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Dear Sir,

Sub: Transcript Analyst/ Investor Conference Call

This has reference to our letter Ref No. HSCL / Stock-Ex/2018-19/31 dated 29 May 2018 regarding the Conference Call, and pursuant to the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the copy of the transcript of the Conference call held on Friday the 01 June 2018. The same is also available on the website of the Company i.e. www.himadri.com.

Thanking you,

Yours faithfully,

For Himadri Speciality Chemical Ltd

Company Secretary
FCS: 8148

Himadri Speciality Chemical Ltd

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“Himadri Speciality Chemical Limited FY 2018
Earnings Conference Call”

June 01, 2018



**MANAGEMENT: MR. ANURAG CHOUDHARY -- CHIEF EXECUTIVE
OFFICER, HIMADRI SPECIALITY CHEMICAL LIMITED
MR. KAMLESH AGARWAL -- CHIEF FINANCIAL
OFFICER, HIMADRI SPECIALITY CHEMICAL LIMITED
MR. SOMESH SATNALIKA – V.P. STRATEGY AND
BUSINESS DEVELOPMENT, HIMADRI SPECIALITY
CHEMICAL LIMITED**



*Himadri Speciality Chemical Limited
June 01, 2018*

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Himadri Speciality Chemical Limited Q4 FY 2018 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance 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. Anurag Choudhary -- CEO, Himadri Specialty Chemical Limited. Thank you and over to you Mr. Choudhary.

Anurag Choudhary:

Good Morning, Everyone. It gives me immense pleasure to welcome you all to FY 2018 Concall of Himadri Specialty Chemical.

On the call, I am joined by Mr. Somesh Satnalika -- VP Strategy and Business Development; Mr. Kamlesh Agarwal -- Chief Financial Officer; and SGA our Investor Relations Advisors.

The Results and the Presentation are available on the Stock Exchanges and our company website. And I hope, everyone has had a chance to look at it.

We have delivered a strong performance this year. Our revenue, EBITDA, and PAT, grew at 49%, 82% and 199%, respectively. Our profitability multiplied on back of strategy to transform the company through expansion of product portfolio in high-value-added segments, leveraging our R&D capabilities.

I am very proud of our team at Himadri, who are the real assets of our company. Himadrians have not only delivered a superlative performance but have created a sustainable business with very high standards of environment, health, and safety while at the same time making a difference to the communities we operate in.

I would like to begin with highlighting a few of the significant achievements of the current year which will take Himadri to greater heights in the future.

The company has delivered very strong results, with EBITDA growing to Rs. 450 crores in FY 2018 from Rs. 247 crores in FY 2017. We will discuss later in the call, the factors behind the growth are clearly sustainable and give us a base to build upon. The advanced carbon material quality has been very well appreciated in the market and we are witnessing high demand for our product. We are moving ahead with setting up capacity of 20,000 metric tonnes of advance carbon material over the next 2 years.



Speciality carbon black has seen a tremendous response, and we are setting up a capacity for 60,000 metric tonnes of speciality carbon black by exit FY 2019. Together, both the project will have a CAPEX of Rs. 600 crores. We plan to fund the projects through internal accruals, and there will be no equity dilution.

Now let us get into details of our performance in FY 2018.

We had a good overall growth and positive momentum in all product lines. Let us discuss coal tar distillation product first. Coal tar pitch end-user industries witnessed a strong output, with aluminium and graphite electrode industries doing well during FY 2018. Aluminium production in India is being ramped up through operationalization of existing capacity and aluminium majors expect the strong ramping up of products and volumes to continue in FY 2019.

Similarly, graphite electrode industry saw high capacity utilization of 80% during FY 2018, with an estimated utilization in high 80's in FY 2019. We doubled our capacity of refined naphthalene during the year, leading to high-value addition at our end.

Looking ahead, in FY 2019, we expect the demand to remain strong, with a positive outlook for both aluminium and graphite electrode industries.

Our coal tar distillation capacity is set to increase from the present level of 400,000 metric tonnes per annum to 500,000 metric tonnes per annum from the beginning of Q3 FY 2019. While the additional capacity is ready to be operational, the plant needs a shutdown to ramp-up the new capacity. Hence, the capacity will come online along with our annual shutdown in Q2. Since this will be plugged with the annual shutdown, it will not have any impact on the performance of the company.

Recently, Government of India has imposed anti-dumping duty on SNF imports from China. This will have a positive impact on both volume and prices for domestic SNF producers.

With regard to carbon black, we have been doing focused marketing working with key group of target customers for last 3 years. Our focused marketing efforts are paying off and we have built a strong partnership with our key customers, which has led to sustainable volumes, better product mix, and better profitability for us. We are running at the optimum capacity utilization of around 88%. We have launched new speciality carbon black grades during the year, with the range now extending to 10 grades. The new products have been very well received in the market.

Looking ahead, in FY 2019, we expect the volumes to remain constant as we have been running at optimum capacity. Our customer relationship remains very strong and we expect to continue to build upon that.



As we can see, together, the businesses have yielded a strong performance leading to an EBITDA increase from Rs. 247 crores in FY 2017 to Rs. 450 crores in FY 2018. The increase in EBITDA is attributable to higher capacity utilization, better product mix, operational efficiencies, focused marketing and increase in high-value-added products in the portfolio. Clearly, the reason for the increase in EBITDA are all sustainable and we expect to build further upon this.

