concerned for the pigments, is it predominantly going into ink or plastic and paints?

Munjal M Jaykrishna: The number one market where the pigment is used is plastics, second would be inks and paints together.

Pravin Sharma: Okay. Thank you Sir.

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

Jatin Damania: Good afternoon Sir, I just wanted to know the Q4 volume numbers for both the products, H-Acid and Vinyl Sulphone?

Munjal M Jaykrishna: Do you want the production volume or the sales volume?

- Jatin Damania:** Production volume
- Munjali M Jaykrishna:** The production volume for Vinyl Sulphone was 1,848 metric tonnes, for H-Acid was 247 metric tonnes and for pigment green was 480 metric tonnes.
- Jatin Damania:** Okay thank you so much. That is all from me.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhari from Systematix. Please go ahead.
- Naushad Chaudhari:** Hi, thanks for the opportunity. Continuing the earlier participant question, can you kindly share the sales volume number?
- Munjali M Jaykrishna:** For Q4 FY19, the sales volume for Vinyl Sulphone was 1,992 metric tonnes, H-Acid was 236 metric tonnes and for CPC green 416 metric tonnes.
- Naushad Chaudhari:** What was the price of CPC green?
- Munjali M Jaykrishna:** The average realization of CPC green was Rs.498.
- Naushad Chaudhari:** Coming back to balance sheet question, Sir you shared because of the H-Acid selling in domestic market, you have taken a short-term loan of around Rs.11 to Rs.12 Crores, is that the reason your working capital cycle also have stressed vis-à-vis last year or any other reason apart from this?
- Munjali M Jaykrishna:** Yes, the working capital cycle is stressed mainly because of H-Acid domestic sales.
- Naushad Chaudhari:** But typically in dye intermediate business, there is not much credit as far as I understand when you are selling it to dealer. You hardly give any credit to these dealers if I am right?
- Munjali M Jaykrishna:** It depends on the sort of market at that time. Also we have sold a lot to the end users and they usually buy in credits.
- Naushad Chaudhari:** What was the revenue split between Vinyl Sulphone, H-Acid and CPC green for Q4 FY19?
- Munjali M Jaykrishna:** The revenue split was Rs.50 Crores for Vinyl Sulphone, Rs.9.3 Crores for H-Acid, and Rs.20.9 Crores for pigment green.
- Naushad Chaudhari:** How much was the export in this quarter?
- Munjali M Jaykrishna:** For H-Acid there was no export. I do not think I have the data right now, but it seemed approximately in range of 85% to 90% for export of both other products. So, only H-Acid was local sale and no exports.

- Naushad Chaudhari:** For other expenses, could you tell us what is the run rate, as it has gone up, it is now Rs.20 Crores approximately. Is there any one off which you see and which might not be there from the next quarter onwards or do you see this run rate to continue?
- Munjal M Jaykrishna:** The pollution treatment will surely continue because for H-Acid, all the water has to be sort of incinerated and burnt. So the additional environmental expense will continue in line with the H-Acid production. So I do not see any change there. For the selling and distribution cost, there can be a little change going ahead. As during the last quarter, because we were aggressive to get the H-Acid market, it was a little higher, but that can go down a little. But mainly it will be now nearly in line with this new expense because of environmental expense.
- Naushad Chaudhari:** What kinds of margin do we expect from silica business?
- Munjal M Jaykrishna:** For Silica business, currently if you see the comparatives, the margin is higher. But now we are expecting normal EBITDA margins to be in the range of ~12%-15%. So this is what we are projecting for precipitated silica.
- Naushad Chaudhari:** Okay, thank you so much.
- Moderator:** Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.
- Nitin Gandhi:** Could you please provide the capacity utilization for CPC green last year?
- Munjal M Jaykrishna:** CPC Green utilization out of our old capacity was ~80%.
- Nitin Gandhi:** What do you expect for the next year post expanded capacity?
- Munjal M Jaykrishna:** Post expanded capacity, looking at the current market situation, we expect it to be around ~85%.
- Nitin Gandhi:** What is the capex done on precipitated silica?
- Munjal M Jaykrishna:** The capex till date is Rs.39 Crores.
- Nitin Gandhi:** Okay. Thanks.
- Moderator:** Thank you. The next question is from the line of Yogesh Bhatia from Sequent Investments. Please go ahead.
- Yogesh Bhatia:** Sir I wanted to know what kind of revenue do we expect from precipitated silica plant at 85% utilization?
- Munjal M Jaykrishna:** So, initially after this phase, we expect revenue of maybe around Rs.70 to 80 Crores.

- Yogesh Bhatia:** Okay that is all.
- Moderator:** Thank you. The next question is from the line of Ankit Gor from Systematix. Please go ahead.
- Ankit Gor:** Thanks for taking my question Sir. Sir my question with regards to teething issues of H-Acid, I am just trying to understand how much loss in Q3 FY2019 and Q4 FY2019 is associated with this in terms of absolute amount and we can actually minus that amount for ongoing quarters?
- Munjal M Jaykrishna:** I will not be able to give you the exact numbers. But on an approximation now, we seem to have lost ~ Rs.7 to Rs. 8 Crores because of that.
- Ankit Gor:** So we expect in coming quarters this Rs.7 to 8 Crores will not be there and that EBITDA will increase by this much amount going quarter?
- Munjal M Jaykrishna:** I do not expect to have the same teething problems in this quarter but I do not expect us to earn money either in this quarter. But for future of course we are putting the product so we feel that eventually it will give us top and bottom line both.
- Ankit Gor:** Second question is with regards to silica, is that project getting delayed. It is now expected to start from the second half and secondly with regards to that only, what are the corrective measures we are taking that we will not have any teething issues in that project as well?
- Munjal M Jaykrishna:** With any new plant, approval process is very long. Even with precipitated silica we do not expect to get the accounts in three or four months time. . So, it takes first six to nine months, usually for a new product to get set and approved in the export markets. Even for the good domestic market it is difficult. So we expect the same problems for silica also as soon as it starts. However, we have got good technology for silica, so we do not feel that these things will happen when we start. H-Acid was a very typical product and to get it set was difficult as well as to get the yield established was difficult for everybody I think.
- Ankit Gor:** Just last question on normalized margins, obviously in CPC green, we are making 20% sort of EBITDA margin and in a normal scenario or a normal pricing scenario as it is now, you know our peers makes you know around 13% to 14% EBITDA margins or a maximum of 15% EBITDA margin in Vinyl Sulphone and H-Acid. So what is stopping us in doing that sort of margin since our CPC which is 30% of the business and it is doing north of 15%, so we should atleast do 15% EBITDA margin barring the silica project which will have some teething issues initially. So could you explain what is stopping us there. If you could explain post stabilization of H-Acid plant?

