



Ref. No: HSCL/Stock-Ex/2016-17/40

Date: 19 August 2016

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To

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

Sub: Transcript Analyst/ Investor Conference Call

This has reference to our letter Ref No.HSCL/Stock-Ex/2016-17/35 dated 9 August 2016 regarding the Conference Call, and pursuant to the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015,we are enclosing herewith the copy of the transcript of the Conference call held on Friday the 12th August 2016. The same is also available on the website of the Company i.e.www.himadri.com.

Thanking you,

Yours faithfully,

For Himadri Speciality Chemical Ltd

Company Secretary
FCS: 8148

Himadri Speciality Chemical Ltd

(Formerly known as Himadri Chemicals & Industries Limited) CIN: L27106WB1987PLC042756

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Himadri Speciality Chemical Ltd

(Formerly known as Himadri Chemicals & Industries Limited)

Q1 FY-17 Earning Conference Call

August 12, 2016



**MANAGEMENT: MR. ANURAG CHOUDHARY-CEO,
HIMADRI SPECIALITY CHEMICAL LTD**

MODERATORS: MR. JIGAR JANI- EDELWEISS BROKING LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Edelweiss Broking Limited Conference call with Jigar Jani. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jigar Jani. Thank you and over to you sir.

Jigar Jani: Good afternoon everybody. On behalf of Edelweiss Broking I would like to welcome you all to the Q1 FY2017 Conference Call of Himadri Speciality Chemical Ltd. We have with us the management represented by Mr. Anurag Choudhary who is the CEO of Himadri Speciality Chemical Ltd. Mr. Choudhary will give us brief overview of the results and then the floor will be open for questions and answers. I would like to now hand over the floor to Mr. Anurag Choudhary for his opening remarks. Thank you and over to you Mr. Choudhary.

Anurag Choudhary: Thank you Jigar. Good afternoon everyone. Welcome and thank you for joining Himadri Speciality Chemical Q1 FY17 earning conference call to discuss the business and financial results. I hope all of you have received our result and must have gone through them by now. For those who have not, you can view them along with our presentation on the website.

Himadri Speciality Chemical 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 70% and catered to more than two-third requirement of aluminum and graphite industries in the country.

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

We are amongst the leading manufacturers 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 4,00,000 tonnes of coal tar distillation, 120,000 tonnes of carbon black, 68,000 tonnes of SNF and 20 megawatt of power plant.

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

Before we discuss the financial performance of the company I would like to talk about the new developments at Himadri. I'm extremely pleased to share with you that our company now has a new corporate identity. We have changed our logo and the name of the company in line with ethos of our core values. Every organization has an identity, it articulates the corporate values



and presents a sense of individuality that can help to differentiate the organization within its competitive environment. By effectively managing its corporate identity an organization can build understanding and commitment among its diverse stakeholders.

This can be manifested in an ability to attract and retain customers and employees, achieve a strategic alliances, gain support of financial markets and generate a sense of direction and purpose. In fact, corporate identity is a strategic issue. It differs from traditional brand marketing since it is concerned with all of an organization, stakeholders and multi-faceted way in which an organization communicates.

Our new logo is aesthetically designed butterfly; the butterfly gives the sense of life, growth and care which articulately represents the values and the journey of the group. Much like butterfly Himadri is a vibrant, ever growing and environmental friendly company. The different wings of butterflies symbolize the different facets and yet integrated nature of our group. The multiple wings that emerge from the same focal point signify multiple products that though maybe different but work with close association to each other all emerging from the foundation organic material - carbon. Our logo has been designed to illustrate the wings of growth. The butterfly also symbolizes tenderness and care which truly reflects our group's emphasis on sustainability of ecosystem it operates in and its approach work with employees and other stakeholders. The colors yellow, orange, mauve, and red evoke a sense of a strength, energy and growth. The logo and name color combines the calm stability of blue and fierce energy of red which represents the attitude of conglomerate in planning its future goals.