Now, I would like to talk about new product lines. We are happy to inform you that the facility for advance carbon material is operating at full capacity of 50 metric tonnes per month. We have received very encouraging and positive feedback from our customers. The demand for material is very high. The quality of our product has been very well accepted and appreciated by the customers and we are completely sold out.

The market for lithium-ion batteries is expanding at a very fast pace. Current global demand is in excess of 200,000 tonnes for anode material per annum, which is growing at a CAGR of 30% to 40% per year.

With regards to expansion plans, we expect to have 5,000 metric tonnes capacity of material by Q4 FY 2019. By exit FY 2020, we expect 20,000 metric tonnes capacity to be operational.

The other new product line is speciality carbon black. The global market size for speciality carbon black is in excess of 1 million tonnes per annum. Speciality carbon black is primarily used in high-end rubber and non-rubber applications for carbon black like plastics, fibers, inks, coatings, wires, and cables.

We are setting up a capacity of 60,000 metric tonnes of speciality carbon black in our facility at Mahistikry in West Bengal. This facility will cater to speciality carbon black in non-rubber uses as well as tire speciality. We plan to launch 40 grades of speciality carbon black in next 2 to 3 years. Our vision is to be among top 5 producers of speciality carbon black globally in next 5 years. We expect the capacity of 60,000 metric tonnes to be ready by March 2019.

With regards to the new product lines, we expect a capital expenditure to the tune of Rs. 600 crores in next 2 years. The funding for capital expenditure will be done through internal accrual, as our cash flow remains strong and we expect no dilution in equity for the same. Board has recommended the same dividend rate considering our intent to fund the capital expenditure through internal accrual.

As you can see, the company is on a path of transformation. While we are strengthening our current core business, we are on a journey to create new core business for Himadri in high-innovation and high-margin products like advance carbon material and speciality carbon black. We are investing to build capacities for these next-generation products with high degree of innovation. These products will cater to sunrise industries, and Himadri will be placed in a



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different league in the coming years. Himadri will be part of the revolution -the world is witnessing in the application of lithium-ion batteries.

At Himadri, we have created a unique business model where from one raw material coal tar we are creating multiple value-added products serving diverse industries like aluminum, graphite electrodes, tire, steel, rubber, construction chemical, agrochemical, infrastructure, power, plastics, inks, lithium-ion batteries, electric vehicles, etc. both in core and sunrise sectors of the economy. It is a one of its kind integration globally and Himadri has carved a unique speciality carbon play.

Now, I will request Kamlesh to take you through the financials of FY 2018 before we open the floor for Question-and-Answer Session.

Kamlesh Agarwal:

Thank You, Anurag Ji. Good Morning, Everyone. Our balance sheet has been strengthened during the current financial year. Net debt has come down to Rs. 629 crores from Rs. 717 crores in FY 2017. Our net debt-to-equity ratio is 0.43x. We have repaid around Rs. 500 crores of debt over the last 5 years. We will continue with our efforts to bring down the debt level. Net debt-to-EBITDA has come down to 1.4times.

Further, our net working capital is 31% of net sales from a level of 36% of net sales in FY 2017 and 55% of net sales in FY 2014. The reduction is due to various strategies in supply chain management and operational excellence.

The balance sheet strengthening has resulted in an upgrade of our credit rating in long-term from CARE A to CARE A+. Our ratings for short-term facilities have been reaffirmed at CARE A1+.

Now looking at profit and loss statement.

Our revenue of Rs. 1,971 crores, there is a growth of 49% on the back of increased volume, improved product mix and better realizations. EBITDA outpaced by 82% from Rs. 247 crores in FY 2017 to Rs. 450 crores in FY 2018 predominantly led by increased contributions from higher-margin products, higher utilization of capacities and operational efficiencies. We have tripled our PAT to Rs. 243 crores in FY 2018 from Rs. 81 crores in FY 2017.

We are happy to intimate that the Board of Directors have recommended a dividend of 10%. That is Re. 10 paise per equity share of face value of Re. 1.

Now, we open the floor for Questions-and-Answers.

Moderator:

Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.



- Baidik Sarkar:** A couple of questions. The ramp-up in your EBITDA per tonne over last 4 quarters has been very steep. Is it fair to assume that it has peaked, or do you think there is scope for further accretion at the same production base?
- Anurag Choudhary:** One thing we can clearly say the run rate what we have achieved in Q4, is clearly sustainable. And the intention of the company is to build upon that in the future.
- Baidik Sarkar:** Okay, so do we have any operating levers within the system where exit run rate for Q4 which is Rs. 12,900, can that grow? I mean, of course, being sustainable is one thing but do we have levers to grow on top of this number as well as because a new capacity is coming in?
- Anurag Choudhary:** we will have to grow on top of it. We are working on that, but on a phased manner, it will happen.
- Baidik Sarkar:** Sure, sir. For H1 of 2019, is it fair to expect that, because we do not have access to additional capacities, the operating metric that you have seen for Q3 and Q4 of last year, that will continue? Or do we think we can do debottlenecking and some spare capacities released in H1 of FY 2019?
- Anurag Choudhary:** See, the additional capacities we have discussed, we will be ramping-up that capacity in Q2, so it will be operational from Q3.
- Baidik Sarkar:** So which means for H1 of 2019, it will be status quo. I mean the exit that we saw for Q3 - Q4 should more or less be maintained.
- Anurag Choudhary:** For the first-half, it should be the same capacity. For the second-half, there will be growth in the capacity.
- Baidik Sarkar:** Sure, sir. Once the capacity has come in on the first-half of say Q3 how long does it typically take for us to ramp-up fresh line?
- Anurag Choudhary:** It does not take much time to ramp-up the fresh line. It depends on the demand volumes, we can ramp-up the capacity, there is no problem with that.
- Baidik Sarkar:** Okay. Any indication that your customers might have given you from the aluminium industry in terms of what the volume growth outlook is for this year?
- Anurag Choudhary:** We have an indication that by FY 2019 end; this should be running at full capacity.
- Baidik Sarkar:** That's in your plant?
- Anurag Choudhary:** No, the customers. So that will increase the demand for our product.



