



“AksharChem (India) Limited FY 2017 Earnings Conference
Call”

May 29, 2017



**MANAGEMENT: MR. MUNJAL JAYKRISHNA—THE PROMOTER & JOINT
MANAGING DIRECTOR, AKSHARCHEM (INDIA)
LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 and FY 2017 Earnings Conference Call of AksharChem (India) Limited.

This conference call may contain forward-looking statements about the Company which are based on beliefs, opinions, and expectations of the Company as on the date of this call. These statements do not guarantee of future performance of the Company and involve risk and uncertainties that are difficult to predict.

As a remainder, 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 “*” and 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 Promoter and Joint Managing Director 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.

This year was an outstanding year for the Indian Chemical industry especially those companies who compete with China. As you must be aware due to the crack down by the Chinese government on the pollution causing industries there was a short supply in Dye Intermediates market as China was the major supplier.

Stricter environmental norms and increased costs have substantially eroded the low-cost advantage of Chinese manufacturers. This resulted in a huge spike in the prices of Dye Intermediates which benefited the Indian exporters and the Dye Intermediate manufacturers.

Since then, the prices have stabilized at a level which is still higher than prices in the past. This quarter there was strengthening of the Indian currency, rise in the prices of key raw materials plus as mentioned in the last earnings call, traditionally the period from Christmas till the Chinese New Year is always subdued. The world has now realized it that it cannot solely depend upon China for its supply and as a result Indian companies will stand to benefit.

Demand for the product has picked up after March. This business should be looked on a yearly basis and not on a quarterly basis. During FY 2017, Vinyl Sulphone contributed to 68% versus 60% in FY 2016. This was due to the increase in volumes by 4% and balance due to improved realization.

Coming to the CPC Green business. This is the business where there is no China factor and as a result the prices and margins generally tend to be stable and it is proven to do so in FY 2017. CPC Green contributed to 32% of our revenues in FY 2017 with a volume growth of 13%.

Capacity utilization during the year was 80% on a blended basis.

Share of exports to our revenues increased from 82% in FY 2016 to 90% in FY 2017. We continue in our efforts to be one of the most environmentally friendly chemical company. We spent another Rs. 12 crores during FY 2017 on Pollution Treatment Expenses.

In view of the long-term sustainability of our business the board had approved a capital expenditure plan up to Rs. 175 crores in Specialty Chemicals, Dyes and Intermediates and Organic Pigments.

With this CAPEX plan, we have decided to backward integrate in the CPC Green business by deciding to manufacturing CPC Blue Crude which will improve our margins in this business. The work on the capacity expansion has started and is on schedule to be commissioned in the next 12 months to 15 months.

Considering all of this, going ahead we expect revenue growth of around 10% and we believe that our EBITDA margins will be in the range of 25% to 30%. Our expansion program is underway and we believe some of the revenues to be booked in the last quarter of this financial year. We are focusing more on the Specialty Chemical business where margins are stable plus we will get benefit of savings due to backward integration.

Now, I would like to update you on the operational performance of the company for Q4 and FY 2017.

Revenue for FY 2017 is Rs. 260 crores, a growth of 38% year-on-year compared to Rs. 188 crores during FY 2016. Growth in the revenue is mainly attributed to better realizations in the Vinyl Sulphone business and volume growth in Vinyl Sulphone and CPC Green business.

EBITDA for FY 2017 is Rs. 80 crores, a growth of 147% year-on-year compared to Rs. 32 crores during FY 2016. EBITDA margins for the year increased by 1344 basis points to 30.6%. The improvement is on the back of better efficiency, better product mix, better pricing for the product.

PAT for FY 2017 is Rs. 52 crores a growth of 212% year-on-year compared to Rs. 17 crores during FY 2016. Net profit margin for the year is 20% as against 8.9% in the previous year.

The company's total debt as on March 2017 is Rs. 32 crores. Long-term debt including current maturities of long-term debt is Rs. 9 crores and short-term debt is Rs. 23 crores as on March 2017. Debt to equity of the company as on March 2017 stands at 0.2x.

Return on capital employed for March 2017 stood at 48.6%. Return on equity for the same period is 38.8%.

With this, I would like to open the floor for Question-and-Answers.

- Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.
- Anand Bhavnani:** Sir, my first question is about CAPEX what is the CPC Blue capacity that we are planning?
- Munjal Jaykrishna:** Yeah, the CPC Blue capacity we have planned is 150 tonnes per month which should take care of 80% of our post expansion requirements of Pigment Green.
- Anand Bhavnani:** Okay. And sir, this capacity expansion also has some outlay for H-Acid?
- Munjal Jaykrishna:** Yes, for H-Acid we have committed Rs. 25 crores.
- Anand Bhavnani:** Okay. And sir, what would be the tonnes per month capacity for H-Acid?
- Munjal Jaykrishna:** 1,200 tonnes per annum.
- Anand Bhavnani:** 1,200 tonnes per annum. And sir, we mentioned that this year because of Chinese competition margins have been good, is the Chinese competition severe in CPC Green as well.
- Munjal Jaykrishna:** No, in CPC Green China has never been a player and they do not have capacity. So, there is no China story in CPC Green. We meant it only for the Vinyl Sulphone business.
- Anand Bhavnani:** Just to double check. You are mentioning, we have no competition from China in CPC Green and only in Vinyl Sulphone we benefited as competition reduced from China is that correct?
- Munjal Jaykrishna:** Yes, that is correct.
- Anand Bhavnani:** And sir, the CPC Blue which we are planning a CAPEX currently where are we sourcing it from and is there a possibility of other manufacturers also sitting up CPC Blue capacity. So, if you can help us understand the CPC Blue scenario in India at the moment?
- Munjal Jaykrishna:** The CPC Blue we are sourcing from various local suppliers. So, it is not that this product is not available or is in short supply. We just want to increase our margins, we are currently buying from suppliers in North India, in Maharashtra, etc., but we are thinking of setting our own capacity to increase our margins.
- Anand Bhavnani:** Okay. And sir, the CAPEX for H-Acid is to be Rs. 28 crores, am I correct?
- Munjal Jaykrishna:** Rs. 25 crores.
- Anand Bhavnani:** Rs. 25 crores for 1,200 TPA.
- Moderator:** Thank you. Next question is from the line of Ankit Agarwal from Louis Dreyfus. Please go ahead.

- Ankit Agarwal:** I just wanted to ask you that the top-line 68% as we mentioned has contributed by Vinyl Sulphone. So, the next year target of 10% growth in revenue, do you think it is not a bit shy because you were going so much capacity expansion under various heads?
- Munjal Jaykrishna:** For all the expansion we are going most of the figures will come in play from the year FY 19. So, in this we are seeing mostly revenue growth from the Vinyl Sulphone from the Pigment Green business and just a bit from other expansion business. Most of the expansion revenue top-line and bottom-line will come in from the year after.
- Ankit Agarwal:** So, regarding this year the 38% growth that we have in the top-line that was mainly contributed by the raw material price increase in the Vinyl Sulphone, correct?
- Munjal Jaykrishna:** Not by the raw material prices, the finished product prices increase so our margins also increased and one of the reasons was also that cost increase in top-line but our capacity utilizations of Vinyl Sulphone are under par in this year. So, next year we hope to increase our volume growth in Vinyl Sulphone business and the increased capacity of Pigment Green will come into play in this year. So, that will contribute to 10% increase in turnover.
- Ankit Agarwal:** Sir, just one last question I want to touch upon is that Vinyl Sulphone the increase in the capacity in the revenues is mainly contributed by the shutdown of factories in China. So, do you think that there is a possibility of China restarting factories or capacities of Vinyl Sulphone itself increasing in India which can be a threat to our revenues for AksharChem?
- Munjal Jaykrishna:** See, it was not one plant shut down when people about it that Hubei Chuyuan shut down. Hubei Chuyuan had shut down and it started also around six months back. But then, four - five other plants shut down they are not able to produce because they are not able to comply with environmental regulations. We do not see China being able to compete with us. Yes, we do not rule them out that they will be out of business, but it will be difficult for them to compete with that. As your question goes about increased Indian capacity, yes we do not rule them out but there is a time lag period of three years some people decide to put up new Vinyl Sulphone capacities and so our understanding no new plants are currently being set-up in the pipeline. So, yes, in two years and three years after that may be there will be increased capacities if people get the permissions and go for the plants.
- Moderator:** Thank you. Next question is from the line of Srinath Sridhar from ICICI Securities. Srinath Sridhar from ICICI Securities, please go ahead.
- Srinath Sridhar:** I just wanted to know what are the realizations for Vinyl Sulphone during Q4?
- Munjal Jaykrishna:** You mean in terms of price?
- Srinath Sridhar:** Yeah.