We also have changed the name of our company to Himadri Speciality Chemical Ltd in line with the business that our company operates in. Our products are primarily specialty chemical formulated for specific application and are used solely based on performance and applications. The future plans and research & developments efforts of the company are all aligned towards the specialty product and businesses. This name change along with the new logo will convey our brand message and strongly identify more clearly to all our customers and stakeholders.

Coming to the financial results for the quarter; from this quarter we have adopted Indian Accounting Standards which explains the impact of new accounting standards on our numbers. The company has adopted Indian Accounting Standards from April 1st 2016. The figures of the quarter ended 30th June, 2016 and quarter ended 30th June, 2015 are also Indian Accounting Standards compliant. As per Indian Accounting Standards certain profit loss need to be routed through other comprehensive income. Accordingly, we have also routed certain profit losses to other comprehensive income which are as follows:

Non-current investments are recognized at fair value and appreciation in investment is routed through other comprehensive income. Income of 30.5 crores in Q1 FY17 and 0.7 crores in Q1 FY16 is disclosed under other comprehensive income of the relevant quarters.

Effective portion of cash flow hedge i.e. difference between mark to mark at the end of the current quarter and at the end of preceding quarter on outstanding cross currency swap deals, is routed through other comprehensive income –

Mark to mark losses of 2.8 crores in Q1 FY17 and 4.9 crores in Q1 FY16 is disclosed as the other comprehensive income for the respective quarters.

Hence in aggregate total income of 27.7 crores in Q1 FY17 and loss of 4.2 crores in Q1 FY16 is disclosed as other comprehensive income. Profit after tax before other comprehensive income for Q1 FY17 is 11.6 crores and profit after tax including other comprehensive income of 27.7 crores is 39.4 crores.

Now coming to the financials of the company; our net sales stood at 255.1 crores, a year-on-year decline of 7.6% mainly on account of decline in the price realizations, drop in raw material prices resulting from decline in coal tar prices. However, our volume grew by 13% compared to corresponding quarter last year. Our EBITDA margin for the quarter expanded by over 1423 basis points compared to Q1 FY16. The growth in EBITDA was driven on account of operating efficiencies and increase in capacity utilization. The interest was lower on year-on-year basis due to the reduction in net debt.

During the quarter, I'm happy to say that we have delivered a net profit of 11.6 crores as compared to a loss of 19.7 crores in the Q1 FY16. During the current quarter the total volume of all products sold together stood at 75,661 metric tonnes as compared to 67,162 metric tonnes during the previous quarter. Average realization was at 33,709 per metric tonnes as compared to 41,066 per metric tonnes during the corresponding quarter last year. The average cost of raw material consumed was 16,925 per metric tonnes as compared to 23,248 per metric tonnes in the corresponding quarter last year. The overall industry has witnessed the decrease in realization in last few years due to sharp decrease in the raw material prices. However, our production volume has grown by 18% to 99,883 metric tonnes as compared to 84,633 metric tonnes in last year. Export contributed to 16.3% of the revenue.

We continue to see the demand side situation remaining quite strong. We maintain that long-term outlook remains positive on back of strong growth in aluminium production expected in the country. Many of the leading aluminium smelters in the country are on the verge of ramping up capacities in their company to Green or Brownfield expansions. The rising domestic demand in sectors such as infrastructure, real estate, automobile is enabling the Indian steel industry gaining strength. With growing steel production the availability of domestic coal tar is likely to increase leading to reduction in reliance on import.

We are continuously working towards improving our product mix specially in speciality carbon black segment which makes value added high-grade products. These value added high-grade products would not only contribute to the growth in the top line but more so towards improving the profitability margins. Thank you we can now take questions.