- Baidik Sarkar:** Okay. If you do not mind, can you just break this up into numbers sir, in terms of what the number for India is and what the incremental delta is? It is helpful to understand opportunity better.
- Anurag Choudhary:** See, in terms of numbers, we are already operating at 100%-plus capacity. So looking forward with the new capacity coming in and depending on how much the demand ramp-up actually happens at that point of time, we will be able to utilize that capacity. So in terms of ramping up the capacity, there is no constraint. Only thing is that as and when the demand comes, and it will be difficult to predict how much demand will come in the Q3 and Q4 right now but indications are quite positive.
- Baidik Sarkar:** Sure. Just a last question before I get back to the queue, a bookkeeping question for Kamlesh Ji. You know we noticed the investment part in your balance sheet has moved up significantly to about Rs. 270 crores. Ex of cash items, can you help us understand what these investments you contain?
- Kamlesh Agarwal:** That is an investment as per the IndAS now, we have to disclose the investment at fair value. We have to account for the fair value at the end of each and every quarter. So this valuation is keep on increasing or decreasing on the basis of the fair value of the investments, nothing else.
- Baidik Sarkar:** No, that is it. I do want to understand what investment were apart from our cash and fund holdings. Are there enough subsidiaries and what do those subsidiaries do? I understand, your operations in China and all of that but can you just throw some more color on the operating nature of those subsidiaries?
- Kamlesh Agarwal:** This fair value we restate on investments made in some group companies.
- Baidik Sarkar:** Sure. And what will those group companies be, sir?
- Anurag Choudhary:** These are the holding companies.
- Baidik Sarkar:** Okay, the holding companies which hold the shares of Himadri, is it?
- Anurag Choudhary:** Correct.
- Moderator:** Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.
- Pankaj Bobade:** Well, the first question will be there was talk about removal of anti-dumping duty on carbon black. If and when it happens, how will it impact us? And is it possible?



- Anurag Choudhary:** I do not think actually it is possible because there is a clear case of antidumping duty to be levied on carbon black and that is the reason the Government has levied duty. So I do not find there is any reason for it being removed.
- Pankaj Bobade:** But given the case that this anti-dumping duty has led to a reduction in production of carbon black of domestic producers, that has led to unemployment in the tyre industry.
- Anurag Choudhary:** No, it is nothing like that. Only thing is that the demand has gone up and because of anti-dumping on the tyre, the demand for tyre has gone up. So that is why the production has increased. So we have sufficient capacity as the industry to cater to that demand, there is no issues.
- Pankaj Bobade:** Okay. Well, one of your competitor especially in rubber black, they are expanding by almost 50% in next couple of years. So to address that deficit the carbon black market is expected to phase given the increasing tyre production in India. So do we have any such plans?
- Anurag Choudhary:** See, we are clearly focused that we do not want to be a commodity black player. It is a clear intention we have said again and again. And we have no intention to ramp up capacity on a commodity black segment. Our focus is clearly speciality carbon black and that is the niche area with high profitability where we are focusing and that is the area where we really want to grow in future also.
- Pankaj Bobade:** But given the current context, even the rubber black is having sufficiently good profitability given the price deficit which the country is facing.
- Anurag Choudhary:** See, we do not want to enter any segment which has a cyclical nature. Our business model is based on sustainable profitability. That is what makes Himadri different from others. So whatever wherever we invest, we first look and analyze the profitability is sustainable on a long-term basis then only we invest. We do not go for cyclical nature where today profitability is high you invest. Tomorrow, again you come to the same problems. So, we do not look at that investment at all even though today the profitability we made is much-much higher but we avoid these kind of investments.
- Pankaj Bobade:** Okay. What was the production volume for ACM for Q4 and the year as a whole?
- Anurag Choudhary:** We have 50 metric tonne capacity per month and we are running on full capacity.
- Moderator:** Thank you. The next question is from the line of Suhani Doshi from Edelweiss. Please go ahead.
- Suhani Doshi:** So the first thing is, can you give us a breakup of your volumes in terms of CTP and carbon black?



