

23 November, 2011

### Moderator

Ladies and gentlemen good day and welcome to the Himadri Chemicals Q2 FY12 Earnings Results Conference Call hosted by Emkay Global Financial Services. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Pritesh Chheda. Thank you. And over to you, sir.

### Pritesh Chheda:

Good evening, everybody. Thank you for joining us today. We would like to welcome the management of Himadri Chemicals & Industries limited and thank them for giving us the opportunity to host this call. We have with us today, Mr. Anurag Choudhary – Chief Executive Officer of Himadri Chemicals. I would now like to hand over the call to Mr. Choudhary for his opening remarks. Over to you, sir.

### Anurag Choudhary:

Thank you, Pritesh. Good afternoon, everyone and I welcome you to the Q2 2011-12 conference call of Himadri Chemicals & Industries Limited. First, I will take you through the numbers we have achieved during the quarter. The company registered an increase in Net Sales by 63% to Rs. 281.29 crores from Rs. 172.46 crores. The Net Profit before Tax and Foreign Exchange gain or losses also registered an impressive increase of 54% to Rs. 55.31 crores from 36.02 crores in the corresponding period last year. The Net Profit after Tax stood at 22.96 crores against 29.01 crores after netting of interest of 12.62 crores vis-à-vis 5.94 crores during the corresponding period last year. Income Tax of 7.65 crores against 9.67 crores during the corresponding period last year. During the current quarter the company had a mark-to-market loss of 24.70 crores on account of long-term ECB loans and as a foreign exchange exposure the company was having. EBITDA for the current quarter stood at Rs. 67.05 crores against 47.88 crores in the corresponding period during the last quarter registering an increase of 40%. The Cash Profit for the current quarter stood at Rs. 59.92 crores without adjusting the Foreign Exchange loss of 24.70 crores against 35.69 crores during the corresponding quarter last year, registering an increase of 68%. So if you look at the overall numbers the quarter has been impressive other than mark-to-market loss. The company was able to achieve significant growth in terms of top-line and similar growth can be seen in terms of Cash Profits and EBITDA level. The total debt as on 30<sup>th</sup> September 2011 stands at Rs. 926 crores. Cash and Bank balance as on date stands at Rs. 287 crores. The debt-equity ratio after netting out the Cash and Bank balance and investments is at 0.76:1. The company has been fairing well in terms of current assets management also. The sundry debtor position average aging was at 85 days. Inventory levels the company was able to reduce for the raw material from 90 days to 79 days and for finished products from 70 days to 43 days compared to the corresponding quarter last year.

During the current quarter we have completed two of our expansion projects. We have been able to increase the capacity of Carbon Black by 100% from 50,000 MT to 100,000 MT. The capacity of SNF has been increased by 278% from 18,000 to 68,000. Both the projects we have been able to commission before time against the commitment to commission in the month of September we commissioned Carbon Black in the month of July 2011 and we were able to commission SNF in the month of August 2011 against projected September 2011.

The company is setting up a new Greenfield project in China. The project is in advanced stage and the company is able to start the trial production. And during the current quarter we expect to stabilize production and start the commercial production.

Now, I would like to brief you about the outlook of the industry. Himadri is serving aluminum, graphite, tyre industry, Infrastructure industry in the form of SNF, lithium ion battery in the form of advanced carbon material. The overall look on the industry is strong on a long-term perspective. The aluminium capacity globally stands at 42 million tonnes and is expected to Rs. 52 million tonnes in the next five years time. India is going to play a major role along with Middle East. Most of the expansion is coming now in these two geographies followed by China. The current Aluminium capacity in India is 1.6 million tonnes, which is expected to increase to around 4 million tonnes in the next 2-3 years time. With this the requirement of Coal Tar Pitch is also going to increase substantially from the domestic aluminium smelters. The company announced expansion plan of increasing its capacity by 140% from 250,000 MT to 600,000 MT over a period of three years. Which includes brown field and green field expansion, other than that we are setting up a graphitization plant for advanced Carbon material which we expect to commence in the next quarter. The outlook for the Carbon Black industry remains somewhat subdued because of

