



“Visaka Industries  
Q2 FY2019 Earnings Conference Call”

November 06, 2018



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**Moderator:** Good morning, ladies and gentlemen welcome to the Visaka Industries Q2 FY2019 earnings conference call, hosted by Centrum Broking Limited. 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. Rajesh Ravi from Centrum Broking. Thank you and over to you Mr. Ravi!

**Rajesh Ravi:** Thanks Lizaan. Good morning everyone. On behalf of Centrum Broking, we wish you all a Happy Diwali and also welcome you all to the Q2 FY2019 Earnings call of Visaka Industries to be presided by Mr. Vallinath, CFO and Whole Time Director of the Company. After his opening remarks conclude, we will open the floor for Q&A session. Thank you and over to you Vallinath Sir!

**V. Vallinath:** Thank you Rajesh. Good morning and welcome to all the friends in the call for attending this Visaka Industries Q2 Earnings Call. At the outset, I am very happy to discuss yet another quarter of very good results from the company.

There are all-round positive developments and improvements during this quarter. This quarter has been a phenomenal quarter from many points of view.

First let me discuss the main numbers, we have grown volumes in double digits in all the three business in which we operate namely the cement asbestos, Vnext and Twin Air-jet spinning. As you are all aware we have a significant position in all the three businesses, we are the second largest in asbestos cement sheet, we are the largest in the Vnext and we are the largest in Twin Air-jet spinning installation in the country and the single location all over the world.

Having been in a significant position, we have grown in double digits, mostly double digits in all the three businesses. The growth in cement asbestos has been 9.41 missing the double digits 10% number by a whisker. Vnext was 22% and spinning 71.52%. The total revenues at the company for the quarter grew a handsome 25%. While we maintain our market share in cement asbestos, we are improving in Vnext and spinning.

The overall revenue growth net of taxes has been 12.95% in building products and 88% in spinning for the Q2 this financial year. The revenue growth net of taxes for the H1 of this financial year has been 13% for the building products and 36.9% for spinning.



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Company as a whole, revenues for H1 FY2019 grew by 16.9%. This shows that both in volumes and revenues we are squeezing at a double digit growth in all our businesses so far. The EBIDT margins have been 15% in cement asbestos, 6 to 7% in Vnext and 14% in spinning. The consolidated EBIDT margin for the quarter stood at 13.45% and the same for H1 FY2019 stood at 15.73%.

The PAT for H1 FY2019 showed a growth of 19.32% over last year. We do not generally take into account the other comprehensive income in our calculations and analysis which I know, but if this is taken into account the total other comprehensive income in Q2 this year has grown by 26% over last year in Q2.

I would like to remain the members that before the Ind-AS came into picture all these so-called items which has shown in other comprehensive income used to be shown in the profit and loss account itself.

So now because of the other Ind-AS requirement, it has been shown as other comprehensive income, but if that is considered then actually the last year's base was very high which would have been slightly lesser and the growth would have been 26%.

It would be pertinent to note that the last year Q2 has been an exceptional quarter for Vikasa. The building products margins were higher than even in the Q1 of that year which never happened in the history of the entire industry. This is due to better handling at the immediate post GST matter.

Similarly, the spinning suffered last year due to GST which has come back to normal now. That is the reason why if you see the spinning growth in terms of volume it looks abnormally high whereas in the case the board it looks a small dip when compared to last year Q2, but considering the quarter individually as it is, in terms of the volume growth, revenue growth, margins everything is growing and doing very well.

Considering the above, the handsome topline growth across all businesses with healthy margins is a lot to cheer about the Visaka in the company. We expect margins in the building products to improve in the subsequent quarters with continuing double digit topline growth. This I would like to underline we expect the margins in building products to definitely improve in the subsequent quarter with continuing double digit topline growth.

The working capital days has come down from 103 days at the end of last year to 81 days at the end of this quarter a reduction of 22 days. The net debt has come down from Rs. 256 Crores at the end of March 2018 to Rs. 216.25 Crores at the end of September 2018



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a reduction of Rs. 40 Crores. I would like to remind people that in the annual report last year as well as in the earlier earnings call. I have mentioned that we have a plan to reduce the debt by about Rs. 60 Crores during this year. We have already reducing Rs. 40 Crores and even if you consider that there would be some amount of inventory buildup going towards the season by March still the reduction of Rs. 60 Crores seems to be an eminent possibility. The ROCA and ROE are showing an upward trend and are at high double digits. I am sure you can calculate the accurate number for the results, interest cost have come down from Rs. 5.18 Crores in Q1 this year to Rs. 4.36 Crores this quarter. This is expected to come down further in subsequent quarters.

The other improvement developments are the ATUM plant commenced commercial production towards the end of September 2018 and we shall be able to give you an idea of its progress as we go along. We regret the delay in the commissioning of the Vnext project at Jhajjar due to delays in clearances. These are really factors beyond the control of the company however much we tried there are certain processes where they are getting some delays not in the hands of the company and therefore it has got delayed. We definitely expect to commence production by mid November 2018 which will give better access to northern markets and also reduced logistics cost. So we see the ground situation to be very positive and expect double digit growth in all our three segments in the subsequent quarters as well with margins improving in cement asbestos and Vnext businesses.