- Anurag Choudhary:** See, from the total sales volume for the year, 28% in terms of volume is carbon black; and 72% is CTP.
- Suhani Doshi:** Okay. Sir, another thing is in CTP, I believe we have a formula-based arrangement with the customers, right?
- Anurag Choudhary:** Right.
- Suhani Doshi:** So then, can you help us understand how the gross margins have been going up Q-o-Q on a per tonne basis? If it was a fixed formula-based mechanism, the increase in CTP prices as in your gross margin, will be constrained to that level, right?
- Anurag Choudhary:** See, product wise pricing, we cannot discuss on the con call or any outside information. We do not give product wise information what is the pricing, what is the nature of pricing, how we do the pricing? Only on a macro level, we can say we do not have any raw material risk we have transfer pricing element with our customers where we transfer all the raw material reduction or increase in price to the customers. But we have been able to improve our EBITDA per tonne because of the addition of new products. We have increased our portfolio of products. We have improved on the margins by operational efficiencies. We have done higher capacity utilization, added new products, focused marketing so these are the macro level initiative which the company took because of which the profitability has improved and clearly it is a sustainable profitability.
- Suhani Doshi:** Sir, on the carbon black, since we are adding new products so is it fair to assume that the carbon black EBITDA per tonne also will be increasing quarter-on-quarter or is it only the CTP part?
- Anurag Choudhary:** See, carbon black EBITDA will also be increasing once we have the new production capacity in line. Definitely, the carbon black EBITDA per tonne will increase.
- Suhani Doshi:** Okay. And will it be possible for you to share as to what will be your selling price in the ACM business, per tonne?
- Anurag Choudhary:** No, this is highly confidential. We absolutely cannot share ACM pricing because today, now see, over the last many years, we have been discussing about ACM but with a lot of efforts of all our team, ACM is a reality now. And the product has been very well accepted and is a great success. So now we are going ahead with the big expansion in ACM and we do not want to discuss the pricing.
- Suhani Doshi:** Okay. And sir, one last thing, with this, do we see an increase in debt in FY 2019? Even considering the Rs. 600 crore CAPEX, it will be from internal accruals but any other possibility of increasing debt because of this CAPEX?



Anurag Choudhary: No, our ideal focus is clearly to keep reducing the debt. So over a period of next 1 year, 2 years in spite of internal accruals being used for CAPEX, you will see the debt coming down.

Suhani Doshi: And do we see any further possibility of working capital days reducing or percentage of sales reducing?

Anurag Choudhary: This is something we have been working on really strongly. So if you look at Himadri, it is not only the focus on P&L. It is complete focus on P&L and balance sheet. So, we have been reducing our working capital from 2014, where it was 55% of net sales. It has come down to 31% of the net sales and still if you remember the last concall we had in Q1 FY 2018, that time we gave an indication of bringing down this to 32%. So, we have excelled it and brought it down to 31%. So, idea is to further work on it and see how we can bring it down further.

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

Jigar Shah: My question is regarding the possible drivers for the performance in this year. So we already discussed about the CTP capacity coming on stream from the third quarter. Now a lot of discussions has been done on that so without taking more time I just want to see whether the production in this year can increase by 40,000 to 50,000 tonnes in the second-half when the new capacity is available, whether that is possible. So that was one point which I wanted to ask. And the other is that in case of naphthalene because you have improved the capacity of the purified naphthalene, as well as there is import duty benefit. How the performance of naphthalene will be different as compared to the previous year. And thirdly, in case of carbon black because your emphasis is on the speciality and I think you are already doing 60% non-tire. So is there a scope to tweak that mix further? Or how do you see that performance vis-à-vis last year? I know there is no volume growth, but will there be any further qualitative growth possible purely reflecting into the current year, not FY 2020?

Anurag Choudhary: See, we will be starting our capacity from Q3 FY 2019. So on an overall average basis; we can see 6% to 7% capacity, overall volume growth for the year. And to answer your question regarding naphthalene, so there is no import duty on naphthalene. It is on SNF. So SNF market we see strong market momentum, so the demand is increasing because of anti-dumping measures taken by the Government and the prices are also coming at a realistic level, we are making it sustainable for the business. So that is a good move which will have a positive impact on the company and as the carbon black is concerned, we are always focused. There is always room for bettering, improvement. So, it is not that what we have achieved, we are satisfied with that. We are focused on improving it further and that is what we will keep on doing.

Jigar Shah: On the naphthalene, can you give some further color on the volume, etc. vis-à-vis last year?

Anurag Choudhary: Refined naphthalene volume is already 1,400 tonnes and we are operating at full capacity currently. So, we are having a full benefit of refined naphthalene so which we expect to continue



to be there. But looking forward, over a period of time, we will be increasing this capacity further. So once we are able to start this new capacity of refined naphthalene, that will have further value addition in terms of profitability but it will take some time.

Jigar Shah: Fair enough. And one last question is on the advance carbon material that going by whatever you have stated so far you should be able to do at least 600 tonnes in FY 2019 by the time the new capacity comes. And then FY 2020, what kind of volume can we achieve? And currently how many customers we are selling to. And what will be the focus going further, how many customers and which countries we will be selling this product?

Anurag Choudhary: Clearly 600 metric tonnes is achievable, there is no issues about that. But the next year full year volumes, we will be having 5,000 metric tonnes capacity for the full year. So volumes in that range can be expected for the next year on a conservative basis. And in terms of supplying to customers, we are supplying to 5 customers currently in different countries and in different segments which we will continue to do. And over a period of time, we will increase the number of customers, depending on the availability of material from our end.

