



“AksharChem (India) Limited
Q3 & 9M FY2019 Earnings Conference Call

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MANAGEMENT: **MR. MUNJAL JAYKRISHNA - JOINT MANAGING
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AKSHARCHEM (INDIA) LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the AksharChem (India) Limited Q3 and nine months 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 the date of this call. These statements do not guarantee the future performance of the company and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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 Mr. Munjal Jaykrishna, the Joint Managing Director and CEO of AksharChem (India) Limited. Thank you and over to you Sir!

Munjal Jaykrishna: Welcome to the Q3 and nine months FY2019 earnings conference call of AksharChem (India) Limited. Along with me, I have SGA, our IR Advisors. I hope you have received our results update presentation by now. For those who have not you can view them on Stock Exchanges and on our website.

We started the quarter on a good note. Our topline increased by 39% year-on-year basis. Our volumes for the quarter were better compared to the same period last two years.

Q3 FY2017 was 1,476 metric tonnes, Q3 FY2018 was 1,843 metric tonnes and for this quarter we did 2,355 metric tonnes. Our topline increased on back of high volumes and better realizations. As we see that our volumes are good that gives us confidence that the demand for our products is intact and our business continues to grow on volume basis making it more sustainable.

During this quarter our margins were impacted due to many reasons. The major reason is that we started manufacturing H-Acid and during the initial phase of manufacturing we faced quality problems, teething problems for yields and quality, this resulted in unexpected one off losses. This issue has now been resolved and production is expected to normalize from Q4 FY2019. The other reason which contributed to lower margins were high volatility in crude prices and increase in other expenses because of the additions of H-Acid.

Coming to our input cost, as I mentioned earlier also in the year that due to the China situation there was short supply in key inputs of raw materials along with high volatility in crude prices. All these factors resulted in increase in our RM costs. We were not able to pass on the increase to our customers. We expect the prices to stabilize going ahead. Now I would like to give you a quick update on the capacity utilization expansion plan.

Our expansion for CPC Green of 480 metric tonnes per annum was completed and this has resulted in our CPC Green capacity going up from 1,920 to 2,400 metric tonnes. The plant has already started.

Coming to our H-Acid expansion, this has been completed and the new dye intermediate product has been added to our company basket. The current capacity available is 1,200 metric tonnes per annum.

On our specialty chemical business, product precipitated silica is under progress. This new Greenfield project at Dahej with a capacity of 10,000 metric tonnes per annum, commercial production is now expected to start from Q2 FY2020.

Our expansion plan is on track and in our line with our vision to diversify our product lines. Because for expansion our expenditure has increased for the quarter and we expect operating leverage to start playing out, once ramping of our capacity takes place. Our company puts a lot of efforts that adheres to the environment norms pertaining to effluent treatment expenses. We have been consistently spending on pollution treatment expenses. We have spent Rs. 11.46 Crores towards pollution treatment expenses during 9M of FY2019.

To summarize, going ahead we will pass on the cost to our customers with quarter lag and also expect the raw material prices to stabilize from current high levels as crude has been now in a range bound. With respect to H-Acid, things are now falling in place and we will be able to utilize the capacity for quarter and we expect the quality and yield to stabilize and it has already now. With this we expect the margins to get back to its normal levels.

I would like to update you on the financial performance for Q3 and 9M FY2019. In terms of Volume, we did 2,355 metric tonnes for Q3 FY2019 and 6,919 metric tonnes for 9M FY2019.

The net revenue from operations for 9M FY2019 is Rs. 243 Crores as compared to Rs. 188 Crores for 9M FY2018, a growth of 29% on year-on-year basis.

The net revenue from operation for Q3 FY2019 stood at Rs. 82 Crores as compared to Rs. 59 Crores for Q3 FY2018, a growth of 39% year-on-year basis.

Dye intermediates contributed to 70% of the revenues and pigments contributed to 30% of the revenues. Growth in revenue is mainly on back of high volumes and better realizations.

EBITDA for 9M FY2019 stood at Rs. 29 Crores as compared to Rs. 32 Crores for 9M FY2018. EBITDA for Q3 FY2019 stood at 5 Crores as compared to Rs. 8 crores for Q3 FY2018. EBITDA margins for 9M FY2019 and Q3 FY2019 stood at 12% and 6.1% respectively.

Profit after tax for 9M FY2019 stood at 18.9 Crores as compared to 25.7 Crores in nine months FY2018. Net profit margin for 9M stood at 7.8%. Profit after tax for Q3 FY2019 stood at Rs. 4 Crores with margins of 4.9%.

Now with this I would like to open the floor for question and answers.

- Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nikhil Oswal from Stallion Asset. Please go ahead.
- Nikhil Oswal:** Thanks for the opportunity. Firstly, in your opening remark you mentioned about the fall in margins because of problems faced in the production of H-Acid. r Could you throw some light on what problems were faced and if there was any kind of demand supply mismatch?
- Munjal Jaykrishna:** At the initial stage, we faced problems in terms of achieving the quality and yield. H-acid is a little difficult intermediate so it took us a little more time than we expected for setting the quality and yield. We lost tremendously on production during three months on setting up of the yield and quality of the product. However we had incurred other expenses for H-Acid in terms of the environment treatment expenses and , raw material costs. It was purely a technical issue, nothing to do with the market. So we lost substantially in this quarter because of the above mentioned reasons.
- Nikhil Oswal:** In Q3 FY19, at EBIDTA level we have done a margin of 6%. So I have been noticing that in several quarters in past we have seen a lot of fluctuations in margins, so any sustainable level where would you say at least this much is the level we can easily do after normalizing the H-acid issue?
- Munjal Jaykrishna:** The normal EBITDA margin levels are in the range of 12%-15%. We should be able to do that. This quarter also our normal business of Vinyl Sulphone and Green was primarily on track.
- Nikhil Oswal:** Another question regarding the China issue, there is a demand supply mismatch.? Can you throw some color on how is it going because in other companies they are saying dyes and pigment is running really good because of China. Going forward is it sustainable and if there is new capacity coming in China, how would that affect our business in anyway?
- Munjal Jaykrishna:** India has been more competitive than China. To be honest to you not many plants in China are closed as of now, they were closed earlier but they have started working, I think companies are operating at a 50%-60% levels roughly. They are not able to achieve full productivity because of which there is not much pricing pressure caused due to China. The pressure we are facing is because of internal Indian competition. So because of China we still are at an advantageous position. As for our industry and our product still without any demand upsurge, most chemical companies are in a position to enjoy a pricing power and would be able to earn around 15% EBITDA margins. We feel that there is an opportunity that Chinese costs will further increase and chinese productivity can further decrease the operating level from 60% - 70% to further go down, so there is a potential for Indians to get more and more market share which has been the trend and Indian chemical companies will benefit in the future.
- Nikhil Oswal:** What is our current capacity utilization levels?

- Munjal Jaykrishna:** For our capacity utilization levels, if I am not considering H-Acid right now, because H-Acid at least from this quarter we will be able to cross the levels. For Q3 FY19 we could not set up for H-Acid, I will give you the breakup of the exact utilizations for the other products. . For Vinyl Sulphone it is 95.6%, which has been very high, compared to our past and for the pigment base it has been 80%. A blended level of 86.4%, which includes H-Acid which was around 38% so if the H-Acid normalizes this quarter then our capacity utilization should be better.
- Nikhil Oswal:** Okay. What is the optimal level we can go to reach beyond 100%?
- Munjal Jaykrishna:** Optimal level at 95% on blended basis.
- Nikhil Oswal:** Thanks.
- Moderator:** Thank you. The next question is from the line of Alok Ranjan from L&T Mutual Fund. Please go ahead.
- Alok Ranjan:** Sir could you give some sense on the pricing of H-acid, Vinyl Sulphone, and the pigment green? How is the pricing in the last quarter and how has it been in the current quarter?
- Munjal Jaykrishna:** Honestly speaking, the pricing was a little down, but not so bad. In last quarter Vinyl Sulphone was in the range of around Rs. 250, and this quarter also currently enjoys a same level of around Rs. 250 because now the crude oil prices and RM prices are down so it is a decent pricing. H-acid is subdued at Rs.400. I see H-acid prices increasing in the months to come because the season for the textile demand has started, so I see the H-acid prices increasing from now on and expect them stabilizing at a level of Rs.425 to Rs.450. Pigment green prices have always been stable and are around in the range of Rs.480 or Rs.475.
- Alok Ranjan:** In the quarter we can see the purchase of traded goods have increased so is it on account of H-acid or what is the reason for that?
- Munjal Jaykrishna:** There is Rs.7 Crores volume which was on account of some business we did by adding some different kind of Vinyl Sulphone. We do not make so we added that trading volume, it was nothing to do with H-acid.
- Alok Ranjan:** . Sir you mentioned about the complexity that happened because of bringing the H-acid plant to a normalized level. But if we remove that part, can we say that we have done better in the other two areas? What I mean to understand is the prices have also come off for H-Acid & Vinyl Sulphone in the last couple of quarters, then if our pricing mechanism is on the EBITDA per tonne where we pass off on delta basis then the margins should not have gone to such a low level, so just wanted to understand on that?

