HIMADRI CHEMICALS
& INDUSTRIES LIMITED
MFGR. OF : COAL TAR BY - PRODUCTS

Ref. No: HCIL/Stock-Ex/2016-17/18
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To

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

Dear Sir,

This has reference to our letter Ref No. HCIL/Stock-Ex/2016-17/14 dated 23rd May 2016 regarding Investors presentation and media release, and pursuant to the provisions of the SEBI (LODR) Regulations, 2015, we are enclosing herewith the copy of the transcript of the Conference call held on Tuesday the 24th May 2016. The same is also available on the website of the Company i.e, www.himadri.com .

Yours faithfully,
For Himadri Chemicals & Industries Limited

Bajrang Lal Sharma
Company Secretary
FCS: 8148

Himadri Chemicals & Industries Limited Kolkata

Enclo: a/a

“Himadri Chemicals and Industries Limited Q4 FY2016 Earnings Conference Call”

May 24, 2016

ANALYST: **MR. AMIT AGARWAL – SBICAP SECURITIES LIMITED**

MANAGEMENT: **MR. ANURAG CHOUDHARY – CHIEF EXECUTIVE OFFICER - HIMADRI CHEMICALS AND INDUSTRIES LIMITED**

Moderator: Good day ladies and gentlemen, welcome to the Himadri Chemicals & Industries Limited Q4 FY2016 Earnings Conference Call hosted by SBICap Securities Limited. As a reminder, all participants' 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 any 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. Amit Agarwal from SBICap Securities. Thank you and over to you Sir!

Amit Agarwal: Good afternoon everybody. On behalf of SBI Cap Securities, I would like to welcome you all for the Q4 FY2016 conference call of Himadri Chemicals & Industries Limited. We have with us the management and the management is represented by Mr. Anurag Choudhary, who is the CEO of Himadri Chemicals. Mr. Choudhary will give a brief overview of results and then the floor will be open for question and answers. I would now like to hand over the floor to Mr. Anurag Choudhary for his opening remarks. Over to you Mr. Choudhary!

Anurag Choudhary: Thank you. Good afternoon everyone. Welcome and thank you for joining Himadri Chemicals Q4 2016 and FY2016 earning conference call to discuss the business and financial results. I hope all of you have received our results and gone through the quarterly and full year financial by now. For those who have not you can view them along with our presentation on the website.

Himadri Chemicals & Industries is a leading integrated a specialty carbon chemical company. We are the largest producer of coal tar pitch in India with a market share of nearly 65% and catered to two-thirds requirement of graphite and aluminium industries in the country.

We are also one of the few integrated global manufactures to produce zero QI impregnating pitch. We have a diversified portfolio with presence across carbon value added chain and wide array of high demand specialised products.

We are amongst the leading manufactures of carbon black in India. Carbon black is one of the most important industrial chemicals in the world and has wide application across industries including rubber, plastics, coating, inks and batteries. We have seven zero discharge strategically located manufacturing facilities spread across India with a total installed capacity of 4 lakh tonnes of coal tar distillation, 120,000 tonnes of carbon black, 68000 tonnes of SNF and 20 megawatt of power plant.

Our R&D at Mahistirky unit is recognized by Government of India and has an experienced R&D team with international experts. The team focuses on introduction of new value added specialty chemicals, specialised testing of coal tar pitch and carbon black to maintain best in quality and class.

Coming to the financial performance, I am happy to share that our performance has been in line with our expectations for the fourth quarter and full year ended March 2016. Starting with a standalone financials for the fourth quarter, our net sales decreased by 24% year-on-year and 15% sequentially at 260 Crores on account of decline in price realization due to decline in the price of raw materials consequent to sharp decline in crude prices. However, our volume grew by 5% compare to corresponding quarter last year.

Our EBITDA margin for the quarter expended by over 1600 basis point compared to Q4 FY2015. The growth in EBITDA was driven on account of operating efficiencies and increase in capacity utilization. The interest was higher on year-on-year basis but lower on quarter-on-quarter basis. During the year foreign currency loan was as a percentage of total debt decreased significantly resulting in increase in average cost of borrowing. During the quarter, I am very happy to say that we have delivered a net profit of 12 Crores as compared to loss of 16 Crores in Q4 FY2015.

During the current quarter the total volume of all products sold together stood at 79,834 metric tonnes as compared to 76,179 metric tonnes during the previous quarter. Average realization was at Rs.32,578 per metric tonne as compare to Rs 44,776 per metric tonne during the corresponding quarter last year. Average cost of raw material consumed was 14,855 per metric tonne as compare to 26,774 per metric tonne in the corresponding quarter. The overall industry has witnessed a decrease in realization prices in last few years due to sharp decrease in raw material prices. However, our volumes have grown by 10% to 2,99,137 metric tonne as compared to 2,72,771 metric tonne in last year. Exports contributed to 12% of the revenue.

Coming to the full year's consolidated financial year performance. The net sales stood at 1,183 Crores during the financial year 2016, year-on-year decline of 18% mainly on account of decline in tax realization due to decline in the prices of raw material. The EBITDA for the year ended March 31, 2016 at 160 Crores in FY2016 as against 131 Crores during the corresponding previous year, an increase of 22%. This growth in EBITDA has come from increase in operating efficiencies and capacity utilization. During the year the net loss stood at 16 Crores as compare to loss of 12 Crores during FY2015.

