Himadri

Ref. No: HSCL / Stock-Ex/2017-18/022
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E-mail: blsharma@himadri.com

To

Ref : Listing Code: 500184	**Ref: Listing Code: HSCL**
BSE Limited	National Stock Exchange of India Ltd
Corporate Relationship Department	Exchange Plaza, C-1, Block-G
P.J. Towers,	Bandra Kurla Complex,
Dalal Street,	Bandra (E)
Mumbai- 400 001	Mumbai- 400 051

Dear Sir,

***Sub:* Transcript Analyst/ Investor Conference Call**

This has reference to our letter Ref No. HSCL / Stock-Ex/2017-18/020 dated 10 May, 2017 regarding the Conference Call, and pursuant to the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015,weare enclosing herewith the copy of the transcript of the Conference call held on Friday the 12th May 2017. The same is also available on the website of the Company i.e. www.himadri.com.

Thanking you,

Yours faithfully,

KOLKATA Himadri Speciality Chemical Ltd

For Himadri Speciality Chemical Ltd

Company Secretary
FCS: 8148

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Himadri Speciality Chemical Ltd

"Earnings Conference Call"

May 12, 2017

MANAGEMENT: MR. ANURAG CHOUDHARY – CEO, HIMADRI SPECIALITY CHEMICAL LIMITED
MR. SOMESH SATNALIKA - VP STRATEGY AND BUSINESS DEVELOPMENT, HIMADRI SPECIALITY CHEMICAL LIMITED
MR. KAMLESH AGARWAL – CFO, HIMADRI SPECIALITY CHEMICAL LIMITED

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Moderator: Good day ladies and gentlemen and welcome to the Himadri Specialtiy Chemical Limited's Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anurag Choudhary, CEO, Himadri Speciality Chemical Limited. Thank you and over to you Sir!

Anurag Choudhary: Good afternoon ladies and gentleman and a warm welcome to all. On the call, I am joined by Mr. Somesh Satnalika, VP - Strategy & Business Development, Mr. Kamlesh Agarwal, Chief Financial Officer and SGA our Investor Relations Advisor. The results and the presentation are available on the stock exchange and our company website and I hope everyone has a chance to look at it. Before going to the updates on business, we are happy to inform that the company has recommended a dividend of 10% of face value of Re.1 for the year ended 31 March 2017. Coming to the business update, Himadri Speciality Chemical is a leading fully integrated specialty carbon chemical company with diversified product portfolio present across high-demand carbon value-added chain. We are engaged in manufacturing core products like Coal Tar Pitch, Carbon Black, and Naphthalene. In Coal Tar Pitch, we enjoy a market share of 70% where as in Carbon Black we enjoy a market share of 17%. Over the last few years, we have diversified our product base by way of forward integration and have developed products like Advanced Carbon Material and SNF. I will like to take you through our business product-wise to make it simpler.

Coal Tar Pitch, we are the largest producer of Coal Tar Pitch in India. We cater to more than two-third requirements of graphite and aluminum industries in the country. We have developed multiple variants of Coal Tar Pitch by way of value addition over the last few years and this has helped us to improve our profitability of this product. The product is now being used by DRDO in long-range warhead missiles, in the factories, carbon paste, paints, and ultramarine pigments among others. Coal Tar Pitch as a product has inelastic demand as it is used in prebaked anode, aluminum smelters, which cannot be stopped and restarted easily. This makes us inelastic to the final demand of aluminum. Earlier when the industry was at a nascent stage, the product was selected by the aluminum and graphite industry based on two-three chemical properties. However now, the industry has developed coal tar pitch section by the end users is based on 22 to 25 chemical and physical properties. Also, all the domestic demand for coal tar pitch is for liquid coal tar pitch, which is supplied at a temperature of 250 C and requires a special fleet of tankers. This act as a barrier to import

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and restrict the new influence in the industry. 85% of coal tar pitch goes to aluminum industry, which is expected to increase from 2.75 million tonne per annum to 4 million tonne per annum. Coal tar pitch is produced by the way of distillation of coal tar. Our distillation capacity is 4 lakh tonne per year in India spread across eight facilities. Coal tar is easily available from domestic steel plant as well as imports.

Now coming to Carbon Black, we entered the Carbon Black business as a forward integration to convert coal tar oil produced during distillation process into Carbon Black. We are amongst the leading manufacturer of Carbon Black in the India with production capacity of 1,20,000 metric tonne per annum. We are focusing on introducing new value-added specialty chemical with niche applications to improve our contribution per metric tonne. Specialty Carbon Black is a high-performance chemical, which caters to niche application in tyre and non-tyre industry like plastic master batch, fiber, wire and cable pipes, engineering plastics, films, inks, coatings, etc. The tail gas released during the Carbon Black manufacturing process generate power of 20 megawatt, more than sufficient for not only to run our plant, but also to support our future expansions. Currently, we are selling additional power to the grid.

Naphthalene is another product that is produced during the distillation process by the way of value addition, we have formulated special grades of Naphthalene, which can be used to cater to the industries like dye and dye intermediates. Further Naphthalene is used to produce SNF, which is specialty chemical consumed by construction and infrastructure industry

I would like to talk about our future core product, which is likely to take the company to the next level of growth, advanced carbon material. In India, we are the pioneers in Advanced Carbon Material and among the few companies globally. The product is forward integration of high-quality Coal Tar Pitch, which is manufactured by us captively. We have proprietary technology along with the supply of high-quality Coal Tar Pitch as well as power, which are the key input for Advanced Carbon Material. Advanced Carbon Material is used in lithium ion battery as anode material, which is used in the sunrise sector, which includes products like mobile, laptop, tablets, energy storage, electrical vehicles, etc. The product is in advance stage of testing with the world-leading manufacturer of lithium ion battery and we expect to get the final approval shortly. This is a specialized product with growing demand globally. We are well positioned to capitalize on the demand in future. This product will provide additional growth levels to our business.