reduced demand from the tyre segment and other applications which we expect to normalize over the next quarter also. The company has also set up 8 MW power plant which we expect to fully commissioned from the month of January. Overall, the company has been delivering on its promises. We have projected 30% growth on CAGR basis where during the current quarter we have already registered 63% plus growth on the top-line and 55% growth in terms of PBT before foreign exchange losses. Looking forward, the environment is challenging with the interest rates going up and the raw material prices are also going up at the same time with the global economy facing difficult times, so we also expect the coming quarters to have some effect in terms of our bottom-line with the increased raw material cost. Overall, the performance of the company has been encouraging and we expect to maintain the same on our medium-to-long-term basis. With this I open the dais for question and answer. Thank you.

**Moderator:**

Thank you. We will now begin the question-and-answer session. The first question is from the line of Puneet Mahajan from Quest Investment Advisors. Go ahead please.

**Puneet Mahajan:**

I just have one question about the lithium ion. I was just going through a recent news article and I have seen to suggest that Himadri would be taking another 18-24 months to be able to ally with some Japanese companies and been to supply the advanced carbon material for lithium ion is that correct?

**Anurag Choudhary:**

The product as I told you will start the production in the next quarter and after that it is being a highly technical product takes another 12-15 months for evaluation and testing at user end. So we are working with a few players who will be testing this product and after that only we can give substantial volumes.

**Puneet Mahajan:**

I see. So if I may go forward from this point, right now it is FY12 and if it is going to be another 15 months I would say maybe 1.5 years, so would it be fair to say somewhere around FY14 you should see revenues coming in from lithium ion?

**Anurag Choudhary:**

From the finished products, yes.

**Puneet Mahajan:**

So right now it is more of investment phase and you should see more revenues coming in from FY14?

**Anurag Choudhary:**

That is right.

**Moderator:**

Thank you. The next question is from Hiral Shah from VCK Shares & Stocks. Please go ahead.

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**Question and Answer Session**

**Hiral Shah:**

My first question was would be the current market price of Coal Tar?

**Anurag Choudhary:**

Actually, we do not provide item wise raw material prices.

**Hiral Shah:**

So in that case how many units of power were sold in the current quarter?

**Anurag Choudhary:**

Most of the power consumed in-house, actually the net additional revenue for power during the second quarter has been around less than 1 crore.

**Hiral Shah:**

What is the total sales volumes?

**Anurag Choudhary:**

During the quarter we achieved a sales of around 62,500 MT.

**Hiral Shah:**

And the realization?

**Anurag Choudhary:**

The average realization was at Rs. 44,600.

**Moderator:**

Thank you. The next question is from the line of Neeraj Toshniwal from SPA Securities. Please go ahead.

**Neeraj Toshniwal:**

I just wanted to know about your foray into this advanced carbon material and the status will be talked with Japanese players at the moment?

**Anurag Choudhary:**

Himadri has already started manufacturing advanced carbon materials. So now we are going for the finished products, that is graphitized advanced carbon material, for which we are setting up a facility, and after that material will be sent to different customers and it will be tested on a commercial basis which will take another 12-15 months time, post that we see there is going to be a big growth in this product.

**Neeraj Toshniwal:**

How big would be this market for looking down the line, 1.5 years what we are taking kind of market share looking into this business?

**Anurag Choudhary:**

Looking forward it will be more than a \$1 billion market. This is increasing every year average of 25-30% dominated by the Japanese.

**Neeraj Toshniwal:**

And the commissioning of this Coal Tar plant would be in Bengal?

**Anurag Choudhary:**

Yeah, that is right.

**Neeraj Toshniwal:**

And regarding your Coal Tar expansion like brown and Greenfield, so have you started your China production schedule from September?

**Anurag Choudhary:**

Yes, we have already started the production. They are in a trial run phase. So we expect to stabilize the production during the current quarter and from the next quarter we will be starting the commercial production.

**Neeraj Toshniwal:**

And what would be the utilization rate?

**Anurag Choudhary:**

Initially, the utilization will be in the 50-60% range.