- Munjai Jaykrishna:** Our pricing mechanism is based on margin basis and not on EBITDA per tonne basis. Yes our margins for Vinyl Sulphone and Pigment Green business are intact at around ~15% EBITDA margin roughly. We are not giving a breakup segment wise, but however they are intact. The problem has happened because of H-acid, due to its quality and technical issues, which has severely impacted our margins for this quarter. Because the cost piled up, the other expenses piled up and we lost a lot on the yield. However, now this has been stabilized. The Vinyl sulphone and Pigment Green business have not suffered.
- Alok Ranjan:** Lastly, could you give some sense on how is the current situation of the H-acid plant? Will we be able to see it to break even or whether there will be some good contribution in the PAT?
- Munjai Jaykrishna:** We hope to start the product sale of H-acid from the current quarter and that will be adding to our topline. From the next quarter we are very hopeful that we will see contribution in both topline and bottomline. We expect the normal EBITDA margins of chemical business to come in depending on the market scenario. We expect to see profit from the next quarter.. This quarter we expect to break line and not break even. We should not have the losses like those similar to the previous quarter.
- Alok Ranjan:** Will that be PBT breakeven?
- Munjai Jaykrishna:** I will not be able to give exact details right now because still more than one-and-a-half months is left. But we hope to have a PBT breakeven.
- Alok Ranjan:** Great Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Nikhil Vaishnav from VD Investments. Please go ahead.
- Nikhil Vaishnav:** Thanks for the opportunity. Could you give me a geographic breakup of your revenue for FY2018 and Q3 FY19? Could you tell how much contribution from Korea and Taiwan market to our revenue?
- Munjai Jaykrishna:** It is not available with us handy, we shall give it to you later .From what I have seen in FY2018, it has been consistent as of now. Korea and Taiwan considered being the major markets for Vinyl sulphone for us, so the breakup for the last all year is the same but exact percentage terms we shall provide you later as I mentioned above.
- Nikhil Vaishnav:** What is Vinyl Sulphone and H-acid sales volume and realization for this quarter?
- Munjai Jaykrishna:** Current price of Vinyl Sulphone is Rs.250 per kg and H-acid is in the range of around Rs.400- Rs 410 per kg.

- Munjai Jaykrishna:** With respect to sales volume for this quarter, we expect the Vinyl Sulphone sales to be normal as all quarters have been and expect to achieve 85% to 90% capacity utilization. For H-acid we hope in this quarter we will achieve more than 50%-60% of capacity utilization.
- Nikhil Vaishnav:** Could you provide the sales volume was for Vinyl Sulphone, CPC green, H-acid for Q3 FY19?
- Munjai Jaykrishna:** For Q3 FY19, we did CPC green of 441 metric tons, Vinyl Sulphone of 1,812 metric tons and H-acid of 100 metric tons..
- Nikhil Vaishnav:** My next question is related to customers of the company. Could you let us know how many customers do we add on yearly basis? Could you tell us in total how many customers are there in our portfolio for Vinyl Sulphone, CPC Green, and H-acid?
- Munjai Jaykrishna:** For H-acid currently we are having a wide customer profile. As we are introducing the product, so we have added 10 new customers right now. In reference to Vinyl Sulphone we are still sticking to our three major customers for 80% of the volume. For remaining 20% of volume we have other 8 to 10 customers. The customers for Vinyl Sulphone and H-acid would primarily be the same in the future.
- Munjai Jaykrishna:** For CPC Green, as we keep on adding new markets, so in that case we keep on adding two or three new customers every year., We have a very wide customer base for CPC Green and very wide distribution network with our distributors. The customers would be very high in case of green because the volume of customers is not so big. DIC and BASF are our big customers, besides that our volume is segmented all over the world through our distributors.
- Moderator:** Thank you. Mr. Vaishnav may we request you to join the question queue for any follow-ups as we have several participants waiting for their turn. Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.
- Nitin Gandhi:** Thank you very much for taking my question. Sir if you say that H-acid and VS customers are same, it means there have been a good acceptance now, is it appreciated that H-acid is more or less stable now ?
- Munjai Jaykrishna:** Yes, we have not yet introduced H-acid to the export market. So to our major customers we have not introduced the product. But the balance 20% of our product, which goes in the local market, they have now appreciated and started using our H-acid regularly. So the quality acceptance in the local market has been established. Over the next two or three quarters we will get our products approved with our export customers.
- Nitin Gandhi:** So top three customers will take at least approximately two to three quarters to accept our H-acid?

- Munjai Jaykrishna:** We have not even introduced the product in the export market, so we therefore would plan to go slowly because we do not want to hurry up. So it will approximately take us two to three quarters for our top three customers to accept H-Acid.
- Nitin Gandhi:** So are we saying that those three customers also have the sizeable requirements, which could be like 80% what we have for the other products?
- Munjai Jaykrishna:** Yes exactly three of them would be consuming much more than our capacity. So yes eventually we would be targeting the export markets for the same customers for H-acid.
- Nitin Gandhi:** What could be those three customers' consumption?
- Munjai Jaykrishna:** Their consumption is far higher than our capacity. It would be approximately three times of what we make, so they also buy from China and they are their huge customers.
- Nitin Gandhi:** Is there any price variation or specific quality compliance, which can give you better yields?
- Munjai Jaykrishna:** Yes that is why the markets that we have and these customers are in the higher bracket of market that require a lot more compliances. So for H-acid, with respect to those compliances in the export market it might take us two or three more quarters to get them. Till then we will be focusing on the local market.
- Nitin Gandhi:** Can there be at least 10% to 12% extra price realization?
- Munjai Jaykrishna:** Honestly, it would not be that much. There will be more of continuity of business and prices should be higher. But I cannot say how much higher until we have worked ourselves.
- Nitin Gandhi:** Coming to this other expense it is likely to spill over in current quarter also with some extra expenditure?
- Munjai Jaykrishna:** This extra expenditure is only because of H-acid as the whole plant started and we have invested in all the man power, all the environmental expenses, while the quality and the yield did not get set. So that is the reason why it is showing off the extra expenses. So from Q1 of next year we should be in process because the H-acid will be totally stabilized. This extra expenses might spill over a little because we are going to stabilize H-acid in this quarter and from next quarter things should be normal so a little spill over might be there. But nothing of this size, because our product already as you know in this month, the plant is getting set now.
- Nitin Gandhi:** So out of Rs. 5 Crores hike in other expense on y-o-y, how much is attributable to such one-time expense?
- Munjai Jaykrishna:** I would think almost the entire thing. I do not have the breakup on it.