- Munjal Jaykrishna:** They are quite low because I had said this in the last con-call also that the thing I do not want to repeat that about the time period from the Christmas to Chinese New Year there is a slack season and usually some of our customers book long-term even for the quarter, etc., so the price realizations were poor and this year also there was no exception they are quite poor. And I have said in last con-call also that this picks-up in March and it has picked-up after March.
- Srinath Sridhar:** Okay. So, we can assume about 2,25,000 per tonne.
- Munjal Jaykrishna:** Yeah, maybe you can, that is a safe prediction.
- Srinath Sridhar:** Okay. And sir, your H-Acid when will it be commissioned?
- Munjal Jaykrishna:** It will be commissioned before around say April of next year.
- Srinath Sridhar:** Okay. So, we will see the revenues coming in from next year for that.
- Munjal Jaykrishna:** Yeah next year....
- Srinath Sridhar:** Is there any particular reason that H-Acid you all put is there in the operational efficiency when you operate both Vinyl Sulphone and H-Acid together?
- Munjal Jaykrishna:** Yeah. One of the main reasons is operational efficiencies of using each other's effluents and each other's by-product which itself results in so much cost savings that almost like whatever you earn out of the product is a bonus. So, there is a big synergy in chemistry between the two products and that is one of the reason why we are putting. And we are putting up a plant in such a way that all these by-products and raw materials will be transferred to each other's plant by pipeline.
- Srinath Sridhar:** Okay, sir. And your Vinyl Sulphone is also operating at 80% capacity is that right.
- Munjal Jaykrishna:** Yes, it operated a little below that last year.
- Srinath Sridhar:** Okay. And usually in intermediates they do not operate more than 85%, right?
- Munjal Jaykrishna:** Not really, you can go up to 90% not more than that. But like for example, in our Pigment we are operating almost at 100%. So, it all depends on the efficiency but between 85% and 90% can be called a good plant, yes.
- Moderator:** Thank you. Next question is from the line of Naushad Chaudhary from Systematix Shares & Stocks. Please go ahead.
- Naushad Chaudhary:** First, sir, if you can help us understand what is driving our CPC Green business and what gives us confidence to double the capacity to 4,200 metric tonnes?

- Munjai Jaykrishna:** See, right now also our order book position is such that we always kind of full of orders, we have six months order book position in hand. We have a very good product mix and some of our products what we have launched are kind of unique products which once our customers use them, we keep on having repeat business in more than ten years of all these products. So, it is quality and the new product development that is driving our CPC Green business and as we mentioned we are operating at 100% capacity and having significant orders on hand. So, we are quite confident that being leaders in this right now we should be able to dominate this by having close to 17% or 18% of the world market after expansions are over.
- Naushad Chaudhary:** Can you talk about the product launches which you said just now?
- Munjai Jaykrishna:** Yeah, I do not want to talk too much details but we have launched a few products for few other applications which have been have got the approvals, so because of these approvals, these approvals the markets of mainly Japan, Korea, Germany and U.S. and these approvals do not have so much competition. So, we result able to have a bit of pricing power also for these new product developments. Therefore, specific paint and specific plastic applications.
- Naushad Chaudhary:** Okay. So, it is something new for plastic industry we are doing or we were catering before also to plastic industry?
- Munjai Jaykrishna:** We were catering before to plastic and paint both but within the plastic and paint, this is a special grade developed for high end applications for these industries.
- Naushad Chaudhary:** Okay. And sir, if you can talk a little bit more about your Q4 FY 2017 number why there was a dip in the revenue and there was an increase in the other expenses and employee cost also in this quarter?
- Munjai Jaykrishna:** Right. So, first of all, I will let you have few reasons why there was a dip in the EBITDA margins in Q4. The first reason is there was a sudden increase in the price of key raw materials partly because of crude oil jump after maybe November, December but partly because of some Chinese shortages in this raw material like Aniline oil and Chlorosulfonic Acid. Second reasons is the unexpected and sudden rupee appreciation. Last two quarters we had realized upward of Rs. 67 and then the rupee strengthen and then, one more thing I would like to mention is this quarter we had abnormal expenses of CSR as well as management commission which we had not taken last year because this year was good so we took a modest management commission and both this we accounted for in this quarter. So, the management commission also one of the reasons why the labor cost looks higher when you see it.
- Naushad Chaudhary:** Sir, generally the rise in prices should impact on the immediate quarter not to the next quarter and how much is the lag in passing on the rise in prices of raw material?
- Munjai Jaykrishna:** The prices of raw material usually pass on in the next quarter. So, this price increased may be may be in January and February they increase a lot. So, this quarter we are not able to pass

because sometimes we do get booked before also because of our long-term quarterly bookings, etc., usually it passes on in the next quarter.