**Neeraj Toshniwal:**

And the new expansion plan that you are talking about, about 6 lakh MT you would be reaching from 250,000 can you give the breakup of tenure?

**Anurag Choudhary:**

Actually, it will be done in two phases. First phase will be 150,000 tonnes and second phase will be up to 100,000 tonnes at Greenfield plant.

**Neeraj Toshniwal:**

Greenfield plant.

**Anurag Choudhary:**

No, it does not include China. It is excluding China.

**Neeraj Toshniwal:**

This would be at which place?

**Anurag Choudhary:**

Brown field will be West Bengal only and the Greenfield will be in Orissa.

**Neeraj Toshniwal:**

And what is the CapEx we are looking for this?

**Anurag Choudhary:**

The total CapEx the company has planned is around 1,000 crores. Out of which we have already spent 425 crores.

**Neeraj Toshniwal:**

And what is the outlay in terms of debt and equity?

**Anurag Choudhary:**

That is 1:1.

**Neeraj Toshniwal:**

And one more question about your hedging policy, we are seeing a loss to around 24 crores in this quarter and total foreign currency loan in the book is around 28-29% of total loan. So what is the hedging policy and how much impact we are taking into considering for 1% depreciation of Rupee.

**Anurag Choudhary:**

Actually, we had long-term loans averaging from 6 years to 10 years loans. So we do not hedge these loans. This is open to exchange fluctuations.

**Neeraj Toshniwal:**

We are actually open doing natural hedging?

**Anurag Choudhary:**

Yeah, that is right.

**Neeraj Toshniwal:**

Plus with the appreciation of Rupee do you see next quarter also seeing some ForEx loss?

**Anurag Choudhary:**

Definitely, yes. Looking at the way the Rupee is depreciating, last quarter we had a mark-to-market at I think around 48.75-48.80, now Rupee is at 52 or 53, again they have to be a mark-to-market.

**Neeraj Toshniwal:**

So in the near-to-long-term we are not planning ForEx policy to hedge our exposure towards --?

**Anurag Choudhary:**

No, because these are long-term loans. These are ranging from 6 years to 10 years. So we will keep it open as per the management policy.

**Moderator:**

Thank you the next question is from Puneet Mahajan from Quest Investment Advisors. Please go ahead.

**Puneet Mahajan:**

Just one follow-up on the advanced carbon material. So you mentioned that there are only a handful manufacturers in Japan like Mitsubishi and Kawasaki, could it be possible to know the margins which exists in this business of providing advanced carbon material --?

**Anurag Choudhary:**

It will not be possible for me to tell

**Pritesh Chheda:**

If you could just recap on the new capacity which we have installed which is coming up in China, the, what is the size of that capacity?

**Anurag Choudhary:**

We had installed first phase of 50,000 MT, this will be expanded to 100,000 MT in the second phase.

**Pritesh Chheda:**

And the 600,000 to 50-600 you said is purely India?

**Anurag Choudhary:**

Yeah, that is right.

**Pritesh Chheda:**

And this is 50,000-100,000 MT for China?

**Anurag Choudhary:**

Yeah, that is right.

**Pritesh Chheda:**

Second, what capacities are now coming for operations over the next 2-3 quarters?

**Anurag Choudhary:**

For the next 2-3 quarters the china green field project will start production.

**Pritesh Chheda:**

Which will be this 50K?

**Anurag Choudhary:**

That is right. And the 8 MW power plant will start production.

**Pritesh Chheda:**

Which is in?

**Anurag Choudhary:**

Which is along with Carbon Black plant?

**Pritesh Chheda:**

Carbon Black we have expanded already in this quarter and additional the 8 MW will come up in forth coming quarters?

**Anurag Choudhary:**

That is right.

**Pritesh Chheda:**

If you could just recap the total capacity under production as of now and correct us the Coal Tar which is 260?

**Anurag Choudhary:**

250.

**Pritesh Chheda:**

250 and that is purely India?

**Anurag Choudhary:**

That is right.

**Pritesh Chheda:**

How much of power we have?

**Anurag Choudhary:**

We have 12 MW of power.

**Pritesh Chheda:**

SNF is now 68?