Overall we are positive and look forward to a good performance going forward. I thank you for your patience in listening to my opening remarks and I would request the moderator to now open the forum for questions from the participants. Thank you.

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

**Mehul Shah:** Sir my question is primarily on Vnext. So we have had very, very strong volume growth in Q2. First of all whether that is sustainable and if you can guide us as to from where the growth is coming. Two, on the FCB margins, now FCB margins have been under pressure because of imports and rupee depreciation, whether we have been able to mitigate those pressures by way of price hike or whether further price hike is necessary to come back to double digit kind of margins that is what I would want to understand from you. Thank you.

**V. Vallinath:** See first of all let me state that the Vnext business is... I think this growth of 20% plus is sustainable. I have always been advocating about 20% growth and now with the commencement of Jhajjar actually we should have posted even better growth but for the delay of the Jhajjar plant. So if once the commencement of Jhajjar happens, then I think the



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growth of 20% plus could see an uptick actually in my view we should start seeing a slightly higher growth and also a balanced access to all the markets which would itself improve the margins better. Yes, I agree that our main part of the price increases which we have done in the last one and a half years has gone to mitigate the impact of the increase of the pulp. In addition to that of course since we are coming up with the new plant, we are expanding volumes we are also engaging lot more people in various areas and also incurring lot of advertisement cost. Just to inform you for instance when compared to last year September quarter, the advertisement costs have gone up by 3 Crores so this results incorporate Rs. 3 Crores the extra cost on account of ad spend itself. Otherwise that would added another Rs. 2 Crores to the PAT. So that is the kind of advertisement expenditure we are incurring and despite that with the whatever operating leverage we get by the increase in volumes and the increase in prices, we are able to mitigate the increase in cost so far and are able to maintain the margins at reasonable levels. I definitely think that by end of March towards the end of March we will definitely grow to double digit margins in the boards business. With the growth continuing maybe we can an upwards bias over 20%. I hope I have answered your question. Anything else is there, I would be glad to answer.

**Mehul Shah:** Sir with the current level of rupee where it is and the pulp prices, so have we factored in the entire escalation in cost at the current level of margins?

**V. Vallinath:** Pulp cost entirely factored in. Rupee depreciation I think more or less factored in. I have no problem because we have a very efficient treasury management and I think rupee is now surely cooling but for yesterday again there is a small spike, but I think the rupee is also cooling and price increases are being done. So I think overall if I see both the raw material cost increase as well as the rupee depreciation both have been factored in, both cement asbestos as well as in boards.

**Mehul Shah:** And so there has been no single price hike in FCB in the last couple of quarters.

**V. Vallinath:** No there have been because the cost has been increased and that is what I am saying.

**Mehul Shah:** So what has been the extent of price hike?

**V. Vallinath:** Extent of price hike maybe about 3%.

**Mehul Shah:** Fine Sir. Great. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Praveen Sahay from Edelweiss. Please go ahead.



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**Praveen Sahay:** Just extending the previous question you talked about the price hike in the boards and panels. Can you elaborate on the roofing business as well?

**V. Vallinath:** The roofing business when compared to September last year if I compare with September last year, the prices have been flattish. So that is what I was trying to tell you that last year Q2 for us has been a phenomenal quarter something which is the highest in the industry and highest ever seen in the history of the company for a Q2, so considering that the realization is flattish. But now going forward the two major things that are happening that is one is the freight cost and the second thing is the rupee depreciation. These two things I think considering these two things and also of course during the year whatever little salaries and wages cost will increase and all that, we look forward... so we are increasing the prices from October, I think October we have got a small increase I think going forward we will do continuous price hike up to January.

**Praveen Sahay:** So can you give any quantum how much we have taken in October?

**V. Vallinath:** The October we did not get much because in October actually this is a peculiar month where the pitru paksha falls in some markets pitru paksha is followed very strictly and house building, home building will not be even done and the second thing is the Dussehra vacation in some markets is people enjoyed ecstatically and therefore markets were a little dull. Therefore the price increase could not be done significantly. It was at the order of something around 1% perhaps the price increase has been 1% but in the subsequent quarters what we have passed is that we plan to increase prices by about 5%, 6% and that should bring back the margins to even better level.

**Praveen Sahay:** So this the expected hike of a 5% to 6% and that will whatever the rupee depreciation or the freight cost is how that will compensate entirely?

**V. Vallinath:** Yes, entirely it will compensate because the cost have already been taken into account and there could be some reduction in other costs also which we are planning so all these taken together with some amount of price increase and all that I think the margins will be significantly higher when compared to this cost.

**Praveen Sahay:** And also you talked about the advertisement expense of Rs. 3 Crore so what is the linear level for your advertising strength?

**V. Vallinath:** Yes, now this because this expenditure has been increased done taking into account the launch of ATUM as well as the forth coming commencement of commercial production in the boards division in Jhajjar. Going forward yes there will be some amount of a cost but



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overall I think for the full year every quarter I do not see we will be seeing Rs. 3 Crores suddenly there could be Rs. 5 Crores suddenly there could be Rs. 1 Crore etc., so average if you take for a full year it incur about Rs. 10 Crores, Rs. 12 Crores that should be good enough.

**Praveen Sahay:**

And also can you give some highlights about your yarn business how the sustainability of your yarn business which you have delivered a very strong numbers in this quarter?