Now coming to standalone balance sheet position, Himadri has a total debt 867 Crores. The net debt has decreased by 22% to 805 Crores as compared to 1,030 Crores as on March 31 2015. This decline is on account of reduction in working capital and repayment of long-term loan during the year. During the year we have converted 12,300 deep discount debentures into 3.3 Crores equity shares of Re.1 each. The conversion size was Rs.90 per share. This has increased the promoter shareholding to nearly 49%. We have also repaid US dollar, 9.2 million on April 4 2016 against FCCB, which was issued in the financial year 2009.

The net worth of the company was 889 Crores at the end of the year. The total debt to equity stood at 0.98 on a standalone basis and the net debt to equity stood at 0.90. The working capital requirement decreased significantly from 616 Crores for the year 2015 to 468 Crores in FY2016. The company has proposed a dividend of 5% for the financial year 2016.

Going forward, we believe that despite of extreme price volatility and oversupply situation in the market the demand factor remains reasonably strong for aluminium. The long-term outlook remains positive on back of a strong growth in aluminium production expected in a country. As many of the leading aluminium smelters in India are on the verge of ramping up capacities in their completed Greenfield or Brownfield expansions. The rising domestic demand in sectors such as infrastructure, real estate and automobiles has put the Indian steel industry on the world map.

Coal tar is the key raw material for Himadri and availability of coal tar is linked to the production of steel. With growing steel production availability of domestic coal tar is scheduled to increase leading to reduce reliance on imports. The per capital consumption of steel is expected to grow on the back of rapid growth in the industrial sector and rising infrastructure spend on railways, roads and highways.

This acceleration in growth coupled with stability in raw material prices will lead to strong and profitable growth. Our focus is to improve operational efficiency, strengthen the order book and win business from existing and new clients.

We aim to be, not only the amongst the top 3 producers of coal tar byproducts globally but also the lowest cost producer of coal tar byproducts in the world. We are improving our product mix especially in the specialty carbon black segment which makes value added high-grade products which translates to better realization.

We have adequate capacities that will provide us the flexibility and opportunity to capture expected demand growth over the next two three years. We do not need any more capex apart from the regular maintenance capex, which is very small.

With continued profitable growth with higher realization, healthy cash flows, reduced interest cost, no further capex. We expect to reduce our debt by 50% over the next three to four years. We will continue to focus on profitable growth and build a strong balance sheet. Thank you. We can take the question answer session now.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Good afternoon Sir and congratulations for good numbers. Sir can you throw some light on how you see the future panning out and at what capacity currently we are running?

Anurag Choudhary: Last year our coal tar pitch coal tar distillation was running at a capacity of 74% and looking forward with aluminium smelters planning to ramp up the capacity. We expect the capacity utilization to increase in a current year. It will be a gradual improvement over the quarters.

Sanjay Shah: Sir how do you see the growth strategy of our company. You have mentioned that you are setting up some integrated specialty carbon chemical complex? Can you throw us a light on that Sir?

Anurag Choudhary: We are not setting up we already have. We already have an integrated specialty carbon chemical complex. We are not adding anything to that. Only thing is that we are focusing more on high value added products. Within that distinct segment we are trying through our research and development we are trying to look for more value added products. Like specialised industrial carbon black then we are working on specialised carbon black so that will give higher value addition without any capex.

Sanjay Shah: So do you see this margin what EBITDA margin what we have done in last two quarters is it they are sustainable or do you see any advantage of one off coming to our company due to oil or crude derivatives?

Anurag Choudhary: In fact, in last two quarters there is no advantage because of the crude prices. This is the normal business margin and this is what we expect minimum margin to be there.

Sanjay Shah: You have mentioned about flexibility of manufacturing products and that is switching of raw material and different product. Can you explain that Sir?

Anurag Choudhary: Like we have the flexibility we use different kinds of raw material within coal tar whatever the quality maybe we can use it and make high quality coal tar pitch.

Sanjay Shah: Different type of quality we can bring it to our use as a raw material?

Anurag Choudhary: Yes, that is right and with different kind of quality also we can produce the same high value, high quality coal tar pitch.

Sanjay Shah: Sir right now we are in 20 megawatt of power what is the captive we use and what we sale outside merchant?

Anurag Choudhary: We are selling around 8 megawatts and captively we are using around 7 megawatts.

Sanjay Shah: Sir my last question, we are having some 125 tankers and liquid terminals for exports so is that required or we can even outsource that or how do you see that?

Anurag Choudhary: It is actually outsourced only. These are dedicated tankers. It does not belong to the company. It is dedicated to the supply of material, which we are doing to our customers.

Sanjay Shah: They are situated at port side.

Anurag Choudhary: That is also does not belong to the company. That is also taken a long-term lease.

Sanjay Shah: Thank you Sir and good luck to you Sir for future.

Moderator: Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha: I just like to know that if you can throw some light the price realization. This year we had a dip from Rs 44,700 to Rs 32,500 so going ahead in the next year what is the kind of price realization we can see?