**Anurag Choudhary:**

Yes.

**Pritesh Chheda:**

And Carbon Black?

**Anurag Choudhary:**

Carbon Black is 100,000.

**Pritesh Chheda:**

And just checking, what would these figures consist of L&A of 308 crores, what does that include?

**Anurag Choudhary:**

These are mainly advance taxes; central excise, sales tax, investment in China which the company has made and the other advances which we pay for procurement of raw materials.

**Pritesh Chheda:**

It does not include anything on account advances paid for capital equipments?

**Anurag Choudhary:**

No, it does not include anything on account of that.

**Pritesh Chheda:**

And what is the WIP figure which we have as on 30<sup>th</sup> September?

**Anurag Choudhary:**

Capital work-in progress on 30<sup>th</sup> September was around 149 crores.

**Pritesh Chheda:**

And we said that we have expanded 475 crores in the India expansion already?

**Anurag Choudhary:**

425 crores.

**Pritesh Chheda:**

So that stays in WIP? Because we have –

**Anurag Choudhary:**

In the first quarter we have capitalized around 237 crores.

**Pritesh Chheda:**

But then we initially mentioned from 260-600 is the expansion?

**Anurag Choudhary:**

250-600.

**Pritesh Chheda:**

So then we should have added some capacity if we are capitalizing?

**Anurag Choudhary:**

No, this capitalization is basically on account of SNF and Carbon Black.

**Pritesh Chheda:**

So the entire 1000 crores India expansion includes Carbon Black and SNF as well?

**Anurag Choudhary:**

That is right. SNF, Carbon Black, advanced Carbon it includes China also.

**Pritesh Chheda:**

So that is your total 1000 crores investment plan?

**Anurag Choudhary:**

That is right.

**Pritesh Chheda:**

And in the last three quarters did we commence any CTP capacity?

**Anurag Choudhary:**

No, not in the last three quarters.

**Pritesh Chheda:**

So in Q2 FY11 also we had 2,50,000 and Q2 FY12 also we have 2,50,000?

**Anurag Choudhary:**

That is right.

**Pritesh Chheda:**

So this jump in turnover it is largely to do with prices and with --?

**Anurag Choudhary:**

No, the jump in turnover is largely to do with higher volumes of Coal Tar in the current year we are running at above 100% capacity utilization from our Coal Tar distillation plant. So, there is an increase in the capacity utilization and production for Coal Tar Pitch. Added to that we have commenced the production of Carbon Black. So that helps us to increase the top-line in the second quarter.

**Pritesh Chheda:**

So this July commencement of 50,000, some of it must have flowed down in a quarter?

**Anurag Choudhary:**

Yes, right.

**Pritesh Chheda:**

Now if you could give us utilization for the capacities which we have talked, CTP 250, what would be the current utilization levels?

**Anurag Choudhary:**

It is 100% plus. For the last quarter Carbon Black was also at 100%.

**Pritesh Chheda:**

On the expanded capacity also?

**Anurag Choudhary:**

No, not on the expanded capacity.



**Pritesh Chheda:**

Whole capacity?

**Anurag Choudhary:**

On the whole capacity.

**Pritesh Chheda:**

SNF whole capacity should be 100%?

**Anurag Choudhary:**

Yes.

**Pritesh Chheda:**

And power we had that breakdown, so what is the status and what is the utilization?

**Anurag Choudhary:**

Power we are stabilizing now and we expect from the next quarter the power will stabilize.

**Pritesh Chheda:**

For 12 MW?

**Anurag Choudhary:**

That is right, 12 MW and along with that 8 MW would also commence, so with that there will be stabilization.

**Pritesh Chheda:**

So the utilization current for the 12 MW should be?

**Anurag Choudhary:**

Actually, the utilization depends on what we manufacture, and generally we produce around 65-70% of that.

**Pritesh Chheda:**

And could you recap what was the problem in the power plant and to what extent it would have been rectified?

**Anurag Choudhary:**

We had the problem with the turbine, now the new turbine has been replaced, it has been modified. With that now the power plant is running.

**Pritesh Chheda:**

This plant was done by Thermax no?