**V. Vallinath:**

Yarn business throughout last year I have been mentioning that this sector has been hit very, very hard by the GST implication because the GST when it is rolled out they tried to bring all the segments of the value chain under the GST. There are lots of peculiarities in the various segments. Some are totally exempt, some are outside the gamut of the tax regime etc., and there are very small scale cottage industries etc., so much is happening and everything they wanted to bring it into the formal sector. So that is the heavy blow and therefore there is lot of course we all know that in Surat and other places there are lot of strikes and all that.

Therefore the quarters have been low and my volumes have been low but slowly the volumes have to picking up from the Q3 of last year but the margins took time to improve. So this year in the Q1, last year itself I said this year will be better and I advised that the growth will be in double digits, margins will be around 12% if we are able to reach and I think the Q1 we have already achieved 11.14%. This quarter we have done 14.4%. Now I think going forward the volumes will be you can expect plus, minus, 5%, 6% of the current quarter's volumes on a growing basis for the next few quarters it will happen because we have done about 2900 tonnes in this quarter. So the total capacity is about 12000 tonnes minimum so that is being the case 3000 tonnes per quarter is a normal if you can average it out.

So there could be a plus minus sometimes it will be 25, 26 sometimes it will be 32, 33 also therefore they are going to be a better quarter than this quarter and therefore it is slightly lesser quarter but I think the average will be there. Margins yes, plus minus ultimately I am guiding for 12% margin for this year as against last year's margin of about 8% with a significant double digit growth upwards of 15%, 20% I think that will and this will continue for the next year also, FY2019 and FY2020 and therefore spinning will continue to be a big cash flow supporting that business while we embark on building our Vnext business.

**Praveen Sahay:**

And also this capacity is like in the board and as well as your ATUM this is going to start from November onwards?



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**V. Vallinath:** Yes definitely in November. Very soon I think in the next 10, 15 days you will get the news the clearances are in advanced stage of progress and we hope to hear the good news in anytime in the next week or 10, 15 days.

**Praveen Sahay:** And lastly like Kerala flood and the trucker strike in the last quarter, so how much of your sales impacted with these two events?

**V. Vallinath:** Not March Kerala floods actually have affected in the initial months but subsequently I think we had bounce back we showed a lot of growth there because Kerala is basically a big market for boards and there I think we could make our vendors I think that is the reason why we did about 22% profit. Trucker strike has not been a significant impact. It was there about I think a week or 10 days but that we could overcome I think it had minimal effect.

**Praveen Sahay:** Thank you Sir, I will come in queue.

**Moderator:** Thank you. The next question is from the line of Agam Shah from Raj Trading. Please go ahead.

**Agam Shah:** Sir I just missed your opening remarks so can you just tell me the volume growth for the fiber cement and the cement asbestos.

**V. Vallinath:** The volume growth for cement asbestos has been 9.41% and for the Vnext business, it is 22%.

**Agam Shah:** The board is 9.4% right?

**V. Vallinath:** Asbestos has been 9.4% board has been 22%.

**Agam Shah:** And with the onset of the new capacity, we increased this number to go ahead, go further right?

**V. Vallinath:** Yes we expect, we expect to maintain a minimum of 20 it should be higher, and we are planning something... we are planning much bigger but I think at the movement let us stick to what we have performed and then maybe give our projection roughly towards this. I think let us take this as a bottom and grow from here.

**Agam Shah:** And what are the margins?

**V. Vallinath:** Margins in the boards has been about 7%. In the case of cement asbestos we have been 15%.





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- Agam Shah:** Revenue actually in these margins to double once the new capacity gets in by the end of the year right?
- V. Vallinath:** Yes.
- Agam Shah:** And any plans to reduce the debt further form here on or will be at this levels only for the year?
- V. Vallinath:** No, I have said both in writing in the annual report as well as in the earlier call that during the course of the full year March-to-March I had reduced Rs. 60 Crores so for sure Rs. 40 Crores has happened now another Rs. 20 Crores for sure it will happen, we will try and see if that is increasing. Since you are also working under working capital front, we expect to see some reduction in the receivable. we are also expect to see some reduction in inventories and these things should be able to improve the working capital cycle as well, because that has been another focus area for the company this year from now on.
- Agam Shah:** And so far the demand for the ATUM product and how has been the demand on that front for the new...?
- V. Vallinath:** Demand has been good, enquires have been good we are not going head over feet to somehow sell at any price on any condition. There is a lot of enquiries everyone tries to compare with the conventional roof of solar and then try to ask from that point of view. So we are giving this so we are creating the market and spreading what this product is and how it will be available and what are the benefits, but the response in terms of enquires on this thing has been phenomenal.
- Agam Shah:** And when do we expect to monetize revenue from this product from the next quarter or...?
- V. Vallinath:** From this quarter maybe from December onwards some project should kick off already we have executed a few small orders like 50 kilowatt and 20 kilowatt and 100 kilowatt etc., but I think in terms of megawatts I think from December we will start I hope that by Q4 we should start seeing some good numbers coming from that business as well.
- Agam Shah:** That is it and all the best and Happy Diwali.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.



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**Dhaval Shah:** Sir just I have question on the raw material side only. So can you just tell me on the Vboard, cement and wood pulp has a basket in terms of the value, how much... which are the largest component so that how much would be wood pulp and how much would be the cement?