Anurag Choudhary: The average price realization during this year was Rs 32,578 which compared to the corresponding quarter last year was Rs 44,776. So it came down by Rs 20,000 and correspondingly the raw material price also came down by Rs 12,000. Since our price is linked with the raw material price, if the price of raw material goes up the selling price is up, if the price comes down the selling price also comes down.

Shubhankar Ojha: So going ahead what is your view on the crude prices. Do you expect it is going to be up?

Anurag Choudhary: Going forward I think with the current level there will be 10% - 15% upside movement and it will remain stable on that.

Shubhankar Ojha: Sir what is the current capacity you have?

Anurag Choudhary: Capacity for coal tar distillation is 4,00,000 metric tonne and carbon black is 1,20,000 and for SNF is 68,000.

Shubhankar Ojha: Thank you so much.

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

Pritesh Chedha: Thank you Sir. Just two questions; one - when you talk about capacity utilization do you take it as a function of coal tar distillation or coal tar plus CB put together?

Anurag Choudhary: Coal tar distillation - that is why when I am discussing capacity utilization for coal tar distillation we have done 74%, for carbon black we have done 82%.

Pritesh Chedha: So for carbon black 82%, which means you would have produced about 70,000 to 80,000 tonnes of carbon black if your total capacity is 1,20,000.

Anurag Choudhary: Yes, that is right.

Pritesh Chedha: Your total carbon the volume that you have put in the presentation is about 3 lakh tonnes?

Anurag Choudhary: That is total.

Pritesh Chedha: That is first question. Second so which means the CT volumes would be about let us say about 2 lakhs. So the capacity utilization is 100% or whatever plus 100% that you can take first how long will it take and second what is the visibility that we have because I think it depends upon two, three big aluminium facilities in India. So if you could give some idea there?

Anurag Choudhary: Today we have coal tar distillation facility of 4,00,000 tonnes. Last year we did a utilization of 74%, which is around 300,000 tonnes. So effective 100,000 tonnes nearly 25% of the capacity remain ideal. So with the ramping up of capacity expected in next one year by the aluminium smelters we expect that this capacity utilization will reach to 100%. It will grow over the quarters.

Pritesh Chedha: What is the update on the Vedanta Ports and Aditya Aluminium?

Anurag Choudhary: I think both of them are ramping up their capacity. Vedanta has recently started SEZ and they are gradually ramping up the capacity, same with Aditya they also ramping up the capacity.

Pritesh Chedha: What is the capacity in these two places Vedanta 300,000 metric tonne?

Anurag Choudhary: No Vedanta SEZ is 1.2 million and they are normal unit Jharsuguda plant is 5,50,000.

Pritesh Chedha: Okay so 1.2 plus 5,00,000.

Anurag Choudhary: Actually 1.75 million tonne ?

Pritesh Chedha: Which one is operational in this and how many parts?

Anurag Choudhary: 550,000 is fully operational and 1,20,000 is being ramped up.

Pritesh Chedha: So 550 is operational since last year?

Anurag Choudhary: Last three, four years.

Pritesh Chedha: Last three, four years and in this 1.2 million how much has started.

Anurag Choudhary: This is very difficult for me to say because they are ramping up in phases so gradual ramping up will take place.

Pritesh Chedha: How much of supply would you do to them this year if that you have in your mind, incremental?

Anurag Choudhary: I think by the end of the year we able to incrementally use our entire capacity.

Pritesh Chedha: For Vedanta.

Anurag Choudhary: Vedanta and Aditya together.

Pritesh Chedha: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Kalpesh Guthi from Veda Investment. Please go ahead.

Kalpesh Guthi: Good afternoon Sir. Can you give the industry scenario and what is the size and who are our competitors?

Anurag Choudhary: Industrial scenario is basically we are supplying coal tar pitch for uses in aluminium and graphite electrode industry. For aluminium industry if you produce 1 metric tonne of aluminium you need 100 kgs of coal tar pitch. It is a specialty product, which impacts the quality of aluminium not only in terms of cost but in terms of quality of final product they produce. It has impact on the purity of the metal they produce, it impacts the life of the pots and also has direct impact on the power consumption so it is a very critical material for the users and which has lot of value addition to them. So basically our end-user for aluminum base smelters hence for same graphite electrodes it is used as a binder for making electrodes. It is also used and impregnator, impregnating for when they do graphitisation they need our iron pigmenting material. So it is used for impregnation also in the graphite electrodes. In graphite electrodes around 40% by volume is coal tar pitch so these are two consumers and aluminum industry in India has already done lot of expansion over the last few years. Now it is a question of ramping up of capacity with the coming year we expect the ramping up capacity to take place and there will be a growth in demand for coal tar pitch.

Kalpesh Guthi: Who are our competitors?

Anurag Choudhary: In organized field there are no competitors. Unorganized sector there are small players who are competing with us, but the volumes difference is very big.

Kalpesh Guthi: Sir what actually happened that we have seen the turnaround in our financial in last two quarters? Is it basically that we are able to reduce our working capital?

Anurag Choudhary: No it is not only because of working capital, the turnaround has happened because we have done a lot of things in order to bring operational efficiencies, improve or reduced the cost and because of the increased capacity utilization the sales was up by 10% on year-on-year basis so these factors have added to for better profitability.