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Now coming to SNF, it is the next generation product for construction and Chemical Company. We are the largest manufacture in India with installed capacity of 68,000 metric tonne per annum. This business segment has high-growth potential, as the penetration of SNF in admixture in concrete in India is less than 10% against very high global average. Demand for SNF is picking up in the construction industry. We are best placed to get advantage of growing demand.

Now coming to the future outlook, as mentioned earlier, we are clearly focused on maintaining consistent leadership in our core products and developing market for our value-added products. In this regard, we have developed strong research and development team with international expertise. We have our own research and development unit at Mahistikry, which is recognized by the Government of India. We have also developed a network of distributors to market our products to the domestic as well as global market. As an outcome of our products and business strength, we are pleased to inform you that our business has witnessed a sharp turnaround and we have reported profit after three years. We are confident that this is sustainable as we are seeing a strong demand outlook from all the industries we cater to i.e., aluminum, graphite, electrode, tyre, and various other industries. We aim to further strengthen our position and profitability by focusing on enhancing the contribution of high value-added specialty product in our business segments. In the past, we were negatively impacted by currency fluctuation, which resulted in our profit taking a sizable hit. However, going forward we foresee substantially reduced impact of currency fluctuation due to our proactive hedging strategies. We are also committed to further reducing our debt by making periodic repayments and this is expected to reduce our financial cost in the coming period. Now I request Kamlesh to take you through the financial sections.

Kamlesh Agarwal: Good afternoon everybody. Coming to the financial results, income from operations of the company in FY2017 stood at Rs.1471 Crores as compared to Rs.1291 Crores in preceding year FY2016. The volume of the company grew by 19% in FY2017 from 2,99,137 tonnes in FY2016 to 3,56,902 tonne in FY2017. EBITDA of the company increased by 62% from Rs.153 Crores in FY2016 to Rs.247 Crores in FY2017. Our EBITDA per tonne for the year improved by 35% over the last year. Total finance cost reduced by Rs.18.58 Crore due to reduction in debt and improvement in rating from CARE A- to CARE A. This finance cost is excluding the portion of the exchange fluctuation loss on working capital borrowing disclosed under the finance cost. During the year, total forex loss stood at Rs.20.78 Crores of which Rs.20.03 Crores is disclosed as exchange fluctuation loss as a separate line item in statement of P&L accounts and the balance Rs.0.75 Crores is disclosed under the finance cost as notional interest on account of exchange fluctuation loss on working capital borrowing. Total forex loss in FY2016 was Rs. 29.80 Crores. In line with our strategy of focusing on reducing the working capital of the company, net working capital of the company reduced significantly from 49% of net sales ending 31st March 2016 to 36% of the net sales in 31st March, 2017. During the year, the company achieved a net profit of Rs.81 Crores as compared to loss of Rs.16 Crores in the preceding year. Net Debt of the company reduced by Rs.88 Crores from Rs.805 Crores at the end of 31st March, 2016 to Rs.717 Crores as at the end of the 31 March 2017. Net Debt to Equity ratio stood at 0.67x. Average realization was at 40,717 per metric tonne in Q4 FY2017 as compared to Rs.32,578 per metric tonne during the corresponding quarter in last year. Average realization was Rs.36,943 per metric tonne in the entire FY17 as compared to Rs.38,478 per metric tonne during the last year FY16. The average cost of raw material consumed in Q4 FY17 was Rs.21,834 per metric tonne as compared to Rs.14,855 per metric tonne in the corresponding quarter of the preceding year. The average cost of goods sold that is inclusive of increase or decrease in the inventory was Rs.26,882 per metric tonne in Q4 FY17 as compared to Rs.21,155 per metric tonne in Q4 FY2016. The average cost of raw material consumed in full year FY17 was Rs.19,750 per metric tonne as compared to Rs.20,031 per metric tonne in last year FY16. The average cost of goods sold was Rs.24,806 per metric tonne in FY17 as compared to Rs.27,525 per metric tonne in the previous year FY16. This is all from our side as regards to the financial. Now floor is open for questions and answers and I request Mr. Anurag to answer your queries.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Hello Anurag Ji, Hi Somesh. Good to touch base and congrats on a very good set of numbers. I just wanted to understand the volume scenario a bit better. If you just help us breakup in Q4 what kind of volumes we did for CTP, carbon black, and naphthalene and for that matter for FY17 as well. It will help us understand how the moving parts are evolving.

Anurag Choudhary: Sure. For the current year, the total volume that we…

Baidik Sarkar: We have the total volume, I was just wondering if you could just help us break it up into CTP, carbon black, your advanced carbon materials and SNF.

Anurag Choudhary: Actually, we do not give product-wise volume. Since it is a single segment carbon chemical, we give it on an all-together basis.

Baidik Sarkar: Sure, I was just curious because given that the attributes are a bit different and also the regulation and profitability are vaguely different, so just a bit rough card would that be possible at least in broad percentage terms.

Anurag Choudhary: In broad terms, you can say the volume for carbon black is 27% of our total volume and volume for Coal Tar Pitch is 73% of total volume. For the full year, it is 28% for carbon black and 72% for coal tar pitch.

Baidik Sarkar: So 72% and 29%.