**V. Vallinath:** Dhaval actually I would not like to give too much of granular data in this call but broadly I would tell you the pulp will be the highest the next highest will be the cement that is what I can tell you. You can come offline we can discuss this granular details with you.

**Dhaval Shah:** Sure, if I understand correctly you mentioned over the next two quarters you will be able to recover the raw material price hike by way of taking the price hike of the end product am I right?

**V. Vallinath:** Yes, basically part of it will be taken in fact the significant price increase has been done because of this the entire raw material cost increase has been passed on. See the wood pulp prices have almost doubled some \$530 to \$900 is be the hike. So which is totally unexpected and frankly speaking now we are improving the prices and also logistics cost is expected to come down a bit because of the commencement of the third plant. So with these things itself, by March if we can get into double digits then my sense is that the pulp prices going forward I think if you people are taking a two to three year view when pulp prices hike changes and again when it comes down then I think there is a huge amount of a margin which can be unleashed in this business because we are now right in the peak cost I think we have not seen this kind of a pulp prices in the last 15 years.

**Dhaval Shah:** Yes the wood pulps that I would agree correct and always cement is on a lower side so that anyway is helping.

**V. Vallinath:** The cement is okay because cement even if marginally it increases I think it is going to take some time for cement prices to increase however much people have been clamoring I think they overall basic demand will take some more time to pickup but the cement increase to some extent can be passed on, not a big thing because the pulp is something which is... the impact is much more.

**Dhaval Shah:** So Sir in the last six months you must have taken 7% to 8% price hike in the Vboard, Vnext business?

**V. Vallinath:** Yes last six months TTM last 12 months we would have taken a price hike of something around 10%.



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- Dhaval Shah:** And this 22% is the volume growth you mentioned year-over-year?
- V. Vallinath:** Yes and in fact the pulp prices have not gone up imagine what would have been the margins now, but we could absorb that means if the business which is growing the business which is getting accepted more and more, volumes are growing, price increase we could increase 10% in the last one year.
- Dhaval Shah:** So no doubt on that, I mean we see a lot of visibility of Vboard branding activity which you have undertaken at least in Bombay area we can see that, that is just amazing.
- V. Vallinath:** I am happy to hear that that visibility is there for each of the thing occurred so we would expect to be and now trying to targeted much better so that the visibility goes to the right quarters in time and gets converted into better business but if you look at what I am trying to reiterate is that in the last 12 months we had increased prices by 10% with the huge increase in the volume, it clearly shows what could have been the margin what was this unexpected hit which we have not expected one year back suddenly it will take this shape. So by now whatever I have been talking about in the last two to three years in this business, the margins going up to a big reasonably fairly big mid double digits would have been true would have been true. So this is something which has been taken as a setback but as a company we are working because the business shows a lot of promise, there is no doubt about it and I think this is going to be one of the big drivers along with ATUM, ATUM is also going to be a big driver and I think these things will take the company forward in fact it will catapult the company to a different deal all together.
- Dhaval Shah:** So and also in spite of this 10%, 15% price hike which will take maybe in three months down the line, you are not seeing any shift to any alternative product by your customer?
- V. Vallinath:** Which one?
- Dhaval Shah:** In the Vboard Vnext category even in spite of price hike been taken you are not seeing any shift happening to a alternative product by your customer?
- V. Vallinath:** No it is not that what is this price increase nothing you should double this price increase also still it will be far away from the competing products. With so many advantages inherent in the product and with such a low price somehow it got categorized there unfortunately. So it should spread like wild fire, this product has spread like wild fire. In fact that is the reason why we are putting lot of effort. I see a great future for this product, I am so fully sold on this business. If whatever little experience I have gained over the past 30 years of creating business, strategies, industries analysis and all that and having gone and



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seen what is happening in the other countries and having some data about what kind of capacities and space of the business in other countries. For a country like India there is a huge opportunity for us in this business and we are going to make it happen.

**Dhaval Shah:** And just last question just to cross check so year-over-year your volume growth in Vboard, Vnext was 22% and plus the price hike you must have taken so that is like upwards of 20% and 26% growth and we have less 7% EBITDA margins for this quarter.

**V. Vallinath:** Unfortunately yes.

**Dhaval Shah:** Fine Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Sanjay Shah from ASA Securities. Please go ahead.

**Sanjay Shah:** Sir can you share with us the feedback you received from the project what we have completed with the corporates like drywall what we have done with Sikkim Airport and false ceiling, wall paneling and all what is the feedback from the corporates and is there any repeat orders or enquiry coming in.

**V. Vallinath:** Just now a lot of I cannot mention the names for the sake of getting attracting unnecessary things but there are regular clients with names are giving a regular orders more impetus has being given we are also now doing a lot of data analysis. So there are about 7, 8 applications which are going very well and I think just those applications are adequate for us to grow this business big time. Some of the most popular applications, if you talk about wet walls, you talk about false ceiling, you talk about anything else mezzanine flooring or something like that everything is growing.

**Sanjay Shah:** So which is the product we are directly competing in this. What was the sufficient use like Gypsum Board or anything else?