Kalpesh Guthi: So you are saying that it is sustainable.

Anurag Choudhary: Yes, these are sustainable efforts.

Kalpesh Guthi: We may see more improvement in the EBITDA margins.

Anurag Choudhary: With the time I think gradually it will improve further.

Kalpesh Guthi: One more question, any major plan has any plan to reduce further debts.

Anurag Choudhary: Definitely as I told also over the next three to four years our plan is to reduce our debt by more than 50% already if you look at the debt profile we have reduced this year the debt by around 230 odd Crores so in one year we have reduced the debt by 22% to 25% and next two to three years will again significantly reduce our debt.

Kalpesh Guthi: Sir wanted to understand what is the advance carbon black?

Anurag Choudhary: No it is not advance carbon black. It is advance carbon material. It is a specialty chemical this goes into lithium-ion battery for making anodes. It is an anode material. So the end-use is wherever the lithium-ion, when you make the lithium-ion batteries you use this material, it a very high value-added product.

Kalpesh Guthi: So what is the final product there?

Anurag Choudhary: Advance carbon material.

Kalpesh Guthi: Sir in your presentation we are placing ourselves as a specialty chemical category any specific reason for that?

Anurag Choudhary: Can you repeat the question?

Kalpesh Guthi: In the presentation we are now placing ourselves as a specialty chemical company any specific reason for that?

Anurag Choudhary: Not in the presentation if you look at the go back to four, five six years' balance sheet you will see we are already into specialty chemicals like if the carbon complex that which we have set up it is a specialty carbon chemical complex, which we have set up over the year, if you look at the different products that we are manufacturing individual product has a special application. So the biggest differentiation between a special chemical and a commodity chemical this commodity chemical has wide are wide applications so you can use it in 10, 12, 15 different uses but in a specialty chemical you have a specific use to that, that coal tar pitch the aluminum coal tar pitch we have make can only be used in aluminum industry so all the products that we are making has as specific use and the quality it is very big factor and the impact of this product on the final product that our consumers are doing helps you significant, so these are specialty chemicals so we want to project it in the right way, so that everyone who is investing in the company or dealing with the company they correctly understand what the company is actually brings.

Kalpesh Guthi: But the margin of the specialty you say is very low?

Anurag Choudhary: In last quarter we had already 19% EBITDA margin.

Kalpesh Guthi: So do we see the sustainable 19% in the coming quarters also?

Anurag Choudhary: The 19% is what we have already achieved. If we will go back in the rest of the company we were had EBITDA margin of in the 20%, so over the years there is because of the depreciation in the rupee, the cost of raw material went up which were not able to pass on to the customers so lot of things were there which reduced the EBITDA margin so now we are back on track and the EBTIDA margins are forming up quarter-on-quarter you will see improvement.

Kalpesh Guthi: Sir any plan to enter into new products?

Anurag Choudhary: Definitely we have our very strong research and development wing which keeps on evaluating new products, new areas, but thing is that whatever product we product, whatever area we look at is a forward integration, so there are lot of products we are looking at, R&D working at so works they are at final stage we will introduce that.

Kalpesh Guthi: Sir any FCCB is still there.

Anurag Choudhary: No there is no FCCB.

Kalpesh Guthi: So how much saving in the interest will be there?

Anurag Choudhary: Current year we expect the interest cost to come down drastically because the loan profile has itself come down, loan itself has come down by 230 to 240 odd Crores so the correspondingly there will be deduction in the interest.

Kalpesh Guthi: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Rajat Sethia from Rare Enterprises. Please go ahead.

Rajat Sethia: You mentioned in your presentation that you want to be the lowest cost producer. Can you please explain a little bit about who is currently the lowest cost producer and what is the difference between you and that guy at the moment?

Anurag Choudhary: See the lowest cost producer we do not mean to compared with any specific company what we mean to say that we have set up by integrated carbon specialty complex and what happens in that the energy flow is balanced in such a way that the energy coming out from one steam we choosing another steam and if you suppose you look at Himadri today we do not buy power in our main plant we are generating power from carbon black and using in all the other steams. The steam is being generated within so even the processing oil is generating within the company so there is no energy consumption which is coming from outside so this makes us self reliant and helps us to reduce the cost.

Rajat Sethia: So basically we are targeting on the power and fuel side where from their own division we are targeting?

Anurag Choudhary: That is the processing cost.

Rajat Sethia: The other question I have is on your interest cost for the last two years while the debt has been coming down but the interest cost has remained broadly the same?

Anurag Choudhary: See if you look at that, because we have been shifting our debt from US dollars to INR so if you look at a debt profile three years back 90% of our debt was in US dollars today that has come down to 25%, 30%.

Rajat Sethia: Thank you so much.

Moderator: Thank you. The next question is from the line of Pawan Aluwalia from Laburnam Capital. Please go ahead.

Pawan Aluwalia: I have a few questions. First was what being the defining dynamics in the industry in the last year or two has been competition from China this is partly obviously in the form of volumes coming in but probably more importantly in terms of just capping a price which you had alluded earlier. How is that playing out right now and how do you see the Chinese competition playing out in the next year or two? My second question is at peak capacity utilization what kind of EBITDA should we assuming present prices and cost here on the same what kind of EBITDA should we expect that we would be able to generate?