- Moderator:** We will now begin the question and answer session. We have the first question from the line of Pritesh Chheda of Lucky Investments. Please go ahead.
- Pritesh Chheda:** The average realization you said was 33,000 versus 44,000 and average RM cost was 16,500 versus 23,000, are those the figures?
- Anurag Choudhary:** Realization of 33,709 against 41,066
- Pritesh Chheda:** That is the realization?
- Anurag Choudhary:** Yeah.
- Pritesh Chheda:** So 33,000 versus 41,000.
- Anurag Choudhary:** That's correct.
- Pritesh Chheda:** And RM is 16,000 versus 23,000?
- Anurag Choudhary:** That's correct 16, 925 versus 23,248.
- Pritesh Chheda:** There is a couple of thousand reduction in spread if you could tell us.
- Anurag Choudhary:** No, it is not the right way to look at it because what happens in terms of carbon black we use 1.75 metric tonnes of coal tar to make 1 ton of carbon black so we cannot compare in absolute terms.
- Pritesh Chheda:** If you could give us the trends in carbon black prices and if you could give us some trends in the naphthalene prices.
- Anurag Choudhary:** The carbon black prices are more or less stabilized now and moving tandem with the CBFS prices so crude being stable with a 5%-10% variation the carbon black prices are moving in the same direction with the upward trend.
- Pritesh Chheda:** Can you give how much have they improved Q-o-Q?
- Anurag Choudhary:** Q-o-Q if you compare with the corresponding quarter last year, it has come down.
- Pritesh Chheda:** So versus Quarter 4 of last year it has come down?
- Anurag Choudhary:** Versus Quarter 4 of last year it has come up.
- Pritesh Chheda:** How much?
- Anurag Choudhary:** Around Rs. 4000-5000.

- Pritesh Chheda:** Can you give the same for naphthalene?
- Anurag Choudhary:** Naphthalene prices are more or less stable for last six months.
- Pritesh Chheda:** Initially you mentioned 4,00,000 coal tar distillation capacity 1,50,000 carbon black capacity.
- Anurag Choudhary:** 1,20,000 for carbon black
- Pritesh Chheda:** And 70,000 SNF capacity.
- Anurag Choudhary:** Yes. 68000 SNF capacity
- Pritesh Chheda:** When I'm looking at the presentation you mentioned average capacity utilization at 86%.
- Anurag Choudhary:** That's not average capacity utilization; the 86% is capacity utilization of coal tar distillation.
- Pritesh Chheda:** So coal tar distillation is 86%?
- Anurag Choudhary:** That's right. Average capacity utilization across all the three products together is 76%.
- Pritesh Chheda:** So that number we have to take as 76% divided by the addition of these three capacities, 400-120 and 68?
- Anurag Choudhary:** That's right, 76% on that.
- Moderator:** Thank you very much. We have the next question from the line of Kalpesh Gothi of Veda Investment Managers. Please go ahead.
- Kalpesh Gothi:** Sir why our depreciation is so low?
- Anurag Choudhary:** The depreciation has come down because we have reassessed estimated useful life of Plant, Equipments and Buildings, with effect from 1 April 2016. A detailed report was made through an external independent valuer who reassessed the useful life of plant Equipments and Building because of which the depreciation has come down.
- Kalpesh Gothi:** So for next quarter it will be again.
- Anurag Choudhary:** No it will be in the same lines.
- Kalpesh Gothi:** Why do we have a FOREX loss?
- Anurag Choudhary:** If you have seen the results over the last three years we are having regular foreign forex losses so part of loss what happened what transferred during the earlier year in the balance sheet so that loss is now being transferred from balance sheet back to the P&L account. So, on a

quarter-on-quarter basis that is being absorbed that is the main reason for our FOREX losses. Other than that because of the devaluation, there is minor impact. But main impact is because of the effect of fixed amount which was in the hedge reserve account, is being transferred to P&L.