Munjal M Jaykrishna: For Vinyl Sulphone even in the bad markets, we earn ~ 10% EBITDA margins easily. First of the reasons is the H-Acid and the problems that happened with the H-Acid, secondly what happens is we have not integrated into making our own acids, so there are phases like the last six months where the acid prices, alkali prices, chlorosulfonic acid, sulphuric acid all went northwards, because of China. , These are major raw materials and the prices doubled overnight and has been there for six months. Some of our peers have their own acids, so this probably impacts 2% to 3% of the EBITDA margins.

Ankit Gor: I am just trying to confirm one thing from you, the H-Acid thing is sorted now, so we do not have any teething issues or the desired quality which is probably export-grade quality is what it is producing. So, can we say that way, our quality is matched?

Munjal M Jaykrishna: Yes, now our quality has been approved and exports have started.

Ankit Gor: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Vidur Suri, an individual investor. Please go ahead.

Vidur Suri: Hi Sir. I actually wanted to know the volume breakdown for Q4 FY2018 in terms of the sales and production for Vinyl Sulphone and CPC green.

Munjal M Jaykrishna: For Q4 FY18, the production volumes for Vinyl Sulphone was 1,853 metric tonnes and CPC Green was 482 metric tonnes. The sales volume for Vinyl Sulphone was 2,012 metric tonnes and for CPC Green was 533 metric tonnes.

Vidur Suri: Okay, perfect. My second question is actually regarding the balance sheet. Any reason for significant decline in your days of payables in your working capital?

Because there has been about a 12-day decline which has led to actually a significant jump in your working capital. I got an explanation on higher credit periods for your H-Acid, but any reason for a decline in the days of payable?

Munjal M Jaykrishna: Decline was because our cash position was good, we have been buying a lot of raw materials on cash availing cash discounts.

Vidur Suri: Okay, thank you.

Moderator: Thank you. The next question is from the line of Ayush B from Equitas. Please go ahead.

Ayush B: Hello Sir. For our precipitated silica expansion of 10,000 tonnes capacity, what was our total capex amount?

Munjal M Jaykrishna: Totally we have spent so far was ~ Rs.39 Crores. Totally we have planned with the infrastructure ,the capex., may be around ~ Rs.80 to Rs. 85 Crores.

Ayush B: Could you tell us that the capex amount of ~Rs. 80 to Rs 85 crores is for what purpose?

Munjal M Jaykrishna: Yes, but the thing is with this Rs.80 to 85 Crores, we are also investing for infrastructure for the next phases. So if we do phase two of expansion, the investment will be much lesser. The amount of Rs.80 to Rs. 85 Crores is because of the infrastructure we are doing ahead of time for future phases of expansion.

Ayush B: Would the margins in the precipitated silica should be high double digit?

Munjal M Jaykrishna: We hope so, but not immediately in the short term. After we get the accounts of the key customers overseas and domestic.

Ayush B: Could you tell us currently which other players are doing precipitated silica in India?

Munjal M Jaykrishna: The only established player other than Evonik is Madhu silica in India.

Ayush B: About our H-Acid expansion of 1,200 metric tonnes, what kind of capex did we do there?

Munjal M Jaykrishna: Rs.38 Crores of capex till date.

Ayush B: Could you throw some light on what kind of revenues can you generate at full capacity?

Munjal M Jaykrishna: It depends on what the prices are prevailing in the market at that time. The prices are volatile between Rs. 350 to Rs. 700, so if you take average price of may be around Rs.500 suppose, in the long term, we can do approximately Rs. 60 Crores.

Ayush B: Okay sir, that is it from my side. Thank you.

Moderator: The next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Thanks for taking my question. Sir, my question relates to backward integration. You just suggested that our margins got impacted because of the acids availability and that was one of the reasons almost 2% to 3% of impact, so any thoughts on backward integration to put up an acid plant before going in for CPC green expansion?

Munjal M Jaykrishna: Yes, we had worked out a proposal for that, but we have not yet thought seriously about it. It is on the agenda sooner or later. But right now, we have not yet thought about it. You are right because of this, every year like 3 to 5 months our margins are much lesser than our peers.

Rohit Nagaraj: If we were to put up an acid plant, how much time generally it would take and do we have sufficient space for our Brownfield expansion?

Munjal M Jaykrishna: We have land and everything. It is possible, but we have not yet decided to do that. Right now we are just focusing all of our energy in starting the new Dahej project of silica and meanwhile we are planning what to do after that. So hopefully, our plan of the next project after that will be decided by this Diwali.

Rohit Nagaraj: Fair enough Sir. Thank you so much and best of luck.

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. Munjal M. Jaykrishna for closing comments.

Munjal M 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 SGA, our Investor Relation Advisors. Thank you once again.

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