- Nitin Gandhi:** Q4 will be having little less than that. I do not think it will be Rs. 4 or 5 Crores.
- Munjai Jaykrishna:** I do not think it will totally go away it might be little less and from Q1 FY2020 definitely it will normalize.
- Nitin Gandhi:** Thank you and all the best and look forward to good day.
- Moderator:** Thank you. The next question is from the line of Tanmay Mehta from SBICAP Securities. Please go ahead.
- Tanmay Mehta:** Thanks for taking my question sir. Just one question on the raw material part, how were the prices in Q3 FY19 and how is the current environment for raw materials?
- Munjai Jaykrishna:** Currently, as the crude prices have been stable now for a while, the price of raw material is low right now., The raw material pricing situation is not disadvantageous at the moment because the crude has been fairly stable since last three or four months.
- Tanmay Mehta:** What are the three or four major raw materials that we use?
- Munjai Jaykrishna:** The major raw materials we use are Acetanilide, which is based on Aniline Oil. the other raw material is Naphthalene and all these are based on crude derivatives. Then ethylene oxide and some acids like chlorosulfonic acid are other raw materials. Only the prices of alkaline products like caustic soda and chlorine are still remaining firm.
- Tanmay Mehta:** How do you see the China situation? What is the price differential in China and India?
- Munjai Jaykrishna:** Honestly speaking I do not see China deteriorating too much in the future because of the problems China is facing. Due to the trade wars with US and other countries, the Chinese government might not become more and more strict for environment compliances so I expect the Chinese productivity to continue in this 60% to 70% of range in the future. So I do not see them going out of business or losing more market share in the near future.
- Tanmay Mehta:** So is there any price differential for Vinyl sulphone between India and China?
- Munjai Jaykrishna:** I would not say precisely any price differential because price always adjust with sale. But the cost of manufacturing vinyl sulphone in India should be little better than that of China.
- Tanmay Mehta:** Thanks a lot. That's it from my side.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

- Rohit Nagraj:** Thanks for taking my question. Sir in terms of CPC Green, you said that the capacity utilization is 80% and we have also expanded the capacity, so is this with reference to the new added capacity?
- Munjal Jaykrishna:** This 80% capacity utilization is of the old capacity.
- Rohit Nagraj:** Which are the markets where we expect the growth to come from for the expanded capacity of CPC Green? What is the timeline that you expect this capacity to be utilized?
- Munjal Jaykrishna:** We expect that the expanded capacity to be totally utilized after four quarters. So now from every quarter starting from next quarter, we should be utilizing 25% every quarter, because the pigment market is not so robust that I can add all the capacity advance. It is a little slow right now in my opinion.
- Rohit Nagraj:** Can we expect that probably by end of FY2020 we will be having full utilization?
- Munjal Jaykrishna:** Yes that is right.
- Rohit Nagraj:** On the precipitated silica business, how is the price dynamics working for the product as of now? What has been the dynamics over the last one year if you could just give some sense over that?
- Munjal Jaykrishna:** We are not in the market yet. I will just give you a general idea. We are trying to make a special grade silica, which eventually would have higher pricing than the commodity silica. But I cannot answer for that right now whereas the pricing of commodity silica stands at around Rs.60 per kg. Then the pricing depends on what grades we are able to make and we hope to make the specialty grade silica at higher margins and higher prices.
- Rohit Nagraj:** As you mentioned, the commercial production will be starting from Q2 FY2020, so what is the timeline from which you will probably start feeding the market and getting at least some kind of response from the customers?
- Munjal Jaykrishna:** In case of the local market, we should start feeding. There are various kind of markets, so to get into the branded accounts and export market it takes six months to one year approval. In case of the local markets for other products like salt, food products, rubber, we can expect the revenue should start from Q3 FY2020.
- Rohit Nagraj:** Again going back to the H-acid issue during the quarter, due to which there was increase in the other expenses for this quarter, what would be the normalized other expenditure that we can expect from next quarter onwards?
- Munjal Jaykrishna:** We cannot share any figure right now.