**V. Vallinath:** Sir in the false ceiling definitely Gypsum Board because that is a most common so far companies have used especially in companies like textile industries and other places where there is going to be a lot of humidification in the factory, Gypsum Board is not a great alternative for them therefore this being a cementitious product is being widely accepted similarly with a kind of design and number of design or variants we have developed, this product is finding place in the other margin applications and other modern projects also for false ceiling applications. There it is Gypsum Board and in some cases even the internal constructions also we complete with Gypsum Board sometimes this is used in



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complimentary with Gypsum board also along with that. So are there only Gypsum board and something else but now gypsum board and fibers cement board and then if you look at the internal walls and etc., which is a solid wall, we have competing them with the V-Infill which is a new load bearing walls and we are in with the sandwich tunnel and also double skin partitions etc., of Vboard. So that competes both with plywood when you talk about cabins or when you talk about internal walls or rooms itself, normal rooms itself we are competing with the brick and mortar and a wide range of applications where plywood is there I think I have been sending pictures of some of the major applications and some good projects we are doing I think I am trying to ensure that you people get information from time-to-time I think you would have seen that some good names and you are right in applications...

**Sanjay Shah:**

Fantastic, and how is this acceptability across outside India also have we... what is the acceptability of this product?

**V. Vallinath:**

Sir acceptability outside India is phenomenal because if this product has been there for the last 30, 40 years outside there are very, very big players internationally it is about 10, 15 companies doing big, big business. In India it is still in the nascent stage and that is what we have been driving it. So the product is acceptable elsewhere and in India we know that any product will be acceptable here the two considerations that generally see which I notice is that one is the price which we look at because we are a poor country, the second thing is whether this product is internationally accepted other countries what is it used for in US, what is it used for in UK, what happens in China, people see that before accepting any product. So both from the perspectives of both because we are very, very price sensitive therefore the prices are initially in there but we are paying higher price for some other products where they have been used to it, so they have to understand that this is a better product in terms of price as well as better functionality, it is taking a little time but that is a business the growth is taking place. And the other factor which people compare to accept this production are internationally you Google and see you will find enormous number of application and number of companies which are doing it I think some of the brokerages have come out with a research they do not research Google and all that and found out the data and in fact they gave some data about the companies outside how much they are selling, what is that margins, what are the prices etc. So I think plus, minus 5%, 10% for variation in understanding the other markets of getting the accurate data but I think the data is very, very encouraging.

**Sanjay Shah:**

Great Sir. Good luck to you Sir and thanks for answering my question.



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**Moderator:** Thank you. The next question is from the line of Kritika Garg from Equitas Investments. Please go ahead.

**Kritika Garg:** Sir how much can be the Jhajjar plant contribute to revenue at maximum capacity?

**V. Vallinath:** Initially Rs. 75 Crores to start with. As it is the stated capacity what we had mentioned Rs. 75 Crores it can do but it can subsequently go depending upon the market to even higher to Rs. 125 Crores. It will take a little time but I think in the next one year that should contribute about at least Rs. 75 Crores which will come to a level where it starts contributing Rs. 75 Crores.

**Kritika Garg:** And in FY2019 what do we expect this contribution to be?

**V. Vallinath:** We have to commence in November so from December onwards we will be selling so from December onwards if we take four months...

**Kritika Garg:** Rs. 25 Crores.

**V. Vallinath:** You are just asking big, big numbers. About Rs. 15 Crores you take to this year.

**Kritika Garg:** And Sir do we expect some margins in building product to soften a little bit because of increasing contribution of fiber cement board?

**V. Vallinath:** No I think the margins will sustain I think in fact last year when the closing remarks of March quarter I mentioned that this year we will grow in double digits now the three businesses while maintaining the margin and if you see at the end of H1, I think we are maintaining at something around 15.73. So 15.73 is our margin which we maintain I think last year full year also is about 15.5 or something so, so far we have ensured that all the business will grow in double digits and also we have maintained the EBITDA margin. So going forward there is some price increases we are taking in the cement asbestos as well as the boards and the spinning is also contributing with this will be good when compared to last year and therefore I think I do not see a softening of margins overall consolidated margins because of the boards business increase in fact the boards business also should contribute something when you compare year-on-year.

**Kritika Garg:** And what are pulp prices currently are we seeing any softening in pulp prices?

**V. Vallinath:** Not yet madam, pulp prices are not showing sign and I think that there is enough research in the market to show I think just now Mr. Praveen Sahay of Edelweiss just asked the question



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they came out with a report internationally checked up all the things and they said that pulp prices will take another two years to soften.

**Kritika Garg:** Two years?

**V. Vallinath:** Yes two years to soften but in the meantime we will buildup this business and the margins to a robust level and that will be a big bonus in the effect.

**Kritika Garg:** And what about fiber prices?

**V. Vallinath:** Fiber can be I think more or less stable. There is no issue except the exchange rate which is playing spoil sport. So we are doing our own hedging policy and all that we have our own plans so as to mitigate that risk but otherwise in terms of the overall prices there is not much of a concern as of now.

**Kritika Garg:** And any Forex loss in H1?

**V. Vallinath:** No, not much there is some amount and then it gets built into the raw material cost that is the reason the raw material cost has gone up. In fact the dip in the margins let me explain as you have raised that question the related question Forex loss as such because we do not have any Forex loans or anything Forex loss is in the form of increase in the raw material cost because when we are import we are paying at a higher price, higher exchange rate that the raw material cost and freight cost two major cost have impacted the margins to some extent and both these things are going to be passed on going forward and therefore the margin should improve.