Anurag Choudhary: See as far as competition from China is concerned for our main product coal tar pitch. There is import barrier in terms that we sell liquid coal tar pitch which is used as a temperature of 230 degrees centigrade so we transport the material to our customers at a temperature 230 degree centigrade so if someone wants to import it they have to import it a high temperature material so all those is specialized vessels and the cost will be very high. Secondly we are not charging any additional costs compared to the international prices of coal tar pitch so there is no question of any competition from China as far as the coal tar pitch is concerned. Secondly looking forward once we attain 100% capacity utilization the turnover from CTP business will increase by 25% and correspondingly the EBITDA will also increase.

Pawan Aluwalia: So blended even we should assume at peak capacity would be about 200 Crores?

Anurag Choudhary: We already are running at a run rate of 200 Crores if you look at the last two quarters obviously it is 53.5 Crores and 49 Crores this quarter so already we have got 100 Crores so run rate is there so I think it should be much better than that.

Pawan Aluwalia: Sir just one that you talked about coal tar pitch and my understanding was that people were importing solid pitch from China and then melting it here and that was happening in small volumes but it was constraining the ability of Indian player's surprises that not correct and what about in the other areas naphtha, carbon black, etc., has there been any Chinese pricing pressure in those areas?

Anurag Choudhary: Coal tar pitch is a melting that you are saying the quality is the constraint, because the quality which the consumers need they have 22 chemical and physical properties and everything has need to be matched and importing solid pitch the melting is not a viable option for them. They are more into since they are environmental friendly the smelters are consist very much in terms of environmental assets so they do not want to handle solid pitch and melt it and do all those things, so they are focusing on liquid pitch only and consume globally also the trend is there that everyone is consuming liquid pitch. So that answer I think your question regarding other products within carbon black based already antidumping duty is there in place, which takes cares of China competition. Naphthalene is other products definitely China is the competition and the prices have come down to a great extent over the last one year because of dumping by China. So that impact is already there.

Pawan Aluwalia: How do you see that playing out going forward could prices go further still any reason that if they have reach the bottom?

Anurag Choudhary: The prices have already come down drastically of Naphthalene and more or less it stabilizes for last three four months and we expect that to continue.

Pawan Aluwalia: Thank you very much.

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

Suhani Doshi: Good afternoon Sir. I wanted to know if there is an inventory loss in this current quarter.

Anurag Choudhary: Yes, there is an inventory loss of 8.77 Crores.

Suhani Doshi: Do you expect it to continue going forward?

Anurag Choudhary: No we do not expect it to continue forward.

Suhani Doshi: Can you give a general guidance on your volume growth over the next two, three years if considering your 100% capacity utilization, so would it be around 20% volume growth?

Anurag Choudhary: I think by the end of the current year we will attain 100% capacity utilization.

Suhani Doshi: Any idea on the volumes?

Anurag Choudhary: Yes, accordingly volume will grow by based on that.

Suhani Doshi: Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

Rajesh Kothari: Good afternoon. Congratulations for good set of numbers. Just few questions from my side one can you give us the breakup in fourth quarter your operating profit is 49 Crores out of that how much is basically from coal tar and how much is from carbon black?

Anurag Choudhary: Actually we don’t have any segment breaking do not do any segment wise P&L for carbon black and coal tar pitch since we consider the entire business as a whole in carbon chemicals and because it is an integrated complex the oil which comes out from coal tar is used as a raw material for carbon black so we do a combined profitability.

Rajesh Kothari: But when you do the actual sales both are separate business am I right. Are you trying to say that bulk of one is used in other that is what you are trying to say?

Anurag Choudhary: Yes, the raw material, like when we do coal tar distillation the oil, which comes out it, is transferred to carbon black as a raw material when carbon black is produced so it is a fully integrated business.

Rajesh Kothari: But finally what is your finished goods is it a coal tar or carbon it is both am I right.

Rajesh Kothari: Yes.

Anurag Choudhary: Coal tar pitch and carbon black correct.

Rajesh Kothari: So both are basically to the different customers, am I right.

Anurag Choudhary: That is right.

Rajesh Kothari: So therefore it is one should do the transfer pricing kind of thing market based pricing and then try to arrive because carbon black is a different industry and coal tar is a different industry, so I am saying from that perspective if it is possible to break up the EBITDA.

Anurag Choudhary: Actually we do not do breaking up of EBITDA in that perspective we do a combined EBITDA of the entire carbon chemical segments.

Rajesh Kothari: So the cost per tonne if I look at on combined basis has definitely reduced if I look at the average EBTIDA per tonne in FY16 versus fourth quarter, in fourth quarter our EBITDA per tonne has increased by about 20% from 5200 to say about 6200 something like that. So do you do EBITDA per tonne or do you do it in margins how you look at your business.

Anurag Choudhary: We do EBITDA per tonne.

Rajesh Kothari: So what is your study normal EBITDA per tonne one should assume?

Anurag Choudhary: See today if you look on an average last year last quarter it was around 5500 to 5700.