**Anurag Choudhary:**

Turbine was Triveni.

**Pritesh Chheda:**

And Turbine was Triveni and the boiler was Thermax?

**Anurag Choudhary:**

That is right.

**Moderator:**

The next question is from Bhavin Chheda from Enam Holdings. Please go ahead.

**Bhavin Chheda:**

You said total sales volume was 62500 MT for the quarter, right?

**Anurag Choudhary:**

That is right.

**Bhavin Chheda:**

What was the first half sales volume? First quarter also, whatever you have it ready.

**Anurag Choudhary:**

I can give you on quarter-to-quarter, I do not have this first half figure?

**Bhavin Chheda:**

You can give me on the first quarter?

**Anurag Choudhary:**

The corresponding last quarter was 47,600.

**Bhavin Chheda:**

That is September '10?

**Anurag Choudhary:**

That is right.

**Bhavin Chheda:**

You do not have June '10?

**Anurag Choudhary:**

No, I do not have the June figures.

**Bhavin Chheda:**

In 62500, how much was Carbon Black?

**Anurag Choudhary:**

We do not give product wise break-up. Actually, we have one segment that is Carbon Chemicals.

**Pritesh Chheda:**

I have a follow-up here. Just wanted to check this 12 crores other income includes what in the quarter?

**Anurag Choudhary:**

This includes the interest from the investments we have made.

**Pritesh Chheda:**

Should this 205 crores investments that we have in the balance sheet, some of it is liquid?

**Anurag Choudhary:**

These are all liquid investments or FMP.

**Pritesh Chheda:**

So the entire 12 crores is on account of that?

**Anurag Choudhary:**

Most of it. All on other FDs from the bank.

**Pritesh Chheda:**

Are we capitalizing any interest because our cost of borrowing if I just take the interest in the quarter seems lower, so what is the cost of borrowing for us and how much of it we would be capitalizing?

**Anurag Choudhary:**

Capitalized part of the cost till the time the project was commissioned, the cost which was for Carbon Black plant which is the interest we pay till July was capitalized, but post-July everything is reflecting in the revenue.

**Pritesh Chheda:**

And also the 150 crores CWIP which we have, a portion loan fund on account of that will also be capitalized, right?

**Anurag Choudhary:**

That is right.

**Pritesh Chheda:**

So can you tell us cost of borrowing for us?

**Anurag Choudhary:**

The average cost of borrowing is at around 5.5%.

**Pritesh Chheda:**

And how much of the 978 crores loan that I see in the books as Rupee loan and FX loan?

**Anurag Choudhary:**

Out of that around 50% is FX loan.

**Pritesh Chheda:**

And just last question, on the sundry debtor side, has the working capital requirements increased in the business?

**Anurag Choudhary:**

No, this is commensurate to the increase in the top-line. In fact, there has been reduction in the working capital if you look at the inventory levels.

**Pritesh Chheda:**

So if you just see the debtors then that is virtually doubled whereas our top-line in H1 has not doubled?

**Anurag Choudhary:**

There has been some shift because the Carbon Black facility coming into production, the payment terms in Carbon Black will be comparatively higher to that of our other business.

**Moderator:**

The next question is from Bhavin Chheda from Enam Holdings.

**Bhavin Chheda:**

Last question, Anurag, are you converting your entire Naphthalene into SNF and entire oil into Carbon Black since the capacity is now being expanded so there is no byproduct sales as of now?

**Anurag Choudhary:**

We are expanding our entire oil into Carbon Black, but not entire Naphthalene. We are selling good quantity of Naphthalene in the market and part of the quantity is converted into SNF and we look for opportunity buying once we get Naphthalene from pure at a lower price we try to import that and use via SNF.

**Bhavin Chheda:**

Just a follow-up, then why is operating margins going down?

**Anurag Choudhary:**

The operating margins gone down practically for two reasons; one is the change in the product mix if you look at the volume of Carbon Black has increased in this current quarter compared to the last quarter and other than that there have been based on the raw material prices, the raw material prices have been increasing this against the realizations with other products are not increasing industry percentage other than Coal Tar Pitch, that is also reflecting. Other than that there has been delays in the commencement of production of coke oven batteries by the steel plant PSUs which we expect to start in the next 3-6 months thus the availability raw material will also increase.