**Kritika Garg:** Okay. Thank you.

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

**Pritesh Chheda:** Sir in the H1 how much was the nonasbestos business in the building products revenue. So you reported about 295 plus 191 so about Rs. 491 Crores of ...?

**V. Vallinath:** You are asking about the growth in the business?

**Pritesh Chheda:** No I am looking at the absolute number what was your...

**V. Vallinath:** Absolute numbers business wise we will come to that on a one-on-one discussion Sir. I think that is so much relevant in a public call.



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**Pritesh Chheda:** Okay. My second question was what kind of margins actually you made on the nonasbestos part Sir you mentioned a 7% number so that 7% number was on the nonasbestos business right?

**V. Vallinath:** That is true.

**Pritesh Chheda:** So whatever erosion in margin that we see on a Y-o-Y basis or on a Q-o-Q is a function of asbestos because...?

**V. Vallinath:** Yes, you are right.

**Pritesh Chheda:** It has been asbestos.

**V. Vallinath:** Yes.

**Pritesh Chheda:** It is not visible in other companies it is very specific to you any reason for that?

**V. Vallinath:** I do not agree with that if you have really I do not want to discuss other companies but I would say that I have generated one of the highest margins in the industry that much I can tell you. I would request you to go back and study because I do not want to discuss the industry analysis where I am talking about my company's results because it is not fair on my part. There are people who can do that analysis with you from the other companies but what I would say is that my own analysis says that I have generated one of the highest margins in the industry.

**Pritesh Chheda:** I refer to your past call somewhere in Q3 you had mentioned that the maximum sales of boards on the capacity that you have put is about Rs. 200, Rs. 220 Crores and the ATUM panel is about Rs. 100 Crores where are we on that journey?

**V. Vallinath:** ATUM panel is not Rs. 100 Crores. As of now whatever we have commissioned is about Rs. 65, Rs. 70 Crores, it can be scaled up with a very, very marginal capex it can be doubled that is a different thing altogether, but first we would like to incur this and then do that. In the case of the boards yes if I am talking about... yes, it is about Rs. 200 Crores plus.

**Pritesh Chheda:** So what is the capacity utilization currently in these assets?

**V. Vallinath:** Right now the existing two plants if you take it is about 95% for the existing two plants but then we have a huge capacity coming up 50000 tonnes. If you take into account that also then on 180000 tonnes so it will be something around 75%.





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- Pritesh Chheda:** So you are saying it is 90% capacity utilization in boards on the two plants?
- V. Vallinath:** Yes.
- Pritesh Chheda:** And when you are mentioning the Rs. 200 Crores revenue peak potential is a function of three plants or it is a function of two plants?
- V. Vallinath:** Yes three plants.
- Pritesh Chheda:** All three plants. So on three plants you have 70% utilization?
- V. Vallinath:** I will tell you one point that about Rs. 2.5 Crores for the three plants.
- Pritesh Chheda:** Sorry 2.5 is...?
- V. Vallinath:** Sorry Rs. 250 Crores for the three plants.
- Pritesh Chheda:** And what is the capacity utilization in ATUM?
- V. Vallinath:** ATUM we just started. So we are just getting enquiries and negotiating and pitching it, so people initially come forward try to understand the product and then they say how does it compare with the conventional roof of solar obviously you are priced at a little higher than the conventional rooftop solar. Basically because the cost will some way be higher because it is a totally different kind of a class of product. So it takes some time for the market to understand, reconcile and come back and say no yes I want this product. In the initial days we will execute some projects already we have executed two small, small orders and we have got another two orders in the pipeline and I am sure you would have seen in the annual report itself, my own factor ATUM factory has been totally done, the roofing has been done with ATUM and that plant ATUM plant the entire power consumption is being generated by that roofing.
- Pritesh Chheda:** Lastly just on the you mentioned that the volume growth in boards business was 22% in the quarter plus there was price hikes and all put together there as 27%, 28% revenue growth that is how you mentioned?
- V. Vallinath:** Yes I think so 22%, is the increase in boards as well as the small price hike that would have given you a revenue growth of about 25%, 26%.
- Pritesh Chheda:** But what this number would be for H1, volume growth number?



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- V. Vallinath:** Volume growth H1 will be that is about 18%.
- Pritesh Chheda:** And you are taking another round of price increase now that number was 15% or you need a 15% price increase I did not get that?
- V. Vallinath:** Price increase in one shot 15% is simply impossible in any industry. So I mentioned that the EBITDA margins in the cement asbestos is 15%, we are taking a price increase of 5% that is what I said. In the Vnext it is a consistent creeping increase in the prices because as we push the market expectation because we have to also push the volumes and therefore the price increase are being done and ultimately I think in the next six months with the combination of logistics parts as well as the price increase, we should enter into a decent double digit margin.
- Pritesh Chheda:** For boards, right double digit margin?
- V. Vallinath:** Yes for boards that is right. This is only doing very well and spinning is doing very well I think spinning it will continue to do well, asbestos is continue to do well. All that we are doing, we have to show some numbers as we have to bring about an improvement in the boards where we are spending some time and I think that there also we do not have a problem as such but the margin increase has taken a little longer than what I had been talking about it is in the public forum, in the conferences and the earnings calls and all that. Yes, I regret that, this will not happen but the problem is that the pulp prices have doubled and the price increases and the volume increases have been happening the way we projected. So there is a 10% increase in the price that has happened. There is a good volume growth that has been happening everything is happening and just that the raw material cost has gone too high and ate away the increase. So going forward now I think they have almost at peak. Now going forward other logistics cost improvement and further operating leverage and further price increases will take the margins higher and when the prices soften then automatically it will be a big boon because this is our product which is not dependent on that when the pulp prices come down my product price will come down when the pulp prices go up my product prices will go up. They are not totally so directly connected. So therefore when the eventually when the pulp prices come down then we will see the crackers busting.
- Pritesh Chheda:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.