Rajesh Kothari: You mean fourth quarter FY16.

Anurag Choudhary: Fourth quarter FY16.

Rajesh Kothari: If I look at 49 Crores divided by your volume that is 79,834 it comes out to 6,137.

Anurag Choudhary: Yes, around 5700 to 6000, so that is what we achieved in last quarter in absolute terms so that is more or less stabilized now.

Rajesh Kothari: No so what I am trying to basically wanted to check with you is that cost has reduced from almost about Rs.1000 in last 12 months or so, so what is the various reasons, which resulted, to significant reduction cost per tonne and has the utilization improved and how much you think this fixed cost versus variable cost.

Anurag Choudhary: See once this utilization improves then we have advantage in terms of fixed cost, which will be definitely billed here.

Rajesh Kothari: So how much just I am trying to understand that if I look at your 260 minus 49 that is out of your total cost and how much you think as an advantage of fixed cost which may not move up so much even if the utilization goes up so out of 210 Crores total cost at EBITDA level how much you think is your fixed cost is variable.

Anurag Choudhary: Around 14% to 12% is variable and total cost if you look at it is around, fixed cost, itself will be around Rs.800 to Rs.900 advantage we will have once we scale up the volumes.

Rajesh Kothari: So to that extent your EBITDA per tonne can move up.

Anurag Choudhary: Yes, that is perfect.

Rajesh Kothari: Sir my second question is you said that over next three years you may target to reduce debt by about 50% or so, so your current debt is close to about 750 Crores including long-term and short-term.

Anurag Choudhary: 805 Crores.

Rajesh Kothari: So it means that if you want to reduce debt by 50% it means 400 Crores is to be repaid so to that extent your internal accrual should be to that extent right.

Anurag Choudhary: Yes, that is right.

Rajesh Kothari: So about close to 130 Crores kind of an internal accrual if you take out 60 Crores kind of a depreciation so that means a net profit of close to about 70 Crores that is what we are looking for over a period of next three years correct.

Anurag Choudhary: Yes, that is the base we are looking at.

Rajesh Kothari: So how much interest cost you are certainly for the next year for FY17.

Anurag Choudhary: 70 Crores.

Rajesh Kothari: Compared to last full year of close to about, Oh I see 100 will become to 20 okay and what will be your effective tax rate for the full taxpaying coming or you would have any benefit there.

Anurag Choudhary: Yes, we have the benefit of carry forward losses and unabsorbed MAT so basically will be a net paying company.

Rajesh Kothari: Because in fourth quarter the tax rate was very high correct I was just.

Anurag Choudhary: No actually that for competition basis you have to provide for 33% but as per actual payout will be lesser

Rajesh Kothari: And last but not least you said that you would like to be top three in the world so what is the ranking number one, number two, number three and where are we right now.

Anurag Choudhary: See if you would look at the global positioning in terms of coal tar distillation we are among the top ten now but idea is to not depend only on the coal tar distillation. We want to define as the integrated specialty chemicals, like the way we are integrated there are hardly any players in the worldwide integrated like from when we do coal tar distillation we produce coal tar pitch then we produce oil, from oil we take carbon black then we produce naphthalene, from naphthalene we make SNF then we make advanced carbon material. So it is an integrated player. Globally it is not like that. In some countries they are producing two three products, in other they are producing other two products, so that is the difference. In this integrated arena we want to be in the top three.

Rajesh Kothari: So top three basically as an integrated player that is what you would like to put it?

Anurag Choudhary: That is right.

Rajesh Kothari: So who is right now currently the integrated, any company which you would like to name who are the integrated players?

Anurag Choudhary: The Japanese company is there, which are doing it.

Rajesh Kothari: What is their capacity, any name you would like to give the name of that company?

Anurag Choudhary: Mitsubishi is doing it at present and there is a company Dudkas which is under Rain Commodities, they have also integrated but they do not have carbon black.

Rajesh Kothari: How big will be Mitsubishi in terms of capacity?

Anurag Choudhary: 800,000.

Rajesh Kothari: Last what is your vision over next five to six years, let us assume that you reduce debt and you become top three so what is your vision ultimately, how you would like to position your company in terms of the one capacity because you also need to you are seeing no capex but if you want to be top three then Mitsubishi for example has 8 lakhs, would you like to again increase your capacity, how are you looking at the business?

Anurag Choudhary: When we are talking of capacity we already have attained the capacity and that need to be utilized. We did our expansion in 2014 and since then it is lying idle. So that is hitting on our balance sheet. So first we would like to stabilize that, use that capacity to the full extent, which we expect to happen in next year or two times and then once we consolidate our position when we reduce the debt then we look for any further expansion.

Rajesh Kothari: Agreed, thank you Sir and wish you all the best.

Moderator: Thank you. We will take the next question from the line of Nitin Gandhi from KIFS. Please go ahead.

Nitin Gandhi: Thanks for taking my question. Can you share what is the average cost of debt right now?

Anurag Choudhary: Our average cost of debt will be at around 8%.

Nitin Gandhi: Can you give it separate for foreign currency vis-à-vis domestic India?

Anurag Choudhary: Domestic will be at around 10.2%.

Nitin Gandhi: Sizes. What is the amount?