Anurag Choudhary: 28%

Baidik Sarkar: 28% got that and so in terms of our spreads, our EBITDA per tonne, whichever metric you think is correct, if you could just help us understand how that evolved in Q4 and what the outlook is for the year going ahead.

Anurag Choudhary For the Q4 FY17, the composite EBITDA per tonne is Rs.7,854 and for the full year it is Rs.6,920, vis-à-vis Q4 FY16 of Rs.6,082 and so looking forward the EBITDA per tonne is going to strengthen.

Baidik Sarkar: Sure, so in terms of the volume outlook what kind of a volume ramp up are we witnessing in the aluminum or the graphite industry for instance, you are already half way into Q1 of FY18. On a Y-O-Y basis, are you seeing better volumes from the user industry.

Anurag Choudhary: Currently, the volumes are more or less stagnant. We believe from the next quarter there will be increase in the volumes. Volumes compared to Q4FY17 and in Q1FY18 volumes are stagnant more or less.

Baidik Sarkar: And vis-à-vis Q1 of last year.

Anurag Choudhary: There is a lot of increment compared Q1 of last year.

Baidik Sarkar: That is in Q1 of FY18 vis-à-vis Q1 of FY17 there is a volume improvement is what you are saying.

Anurag Choudhary: Yes.

Baidik Sarkar: And your outlook for Q2 stems from confirmed order book or just conversations that you have been having with your clients and ramp up.

Anurag Choudhary: It is based on the conversation we are having with the aluminum smelters, we feel that there will be a ramp up going up from Q3 FY18 onwards.

Baidik Sarkar: Great.

Anurag Choudhary In Q2 there will be sight ramp up and in Q3 there will be a big ramp up.

Baidik Sarkar: Sure and in terms of Advanced Carbon Materials, could you give us a sense of how much you might have commercialized in FY17 and what is the base case ramp up for actual commercialization FY18 looks like or I mean is it even realistic to assume anything in FY18.

Anurag Choudhary Actually, it will be premature to assume any big numbers coming in FY18 as far as advanced carbon material is concerned, but the good thing is that we are in advanced stage of testing with our customers and the product as I told in the last conference call, we have developed a continuous process technology instead of batch technology and the product quality is consistent in continuous process plus the operating cost has come down drastically. The quality of product has improved substantially, product now is very well appreciated by the customers and is in the advanced stage of testing. Once we get that approval then there will be ramping up in a big way.

Baidik Sarkar: Sure, on FX losses, the transitory nature of Rs.20 Crores FX losses that we saw in FY17 that completely disappeared right. FY18 will see no continuing impact of that or carry forward impact of that right.

Anurag Choudhary Yes, definitely no impact will be there going forward.

Baidik Sarkar: Just to clarify I am sorry for missing your opening comments. In Q4, what was the FX cost bundled into your finance cost. Your finance cost was about 13.8 Crores, what was the FX element out of that.

Kamlesh Agarwal: FX element in Q4?

Baidik Sarkar: Yes that is right Sir, Our finance cost was 13.8 I was just wondering if there was an FX element inside that.

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Kamlesh Agarwal: It is negative of Rs.4.69 Crores.

Anurag Choudhary: Actually the financial cost in Q4 was 18.52 Crores and there is a negative element of Rs.4.6 Crores in that, so which makes it Rs.13.83 Crores.

Baidik Sarkar: So going forward what we will have is only the OPEX element of finance cost to the extent that you have had right.

Anurag Choudhary: That is right.

Baidik Sarkar: And are we fully hedged or are we partially hedged.

Anurag Choudhary: Fully. Completely hedged.

Baidik Sarkar: That is both in terms of a debt exposure as well as our imports.

Anurag Choudhary Yes that is right.

Baidik Sarkar: That is it from me gentleman. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir that FX question how does it appears now in FY18. You had Rs.20 Crore net loss in FY17, which is booked in your standalone P&L right.

Anurag Choudhary : That is right.

Pritesh Chheda: There is an Rs.80 Crore finance cost. Is there FX angle also in finance cost?

Anurag Choudhary: There is a FX angle to the extent of 75 lakhs in the finance cost, so the actual finance cost is 79.72 and the balance is FX losses.

Pritesh Chheda: That is about Rs.21 Crores for FY17.

Anurag Choudhary: 20.78 for FY17.

Pritesh Chheda: Now this 20.78 looks what kind of a number in FY18.

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Anurag Choudhary: There will not be any Forex loss in FY18 because we are hedging all our FX exposures.

Pritesh Chheda: This will become zero.

Anurag Choudhary: Yes

Pritesh Chheda: Second can you give the number on the gross profit per tonne number, so the CFO gave a lot of numbers on RM and cost of goods sold, if you could give the gross profit number for the Q4 gross profit per tonne and how does it move and for FY17 and how did it move.

Anurag Choudhary: See Pritesh the right way look at our business is at the EBITDA per metric tonne . How it has evolved over the years and how it looks going forward, so the Q4 EBITDA per metric tonne on a composite basket of the carbon chemical product that we are in is Rs.7854 per metric tonne and for the full year FY17, it is Rs.6920 per metric tonne, so if you look at Q4 numbers it is improved form the overall average for the year and same figure if you look for Q4 FY16 it was Rs.6082.

Pritesh Chheda: And if you look at the last year then.

Anurag Choudhary: Last year it was Rs.5114. This Rs.5114 it is not the normalized EBITDA per tonne. It is the reported EBITDA per tonne.

Pritesh Chheda: Okay. What would be the difference in normalized and reported?