- Moderator:** Thank you. Next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.
- JatinDamania:** Sir, just wanted to carry on with the further questions, as you said that the price of the key raw material will be passed on with the lag effect. So, the price increase that we are seeing in the month of January and February, can we actually see the Q1 of FY 2018 numbers and we will see realize in increase because of the cost push?
- Munjal Jaykrishna:** Yes, you can safely say that but in this year a lot of the prices already starting to come down or have come down. So, there were a temporary increase, one of them was due to shortage for example Aniline oil increase because of some shortage of some closure of GNFC plant, etc., some of them have already come back and for some other the prices have passed on. You can say the finished product price will absorb the increases in the next quarter, yes.
- Jatin Damania:** Okay. Next quarter we should see the margins will probably strengthen from what the current quarter we have seen 12.7%?
- Munjal Jaykrishna:** Yes, that is right we can assume that.
- Jatin Damania:** And sir, second thing I want to check like you said that for the full year FY 2017 Vinyl Sulphone contributed 68% and the CPC Green contributed 32%. It will be great if you can help us to get the bifurcation for the Q4 as well?
- Munjal Jaykrishna:** So, in Q4 also the story may be similar but it can be 2% or 3% will be more of the Green compared to the figure you have mentioned then the Vinyl Sulphone.
- Jatin Damania:** Okay. And sir, how are the Vinyl Sulphone prices currently trading and how do we see it growing at?
- Munjal Jaykrishna:** So, in pure prices terms it is difficult because you have to see compared to the raw material, so it is difficult. Currently the Vinyl Sulphone prices are trending around Rs. 250.
- Jatin Damania:** Okay. So, currently it is around Rs. 250.
- Munjal Jaykrishna:** Yeah.
- JatinDamania:** And sir, how was the volume in the Q4 because it was seen that export volume has declined and probably we had impacted in the overall export turnover. So, in this Q1 or in probably in FY 2018 with the rupee again around 65 - 66. Are we going to focus more on the export probably around 80% - 82% for the financial FY 2018 or probably our focus will be diverting towards domestic market?

- Munjai Jaykrishna:** No, we are definitely going to stick to exports because that is our strength and as you might be aware that for example in Vinyl Sulphone we contribute to round 45% of India's export in these products. So, our focus is exports and it will be exports. We hope that the rupee does not further strengthen and we are trying to pass on most of it strengthening cost ahead. But yeah, the rupee appreciation does not help because of export.
- Jatin Damania:** And sir, last question from my end, sir, regarding on your CPC Green expansion the Brownfield expansion that we have undertaken is it likely to come in FY 2018, so when this 480 tonnes of Green Pigment will come in on stream and when will it start contributing to our revenue?
- Munjai Jaykrishna:** From next quarter itself.
- Jatin Damania:** From second quarter of FY 2018 we should see the 480 tonnes of Green Pigments will come.
- Moderator:** Thank you. Next question is from the line of Vartika Dashora from B&K Capital. Please go ahead.
- Vartika Dashora:** I just want to ask you two questions. How much we will be able to sustain the margins what we have achieved in FY 2017?
- Munjai Jaykrishna:** Right. So, I am just recalling like the last con call, after we had excellent margins in excess of 30% - 35%. Also, I had said that the sustainable margins are around 27-30% in our business as I said in last call. So, I am maintaining approximately similar there is sustainable margins in this business according to us in this coming year will be between 25% and 30%.
- Vartika Dashora:** 25% and 30% and the major contribution to our margin was from this raw material I mean this is because of competition with China only for this year, this is the only reason for your increased margin or was that about our efficiency and all other aspects also?
- Munjai Jaykrishna:** So, number one, for the 35% of the Green business there is no China impact. So, we are talking only of the Vinyl Sulphone business, is it right?
- Vartika Dashora:** Yeah, correct.
- Munjai Jaykrishna:** So, for the Vinyl Sulphone business for the last several years China had dominated the market and they were controlling the pricing and were putting pressure on our prices. So, it was not because of any one plant or something being closed in China but the cost of Chinese manufacturing had increased not only for environment, for safety, for sustainability, for labor, Chinese cost are increasing, because of which we are able to have higher pricing. So, yes, the less pressure by Chinese is a major reason for the Vinyl Sulphone margins and all other chemical products margins increasing and the chemical industry being much more profitable than before, I would say yes.