Jigar Shah: And I mean, do you think that the selling price I know you do not want to disclose but supposing you are selling today at Rs. 100. Once you have the new capacity on stream, will you be able to increase that to Rs. 200 or Rs. 150? I mean, would that change be evident in the fiscal year 2020?

Anurag Choudhary: Definitely. See, unlike other materials, the anode material price is firming up so there is scope for increasing the prices once you have the volumes. So then you can command better prices. So I think, there is always a scope of improving.

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

Shashank Kanodia: So sir, primarily at what kind of utilization levels can we run a coal distillation plant? Because given the kind of sales volumes that we have done, so is it fair to assume that we have done something like 425,000 tonnes of coal tar distillation?

Anurag Choudhary: **So coal tar distillation capacity is 400,000 tonnes.**

Shashank Kanodia: **And at what utilization levels have we run this in FY 2018?**

Anurag Choudhary: **We have done 100%+ utilization.**

Shashank Kanodia: Okay. And what kind of maximum utilization can be achieved?

Anurag Choudhary: Maximum utilization we can achieve is 100% plus means so 102%, 103%, 104% plus, like that.



- Shashank Kanodia:** Okay, at max 105%, right?
- Anurag Choudhary:** Yes.
- Shashank Kanodia:** Okay. And secondly, on a sequential basis, there was some kind of margin compression, right. So there was some raw material price increase as other expense increased. So were there any one-offs in that? Or it is going to be the routine business in this?
- Anurag Choudhary:** There is an improvement in margin, not a compression in margin.
- Shashank Kanodia:** Sir, I am not talking about Y-on-Y; sequentially quarter-on-quarter.
- Anurag Choudhary:** So quarter-on-quarter there is an improvement in margin. If you look on quarter-on-quarter basis then Q3 FY 2018 was Rs. 12,930; Q4 FY 2018, it is Rs. 12,971 and before that, it was Rs. 10,800 something. So quarter-on-quarter on a sequential basis there is an improvement in margin.
- Shashank Kanodia:** Okay. And sir, further leg room going forward for FY 2019 on operational metrics basis any guidance.
- Anurag Choudhary:** I do not want to give any guidance but one thing I can say that the current margins are clearly sustainable.
- Shashank Kanodia:** Okay. Secondly, sir on the advance carbon material one clarity we wanted was, sir you mentioned that 5,000 tonnes of volume for FY 2020, or FY 2019?
- Anurag Choudhary:** No. We said that is FY 2019 March, we will start production. So FY 2020, the volume will be 5,000 tonnes.
- Shashank Kanodia:** 5,000 tonnes. And FY 2021 exit rate should be 10,000 tonnes, right, sir?
- Anurag Choudhary:** 20,000 tonnes.
- Shashank Kanodia:** 20,000 tonnes, okay, fine. And sir, on the CAPEX of Rs. 600 odd crores since we are generating some healthy cash flows to the tune of Rs. 200 crores - Rs. 250 odd crores, right? So we just wanted to understand the mix in terms of will there be an incremental debt on books?
- Anurag Choudhary:** No, I have not giving any comment on how much cash flow will be generating from the investment of Rs. 600 crores, first thing. Second thing is that there will be no debt on the books.
- Shashank Kanodia:** Okay. But sir, your cash flows will be insufficient to fund your CAPEX, right? Given the run rate at which we are operating?



- Anurag Choudhary:** From the existing projects, we have generated a cash of Rs. 316 crores which will be sufficient to fund the capex
- Shashank Kanodia:** Rs. 316 crores?
- Anurag Choudhary:** For the last year, FY 2018.
- Shashank Kanodia:** FY 2018, okay. So given this, we will be able to sustain that, right?
- Anurag Choudhary:** Definitely. There is no increase in debt for setting up the projects.
- Shashank Kanodia:** Okay. And sir, if we can just quantify in terms of what was the price increase because of anti-dumping duty on SNF.
- Anurag Choudhary:** We do not want to go into specific numbers but the level at which the prices have come is sustainable now, I can clearly say.
- Shashank Kanodia:** Okay. And sir, then secondly on the carbon black business, how is the situation in China? And what is the outlook going forward?
- Anurag Choudhary:** China, because of environmental reasons the capacities have come down, but the new capacities have also come up. So I do not think there is any supply problem from China, as far as carbon black is concerned. Only thing is that pricing is high in China also. So there is no chance of any dumping coming from China to India.
- Shashank Kanodia:** Okay, so domestic pricing of around \$1,100 odd per tonne is sustainable. That is what you will expect it to be.
- Anurag Choudhary:** Yes, definitely. It would be sustained.
- Shashank Kanodia:** Okay, sir, lastly, if you can share what was the realization for coal tar pitch for us for the year.
- Anurag Choudhary:** See, we do not give product wise realization, on an average per metric tonne realization for this year was around Rs. 51,900.
- Moderator:** Thank you. The next question is from the line of Aakash Manghani from BOI AXA Investment Managers. Please go ahead.
- Aakash Manghani:** I had a question on your speciality carbon black CAPEX. First of all, I mean, one of your competitors is also expanding capacity in speciality carbon black to the tune of 4.5x between FY 2017 to FY 2020 and given the fact that the domestic market is very limited, and you are also expanding capacity and going to 60,000 and I believe that the market is not increasing at more



than 4% to 5% globally so don't you think that there will be first of all an oversupply coming altogether by FY 2020? And secondly, what are your plans to ramp-up this capacity to 60,000? What sort of utilization will you be achieving in the first year, second year and third year?