Anurag Choudhary: There will be a difference of Rs.1100.

Pritesh Chheda: On account of?

Anurag Choudhary: On account of inventory loss last year.

Pritesh Chheda: So these numbers, which you are giving does not include the inventory adjustment.

Anurag Choudhary: No. In current year there is no inventory loss.

Pritesh Chheda: And my other question was in your presentation you mentioned about aluminum capacity ramping from 2.7 to 4 million tonne. In what timeframe that happens?

Anurag Choudhary: I think it will happen in a span of two years.

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Pritesh Chheda: So which means that if 1.4 gets added it is another 1,40,000 tonnes of coal tar pitch requirement. If you have 70% market share, it means 100,000 tonnes coming through you.

Anurag Choudhary: That is right.

Pritesh Chheda: So about 50,000 tonne addition this year and 50,000 addition, next year.

Anurag Choudhary: Next year. That is right.

Pritesh Chheda: Now there was one news floor about Sterlite's few pots getting closed down due to some reason, which was there in April, so any status on those.

Anurag Choudhary: That is the reason when I was telling in the current quarter there is no ramp up, ramp up was going to happen, but because of the pot accident the ramp up has been deferred. In fact, the ramp up has happened, some pots went out because of that the demand remains the same.

Pritesh Chheda: But that means loss of volume also.

Anurag Choudhary: Not loss of volume, loss of incremental volume.

Pritesh Chheda: But Sir those pots if they are shut off, then you do lose volume.

Anurag Choudhary: But they have the other pots to ramp up, so the ramping up is going on.

Moderator: I am sorry to interrupt. Sir may I request you to please return to the queue.

Pritesh Chheda: When do these pots start.

Anurag Choudhary: In three to four months.

Pritesh Chheda: Another four months. Okay. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from Motilal Oswal. Please go ahead.

Dhruv Muchhal: Thank you. A couple of questions, Sir firstly in the coal tar pitch market can you give us a sense of the outlook on the market particularly what is happening in China because we have been reading a lot about environmental closures, but have you seen anything there because what I also know is that there is a lot of steel capacity ramping up and that is leading to an

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increase in raw material supply and potentially cost of production for some of the Chinese producers are reducing, so if you can give us some colour on what is happening there.

Anurag Choudhary: See, in China the capacities are not increasing. The capacities are coming down. Because of the environmental aspect, the government is restricting the capacities and a lot of capacities, small fragmented capacities particularly, they are closing down. China market does not have any impact on our business because coal tar pitch cannot be imported. We are supplying in liquid form.

Dhruv Muchhal: Okay. So this product cannot be traded.

Anurag Choudhary: It is not a commodity. It is a very specialised chemical, which goes into anode and it impacts the power consumption. It impacts the life of the anode. It impacts the purity of the metal. So it is a very critical raw material for aluminium smelters.

Dhruv Muchhal: Sir just to understand the cost of production because your prices keep fluctuating, so how is the pricing determined then because if it is not much traded, so how is the pricing determined. Is it based on the cost of production and then how is the cost of production decided? What increases the cost of production?

Anurag Choudhary: Cost of production is definitely not decided. The cost of raw material is decided based on the price of raw material we are buying. Based on the price, we charge our customers. Suppose today the raw material prices are Rs.20,000 we based our finished product price Rs.20,000. Suppose the next month it changes to Rs.24,000 we change it to Rs.24,000. So it is fully transferred to the customers on month-to-month basis.

Dhruv Muchhal: Understood and Sir, secondly on the advanced carbon material just to understand what is the competitor advantage for a player like you. How do you derive value in this product because it seems to be an emerging product, so is it the raw material advantage, it is the logistics advantage, or is it something else, so what drives our value in this product. Is it the technology or something else?

Anurag Choudhary: Himadri has a unique positioning in this product primarily because of the reason we are vertically integrated. We start from coal tar. From coal tar, we make oil and different grades of pitch. We make very high quality of pitch, which is converted into advanced carbon material. The key raw material for advance carbon material first is coal tar pitch and power. Power, we have in-house. We are generating 20 megawatt of power. Out of that we are selling 8 megawatt to the grid. So this additional power which is available with the

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company can be used for making advanced carbon in the future from the raw material as a core product, which is coming out of coal tar distillation and is again used for making other value-added products. Then we are making advanced carbon material, so there is no wastage. Whereas compared to the peers in Japan who are making, they are not vertically integrated. For them, the other products are waste. So they are selling that at a very low price. So Himadri is uniquely positioned in terms of making advanced carbon material compared to the Japanese who are currently manufacturing it.

Moderator: Sir may I request you to please return to the queue for any further followup.

Dhruv Muchhal: Sure thank you.

Moderator: Thank you Sir. The next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: Sir can you just give us the EBITDA per tonne numbers of Q1, Q2, and Q3 also.

Anurag Choudhary: Kamlesh you have the Q1, Q2, and Q3 numbers separately.

Kamlesh Agarwal: In Q1 FY17, EBITDA per tonne was Rs.6769 per metric tonne.

Pavan Kumar: Sir Q2.

Kamlesh Agarwal: In Q2, Rs.6000 per tonne and in Q3 Rs.7000 per tonne.

Pavan Kumar: Sir you said realizations for FY16 what Sir exactly realization per tonne for FY16 was what? Realization per tonne for FY16 and Q4 FY17.

Kamlesh Agarwal: The average realization in Q4 FY16 was Rs.32,578 per tonne and in FY16 full year Rs.38,478 per tonne.

Pavan Kumar: Why did EBITDA per tonne in Q2 fall to Rs.6000 Sir any specific reason?