- Vartika Dashora:** Okay. Fine. Then secondly, I would want to ask that this how much margins will we be able to increase by adding this CPC Blue in our portfolio?
- Munjal Jaykrishna:** Yeah, so, once we add CPC Blue we should be able to add around 2% to 3% EBITDA margin because of that, because that is the major raw material.
- Vartika Dashora:** Okay. And this is Rs. 175 crores of capacity expansion, the effect will come in our books in 2019 - 2020, right?
- Munjal Jaykrishna:** Yes, that is right, it is as per plan and as per our early announcement it is on schedule
- Moderator:** Thank you. Next question is from the line of Ganesh Radhakrishnan from Pristring Portfolio. Please go ahead.
- Ganesh Radhakrishnan:** I want to know this expansion of Rs. 175 crores, how is it going to be funded. We were contemplating options of internal accruals, debt and equity, so we have all the three options open. But right now, currently we have begun the expansion with internal accruals because currently we see no need for immediate debt or equity. So, we will consider combination of debt or debt and equity in the future. Currently, our accruals are quite strong, so we have begun the expansions based on that.
- Ganesh Radhakrishnan:** Okay. Currently how is your investments kind of deployed sir, I mean last year in the Annual Report I see it has been most of them have invested in stocks. So, you continue to have the same strategy or you are putting it in some safe AAA instruments like that.
- Munjal Jaykrishna:** Yeah. So, around 50% of our stock market has been sold as I speak today and has been put in debt funds because now we will be requiring all this for the coming projects and our plan is very soon the remaining also will be put in debt funds. So, that it can be deployed whenever required in the business.
- Ganesh Radhakrishnan:** Okay, sir. When I am listening to the other Chemical companies in India overall so kind of benefiting from this Chinese issue but they are talking about aggressive selling from South Korea. Do you experience that kind of pressure from them?
- Munjal Jaykrishna:** Infact South Korea and Japan are our biggest buyers and South Korea does not make any of the products we make, they are our consumers. However, what you might have heard is may be from the dye companies like we supply the dye intermediate to South Korea and our customers might be aggressively competing with them but it does not affect us.
- Ganesh Radhakrishnan:** And what is your dividend policy?
- Munjal Jaykrishna:** So, dividend we are giving continuously 35% since last three years to four years, and we hope we will maintain that and increase also if possible.

- Ganesh Radhakrishnan:** In terms of payout ratio, how much of profit that you plan to disburse?
- Munjal Jaykrishna:** We don't have a policy on that, it depends on like this year we have aggressive growth plans, we will see accordingly if our reserves are higher. So, we have not made a documented policy on the percentage of profits will be deployed in dividends yet. But we do have a consistent history on that.
- Moderator:** Thank you. Next question is from the line of Shrikant PVS from Spark Fund. Please go ahead.
- Shrikant PVS:** Sir, just wanted to know who are our competitors in the different product categories?
- Munjal Jaykrishna:** So, let me talk of Pigment Green. In Pigment Green, most of our competition is only from India and our competition is from other Indian green manufactures who are five or six manufacturers in our sector, all based in India. And Vinyl Sulphone also competition is half from India, half from China. In India there are companies like Bodal Chemicals, Kiri Industries, Bhageria Industries, and Shree Pushkar Chemicals to name a few and then there are five or six units in China.
- Shrikant PVS:** Okay. And sir, one more thing, what was the margin difference between say an Indian player and a Chinese player?
- Munjal Jaykrishna:** So, the Chinese costs have increased since last year. I cannot identify the margin difference but the costs of Indian makers is much lesser than the Chinese makers and that is why Indian companies are enjoying higher margins than Chinese company and enjoying the pricing power that is what I can say.
- Shrikant PVS:** Okay. So, but the differential cannot be quantified like...
- Munjal Jaykrishna:** No.
- Shrikant PVS:** Our margins have steeply increased in the past two years.
- Munjal Jaykrishna:** Yes.
- Moderator:** Thank you. Next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Sir, it will be grateful if you can just share the absolute realization of Vinyl Sulphone in this quarter as well as sequentially in Y-on-Y basis?
- Munjal Jaykrishna:** Okay yeah. So, on year-on-year basis the average price of Vinyl Sulphone was Rs. 286 in this year in FY 2017 versus Rs. 184 in FY 2016.
- Shashank Kanodia:** Okay. And sir, for this quarter?

- Munjal Jaykrishna:** For this quarter I do not have it in front of me.
- Shashank Kanodia:** Okay. So, if the current prices are prevailing at Rs. 250 a kg, so what is your outlook, where they supposed to be sustain going forward?
- Munjal Jaykrishna:** So, it is difficult to just say in terms of price depends on what happens to the raw materials but as you can see, at an average price of Rs. 286 we had a great year, right? And that is what the balance sheet is showing, right? So, Rs. 250 average prices if it stays because the raw material costs are down again the crude is below Rs. 50, so it should be okay. But usually from May to October onwards it is usually the best period for textiles when the demand is highest. So, usually the prices tend to increase from now, usually.
- Shashank Kanodia:** Okay. So, if we say around Rs. 250 odd a kg for the entire year, so probably this 25% - 30% margin would be difficult to maintain or are we confident of still clocking 25% margins?
- Munjal Jaykrishna:** So, we are confident as a company to clock between 25% and 30% margins and that is why I made this call at Rs. 286, margins were in excess of 30%.
- Shashank Kanodia:** 30%.
- Munjal Jaykrishna:** Yeah.
- Shashank Kanodia:** Right. Sir, secondly on the viability of H-Acid plant, so we are putting our facility of 1,200-odd tonne per annum at a CAPEX of Rs. 25 crores.
- Munjal Jaykrishna:** Yeah, we are not investing all that much, we are investing whatever is required for the chemical synthesis sustainability between the two plants. There is a lot of synergy and to derive the maximum synergy, we require this much capacity. So, we are investing more money in Specialty Chemicals and more money in Pigments.
- Shashank Kanodia:** Right. Sir, what are the realizations for H-Acid roughly if you can guide us right now?
- Munjal Jaykrishna:** The realizations of H-Acid on an average are around Rs. 400 to Rs. 500. You can take Rs. 400 on the average.
- Shashank Kanodia:** Rs. 400 a kg.
- Moderator:** Thank you. Next question is from the line of Kushal Shah from Individual Investor. Please go ahead.
- Kushal Shah:** So, I had a question regarding the production capacity of Reactive Blue, Reactive Black, and Violet 23, as mentioned on the products page of the Company website. This did not particularly appear on the Press Release document, is the focus more on CPC Green and Vinyl Sulphone than we have on the Blue, Black and Violet 23?