Anurag Choudhary: Yes. See, first of all, the peers are not going for speciality black 4x multiplier in terms of volumes, they are going for commodity black. Speciality black they are increasing some capacity but the kind of speciality black Himadri looking at is totally different, the grades, the application is totally different. So we are going to high-end speciality. So for that, we have a backward integration. We are comfortable with that and the demand for this product globally in terms of global demand for the industries will be adjacent like speciality and tire speciality is around 1.6 million tonnes. If it grows at a CAGR of 5% also so 80,000 of new demand is created and we are setting up a 60,000 tonnes capacity and we are not looking at the Indian market. We are looking out on the Indian market to the tune of only 10% to 12% of our volumes. Balance, everything will be exported to the global market. So we have already started seeing marketing and we are getting a very good response so we do not foresee any problem in terms of selling our product. In terms of capacity utilization for the next 2 years, we expect to start with 70% to 80% and ramp-up to 90 plus percent.

Aakash Manghani: So year 1 you expect to do FY 2020 expected 70% to 80% utilization.

Anurag Choudhary: Correct.

Aakash Manghani: Okay, so 70% to 80%. So basically, are you already in touch with your existing clients to off take this capacity? Or once the capacity starts, you will be testing the market because you are launching new grades?

Anurag Choudhary: We are working on both the fronts. We have already introduced a few grades of speciality carbon blacks so with those customers, we are already working on their buying volumes for their expanded capacity. And we are in the process of introducing new grades and getting it approved.

Aakash Manghani: So who will you be sort of displacing in the market?

Anurag Choudhary: We will not be displacing anyone. That new demand is there for 80,000 tonnes, so we will be taking care of that demand. There is already a short supply, so the product is in good demand.

Aakash Manghani: Okay. I have an estimate that your Indian competitor is ramping up capacity from 12,000 to 56,000 by FY 2020 speciality carbon. That is why I asked that question?

Anurag Choudhary: Yes, but however, we are not waiting for FY 2020. In FY 2019, we are at 60,000 and in 5 years, the idea is to be among the top 5 players globally and the kind of speciality black we are talking of is the high-end speciality black, it is a journey. It will take 2 years - 3 years to introduce all



the products. So, as I have called in my opening speech also we will be introducing 40 new grades of speciality black to cater to the different segments, different industries.

Aakash Manghani: Okay. And can you give me some range on the EBITDA per tonne that you can achieve on this new project?

Anurag Choudhary: So in speciality, EBITDA per tonne ranges from Rs. 30,000 to Rs. 200,000 per metric tonne, depending on which grade you are manufacturing.

Aakash Manghani: Okay at a bare minimum we should be doing Rs. 30,000.

Anurag Choudhary: That is right.

Aakash Manghani: Okay. And currently in FY 2018, what is the volume of speciality carbon black that we have done?

Anurag Choudhary: We have just introduced 10 grades and we have done around 8% of our volume.

Aakash Manghani: The other question is that you mentioned that the cash generation this year was Rs. 316 crores. This is operating cash flow post-tax and then working capital, right?

Anurag Choudhary: This is operating cash flow post-tax before considering working capital adjustments

Aakash Manghani: Okay. And this working capital, sales numbers that you have brought it down, I mean in the next 1 year to 2 years, what is the aspiration, or we can assume that this will remain at this level?

Anurag Choudhary: Aspiration always to bring down the working capital, so we are working on that broadly. So let us see how it unfolds.

Aakash Manghani: Okay. And will it be possible to give a sense of what has been the realization on the carbon black Y-o-Y increase?

Anurag Choudhary: I am very sorry. We do not give product-wise realization but on overall, we have achieved the realization of Rs. 51,900 per metric tonne.

Aakash Manghani: Then I have because going through some of your earlier concall comments. I have a figure of 65,000 for FY 2017 for the carbon black. So this may have gone through...

Anurag Choudhary: You have the numbers from the peers, you can take it in that area...

Aakash Manghani: So you are doing the same range?