Anurag Choudhary: Because that point of time the naphthalene prices came down further, which reduced our profitability margin, so that was the reason for Q2 EBITDA coming down.

Pavan Kumar: Do we expect the EBITDA per tonne margins to go up from here?

Anurag Choudhary: We expect it to further strengthen.

Pavan Kumar: In FY18.

Anurag Choudhary: In FY18, Yes.

Pavan Kumar: Thanks Sir I will get back.

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

Shashank Kanodia: Good afternoon gentleman. Sir firstly on the carbon black business can you share your perspective of what is the demand scenario on the ground.

Anurag Choudhary: The demand is looking up much better than what it was one year back. The tyre industries are doing good plus on top of it anti-dumping duty is in place for imports from China and other countries. In addition to that the cost of production in China has also gone up, so there is not much material coming from imports and the domestic industry is also in terms of tyre and non-tyre up both are doing fairly well, which is having a good impact on the demand.

Shashank Kanodia: Given that you share a 28% of the volume figures previous for FY17, so roughly 100 KT you did for carbon black right, so can it be ramped up to 100% utilization levels this year.

Anurag Choudhary: Last year we did utilization of around 81.5%. So next year, we will be doing on a full capacity basis 90% utilization.

Shashank Kanodia: Sir we manufacture carbon black using the coal tar oil right. Sir how is the profitability versus a carbon black paste manufacturer who manufactures using carbon black feedstock, so it is at par or are we a tide lower or tide higher.

Anurag Choudhary: See there are two aspects to it. One is quality. When you use coal tar oil as a feedstock to make carbon black, it is a impurity-less raw material. Whereas, when you use the imported feedstock, it is a blend of various refineries and it has a lot of impurities, so the carbon black, which is made out of our oil is much better in terms of quality compared to others. So what we do it is not that we try to get premium on our products. We try to sell to the segment who give us more value or good quality, so what eventually you have a better profitability compared to the product from the other petroleum-based feedstock you are making carbon black. The other thing is that it is an integrated business model, you do not lose on logistics and we have the plant just connected to each other, the material flow from pipeline from one plant to another, so that gives us another advantage, so compared to our peers, we have a better EBITDA margin.

Shashank Kanodia: Given the fact that coal tar is a byproduct of coking coal to coke conversion and I think coke prices have been quite volatile, so any plans to shift to carbon black feedstock as a raw material.

Anurag Choudhary: See our coal tar prices are not dependant on coking coal prices. Coking coal prices have gone up drastically and come down again. Again they have gone up with the Australia problem happening, but our coal tar price has not been that volatile. It is more dependent on the demand scenario in the Indian market, so demand and supply play a critical role rather than the price of raw material like coking coal because it is not a main product. It is just a byproduct for the coke in steel plants. It is just 4% of the coke that coal tar is produced.

Shashank Kanodia: Sir on the **Coal Tar Pitch** since you are operating up to 90% utilization levels right, so can we have a volume-led growth going forward for the next two years. Is there any plan for expansion?

Anurag Choudhary: If you look at the coal tar distillation capacity, our current capacity is 400,000 tonnes, but we can operate up to 125% of our capacity. That is with some debottling of capacity, which is currently going on, so our install capacity with that debottling will be 500,000 tonnes once that happens.

Shashank Kanodia: What is the amount that you intend you spend on debottling?

Anurag Choudhary: Very small Rs.15 to 20 Crores.

Shashank Kanodia: Sir given the fact that there have been good aluminum demand, so can a carbon black facility be fungible as can it also use carbon black feedstock. Let us say if you get are getting better realizations in the aluminum market for the pitch, so can you manufacture carbon black using a feedstock, carbon black feedstock.

Anurag Choudhary: Actually, the thing is that we do not use pitch to make carbon black. We use oil to make carbon black.

Shashank Kanodia: So that is the byproduct.

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Anurag Choudhary: That is the byproduct. When you do distillation, you get oil. Oil is used to carbon black. It is not that oil can be converted into pitch.

Shashank Kanodia: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Suhani Doshi from Edelweiss Asset Management. Please go ahead.

Suhani Doshi: Sir I wanted to ask have you started commercial production of specialty carbon black and what would be the percentage of your specialty carbon black in your carbon black portfolio.

Anurag Choudhary: We have just introduced four grades of specialty carbon black in the market six months back and we are consolidating our position in that. Once it is fully commercialized, but now in small volumes. The idea is to gradually strengthen this business and increase it to big volumes.

Suhani Doshi: Can you help us with any percentage change, which you look for specialty carbon black in your total carbon black portfolio.

Anurag Choudhary: Today, if you look at our total portfolio it is 5%.

Suhani Doshi: And going ahead.

Anurag Choudhary: And going ahead in a span of three years, it will be significant.

Suhani Doshi: Okay. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Girish Solanki from Anand Rathi. Please go ahead.

Girish Solanki: Thanks a lot. Good afternoon Anurag and Kamlesh. Anurag, this is regarding the specialty carbon black demand in India. From where do we have this demand and how much in terms of metric tonne is the demand and who are the current suppliers of specialty carbon black.

Anurag Choudhary: Currently the global market for specialty carbon black is around 1.6 million tonnes and currently the main suppliers to these our global players like Cabot and Orion and the main end user industry is plastic master batch, fiber, wire and cable, pipes, engineering plastics, films, inks, coatings. See wherever you see black, it is carbon black. Carbon black is used.

Girish Solanki: No I am talking only about specialty.

Anurag Choudhary: Yes I am talking about specialty. That is what I am saying.