- Kalpesh Gothi:** What is our current working capital situation, what is the debtors and inventory?
- Anurag Choudhary:** Debtors is 71 days which earlier it used to be 80 days in corresponding quarter last year.
- Kalpesh Gothi:** Inventory and creditor days?
- Anurag Choudhary:** Inventory is raw material 58 days and finished goods is 90 days. But in 90 days it consists more than 50% on account of raw material because we generally classify the oil which we produce as finished goods. But in our process it is a raw material for carbon black so even though as considered as finished goods but it's a raw material.
- Kalpesh Gothi:** For the quarter what is the export and domestic breakup?
- Anurag Choudhary:** 16.3% is export and balance is domestic.
- Kalpesh Gothi:** Can you give what is the current debt position and what is our repayment plan for FY17?
- Anurag Choudhary:** The repayment plan for FY17 is around 60-65 crores and net debt is at 867 crores.
- Kalpesh Gothi:** Where do we see the debt level at the end of the 17?
- Anurag Choudhary:** At the end of the 17 we see at sub-800 levels, maybe 760-780.
- Moderator:** Thank you. Next question is from the line of Jagdish Khater of JP Investment Pvt Ltd. Please go ahead.
- Jagdish Khater:** Just wanted to understand how is the market dynamics panning out, what is the demand scenario, how are the orders flowing in for us from the industry?
- Anurag Choudhary:** We have been waiting for last four years for the market to pick up, particularly for the aluminium industry. If you look at the aluminium industry over the last 4-5 years, there has not been a substantial growth in terms of production. Only last year there was some growth in production but the capacities, the capacities were already in place but they were not operational. But good thing is that from the Q1 FY17 onward the capacities which were in place have started ramping up and looking forward on quarter-on-quarter basis, they have a plan to the ramp up further. So—if you look at the previous conference call and previous discussions we have been—talking about the ramping up of capacity of aluminium industry and we were not confident when it's going to happen. Every time we were saying it will be

happening in a one quarter, two quarter, three quarter the clarity was not there. But today the clarity is very much there, ramping up has started and is absolutely on track. There is the demand coming up and we will be operating at full capacity.

Jagdish Khater: I was just trying to understand this 13% growth that you mentioned in terms of volume, large part of it has come in from the incremental demand or from the existing capacities itself?

Anurag Choudhary: From the incremental demand.

Jagdish Khater: How do we plan to generate the cash for the debt repayment that we want to make? Is it the volume that will be driving force or how is it going to happen?

Anurag Choudhary: We have a fairly long-term debt and there is no bullet type repayment coming in 1- 2 years so it is spread over the years. So if you look at the debt repayment we have only 60 to 65 crores which has to be repaid during this year and same for the next the year. There is not much burden on a company in terms of debt repayment to be made. But as a policy company has decided on reducing the debt. If you look at the balance sheet one year back from that to today we have already reduced our debt by more than 200 crores even in the worst times means the time when we were incurring losses at that point of time also we proactively worked on working capital, we did lot of in-house working and we are able to reduce the debt by 200 (+) crores. So now with the company back on track and things are looking very good we are confident we will be able to reduce the debt on the sustainable basis.

Jagdish Khater: We appreciate this plan that you have really taken care of this one burden that we had on a back. Going forward what is the kind of product profile that we foresee for us, we have already renamed ourselves to be in the speciality chemicals? We have already renamed ourselves to be as a speciality chemical player so how do we foresee our product portfolio panning out evolving over a period of time?

Anurag Choudhary: If you look at our product profile and if you got through last the 10 year annual report also you will find that we have clearly mentioned that we are into speciality carbon business. We are one of the integrated players in speciality carbon business. So speciality is in our DNA from the beginning and the product we are making are speciality products like coal tar pitch, coal tar pitch goes for a specific application. We cannot use coal tar pitch in 10 different applications. It goes into aluminium industry for making an anode, it's a performance-based chemical which has a huge impact on the purity of the metal, the power consumption, the life of the pots, the life of the anodes, as it's a binder material for anodes. Only thing is that now we want to signify this from our name itself because otherwise people were getting confused what kind of chemical we are making. So we want that to be very clear that Himadri has been—if you look at all 10 years' annual report you will find the same, you will find the same thing—has been in the speciality chemical and looking forward with the growth in the aluminium industry the demand for coal tar pitch is going to grow much stronger and our share of coal tar pitch in the total top-line will increase.