- Anurag Choudhary:** You have peers, mean something in that area. I mean I do not want to be specific on the numbers but yes because carbon black depends on a lot of issues. They have different grades. So they are different from Rs. 100 to Rs. 200 depending on what grade you are selling. So by that, you will not be able to have an idea.
- Moderator:** Thank you. The next question is from the line of Varun Ghia from Equitree Capital. Please go ahead.
- Varun Ghia:** Just one question. What are the margins like in your advance carbon back?
- Anurag Choudhary:** See, we do not give product wise margins I have been telling this. Overall, the margins are very strong, including advance carbon material. There is no doubt about it and we do not give product wise margin.
- Aakash Manghani:** Okay. And what are the naphthalene prices currently per kg?
- Anurag Choudhary:** See, the overall realization, what we have achieved in FY 2018, is Rs. 51,900 per metric tonne, this includes the realization of naphthalene, coal tar pitch, carbon black, SNF.
- Moderator:** Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.
- Anubhav Sahu:** I recall, sometime back, you mentioned that your medium-term plans for carbon black is adding 2 lakh tonne capacity and given that next year you are looking for a high 70% - 80% kind of utilization for 60,000 tonnes. So would the second phase would also be on annual for the expansion right now or what visibility you have right now for that?
- Anubhav Sahu:** See, the idea is we have given a statement that we will be doing 200,000 tonnes of the speciality carbon black over a period of 5 years. So to begin with, we are setting up a 60,000 metric tonne capacity and depending on how we get a response from the market which we are very much confident we will get a very good response and based on that we will be ramping up that capacity in next 5 years.
- Anubhav Sahu:** Okay, sir. So this entire 2 lakh, we are looking at speciality only?
- Anurag Choudhary:** Yes, it is speciality, hardcore speciality.
- Anubhav Sahu:** Okay, that is great. And sir, on the SNF post anti-dumping, is there any incremental capacity utilization which you are seeing or what visibility you have for the fiscal year 2019 on the utilization side as well as on the pricing side, if you can...



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- Anurag Choudhary:** Yes, we are seeing better utilization of capacity compared to last year and pricing is also improved. So overall there is a positive impact of anti-dumping duty on the industry.
- Anubhav Sahu:** Okay, sir. So it could be like I think last time I remember, it was around 60% utilization. Could be around 70% - 75% or?
- Anurag Choudhary:** Yes, definitely. We could see better utilization.
- Anubhav Sahu:** Okay, sir. And sir, on the advance carbon material you are saying for this year it will be 600 tonnes based on the pilot we have and 5,000 tonnes for next year, okay and in terms of end product where do we fit in this advance carbon material? Is it like this final anode material which goes into the lithium in the entire value chain where do we fit in, I mean if you can give some comments on that.
- Anurag Choudhary:** See, we do not have a pilot-scale, it is a full commercial plant of 600 metric tonnes. So we are having a pilot plant of 60 tonnes. Now we have gone into the commercial scale of 600 tonnes, so which is clearly scalable to 20,000 tonnes what we are working now. And the idea is to go to anode material to supply to all the lithium-ion battery manufacturers over a period of time.
- Moderator:** Thank you. The next question is from the line of Varun Bang from Reliance Portfolio Management Services. Please go ahead.
- Varun Bang:** Just want to understand the difference between speciality and commodity black. Can you just explain that?
- Anurag Choudhary:** See, the commodity black is basically used in wide applications and the demand is 8x of speciality black but the profitability, it is a more of a cyclical industry where the profitability is depending on the demand-supply scenario and a lot of other scenarios. And in terms of speciality carbon black, there are limited players globally. And the players who are there dominate this field so there is clearly a quality advantage and the industry which uses has a very specific purpose for using this. So the value-addition is significant and the profitability derived out of speciality carbon black is sustainable on a long-term basis. It is not cyclical and the profitability, compared to commodity, starts with 2x and which goes up to a big number.
- Varun Bang:** Just I also want to understand how difficult are these grades to be if somebody wants to develop these grades, how long typically does it take? And how difficult is it?
- Anurag Choudhary:** Extremely difficult. It is a work of last 7 years - 8 years of R&D that we have been able to do it and had it been easy, it would not have been speciality. So everyone could have produced. So there are limited players globally even less than 10 players globally. So that itself shows the quality criteria, the technology itself is very-very consolidated and very difficult to achieve...



- Varun Bang:** Who are the other players, sir?
- Anurag Choudhary:** Orion and Cabot are the main players and SKI is the third. They are the 3 biggest, they are Orion, Cabot and SKI.
- Varun Bang:** And I mean, just on the customer point of view how long does it take for a customer to approve it and will start to supply the product? Typically, how long does it take?
- Anurag Choudhary:** It really depends on the market situation. There are a lot of other factors. On a normal basis, it takes 6 months to 1 year to get the approvals but now it depends on what quality you are able to make, how you are able to address the needs of the customers, who are your target customers? There are many-many factors which determines how much time actually it will take and how much time logically it will take. We are having a good marketing strategy working on it.
- Varun Bang:** Okay. And then I mean the existing capacity commodity black capacity, can they be converted into speciality black? Or it is a completely different setup.
- Anurag Choudhary:** No. It is a completely different set up, but it cannot be actually converted completely into speciality because things are different in the speciality.
- Moderator:** Thank you. The next question is from the line of Jigar Jani from Edelweiss. Please go ahead.
- Jigar Jani:** Sir, could you help me with how much of your turnover is from carbon black for FY 2018?
- Anurag Choudhary:** See, 28% is from carbon black and 72% is from coal tar distillation.
- Jigar Jani:** Okay. And sir, our utilization for carbon black will be around 90% or more...
- Anurag Choudhary:** **Our utilization for the full year for carbon black was 86%.**
- Jigar Jani:** 86%. And sir, we have been hearing news about coal tar prices decreasing over the last couple of months. Have you seen any such trends?
- Anurag Choudhary:** The coal tar price keeps on changing. It goes up, it comes down, but we do not have any impact of that because it is on a transfer pricing business with our customers. So if there is an increase, we pass it on to the customers on a monthly basis, if there is a decrease we pass it on to the customers. So hardly makes any difference to us.
- Jigar Jani:** And what is the average price of coal tar per tonne for last year and last quarter. Can you share that?
- Anurag Choudhary:** See, the average cost of goods sold for Himadri for FY 2018 is Rs. 34,411 per tonnes