Girish Solanki: No with specialty does it go in tyre. What is the volume?

Anurag Choudhary: Tyre is not a specialty. Tyre is a normal rubber black.

Girish Solanki: In terms of specialty how big is the domestic market?

Anurag Choudhary: Domestic market will be around, you can say 3000 tonnes per month.

Girish Solanki: That is around 36,000 or 40,000 tonnes.

Anurag Choudhary: 40,000 tonnes.

Girish Solanki: 40,000 tonnes per annum and who are the current suppliers in domestic market?

Anurag Choudhary: It is mainly imported by Cabot and Orion.

Girish Solanki: Evonik also does it.

Anurag Choudhary: Evonik's name has changed to Orion.

Girish Solanki: So they also used to do it right.

Anurag Choudhary: They are also making it. Main leaders are Cabot and Orion.

Girish Solanki: Any Japanese guys.

Anurag Choudhary: No Japanese guys are not mainly into this.

Girish Solanki: And what is the differential in realization between a specialty and a normal-grade of carbon black.

Anurag Choudhary: Suppose for example if you get a contribution of around Rs.12,000 to Rs.13,000 in a normal black, the contribution in specialty black starts with Rs.30,000 and can go up to Rs.150,000.

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Girish Solanki: What will the realization difference. I do understand it is 3x in terms EBITDA, but what is the difference in realization on a specialty, so normal carbon black will be around say Rs.45,000 to Rs.50,000 a tonne. What is it for?

Anurag Choudhary: That starts from Rs.70,000 to Rs.75,000 and can go up to Rs.250,000.

Girish Solanki: Any plans in terms of expanding your carbon black capacity.

Anurag Choudhary: No.

Girish Solanki: Because you are currently operating at 81% to 82% and in domestic market, there is no other capacity expansion plan that is lined up in carbon black.

Anurag Choudhary: Yes. We do not have any expansion for carbon black.

Girish Solanki: Nothing not even in FY2020.

Anurag Choudhary: Currently, there is no expansion plan.

Girish Solanki: Currently, you said you launched four grades six months back and what proposition of your 1 Lakh tonnes that you do, so you sell 5,000 metric tonne specialty.

Anurag Choudhary: Correct.

Girish Solanki: So out of 40,000 tonne, you might be selling 5,000 another domestic player might be selling around I do not know 5000, 6000, 7000 and the rest is imported.

Anurag Choudhary: That is it.

Girish Solanki: Yes. That is all from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Luv Shah from Pinky Ventures. Please go ahead.

Luv Shah: Thank you for the opportunity. Could you just give us the volume numbers for Q4 FY17.

Kamlesh Agarwal: Q4 FY17 total volume is 92231 metric tonne.

Luv Shah: Okay and my second question is what is the current average cost of debt and how is the repayment plan. If you can give us some idea about the capex as well.

Anurag Choudhary: Current cost of debt is around is 9.5% and repayment for the next year, we have a scheduled repayment of around Rs.100 to Rs.150 Crores.

Luv Shah: For FY18.

Anurag Choudhary: FY18.

Luv Shah: Any Capex plans Sir.

Anurag Choudhary: There is no Capex plan.

Luv Shah: Alright thank you so much.

Moderator: Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Hello Sir. As you said that the outlook on EBITDA per tonne is positive. I would like to know where is the management seeing the EBITDA per tonne growth whether it is carbon black or is it coal tar pitch?

Anurag Choudhary: It is both. It is carbon black also and coal tar pitch also. What is happening in carbon black, we have made long-term planning and we are following that. Based on that, there will be an increase in the per metric tonne EBITDA. In coal tar pitch also, we are improving on our pricing and that will help us and due to operational efficiency and cost leverage like when we operating at higher capacities, then operational cost will come down, so that will help us to improve the EBITDA margin.

Luv Shah: Okay Sir, thank you.

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

Jigar Jani: Congratulations Sir on a great set of numbers first of all. Just one query on the depreciation cost. It seems to have reduced substantially. Just wanted to understand what was the reason for that for the full year.

Anurag Choudhary: From the current year, we have changed the accounting. It is based on the Indian accounting standards and as per the requirement, you have to depreciate your asset based on the actual life, that as in a book life that we used to do till last year, so we got the actual evaluation done of the life of the plant and based on the report only we are charging depreciation, so basically the change is because of the accounting. Now we have adopted Indian accounting standards.

Jigar Jani: So going forward, this would be the depreciation.

Anurag Choudhary: Going forward this will be the depreciation.

Jigar Jani: Sir one more thing regarding this advanced carbon material since you are saying that you are in the final stages of pilot trials. In case this pilot trials go through what kind of capex would be needed to actually go into a commercialization mode and what kind of capacities are we are looking to put in this segment.

Anurag Choudhary: Actually, it is not on pilot trial, pilot trial we have already crossed. Already, we are on the commercial trial and commercial trail is happening with few tonnes i.e. 4-5 tonnes, the next stage of commercial trial will be on higher volumes, of 40 to 50 tonnes. Once the commercial trial of 4-5 tonnes is approved then we have 40 to 50 tonnes and once we achieve that 40 to 50 tonnes, we will get the order and then there is no looking back. The volumes can ramp up like anything.

Jigar Jani: This production will cannibalize any other products of yours or you will be able to sustain on that 4 Lakh tonne total capacity?

Anurag Choudhary: Yes we will be able to sustain on that capacity. Plus bigger volumes for that we need to go for expansion.

Jigar Jani: So when we cross the 40 to 50 tonnes margin, we will have to do a capex?