- Jagdish Khater:** Another question on the same product profile, another segment carbon black. I think in the last con-call we talked about how we are trying to upgrade ourselves into value added carbon black so what is the plan on that front?
- Anurag Choudhary:** For us carbon black is also a specialized product. We're focusing on customers who are mainly requiring high-quality product.
- Jagdish Khater:** So that is what I wanted to understand what do you mean by high-quality, what is this advanced carbon, where can it be used, do we have a future for this industry your vision on this.
- Anurag Choudhary:** The carbon black goes into 2 basic applications, one is rubber application, and one is speciality application. So rubber application, today we are mainly into rubber application but the focus is now going to be on speciality. The more and more products we are developing in terms of the speciality and our idea will be to gradually keep our rubber black strong but developed more of a speciality black which has significant high value addition in terms of profitability.
- Jagdish Khater:** Just to understand a bit more clearly this speciality carbon black you talked about can you name an upcoming industry where it can be of exclusive usage can come in from there?
- Anurag Choudhary:** There are host of industries, like used in cables, it is used in pipes, it is used in plastics, it is used in inks, host of industry, and these are very high value added products.
- Jagdish Khater:** Overall by this yearend where do we see our volumes vis-à-vis last year growing?
- Anurag Choudhary:** If you compared to last year definitely this year there will be growth in volume. Overall in terms of volume we expect there will be a good positive growth.
- Jagdish Khater:** Do we expect to maintain the first quarter kind of a growth in volume for the year?
- Anurag Choudhary:** Definitely.
- Jagdish Khater:** How much of FOREX exposure do we still have and what is the kind of currency fluctuation that we have witnessed during this quarter?
- Anurag Choudhary:** Currency fluctuation during the quarter was in range of Rs.1.28 paisa but that has not affected us to a great extent because now most of our loans are in Indian rupees. During this quarter, we had total 7.79 crores on account of forex losses. Had these losses been not there PBT would have been higher by 8 crores and PAT would be another 5-6 crores. So why this has happened, basically because what happened in the previous year when we had accounted for foreign exchange losses part of it was taken to P&L and part of it as per the accounting standards has taken in the balance sheet. This part which was taken in the balance sheet had to be written-off in the P&L over the period of time. So this year we will be writing off the balance amount and

after that there will be no forex losses on account of any transfer from balance sheet or anything. Whatever will be there plus-minus will be there basically on account of clear cut exposure.

Jagdish Khater: Because that is one thing that we wanted to transform out and transform into as you rightly pointed out. One last question, any plan of coming out with some kind of a dividend policy?

Anurag Choudhary: Yeah as per the Sebi guidelines also we need to have a dividend policy, we are working on that and at the right time of point we will definitely come out with that.

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

Suhani Doshi: If there is any further business development on the advanced carbon material business?

Anurag Choudhary: Definitely we are doing lot of activities in terms of advanced carbon material. In fact we have supplied the product to different consumers across the world. They are in advance stage of testing and we are getting very positive response from them. So I think we are perfectly on track this is the one thing which we have been working over the years. Now I can see in near future the time is coming when we will reap the benefit of this.

Suhani Doshi: Do we see in the commercial sales from it happening in FY17 or in the start of that?

Anurag Choudhary: We will see some commercial sale happen in FY17.

Suhani Doshi: Did we have any inventory loss in this quarter?

Anurag Choudhary: No.

Suhani Doshi: Actually the net debt I was seeing has increased from 805 crores in Quarter 4 to 867 crores.

Anurag Choudhary: This is basically because last day of the month we got a vessel of raw material which will be consuming over the whole quarter. So because at the end of the Q1 we got a vessel which we will consume for next 90 days the inventory went up so it's a onetime affect but loans will come down, there are no issues.

Moderator: Thank you. We have a follow up question from the line of Kalpesh Gothi of Veda Investment Managers. Please go ahead.

Kalpesh Gothi: There is a rechargeable battery industry; there is any scope for us to cater to rechargeable battery?