- Rohit Nagraj:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Ankit Mukesh Gor from Systematix. Please go ahead.
- Ankit Mukesh Gor:** Thank you. My first question is with regards to H-acid. Could you throw some light on the HAcid product if it is a normal phenomena for where every H-acid manufacturer to suffer huge losses at initial period or are we the only ones who had some one-off issues?
- Munjal Jaykrishna:** I am not aware how other H-Acid players fared when they started the plant and if they got quality set immediately or later., I am not aware of that information. We could have done better and we could have got the products passed. Our technical team did not perform as well as expected. May be the other players did not face similar issues like we did. And they did not have so many months of this problem. Our problem could have been handled in a better way. I am not aware exactly when others players started H-Acid production. As H-Acid is a recent new product that companies have started producing.
- Ankit Mukesh Gor:** So probably our technical team could have handled this thing a little cautiously.
- Munjal Jaykrishna:** I would assume so.
- Ankit Mukesh Gor:** With regards to our margins, comparatively if you see our Vinyl Sulphone and CPC green have done around 15% to 16% sort of EBITDA margin.
- Munjal Jaykrishna:** We do not bifurcate the margins separately because now we account vinyl Sulphone and H-Acid together as dye intermediates., It is more or less on track and margins are in the range of around 12% -15% roughly.
- Ankit Mukesh Gor:** As H-acid is little more remunerative dye intermediate compared to Vinyl Sulphone, in that sense can we expect from Q1 FY2020 onwards, our margins to inch up from 15% - 16% normalized level to somewhere around 16% - 18% margins?
- Munjal Jaykrishna:** H-acid is both lucrative as well as it is more volatile. The prices go up and down a lot, so it is more difficult to predict so I cannot give a particular number. But we hope to maintain the same level of margins that we are having in the other products..
- Ankit Mukesh Gor:** Could you provide an update on our blue crude plant? Is it just on our back burner as of now?
- Munjal Jaykrishna:** It is on a back burner. Right now we are focusing all our energy, first in stabilizing H-acid, which is now almost through and then focusing and developing the specialty silica and then the third project in our mind in the execution stage will be the expansion of our pigment green., Currently, we plan ahead of only the above undertakings.

- Ankit Mukesh Gor:** My question with regards to the silica, as you said commodity silica is at around Rs.60 per kg so what could be the prices of carbon black in that sense considering commodity silica goes into tyre.
- Munjai Jaykrishna:** Commodity Silica does not replace carbon black totally. I am not aware of the prices for carbon black.
- Ankit Mukesh Gor:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Kishan Shah from Isha Securities. Please go ahead.
- Kishan Shah:** As you mentioned, our capacity utilization in H-acid was 38% , Could you tell us what could be the normal level of capacity utilization ?
- Munjai Jaykrishna:** Normal level would be 90% like that of Vinyl Sulphone.
- Munjai Jaykrishna:** H-Acid should start contributing from the next fiscal year and we hope that the capacity utilization should be 90% by the end of next year. From this quarter, we are hoping around to reach utilization of 60% to 70%.
- Kishan Shah:** Could you give any particular guidance for our revenues and margins in FY2020 for the overall company?
- Munjai Jaykrishna:** I will not be able to comment or give out an exact number. But if we see that industry is running at 15% EBITA margin and I would consider 12% -15% EBITDA margin to be a fair range. It also depends on how much of revenue we can add in H-acid and then in silica and additional revenues from the CPC Green capacity built up..
- Kishan Shah:** How much is the incremental revenue that you see from H-acid in FY2020?
- Munjai Jaykrishna:** By FY2020, I see 90% capacity utilization. So in order to produce more than 1,000 metric tons and the prices being at the lowest end at around Rs.450 to Rs.500 per kg, our revenues should add up to around Rs 45 to Rs. 50 Crores.
- Kishan Shah:** What is your guidance for precipitated silica?
- Munjai Jaykrishna:** We will be starting production maybe in Q3 of the next financial year. So we would not see so much of revenues because the products will get certain. It will take time for the productivity to be scaled up slowly so accordingly I see the profits to come in from later years and not in FY2020.

- Kishan Shah:** Could you give us a general sense with respect to the H-acid market in India right now? What is the total installed capacity and utilization level like in general?
- Munjai Jaykrishna:** It is very difficult to comment as in India there are lot of unorganized sectors. I am not aware of the exact numbers..., However the utilization of H-acid in India must be around 60% to 70% on an average.. Basically these numbers are not published and Indian numbers are not easy to find like that except in case of the four listed companies which publish numbers.
- Kishan Shah:** What is the demand scenario as of now?, Is there any emerging demand or any particular sector where the demand is showing up?
- Munjai Jaykrishna:** Vinyl Sulphone and H-acid go into use for the reactive dyes, which go into textiles. So the global growth for these products is not more than 4%. It grows in relation with the textile growth. However, India is taking a lot of market share from China. The Indian companies will be growing a little faster and Chinese companies will be losing a little bit of market share. But the global growth is equivalent to that of textile industry which is in the range of ~3% to 4%.
- Kishan Shah:** Could you tell us what will be your market share in percentage terms on global level?
- Munjai Jaykrishna:** We are not that larger player. In Vinyl Sulphone our market share is around 9% to 10% globally. In H-acid I am not aware of the rural Indian capacity, but with 1,200 metric tonnes we are still a little small player at this stage. Once the product gets set and once we have all the formations to produce more, then we might go for expansion but not at that moment.
- Kishan Shah:** What is your market share for CPC green?
- Munjai Jaykrishna:** For CPC green, approximately our market share today would be around in the range of 8% to 10% globally, It will go up after expansion.
- Kishan Shah:** Could you give some sort of a calculation like the sensitivity of raw material prices to crude like Rs.1 increase in crude could affect us by how much percentage? Could you give certain example?
- Munjai Jaykrishna:** Generally, all these raw materials are all feed stock based so crude directly gets passed on. But it varies with some of the products in India., In case of Reliance, they also increase and decrease the prices based on demand and supply when the imports are coming. So it does not always get worked out like immediately, like the crude effect gets passed on. As Reliance remains a major supplier of all these products so they do not immediately react on crude part. More or less may be in a three-month period eventually the prices go up and down with crude.
- Rohit Nagraj:** What is the lag by which we pass on the prices?