- Munjal Jaykrishna:** Year, okay. So, these are the three businesses we have started but since we have not made that into big operational businesses, we do not maintain it at the separate but let me tell you about all three. The Violet 23 plant is not yet commenced and we hope to start this plant in the next quarter. So, there has been no production as of now. That is one. We do have a Blue 21 plant which we run on a contractual basis and we have started production there and started exports there. So, this year we tend to make a turnover of around Rs. 20 crores on the Blue 21 and Black businesses because these are the new businesses we are starting on the contractual basis where we are not investing. We have tie-up with the plants where we buyback all the material and export it. So, these are new businesses we have started, we have not invested much money in them.
- Kushal Shah:** Okay. And sir, also I had a question regarding the research and research and development page as seen on www.aksharchemindia.com, the page does not mention any specific compound, but we do speak about CPC like Copper Phthalocyanine (Monastral Blue), the CPC Blue. So, I wanted to ask is R&D comprises of these specific compounds or some other ones as well, if so, which ones?
- Munjal Jaykrishna:** Sure. The R&D we are doing is of new products for our existing Pigments as well as for Violet we have already set-up a plant. Other than that, we are not doing too much R&D, we are just combining the R&D and QC in our existing products and developing new grades in them for higher-end applications.
- Kushal Shah:** Okay. So, actually that is fine. But the main question like we mentioned Monastral Blue right now CPC Blue as everyone is referring it to but you have not mentioned anywhere on the company website. So, like does that constitute Research & Development that is like the future prospects is there something we can look at?
- Munjal Jaykrishna:** We have already developed the quality and the technology for CPC Blue. So, there is no need to do any Research & Development for this product, we already have a documented technology for this product and we plan to put up this plant in Dahej for our integration. So, there is no separate R&D we have done for the CPC Blue. We have already possessed the technology.
- Moderator:** Thank you. Next question is from the line of Ankit Gor from Systematix Shares & Stocks. Please go ahead.
- Ankit Gor:** Sir, just to confirm our current capacity on CPC Green side we have is 1,920 tonnes, right?
- Munjal Jaykrishna:** That is right, currently.
- Ankit Gor:** Currently. And we are adding 480 tonnes in next quarter.
- Munjal Jaykrishna:** That is right.

- Ankit Gor:** Right. So, in FY 2018 what kind of CAPEX we are doing, we are increasing 480 tonnes that in CPC Blue, right or not?
- Munjal Jaykrishna:** Yeah, we are doing the CAPEX for everything.
- Ankit Gor:** No, I am just talking about FY 2018, what things we are doing?
- Munjal Jaykrishna:** We are doing H-Acid, we are doing Specialty Chemicals, the Green expansion already is underway. So, everything we have started all the work in this year.
- Ankit Gor:** Okay. And what is capacity for Violet 23, we have 125, if I am not wrong?
- Munjal Jaykrishna:** Yeah, the current capacity it is very modest at 120. Once we develop the product the quality and the grade, we will expand. We do have the consents and permissions for much higher.
- Ankit Gor:** Okay. And sir, we are doing CPC Blue Crude capacity expansion, setting up capacity as well what is the CAPEX for the same sir?
- Munjal Jaykrishna:** Rs. 18 crores.
- Moderator:** Thank you. Next question is from the line of Ankit Agarwal from Louis Dreyfus. Please go ahead.
- Ankit Agarwal:** I just want to understand that in the Specialty Chemicals you were undertaking capacity expansion of 10,000 tonnes and this is a business which is a new business in which we have ventured, so what kind of margins do you see in this business and will it be export-oriented or domestic-oriented.
- Munjal Jaykrishna:** Yeah we are going to focus on export markets because that has been our strength and there also we are projecting an EBITDA margin of 25%.
- Ankit Agarwal:** Okay. And what would be the roughly the price per kg of this kind of product in the export market right now?
- Munjal Jaykrishna:** So, we are aiming and aspiring to manufacture some higher-grade, value-added products and the average realization we expect to be in excess of Rs. 80 to Rs. 90.
- Moderator:** Thank you. Next question is from the line of Harish Shiyad, Individual Investor. Please go ahead.
- Harish Shiyad:** You said that the average price for the FY 2017 Vinyl Sulphone will be Rs. 286.
- Munjal Jaykrishna:** That is right, yeah.
- Harish Shiyad:** What was the peak price during the year?