- Jigar Jani:** Okay. So this is for FY 2018.
- Anurag Choudhary:** FY 2018.
- Jigar Jani:** And sir, last quarter?
- Anurag Choudhary:** Last quarter is Rs. 37,123.
- Jigar Jani:** Okay. And sir, you spoke that you did about 8% of your carbon black volumes for speciality grades and there were 10 grades that you sold. How much of these volumes were in the non-rubber segment?
- Anurag Choudhary:** Most of the volumes were in the non-rubber segment.
- Jigar Jani:** Okay. So, what would 80% is a ballpark figure?
- Anurag Choudhary:** No, 100% is in the non-tire segment. Speciality basically when absolutely it is non-tire. When I am saying speciality and it is speciality tire, then tire comes in.
- Jigar Jani:** So this 8% volume is completely non-tire is what you are saying?
- Anurag Choudhary:** Yes. This is non-rubber.
- Jigar Jani:** Non-rubber, okay that was all my question.
- Moderator:** Thank you. We take the next question is from the line of Abhishek Dutta from Prabhudas Lilladher. Please go ahead.
- Abhishek Dutta:** Sir, I just wanted to know. What was the CAPEX for this year?
- Anurag Choudhary:** CAPEX in terms of? For FY 2018?
- Abhishek Dutta:** FY 2018, yes.
- Anurag Choudhary:** Kamlesh, can you tell the CAPEX figure for FY 2018?
- Kamlesh Agarwal:** Yes. CAPEX for the FY 2018 is around Rs. 52 crores.
- Abhishek Dutta:** Okay. So this year the debt has come down by around Rs. 88 crores.
- Kamlesh Agarwal:** Yes, Rs. 89 crore.



- Abhishek Dutta:** Rs. 89 crores. Then the CAPEX has risen. But you are seeing that the total cash flow from operations was around Rs. 316 odd crores.
- Anurag Choudhary:** Yes, the working capital has increased because of the increase in top-line. If you see, the top line has gone up significantly so that utilizes a higher working capital in absolute terms.
- Abhishek Dutta:** Okay. And then next year, CAPEX will be how much?
- Anurag Choudhary:** Next year, CAPEX will be around Rs. 250 crores - Rs. 300 crores.
- Abhishek Dutta:** And FY 2020 will be balanced Rs. 300 crores.
- Anurag Choudhary:** Correct, Rs. 300 crores.
- Moderator:** Thank you. The next question is from the line of Srinath Sridhar from ICICI Securities. Please go ahead.
- Srinath Sridhar:** Sir, my question is in the speciality carbon black, what kind of EBITDA per tonne you will target to achieve?
- Anurag Choudhary:** See, as I told earlier also, the speciality carbon black EBITDA starts with Rs. 30,000 per metric tonne, it goes up to Rs. 200,000 per metric tonne. EBITDA per tonne depends on what grade we are making.
- Srinath Sridhar:** Right because since you are saying that you are going to go into very high-end speciality...
- Anurag Choudhary:** So to begin with, we can look at Rs. 30,000 to be the baseline and then we can then improve on that.
- Srinath Sridhar:** Okay. And sir, the naphthalene realizations have dropped to almost as low as 40,000 - 45,000 on a blended basis. Has that improved post the anti-dumping duty?
- Anurag Choudhary:** This new antidumping duty has come in on SNF.
- Srinath Sridhar:** SNF.
- Anurag Choudhary:** SNF. That is different.
- Srinath Sridhar:** Yes. So how much percent of naphthalene is SNF on your sales?
- Anurag Choudhary:** So 20% naphthalene we use to make 1 metric tonne of SNF.



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- Srinath Sridhar:** Okay. And 20,000 is your SNF capacity, right?
- Anurag Choudhary:** 68,000 is our SNF capacity.
- Srinath Sridhar:** Okay, fine. And the other thing was how have the blended realization improved in this?
- Anurag Choudhary:** See, the blended realization has improved because of 2 - 3 factors. 1 because of we are selling high value-added products in our segments, we are doing focused marketing. So this has helped us to improve the blended margin.
- Srinath Sridhar:** No, I am saying naphthalene per se.
- Anurag Choudhary:** Naphthalene per se, we do not give any specific product wise realization.
- Srinath Sridhar:** Okay. And carbon black as a percentage of your revenue, what will that be? Not in volume terms but in rupee terms.
- Anurag Choudhary:** In terms of revenue, it will be 38%, in terms of all the segments it is 28%.
- Moderator:** Thank you. Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Anurag Choudhary for closing comments. Thank you and over to you.
- Anurag Choudhary:** We thank all of you for joining the earning call of Himadri Speciality Chemical Limited, I would like to assure everybody that it will be our continuous endeavor to reward all our stakeholders by delivering improved returns each year. We intend to continue our transformational journey, creating high-quality products and services in the process. Our unwavering focus on environment and health help us create a sustainable business. We look forward to your continued support and interest in our company. For any information, please get in touch with our investor relation advisers, SGA. Thank you.
- Moderator:** Thank you. On behalf of Himadri Speciality Chemical Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.