- Munjai Jaykrishna:** Three months in my opinion.
- Rohit Nagraj:** That is it from my side I will get back in the queue if I have more questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Chaudhary as an individual investor. Please go ahead.
- Pratik Chaudhary:** My questions have been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Praveen Sharma as an individual investor. Please go ahead.
- Praveen Sharma:** Thank you for taking my question. Sir you mentioned that the demand for the pigment is sluggish, so can you throw some light on what is the reason for this ?, Is it because of slowdown in China, because I do not think China plays important role as far as the pigment production is concerned, but the end product consumption may be related with China?
- Munjai Jaykrishna:** For Pigment Green, China is not a producer at all. So the production for Pigment Green only happens in India. We export to China so we are impacted by the Chinese sluggish demand . Another factor is that from Christmas to Chinese New Year there has always been sluggish part for the chemical industry. As now a days people maintain zero inventory before new years and then in China there is a Chinese New Year because of which all the Chinese plants shut down for 10 to 15 days. So usually demand improves after Chinese New Year, which is from mid February. Therefore the demand for December and January usually remains sluggish.
- Praveen Sharma:** Do we witness this sluggishness every year on New Year and on Chinese New Year? So is the demand currently in line with what happens every year and it is not that some extra pressure is there on the demand or demand is sluggish from that perspective? So is the demand seasonal every year?.
- Munjai Jaykrishna:** Demand is seasonal and this is for all the businesses like, Vinyl Sulphone, H-acid, Pigment Green. However this year the sentiment has taken a hit and in my opinion even in the last three months the Indian demand sentiment has been sluggish and also for the overall industry like end user industries like paint, textile and inks the demand sentiment has been sluggish. In same way because of trade wars Chinese sentiment has been sluggish so this year has been a little more than normal. According to my belief this year in pigment the impact is little more. .
- Praveen Sharma:** Could you guide us if we will be able to exhaust or utilize our expanded capacity in next year or will it take a while? Will our margins be impacted and will it come down from 15% to lower levels if we pump in the extra capacity?

- Munjal Jaykrishna:** This is a worry that if we add too much capacity of CPC Green it might affect our margins; However, right now we have added a modest capacity that is why we expect 22% to 25% addition of capacity every quarter, which will lead to stable margins without a decline. We have been working towards selling the existing capacity and developing new customer since many years., We have built up new customers for CPC Green. However, currently during sluggish demand is not the time for the customer to change the current supplier. With anticipation of the demand scenario to improve in the near future, adding approx 20% capacity every quarter is a reasonable move and we hope to achieve around 80% of the new capacity in the next year.
- Praveen Sharma:** Will we be able to maintain 15% EBITDA margin without any other factors impacting it?
- Munjal Jaykrishna:** Yes we expect to maintain that level of margins in the range of 12% -15%.
- Praveen Sharma:** Do we expect any improvement in pigment margins from 15% to 17% on back of the reduction in raw materials?
- Munjal Jaykrishna:** .At the moment, I cannot comment if in the near future we would see EBITDA Margins of more than 15% for pigments, however we are working towards reducing the costs.
- Moderator:** Thank you Mr. Sharma. The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.
- Lalaram Singh:** Good afternoon Sir. My question is on the H-acid capacity which we have put in, as you mentioned that in the last few years no new capacities had come, so we are may be one of the few in the recent past., What was the logic of diversifying to this particular product? Secondly, what kind of return expectations do you have regarding this investment, which has been made t?
- Munjal Jaykrishna:** One of the logics was that we are going to feed the same customers that we had for Vinyl Sulphone. The customer wants the product as in the market, as these are the two basic intermediates for reactive dyes., With the goodwill established with the existing customers and having relationship of 15 to 20 years, we already have a market and all we need is to produce the product. . As of now the market is very volatile, however over the last 10 years H-acid has been a product, which has given good return historically. So we hope to add product volumes because we already have the customers and selling is not going to be an issue in our opinion. We hope to add revenues and bottomline as well with this product that is the reason for going into this.
- Lalaram Singh:** Also a long term question if I look at the financials, the receivable days have improved significantly over the last five to seven years from 50 plus days today it stands below 35 days., What is the reason for such improvement in your receivable days?