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- Dhaval Shah:** Sir just one followup question. Sir any plan for increasing the capacity on the asbestos sheet.
- V. Vallinath:** No let us reach 100% capacity utilization there is a potential to increase that is not a problem at all. There is some more ... no not by Greenfield but by debottlenecking some more increase that we will be done...
- Dhaval Shah:** About 15%, 20% you can you have scope to debottleneck, if am not wrong?
- V. Vallinath:** In the sense the when compared to my current capacity right now I am not fully 100% utilized. So that there it is about 5%, 6% then maybe another 10% we can increase so about 15%, 15% will take me to more than a year to go and then we will see we will take a review at the time by the time the boards we will see how it grows, ATUM how it grows. So every year we are going to introduce any new products so where the capital allocation should go how we will build the future, those things will be reviewed from time-to-time.
- Dhaval Shah:** So Sir in terms of utilization on the cash flow, we have expanded Vboard at Jhajjar now so we have capacity for the next two years to grow there. Asbestos we can do debottleneck so your incremental cash flows where are we... where will be that money go, so we will be...?
- V. Vallinath:** Yes it should go for normal Capex debottlenecking and reduction of debt.
- Dhaval Shah:** So in terms of priority debt reduction will be highest because normal capex as a part of your it is a ongoing thing but a large amount of money should be going to your servicing, reducing your debt which is around 260, 270 right now?
- V. Vallinath:** Exactly sir because and once the cash is there, it is simple comment for any CFO to... once there is no major productive capex is there to do then whatever cash is there especially when there is some amount of a debt keeping at the balance sheet, the first priority will be reducing the debt, the second priority is to distribute to the shareholders, we incur the capex.
- Dhaval Shah:** Exactly so where FY2019 and 2020 roughly we should be doing Rs. 170, Rs. 200 Crores of cash flow now out of that like say 270 Crores debt can it go to around Rs 120 Crores, Rs. 100 Crores like by mid FY2020?
- V. Vallinath:** No I think yes it can let us see but in the meantime what the plans will come up. Let me tell you one thing, see the way we are calculate is that we should not put number on that debt that is going to be there at the end of FY2020 what I would concentrate on as a CFO is that



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I am generating this much of a cash, if I have a productive Capex I will give priority to that because debt in any case is cheap and the leverage is very low. So with the low leverage it is a AA+ plus with the AA- rating with accessing to debt it will be one of the cheapest rates if I can invest in productive capex then I am adding value to equity. Therefore that is my priority. Once that priority is there whatever is there will go for the liquidation of the debt. So that whatever number it can come, whatever number it should come, first I should operate in my operation and operational cash flow have to concentrate on and second thing is look at what is happens in the discussions and what plans will come up and imagine the plan for productive capex. Once those things are done the rest we have to divert for liquidation of debt and that will happen whatever be the number once that operating cash flow figures must get swiped off and the capex requirement gets closer, the balance will go for reduction of debt.

**Dhaval Shah:** Correct and Sir so we also have some portion of public deposits with it. So it is an and it keeps on going up and down in the annual mark so is it so why is the public deposit taken when the leverage is also very low and what is the logic behind taking that?

**V. Vallinath:** Logic behind taking it is that it is an unsecured debt number one, number two it is not a very long-term debt where I am locking into some debt it is maximum one to three years anytime if I do not want I need not renew the deposit, I can pay back the depositors. These are the two things and third thing, is there are lot of regulate deposits have been depositing for years and years together in the company. Finally if you shut the door for them it may not be a great idea so that is one reason. Three reasons why we continue to take public deposits but we are not aggressively campaigning public deposits and it is not that really there is a campaign on public deposit in fact we are very resistant to take a public deposits accept people where there is that when we cannot say no.

**Dhaval Shah:** Fine Sir. Good luck. Thank you.

**Moderator:** Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

**Saurabh Ginodia:** As you have alluded that the current pulp cost has been putting some kind of a margin pressure on the Vnext business and when the pulp cost comes down, there can be a margin uptick in the Vnext but what kind of normalized margins do you expect on a sustainable basis on Vnext?