- Munjal Jaykrishna:** The peak price I do not remember what rate we did the billing but around Rs. 400.
- Harish Shiyad:** Rs. 400, okay, what is our capacity in Vinyl Sulphone?
- Munjal Jaykrishna:** Capacity 7,800 metric tonnes.
- Harish Shiyad:** 7,800 metric tonnes. Who are your major customer from Korea, Japan in Vinyl Sulphone, how much quantity we are exporting to Japan and Korea out of Vinyl Sulphone?
- Munjal Jaykrishna:** Vinyl Sulphone that does not go to Japan, it goes to Korea and Taiwan and between Korea and Taiwan it is around 80% of our capacities between these two countries.
- Harish Shiyad:** Okay. Are we planning any expansion on Vinyl Sulphone or not?
- Munjal Jaykrishna:** No, we are not planning any expansion on that. We are planning to increase our utilization from 76% to above 85% in this year.
- Moderator:** Thank you. Next question is from the line of Naushad Chaudhary from Systematix Shares & Stocks. Please go ahead.
- Naushad Chaudhary:** Sir, if you can explain how much money we have invested so far in our Violet Pigments business?
- Munjal Jaykrishna:** See, the Violet Pigments is a Brownfield product and it is set up along with our Pigments campus, so a lot of the investments is mix. So, the investment has not been too much but the thing this is not out of the Rs. 175 crores because we have already spent this from internal accruals. So, this is not out of the Rs. 175 crores what we have announced.
- Naushad Chaudhary:** So, can we assume anything between Rs. 5 crores to Rs. 10 crores of investment in this?
- Munjal Jaykrishna:** It is more than Rs. 5 crores but yeah, you can consider it approximately Rs. 10 crores in total, yeah.
- Naushad Chaudhary:** And the realization of this product would be around in the range of Rs. 2,500 per kg to Rs. 3,000 per kg, if I am not wrong.
- Munjal Jaykrishna:** Yeah, it should be around Rs. 3,000 per kg.
- Naushad Chaudhary:** And what are you expecting from this division in FY 2018, sir, as you would be having around 500 metric tonnes capacity in this by 1Q FY 2019, so what is the utilization target for this division?
- Munjal Jaykrishna:** If you say the last six months of the year, we expect 70% utilization for this.
- Naushad Chaudhary:** 70%.

- Munjal Jaykrishna:** Of the last six months, last two quarters. We start the plant in the next two quarters, so the last two quarters of the year it should be access of 70%. So, total yearly can be around 40%.
- Naushad Chaudhary:** Okay. So, you are expecting this to start in third quarter FY 2018?
- Munjal Jaykrishna:** In the second quarter.
- Naushad Chaudhary:** Okay. And lastly, on the margin front, you have already talked about this but if you can explain the specific steps which you have taken in last one and a half year which has led our margin at this level (+30%) margin. So, what are the specific steps we have taken to take our margin to this level?
- Munjal Jaykrishna:** So, we have done a lot on sustainability by investing in environment treatment and as a result also we are trying to become sustainable with the low cost. And plus we have invested in some engineering systems because of which our cost have come down by efficient chilling and heating systems which you know new generation technology has been put in. so, we have done some work to increase our margins and because of all these reasons, we are confident of next year going ahead protecting margins of 25% to 30%.
- Naushad Chaudhary:** Okay. And lastly, sir, CPC Green industry is very small having around 20,000 to 25,000 metric tonnes with the size. So, how do you see this industry going ahead, what is your outlook on the industry of Green?
- Munjal Jaykrishna:** So, the Pigment Green industry is basically Paints and Plastics mainly. So, the Paints and Plastics industry globally will be growing around 5% then it will continue to do so. India will continue to be the major player in chlorination technologies and because of our presence, because of our technology, because of our market dominance, we should be able to take advantage of this and capture more market going ahead.
- Naushad Chaudhary:** Okay. And sir, lastly, sir, what are the key things makes you worry about the business or industry if you can discuss about?
- Munjal Jaykrishna:** What makes me worry is first global economic turmoil because our market is all dependent on U.S., Europe, Japan, Korea, so U.S. economy related turmoil is one issue that can create clutter in our industry. Second is too much appreciation of the Indian rupee can put more pressure on the margins. So, these are the two things I worry about more than anything else.
- Naushad Chaudhary:** And anything on Stage-III of REACH compliance?
- Munjal Jaykrishna:** We are doing fairly well in this historically but yes, our industry is always something in which we should be aware off and to make it sustainable and that is why we have invested Rs. 12 more crores in this last year on the environment treatment expenses in FY 2017. So, every year we keep on spending to make it more compliant and to make it more sustainable.