Anurag Choudhary: Domestic debt will be 800 Crores you can say at around nearing 575 Crores will be the estimate.

Nitin Gandhi: In dollar?

Anurag Choudhary: Balance will be dollar.

Nitin Gandhi: What is the rate?

Anurag Choudhary: Average rate will be around 2%.

Nitin Gandhi: You said can you share what is the current capacity utilization because I understand you are targeting 100% in next one or two years and I also got your arithmetic, just correct me if I am wrong at 120% capacity utilization turnover will be up by 25% and EBITDA will be higher, right?

Anurag Choudhary: Not 120, 100% capacity. Now we are at 74% capacity utilization in terms of coal tar distillation, which we are expecting to gradually increase to 100%.

Nitin Gandhi: Can you share there is a spread between landed cost of your material vis-à-vis current your realization?

Anurag Choudhary: There is a delta on which we are working. That we work on a specific delta with our customers. So the cost of raw material and the finished product the difference is the delta, which we work with our customers.

Nitin Gandhi: Yes, but can you at least say what is the landed cost?

Anurag Choudhary: Which landed cost for last year the average sales realization you mean.

Nitin Gandhi: No I mean landed cost of the import.

Anurag Choudhary: So that was average raw material cost was Rs 14,855 for the last quarter.

Nitin Gandhi: How is it moved in last one or two years?

Anurag Choudhary: For the last financial year if you look at the entire financial year it was Rs. 20,000 and last year was Rs. 30,400.

Nitin Gandhi: Now it is 14,855 for quarter four and how do you expect any up you also expect for next or two quarters or what could trend changes?

Anurag Choudhary: I think I will stabilize in the range of average will be in the range of 20,000 to 21,000.

Nitin Gandhi: So raw material prices likely to move up from current level?

Anurag Choudhary: That is right.

Nitin Gandhi: That is likely to be in first quarter or first half?

Anurag Choudhary: Gradually it will improve, the crude has gone up if you look at the way the crude has gone up over the last two three months, accordingly I think the price of our raw material will also go up.

Nitin Gandhi: But there will be some lead like effect between your sourcing and actual utilization, so may be the quarter will have lower cost?

Anurag Choudhary: That is right.

Nitin Gandhi: What is the generally lead like?

Anurag Choudhary: It depends like generally it is from two months to three months.

Nitin Gandhi: Thank you very much, if I have more questions I will come back.]

Moderator: Thank you. We will take the next question from the line of Chiragh Shah from ICICI Securities. Please go ahead. We will move onto the next participant that is from the line of C. Srihari from PCS Securities. Please go ahead.

C. Srihari: Thanks for the opportunity. Firstly, I would like to know what was the capacity utilization for your three verticals in fiscal 2016?

Anurag Choudhary: The capacity utilization was 74% for coal tar distillation and 82% for carbon black.

C. Srihari: For naphthalene, you do not report that separately?

Anurag Choudhary: No, we do not; in coal tar pitch only it goes.

C. Srihari: Can you give me the corresponding numbers for fiscal 2015?

Anurag Choudhary: It was 86% for coal tar pitch distillation and 73% for carbon black.

C. Srihari: Could you please give the average realization?

Anurag Choudhary: Average realization for FY2016 was 38,478.

C. Srihari: This was blended?

Anurag Choudhary: Yes, this is blended.

C. Srihari: I wanted for the two verticals. I mean for coal tar pitch and carbon black.

Anurag Choudhary: Yes, it is a blended margin, blended realization 38,478.

C. Srihari: You do not split it by the two divisions?

Anurag Choudhary: No we do not split.

C. Srihari: Okay 38,478 and correspondingly it was 4,15,000.

Anurag Choudhary: It was 50,439.

C. Srihari: Okay and your debtors have decreased significantly during the year, can you please explain that?

Anurag Choudhary: Debtors in fact has come down below 200 Crores level, it is the first time in last few years that it has come down to these levels. We have taken lot of efforts in terms of realization, in terms of changing our traction, number of data days, so data days have reduced from 74 days to 61 days.

C. Srihari: Is it sustainable at this number or you are trying to improve it further?

Anurag Choudhary: It is sustainable at these levels.

C. Srihari: So you are pretty satisfied with the current situation?

Anurag Choudhary: Yes, we are pretty satisfied. It is a big improvement of bringing it down from 74 days to 61 days.

C. Srihari: What are your capex plans for the next two years?

Anurag Choudhary: There is no capex plan.

C. Srihari: So it will be only routine maintenance?

Anurag Choudhary: That is right.

C. Srihari: For fiscal 2017 and fiscal 2018?

Anurag Choudhary: Yes, fiscal 2017-2018 there is no capex plan.

C. Srihari: That is all from my side, thank you.

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

Chiragh Shah: Good afternoon Sir. My question is more on the capex side, since you mentioned correct me if I am wrong, you mentioned that you will hit 100% capacity utilization in FY2017 itself. So do not you think that you need capital expenditure programme probably for the next year FY2018 and 2019 if you want to grow from those levels?

Anurag Choudhary: First since we had already done this capex ahead of the time, because the capacity aluminium smelter was already there but they did not ramp up the capacity. So our capacity utilization was not there for last couple of years. Now we do not want to take any risk. We want to first consolidate our existing capacity, run it at more than 100% capacity utilization, take the full benefit of it and then look for any further capacity addition.