Anurag Choudhary: 40 to 50 tonnes per month.

Jigar Jani: Per month. Okay. That is all. Thanks a lot.

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

Shashank Kanodia: Yes thanks for the opportunity. Sir can you please explain how is the pricing decided for carbon black.

Anurag Choudhary: For the tyre companies, it is based on the formula, it is linked to the raw material prices on last quarter basis. Based on the last quarter prices, this current quarter prices are determined and for the non-tyre, it is not linked to the formula of raw material prices, but more on demand and supply, but the raw material price is also considered .

Shashank Kanodia: But Sir what would be realization, would it be somewhere in the range of 750 odd dollars per tonne for carbon black right now.

Anurag Choudhary: Currently, it should be in the range of 1000 plus.

Shashank Kanodia: For tyre manufactures.

Anurag Choudhary: For overall I am telling you.

Shashank Kanodia: And what will be the international realizations?

Anurag Choudhary: For carbon black?

Shashank Kanodia: Yes.

Anurag Choudhary: I think the same 1000 to 1050.

Shashank Kanodia: Because what I am coming from the fact is, are we are trying to match up with the import parity price given the fact that anti dumping duties to it is $400 per tonne. So is it like the import parity price that you tend to match or is there is a soft agreement between us and the customers.

Anurag Choudhary: No it is not that we are trying to match the anti dumping prices, but it is depending on our cost of raw material what cost is coming. Based on that we generally take a delta and we supply to the customers. It is not that my cost is coming to suppose Rs.50,000, but I am charging Rs.70,000 because I can get additional realization because of anti dumping duties, so that is not happening. Intentionally also no carbon black manufactures are doing.

Shashank Kanodia: So basically we work on fixed EBITDA per tonne margins right.

Anurag Choudhary: Fixed means, now depending on your efficiencies, your raw materials, your grade-to-grade mix, and your locations, this fix can be variable.

Shashank Kanodia: Sir then what would be the range for EBITDA per tonne in the carbon black division for us.

Anurag Choudhary: Actually, we do not give division wise EBITDA per tonne, so composite EBITDA per ton I have already given.

Shashank Kanodia: Sir given the fact that there is a robust demand for carbon black and almost all the players are working at 85% to 90% utilization levels, so is there a possibility that if we do not expand we tend to lose the anti dumping duty measure because then the industry can complain that there is not enough capacity in the system.

Anurag Choudhary: I do not think so because this anti dumping duty is for five years and another thing is there are a lot of exports happening from India. Once the demand in India increases, this export will come down and the Indian industry can very well supply to the domestic market.

Shashank Kanodia: Okay true and Sir lastly on the border site, so what was the cash flow from operations for FY17 for us.

Kamlesh Agarwal: Cash flow for FY17 is 175 Crores.

Shashank Kanodia: And of which around Rs.88 Crores we have paid towards repayment of debt right.

Anurag Choudhary: yeah that is right.

Shashank Kanodia: Sir in the debt part what part of the balance sheet has it actually off because if you see the short-term and long-term borrowings, there is hardly any change? In fact, so what line item of your balance sheet does this debt get paid off?

Anurag Choudhary: See if you look at the short-term debt and the long-term debt, the long-term debt has come down from Rs.488 Crores to Rs.458 Crores. So there is a reduction of Rs.30 Crores in long-term debt. In short-term debt, it has some down from Rs.379 Crores to Rs.296 Crores, so total debt as of FY16 was Rs. 867 Crores total debt and today net debt is Rs.754 Crores and if we reduce the cash and cash balance, the debt in FY2016 was Rs.805 Crores. Today, it is Rs.717 Crores.

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Shashank Kanodia: So as far as the balance sheet has been shared, long-term borrowings have increased from Rs.366 to Rs.387 as well as short-term borrowings have reduced from Rs.412 to Rs.355. Fine, I will take this question off line then. Thank you so much.

Moderator: Thank you. The next question is from the line of Pavan Kumar from Unifi Capital. Please go ahead.

Pavan Kumar: Sir I just wanted to ask you whatever EBITDA per tonne numbers that you give, does it involve the forex impact apart from whatever we have shown in the finance costs?

Anurag Choudhary: Does it involve forex impact?

Pavan Kumar: See we are losing something on forex right?

Anurag Choudhary: Forex is after EBITDA.

Pavan Kumar: So your forex loss is mostly.

Anurag Choudhary: Are not accounted in the EBITDA.

Pavan Kumar: You have not accounted right.

Anurag Choudhary: No.

Pavan Kumar: Fine. Thanks.

Moderator: Thank you. The next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Megha Hariramani: Thank you for the opportunity. Sir if you can just give us some guidance on how do we see each of the segments grow going forward. If you still have any estimates outline on that one.

Anurag Choudhary: See as I told earlier also coal tar pitch, the aluminum in this industry is going to grow from 2.75 million tonne to 4 million tonne in a span of two years. Based on that there will be growth in coal tar pitch demand and having 70% market share, our growth will be the same based on the demand and for carbon black industry already we are at 81% last year. Current year, we are targeting 90%, so that is the maximum we can reach in terms of capacity in carbon black industry. So even though the demand may be higher, but we cannot go beyond 90%.

Megha Hariramani: Do we have any estimate on the EBITDA per tonne, which is 7854. Do you see that improving overall basis?

Anurag Choudhary: We do not give any forward guidance, but yes one thing if you ask me for the current quarter yes. For the last one month, it is better compared to the last year.

Megha Hariramani: Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Girish Solanki from Anand Rathi. Please go ahead.