- Munjal Jaykrishna:** We have been heavily focusing one on cash flow over the last five years and that has been our company's focus and strength. Specially in the dye intermediate business we are going to continue to focus on cash flow because with the kind of markets we are serving, we do not require credit., However in the pigments business we have a very wide distribution network, so we had to have some amount of credit base and therefore we are still trying to bring in the receivable days down., In the last five years we have worked hard on our cash flows and that continues to be the focus on the company.
- Lalaram Singh:** Yes, absolutely, I appreciate that. The question was with respect to that does every company wants to do that, but ultimately your customers have to agree, so is this the same thing for all our peers? Have our peers also been able to reduce their receivable days or why specifically we have been successful in doing that?
- Munjal Jaykrishna:** So if you compare our data with other listed companies, you will find that we are one of the companies with the least number of days and we are better than our peers. The reason is that when you supply in the domestic market sometimes you are going to give more credit because the cash does not flow so fast. However our market is a predominantly export market. Whereas the companies that are in the domestic market, they have a longer cycle, so currently for example our H-acid is going to go in the local market. In that case for the next upcoming month our cycle will deteriorate a little in the coming year, because H-acid will be added and we might have to give some credit for that. But eventually once we get the export customers as above and cycle will be shorter.
- Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Systematix. Please go ahead.
- Naushad Chaudhary:** Thanks for the opportunity. Can you quantify how much was the exact loss due to H-acid quality issue ?
- Munjal Jaykrishna:** We do not have separate accounting. We account for all the products together. We do not record segment wise, so I do not have the exact figure and we do not share that information. Most of this one time loss was only because of H-acid.
- Naushad Chaudhary:** Was that kind of any batch loss, which you had to scrap?
- Munjal Jaykrishna:** We initially had batch losses. These are very valuable batch with a cycle of 15 - 20 days which is required for the batch to come out., So the initial batch and yield losses were one of the primary reasons.
- Naushad Chaudhary:** Would you be able to give the volume number which, you had to scrap?

Munjai Jaykrishna: I do not have that though we do not have scrap anything., We just got substantially low yield when we started the plant., So it is still not normalized as we speak today, but it is coming almost close to normal and we should be in range with others because it is a little technically difficult product to make and so it took us a little longer time to stabilize and the yield losses were major part. It is not that we made some products and we have to scrap it., The case is that we made the product initially, as it was not good, we had to sell it cheaper. In other case we made a product instead of getting 100 kg from the batch, we got 50 kg then we got 60 kg., So that is the loss what is seen.

Naushad Chaudhary: Second question on the CPC Green, our quarterly run rates from past two, three quarters was around 500 tonnage, but this quarter we have seen only 440 tonnes . There is around 10% of volume decline Q-on-Q, so just wanted to understand the reason for this? Was this because of the competition or demand slowing down?

Munjai Jaykrishna: It is because of sluggish demand.,

Naushad Chaudhary: We have added the new capacity of 480 metric tonnes in CPC Green. So could you update on that ?

Munjai Jaykrishna: We hope to realize from the added capacity of CPC Green from next quarter onwards., This quarter we again hope to get a little loss back and then if the market improves next quarter will utilize it., As we have added the capacity now, we hope that the demand increases. We also believe to add new customers.

Naushad Chaudhary: Do you also see any margin pressure because of the competition here in CPC Green?

Munjai Jaykrishna: Yes, as there is competition there is pressure., We ought to be extremely cost competitive and maintaining the margins.

Naushad Chaudhary: Factoring everything you guided 15% margins. Do you think it is normal and doable?

Munjai Jaykrishna: Yes, That is right..

Naushad Chaudhary: Last question on our silica project, It was expected somewhere around Q1 FY2020 and now you said it will come in Q3 FY2020. So is there any particular reason for a slight delay in that project?, Would the delay increase the overall capex cost?

Munjai Jaykrishna: No, the capex would not increase., There are two reasons for the slight delay. Firstly, we made some changes in the plant midway which will be beneficial to the company., But we are not announcing what changes we have made at this stage. Secondly, in Dahej we are continuously facing problems of labour and water shortages during the construction. So due to the problems faced, we were not able to maintain our time schedules. ,

- Naushad Chaudhary:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Vidhur Suri as an individual Investor. Please go ahead.
- Vidhur Suri:** Please could you give me the volumes for Vinyl Sulphone and CPC Green in Q3 FY2018?
- Munjai Jaykrishna:** For Vinyl Sulphone, the volumes were 1,434 metric tons and for CPC Green, our volumes were 410 metric tons.
- Vidhur Suri:** My second question is regarding employee expenses., There has been a decline even though we have expanded H-acid capacity if you see year-on-year and even quarter-on-quarter. Any specific reason for this ?
- Munjai Jaykrishna:** I do not have that data handy right now. I shall give it to you later.
- Vidhur Suri:** Lastly what would be our net dollar exposure?
- Munjai Jaykrishna:** As you know we are around 85% into exports so we have zero imports., During this quarter we had a little bit of forex loss that was because the rupee came back a little., But overall because of our hedging policy we do not have too much of speculations. We book against orders quarterly.
- Vidhur Suri:** We don't have hedging policy in place as of now?
- Munjai Jaykrishna:** Sorry, we have hedging policy so that is why we are not too affected by forex losses.
- Vidhur Suri:** Lastly. could you give the gross margin for the quarter excluding H-acid?
- Munjai Jaykrishna:** We do not share the break up of margins. We give margins only on overall company level basis.
- Vidhur Suri:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir, it is really commendable that we have been investing in the pollution treatment facility. The expenditure that you have mentioned in the presentation is it recurring in nature or is it a mix?
- Munjai Jaykrishna:** It is recurring in nature and it will increase. The environmental situation compels us to invest more and more to do better treatment to achieve higher and higher norms.
- Rohit Nagraj:** So will it increase with the rate of increase in our production and higher capacities?