Chiragh Shah: How much time does it take to put up a new fresh capacity on a Greenfield or a Brownfield basis?

Anurag Choudhary: For us it will be a Brownfield so it will take 12 months.

Chiragh Shah: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Kalpesh Guthi from Veda Investment. Please go ahead.

Kalpesh Guthi: Thank you Sir for hearing me again. How we are planning to tackle the volatility in realization?

Anurag Choudhary: The volatility in realization is not an issue because it is linked with the raw material prices. So if the raw material prices come down the realization comes down, if it goes up the realization goes up. So it is on a transferable pricing basis to the customers.

Kalpesh Guthi: So Sir we have anything changed the methodology or a pricing to calculate how to charge the customer?

Anurag Choudhary: No this we have been doing over the last quarters.

Kalpesh Guthi: Is this helped us to have a better realization?

Anurag Choudhary: No this is going on, so there has not been big change in this.

Kalpesh Guthi: Sir one more question per tonne of aluminium produce how much our product is used?

Anurag Choudhary: 10%, suppose you produce 100 tonnes of aluminium 10 tonnes of coal tar pitch.

Kalpesh Guthi: Coming to your export market, which are our major export market?

Anurag Choudhary: We are exporting carbon black, SNF, Naphthalene, so all these are going to the global market Southeast Asia then Europe, the Middle East, US.

Kalpesh Guthi: So what is the relative margin compared to the export and domestic?

Anurag Choudhary: Export margin is comparatively low compare to domestic market.

Kalpesh Guthi: How much is the export?

Anurag Choudhary: Export is 12% of our topline.

Kalpesh Guthi: Are we targeting any new geography?

Anurag Choudhary: No, not as such.

Kalpesh Guthi: Thank you Sir.

Moderator: Thank you. The next question is from the line of Rajat Sethia from Rare Enterprises. Please go ahead.

Rajat Sethia: Sir why is exports are low margins product for us?

Anurag Choudhary: See because what happens that freight cost itself is significant and since every geography has their own producers, so we do not compete in terms of exports. We have very strong demand in the domestic market itself, which gives a very good profitability, so we are focused more on the domestic market rather than exports.

Rajat Sethia: The other question is around your realizations. I think you mentioned realization has been around Rs. 37,000 to 38,000, right?

Anurag Choudhary: Yes, for the whole year 38,428.

Rajat Sethia: The landed cost of raw material you mentioned was how much?

Anurag Choudhary: 20,000.

Rajat Sethia: 20,000 Sir this gives us a gross margin of around?

Anurag Choudhary: Rs. 18,400.

Rajat Sethia: Yes, so in terms of percentage it comes around 48% while the reported numbers say the gross margin around 34% where I am doing the calculation wrong?

Anurag Choudhary: There is an inventory adjustment because of which there are lot of material sold from the inventory the cost was high so I think that is the adjustment.

Rajat Sethia: So basically the inventory that we had with us obviously was at higher cost and that is why if the price is stabilized at the current level realization as well as the raw material prices, we are going to make 50% gross margin?

Anurag Choudhary: Yes, I think it should be stabilized in this region 47%, 48%.

Rajat Sethia: Thank you Sir.

Moderator: Thank you. The next question is from the line of C. Srihari from PCS Securities. Please go ahead.

C. Srihari: Thanks for the followup. I noticed that there is a significant improvement in the capacity utilization of your carbon black unit, what is the outlook for the current fiscal, what is the kind of volume growth you foresee?

Anurag Choudhary: For carbon black.

C. Srihari: That is right.

Anurag Choudhary: Our target is to near it to 90%.

C. Srihari: 90% so then want to be in need of hiking the capacity?

Anurag Choudhary: No, capacity is already there, only utilization.

C. Srihari: Yes, precisely so you will be at 90% current fiscal?

Anurag Choudhary: That is the target.

C. Srihari: So for next fiscal then you want it to be a bit tight I mean what is the let us say on the plate size what is the kind of capacity utilization you can go up to maximum?

Anurag Choudhary: That is around 90% only for carbon black but for coal tar distillation we can go above 100.

C. Srihari: So which means I mean this fiscal itself you will have to plan for an expansion of carbon black?

Anurag Choudhary: No we are not looking for expansion of carbon black.

C. Srihari: So you will hold it steady at 90%?

Anurag Choudhary: That is right.

C. Srihari: Okay, fine. Thank you.

Moderator: Thank you. We will take the next question from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

Rajesh Kothari: Sir you mentioned that your interest cost will reduce by 20 Crores or to 20 Crores in the current year?

Anurag Choudhary: No by 20 Crores, how can it reduce to 20 crore.

Anurag Choudhary: That is right.

Rajesh Kothari: Thank you Sir.

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

Amity Agarwal: I would like to thank the management of Himadri Chemicals & Industries for having taken time out for this conference call. I also like to thank all the investors and the participants of the call for having attending the call. Thank you all. Good afternoon. Good bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of SBI Cap Securities that concludes this conference. Thank you for joining us, and you may now disconnect your lines.