Girish Solanki: Thanks a lot for taking my question again. Sir my question was more regarding the specialty black. Again in terms of specialty black out of 1,20,000 metric tonnes how much have you carved out for specialty. Is it flexible? Can you do entirely specialty carbon black?

Anurag Choudhary: No it is not like that. Only a small portion can be used for specialty carbon black. So currently, we are at 5% making some grades. Like all the grades of specialty carbon black cannot be made out of the current capacity. A few specific grades of specialty black, which you can make with the current technology that you have. For change in that you need to have different kind of reactors and technology.

Girish Solanki: But can you do say 30,000 metric tonnes. If India's demand is 30,000 can you apply the entire 30,000 with your existing?

Anurag Choudhary: No because 30,000 is not for one grade. It is for different application, different grades, and over a different store. For that a special reactor is required. Different technology is there.

Girish Solanki: With the current capacity how much can you do say in terms of metric tonne.

Anurag Choudhary: In terms of metric tonne, we are doing currently 5%. It can go up to 7% to 8% and 9%.

Girish Solanki: That is all and then you need a tweaking in technology.

Anurag Choudhary: Yes.

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Girish Solanki: Okay. Fine thanks Sir.

Moderator: Thank you. The next question is from the line of Luv Shah from Pinky Ventures. Please go ahead.

Luv Shah: Sir just a followup on somewhere in the presentation it is mentioned that naphthalene capacity can be doubled. Sir any time line there or you are taking about the industry or the company?

Anurag Choudhary: No we are talking about the company. Our refined naphthalene capacity. There are two types of naphthalene. One is technical grade naphthalene and one is refined naphthalene. So refined naphthalene is a higher value-added product, so that capacity we are doubling from our existing capacity. So it will be effective in the next three months.

Luv Shah: It will move from how much to how much Sir?

Anurag Choudhary: Currently, it is around 700 metric tonne. It will move to 1500 metric tonnes.

Luv Shah: Sir one last question on the advanced carbon material space. You mentioned about the next leg of order about 40 to 50 tonnes per month. Sir any time line that you are looking at when you start getting these orders?

Anurag Choudhary: Maybe in the next six months.

Luv Shah: Next six months…and this three to four metric tonnes that you are doing, has that been now approved.

Anurag Choudhary: That is on final approval stage. It takes six months for the material to approve, so already two months have gone, so till now the properties they are getting is they are very happy with the properties. So the balance once they test the complete the entire cycle, then they will be able to.

Luv Shah: During the last call, you had mentioned that you are already under that approval process for three to four months.

Anurag Choudhary: It is a six-month process. So it will take another two to three months.

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Luv Shah: Another two to three months. Sir can we expect some comment on that or some development there in Q2.

Anurag Choudhary: I hope so.

Luv Shah: Thank you so much Sir.

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

Shashank Kanodia: Sir thanks for the followup opportunity. Sir in the opening remarks, you mentioned that your net working capital is reduced from 50% of sales to 35% of sales.

Anurag Choudhary: 36%.

Shashank Kanodia: But there is hardly anything visible in the balance sheet front, so can you please help us explain.

Anurag Choudhary: See if you look at the working capital as a percentage of sales, last year we clocked at over Rs.1151 Crores. This year we added Rs.1324 Crores. So last year the working capital was 46% of Rs.1151. This year it is 39% of Rs.1324.

Shashank Kanodia: All calculations show almost at the same level of 125 to 120 odd days.

Anurag Choudhary: It is same, but the top line has increased. So with the top line actually it should increase. It has not increased. So that amount should decrease.

Shashank Kanodia: Sir what is the outlook going forward. Is there any scope for better working capital management going forward?

Anurag Choudhary: Yes working capital management actually this is one thing we have been working on for the last two years. Our working capital used to be 59%. So now we have come for the full year it is 39% but For the Q4 it is already 36%. So the target is to keep it below 40%.

Shashank Kanodia: But Sir given that coal tar pitch and you are being supplying as a critical raw material for aluminum industry, so what is the reason for you holding such high inventories as in...

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Anurag Choudhary: So actually it is not only because the dependence level of aluminum industry on Himadri is very high. We being a 70% market player supplying 70% of the requirements, so we need to make sure that under any circumstance the operation of the aluminum industry is not impacted by whatsoever nature. Maybe it is because we are importing substantial part of our raw materials from the global market also, so because there maybe any unforeseen circumstances or whatever may happen, but the smelters who are dependent on us they are not impacted.

Shashank Kanodia: Sir going forward can we expect some 10 to 15 days reduction in net working capital cycle.

Anurag Choudhary: Yes that is what we are working on. In fact we have reduced to a great extent in our working capital cycle and we are working on for further reduction.

Shashank Kanodia: Sir lastly you guided that this year you are going to repay around Rs.100 Crores to Rs.150 Crores of debt, so about FY19 going forward.

Anurag Choudhary: The idea is to keep reducing the debt, so similarly like this year again we will be reducing our debt for the next year.

Shashank Kanodia: Sir thank you so much and all the very best.

Moderator: Thank you. Ladies and gentleman that was the last question. I would now like to hand the conference over to Mr. Anurag Choudhary for his closing comments.

Anurag Choudhary: So thank you everyone for joining the conference call of Himadri Speciality Chemical Limited. The management is committed to enhancing the shareholder value by providing our customers with high quality products and services with continuous focus on health and environmental issues. We look forward for your continuous support and interest in our company. I hope we had been able to address your queries. Thank you once again for joining the conference call.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Himadri Speciality Chemical Limited that concludes this conference call. Thank you for joining us and you may now disconnect your line.

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