**Bhavin Chheda:**

The moment you use I think SNF is expanded your entire Naphthalene will go into SNF from next quarter, right?

**Anurag Choudhary:**

Yes. Substantial quantity will go.

**Bhavin Chheda:**

So that will give a boost to the margins?

**Anurag Choudhary:**

Actually, for the next two quarters, I do not think there will be anything substantial that will go to the margins given the fact that there is constraint in terms of raw material prices and Coal Tar Pitch accounts for me 55% of the Coal Tar production, so I do not think there will be any increase in at least the margin for the coming quarters.

**Pritesh Chheda:**

I think in the second reason, you said that it is because of Coal Tar prices being increasing faster than the Coal Tar Pitch prices?

**Anurag Choudhary:**

Coal Tar Pitch we are selling only 55%, balance is Oils and Naphthalene. So Oils and Naphthalene prices does not necessarily reflects the increase of Coal Tar prices.

**Pritesh Chheda:**

So it is the Oils and Naphthalene prices which are not moving in tandem with Coal Tar price?

**Anurag Choudhary:**

That is right. In fact the Naphthalene prices are at the other side of the cycle now. Maybe the Naphthalene prices are coming down drastically.

**Pritesh Chheda:**

Can you tell us any correlation that oils and Naphthalene would have with crude oil or not?

**Anurag Choudhary:**

There is no correlation. It is absolute demand and supply.

**Pritesh Chheda:**

Can you give us some percentage idea on a YoY basis? How much have Coal Tar price moved up, how much have Coal Tar Pitch price moved up?

**Anurag Choudhary:**

We do not give product wise pricing. If you look at the overall portfolio we feel that there will be pressure in the margins in the coming one or two quarters.

**Pritesh Chheda:**

Can you tell us what is the percentage increase in the raw material price?

**Anurag Choudhary:**

Around 15-18%.0

**Pritesh Chheda:**

And what would be the corresponding percentage price increase in the finished goods for the basket or only for Coal Tar Pitch?

**Anurag Choudhary:**

For the basket it has not been in the same region it has been three points less than the increase in the raw materials.

**Pritesh Chheda:**

And the Coal Tar Pitch must have grown at least 15%?

**Anurag Choudhary:**

We do not give product breakup.

**Moderator:**

There are no further questions. I would now like to hand the floor over to Mr. Pritesh Chheda for closing comments.

**Pritesh Chheda:**

On behalf of Emkay I would like to thank everyone for joining the call today. I would like to thank the management of Himadri Chemicals especially Mr. Choudhary for giving us the opportunity to host this call. Over to you, Mr. Choudhary if there is any closing comment?

**Anurag Choudhary:**

Thanks everyone for joining the conference call and for your continued support to Himadri. We appreciate your interest and commitment. Our vision is to transform Himadri into a Carbon Corporation. We have one raw material that is Coal Tar with this we are placing host of Carbon products and looking forward, the basket of products and the type of industry we are serving is going to increase further. The company has a very strong research and development which is constantly working on upgradation of technologies, products and innovation of new products. We hope to add several other value-added products in our line of products in the years to come. The company over the years has set up a business model which it has diversified in terms of risk, catering from a single or two industry five years back to host of the industry like aluminium graphite, electrodes, automobiles, infrastructure, lithium ion battery, and generating clean and green power. With this the company is able to diversify its risks so that any adverse impact on a particular industry may not have direct impact on the company's top-line or

bottom-line. I thank you all for your continued support and finally we remain committed to enhancing shareholders value by recreating our strategy of providing our customers with highest quality of products and services, continued focus on our safety, health and environmental issues. Thank you everyone for joining the conference call.

**Moderator:**

Thank you. On behalf of Emkay Financial Services Limited that concludes this concerned. Thank you for joining us. You may now disconnect your lines.

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- Note:**
- 1.This document has been edited to improve readability.
  2. Blanks in this transcript represent inaudible or incomprehensible words.

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