**V. Vallinath:** Let me put things in perspective Sir, do not go with one idea that when pulp prices come down then the margins will improve. With the current pulp prices itself because this pulp



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prices we expect to continue for the next two years at this level. So that has been the analysis that we have made and some other market participants also have done this analysis and have seen public reports. So therefore we need to plan this analysis data that we have and the outlook that we are getting. So keeping this in mind itself, we should increase the prices reduce the logistics cost, do some other things to improve the margins to a decent level because irrespective of the pulp prices are going to come down within two years and one year and three years, we need to ultimately ensure that we need to do good business. So if you want to grow this business and as a business if someone asked as the component of this business is growing overall EBITDA margin is there are a possibility to come down if I can take the EBITDA margin beyond 15% then the growth in this space is not going to affect the overall EBITDA margin first. So that is going to be the idea. So that would be the target through a logistics cost and through the price increases, we will increase the margin in this business.

Now subsequently when once the business is doing well and the margins come to a reasonable level at that time, same time because what happens is when things go bad, too many things go back and then things start doing well everything will fall in place. So by the time if pulp prices started softening then that will be an additional bonus and a big bonanza so then that will be some honeymoon period where suddenly people we will be looking at this as a business today everyone talks about asbestos cement sheet as a business, spinning as a business, Vnext is a buildup then when will the margin improve this is the question that is what is asking I am telling you the volumes are increasing the margins would have been higher but for some big setbacks in the raw material parts at those I think we will overcome and the business which is doing well. So we can increase the prices and there is lot of leverage between us and the competing products in the Vnext business. Therefore the margins will go up on their own. Pulp prices coming down we will be an additional bonus let us not pan on that basis right now. I have only given you a flavor of how things are going to be rolled out over a period of time.

**Saurabh Ginodia:** So normalized basis you expect margins in the boards business to be at par with the roofing segment?

**V. Vallinath:** Yes I think so that is what we have achieved.

**Saurabh Ginodia:** And broad level basis not getting into specific what could be the mix of the nonasbestos part in the overall building product division.



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- V. Vallinath:** Nonasbestos business, building product... see to give you a very board overview I think 65% comes from asbestos, currently 18% comes from spinning and another 17% comes from Vnext.
- Saurabh Ginodia:** This is in the overall sales?
- V. Vallinath:** Overall sales yes.
- Saurabh Ginodia:** And what kind of margins do you expect in the ATUM business.
- V. Vallinath:** Let us rollout the sales then I will give you the numbers. We have some plans. There is not point giving estimates so we need to do some actuals and then based on that how this actuals have come what are the drivers, what are the factors and what are temporary, what are permanent, how margins can move, then we can analyze and then I can give you an idea because I need to understand the business as it is operating first. Now today we have made a plan for operation. So discussing a plan for operation first we want to do the sales good projects. So once we do that then I think in the good margin it is a good business. It is a good business that I can assure you.
- Saurabh Ginodia:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.
- Rajesh Ravi:** Just one more question I had in terms of like the strong cash this year when your capex is done what next for next financial year perspective anything which you would be concurrently working on?
- V. Vallinath:** Concurrently working on what?
- Rajesh Ravi:** Any next new round of capex maybe the Jhajjar or any other expansion plans for next financial year?
- V. Vallinath:** Nothing planned as yet but because unless the board takes a decision I cannot tell you something but let me going along. I think the board first it has to comment two quarters we have to see and then we can talk about some plan for it.
- Rajesh Ravi:** Yes that is all from my side. Thank you.



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**Moderator:** Thank you. As there are no further questions I now hand the conference over to Mr. Rajesh Ravi for his closing comments.

**Rajesh Ravi:** Thanks everyone for participating in the call. I will now hand over the call to Mr. Vallinath for his closing remarks. Thank you and over to you Sir.

**V. Vallinath:** Thank you gentlemen for participating and taking time out to participate in our call. One thing I can tell you that in all the three businesses we are generating a good growth and consolidated I think we are leading the margins as a company and we have plans for reduction of some cost and also increase in prices across products and there is a lot of visibility campaign that we are creating for Vnext. So all these things put together should yield significant results and we definitely are looking forward to growing all the three businesses in double digit in the next few quarters to start with along with improvement in margins and end the year in a very positive and strong note and somewhere I think and simultaneously I think the ATUM is going to start generating that will be another huge opportunity of the company which will open up. As it gets its people in the ground and starts doing well, then there is a lot of another big practical for growth because we have got three boards plants and now the three locations we can tell as ATUM plants and cater to different markets so we are here and right now in the process of establishing the product in its rightful place for the kind of innovation that it has got and the kind of functionality it has got and the aspiration it has got. Now to the establish and its huge position is what we are trying to do so what is called as a product positioning is what we are trying to do. Once that is done that is another huge opportunity and I think for the next year, one and a half years and the next two years, we see a lot of positive things to the company and the ground market scenario is very, very good and I think we expect this scenario to continue. The country has weathered a a lot of storms in international levels. So many countries fighting so much of sanctions in this that and all that but I think we still have done very well and that is how we are fairly insulated from all these developments and we have taken everything in our stride and still did very well and I think the balance sheet is being strengthen, the working capital cycle has been brought down the topline growth on all the three businesses is doing well. There is a new business which can open up and the margins can improve and there is nothing more that I can ask for and I as a CFO am very happy with what we have done and we look forward to giving you some more interesting developments as we go along. Thank you very much and all the best and a very Happy Diwali to all of you and your families.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Centrum Broking that concludes today's conference. Thank you for joining us and you may now disconnect your lines.