- Naushad Chaudhary:** Do we get any business from European market, sir?
- Munjai Jaykrishna:** Yes, we have a lot of our Pigment business come from European market not Vinyl Sulphone but Pigment business does come from the European markets.
- Naushad Chaudhary:** So, as per the REACH Stage-III we have to be compliant if we want to sell the product...
- Munjai Jaykrishna:** Yes, of course. Sorry, I did not get your question. Yes, we are REACH compliant and we have the REACH certification for all our products for Europe and hence, we have got the market of Europe sizeable market with Europe, we are REACH compliant, yes.
- Moderator:** Thank you. Next question is from the line of Sunil Arora from Caproco and Company. Please go ahead.
- Sunil Arora:** I wanted to understand you made a point in Vinyl Sulphone, now we have the competitive advantage vis-à-vis China. I want to understand what is the source of this competitive advantage? Is it the recent Chinese government crack-down on the environment pollution or is it labor?
- Munjai Jaykrishna:** The latest trigger is the government crack-down trying to make it more complaint but the labor costs have increased significantly more and faster than India. Other costs even the financial cost they were getting money very cheaply and the government in quest for growth was promoting this industry without making it sustainable. So, their plant spread over at places where they should not have. So, now the government is asking to relocate such plans and some capacities are permanently being shut down and even the capacity which are operating are not able to operate at lower cost like before. So, it is the combination of both but the immediate trigger is the government's pressure on compliance.
- Sunil Arora:** Okay. So, would you say that India now has a secular advantage for a foreseeable future?
- Munjai Jaykrishna:** Yes, at least I would think the next decade or two and this is not only for Vinyl Sulphone, this is for all chemical products where China is competing, I feel that all chemical companies are doing well and will continue to do well because Chinese cost have gone up. You know if it was only Vinyl Sulphone then one plant closes down, one product goes up.
- Sunil Arora:** So, my second question was with the investment of Rs. 175 crores what kind of turnovers would we be looking-at at the current prices?
- Munjai Jaykrishna:** Yeah, so, we are targeting asset turnover of 2x. But it will ultimately depend on the realizations at that point in time.
- Sunil Arora:** And my last question is in Vinyl Sulphone how much of our capacity is on fixed price contracts and how much is open market?

- Munjai Jaykrishna:** It keeps on varying but around 30% - 35% is on fixed price contracts.
- Sunil Arora:** And these are what duration contracts?
- Munjai Jaykrishna:** The only reason I am not spelling out this is kind of business is that we don't want to make it open but we are doing this since 15 years or 20 years, so...
- Sunil Arora:** I understand that, I am just curious as you mentioned about relationships.
- Munjai Jaykrishna:** No, I would love to answer your question but again I would to keep this business is first, the business secrets. I am sorry about that.
- Moderator:** Thank you. We take the last question for today. That is from the line of Manan Mehta, Individual Investor. Please go ahead.
- Manan Mehta:** Sir, this is just one question regarding our Precipitated Silica division venture. Sir, I wanted to understand the reason why we have entered into this venture altogether different field?
- Munjai Jaykrishna:** Right. So, we consider ourselves to be a Chemical company and we want to expand only in the field of Chemicals organic as well as inorganic because our organization strength is there and since, long we were trying to identify products where there is a good export market where we have a dominance which has growth potentials and we have cutting-edge technology. So, because of the access of the technology what we have got, is the reason why we are investing in this relatively unrelated field, I will not call it completely unrelated because there is synergies in the plants we are putting up in Dahej. So, it is a chemical complex.
- Manan Mehta:** Okay. And sir, what will be the margins we will be making would it be similar or it will be higher than what we make?
- Munjai Jaykrishna:** Right now we are estimating & projecting 25%.
- Manan Mehta:** 25%, sir, okay.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Munjai Jaykrishna for closing comments. Over to you, sir!
- Munjai Jaykrishna:** I take this opportunity to thank everyone for joining the call. I hope, we have been able to address all your queries and if you require any further information, please get in touch or SGA or even me, we can always give you more information required. Hope you enjoyed. Thank you so much.
- 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 today. And you may now disconnect your lines.