- Munjal Jaykrishna:** That is right yes.
- Rohit Nagraj:** And in terms of further expansion, do we have any scope for further Brownfield expansion for our existing VS and H-acid facility?
- Munjal Jaykrishna:** Of course there is scope for H-acid. However for Vinyl Sulphone we are almost achieving 90% of the capacity that we have. We do not have any plans to increase our capacity for Vinyl Sulphone. For H-acid if the product gets set and if the market gets set we can go for expansion as we have the permission for producing more. But right now we do not have that much of bandwidth to do so many projects together., So right now we are focusing on H-acid, then we would be focusing on specialty silica and the Pigment Green expansion., So I have not looked at expanding of H-acid and Vinyl Sulphone at the moment.
- Rohit Nagraj:** Could you give any guidance on capex beyond our current projects, so precipitated silica is in the pipeline and H-acid is commercialized, plus CPC Green expansion that happened, beyond this do we have any capex plans?
- Munjal Jaykrishna:** The capex plan would be a further expansion of Pigment Green. So seeing the market only we can do it because first we have to utilize the market that we already put in., , The pigment expansion depends on the market and yes we have a few ideas, but we have not firmed it. It will be too early for me to declare anything right now.
- Rohit Nagraj:** So for FY2020, we do not have any firm investment plans as such beyond the current existing ongoing projects?
- Munjal Jaykrishna:** The Pigment Green expansion as I said. We have a plan for that.
- Rohit Nagraj:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Pratik Chaudhary as an Individual Investor. Please go ahead.
- Pratik Chaudhary:** On the pigment side, our volumes have declined down 10% quarter-on-quarter and you attributed the same to some demand slowdown., Is it because there was very sharp production in the raw material basket in the latter half or in the last one or one-and-a-half to two months of the December quarter where crude fell from \$80 to around \$60 or lower? So has it happened with other companies that lot of the buying that used to take place and they probably waited a little longer anticipating lower prices of products, so has that sort of thing played out over here?

- Munjai Jaykrishna:** Yes, I would psychologically believe that companies did that. They bought less because they further expected crude to keep on crashing. That could have been one of the reasons for sluggish demand, because normally if someone is maintaining a 60-day inventory, they might want to maintain 30-day inventory only on the back of anticipation of the crude prices going down, So that can be one case. But in this particular quarter also I do not see turnaround in demand. It is not bad but it is little better than last quarter.
- Pratik Chaudhary:** Can you elaborate on the extent to which the current demand is better than last quarter?
- Munjai Jaykrishna:** It is too early right now to comment on the demand., But I can see it is a little better in the sense like last quarter we had to really go out to sell and this quarter at least it is starting to sell itself and it has started to get better from February.
- Moderator:** Thank you. We will take the last question from the line of Kishan Shah from Isha Securities. Please go ahead.
- Kishan Shah:** Thank you for taking my followup question. I just wanted to know that since this pollution treatment expenses are variable expenses it might grow with increase in sale., What kind of savings have we experienced till now and what kind of savings do we expect due to this extra expenditure?
- Munjai Jaykrishna:** We do not expect savings due to pollution treatment expenditure., We adhere to the compliance as we do not want our productivity to be affected. We anticipate that everybody will have to do these investments in terms of environment expenses in the future. So this cost will increase for everybody and we will be able to pass it on., So it is something that we are doing because of it we are saving money and we are doing because we have to adhere to the compliances.
- Kishan Shah:** Is there any benefit or it is just that we are compliant and it will help us in future like there would not be any regulatory issues?
- Munjai Jaykrishna:** That is right.
- Kishan Shah:** Is the price of H-acid price around Rs.400 per kg currently?
- Munjai Jaykrishna:** Yes.
- Kishan Shah:** Could you tell the price of H-Acid in Q3 FY19?
- Munjai Jaykrishna:** Q3 it was around Rs.380 per kg.
- Kishan Shah:** So it has gone up basically.

- Munjal Jaykrishna:** Yes, it has gone up a little.
- Kishan Shah:** Could you just tell us the effective tax rate for our company in FY2020 ?
- Munjal Jaykrishna:** The question that is coming to your mind is why the tax rate is higher is as some of our profits have been because of other income which was, because of some of our investments., So till last year there was no capital gains tax., So till last year, the effective tax was a little lower, but now we have to show quarter-on-quarter or whatever profit I gain I have to show tax for that. We are accounting it according to the new norms.
- Kishan Shah:** But is this the level of tax rate that could be sustainable?
- Munjal Jaykrishna:** Now, it is going to be taxable. We are not doing major planning or investments in solar or wind energy to save taxes., We are rather preserving the money in the company for expansion in our businesses.
- Kishan Shah:** Lastly , how much would it cost to setup a Greenfield H-acid plant ?Could you give a ballpark figure maybe?
- Munjal Jaykrishna:** Greenfield expansion of the existing capacity would cost around Rs.55 Crores to Rs.60 Crores.
- Kishan Shah:** Okay, that is it from my side and all the best for the future.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Munjal M. Jaykrishna for closing comments. Thank you and over to you Sir.
- 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 relations advisors. Thank you once again. Have a good day.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of AksharChem (India) Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.