- Anurag Choudhary:** Not rechargeable that is lithium ion battery I think what you are talking about. See lithium ion battery today is going to play a big-big role in the global economy. We are seeing electric vehicles today as a reality. With the Tesla getting successful now everyone is talking about electric vehicles and looking forward Himadri has a very big plan in this and that right point of time we will disclose the complete details.
- Kalpesh Gothi:** Anything we see the industry as someone is setting up a plant in India, foreign company, are you seeing some moment in the industry Tesla is going to set up a plant here?
- Anurag Choudhary:** That's a long story. Tesla first will be selling from the US plant then only our respected Minister has requested them that I think it's a long way to.
- Kalpesh Gothi:** But it can happen?
- Anurag Choudhary:** Definitely it can happen. We have 120 billion population.
- Kalpesh Gothi:** So if Tesla has come what is the scope for us to or how the industry will grow if the Tesla has come where we...?
- Anurag Choudhary:** If Tesla comes or Tesla doesn't come, there is a huge potential for our advanced carbon material business. It's the sunrise industry and we are working on that. When the people were not knowing about electric vehicle then we are working on the battery part of it. So I think we have a big plan on that. At right point of time we will discuss and....
- Kalpesh Gothi:** So what is the current market size of the battery?
- Anurag Choudhary:** Battery market size is very big. I don't have the exact figures because battery nowadays is used in all the electrical devices right from mobile to laptops to cameras to power tools to storage then in the electric vehicles, there is a huge market for that.
- Kalpesh Gothi:** And what is the current market size for our product, our product will be used in that battery?
- Anurag Choudhary:** The market size of our product is more than 2 billion.
- Kalpesh Gothi:** How this industry is going for the last many years?
- Anurag Choudhary:** It's growing at a rate of more than 30%.
- Moderator:** Thank you very much. That was the last question. As there are no further questions I would like to hand the conference back to Mr. Jigar Jani of Edelweiss for any closing comments. Please go ahead Mr. Jani.

- Jigar Jani:** Just a couple of questions from my side. What would be our estimated capacity utilization for the full year? We were planning to ramp up slowly to almost 100% in the end of the year, is that still the plan considering Hindalco smelter is going to come online slowly all the lines?
- Anurag Choudhary:** Yeah that's still the plan. At the end of the year we will be definitely (+100%).
- Jigar Jani:** We had seen an increase in exports this year so can you throw some more light on where we exported and what product so was it CTP being exported out?
- Anurag Choudhary:** Basically all the products together and it's not a particular product with better margins.
- Jigar Jani:** What are the key countries we export to?
- Anurag Choudhary:** We are exporting to Asian countries, exporting to European countries.
- Jigar Jani:** We are coming up with the expansion at Sambalpur, can you throw some more light on that?
- Anurag Choudhary:** Not expansion, we are setting up a melting plant in Sambalpur which is expected to commence production shortly.
- Jigar Jani:** When is it expected to commence production?
- Anurag Choudhary:** Very shortly.
- Jigar Jani:** This fiscal year?
- Anurag Choudhary:** Yeah definitely.
- Jigar Jani:** That's it from my side. I would like to thank everybody who has joined on the conference call for attending the conference call and also Mr. Anurag Choudhary for making himself available for the conference. Lastly I would thank all the investors and the participants for having attended the call. Thank you very much and goodbye.
- Anurag Choudhary:** Thank everyone for joining the conference call of Himadri Speciality Chemical. We have industry challenges currently however we are confident of more pronounced global recovery in FY17 which we expect it to initially translate into having demand for our key products. We have all the building blocks in place to capitalize on industry upturn. The management is committed to enhancing shareholders value by providing our customers with high quality product and services with continuous focus on health and environmental issues. We look forward to your continued support and interest in our company. I hope we have been able to address your queries. Thank you once again for joining the conference call.



Moderator:

Thank you very much. On behalf of Edelweiss Broking Limited, that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.