

Himadri Chemicals

Q4FY11 Conference Call Transcript

2 June, 2011

Moderator

Ladies and gentlemen, good day and welcome to the Q4 FY11 results conference call of Himadri Chemicals and Industries Limited hosted by Emkay Global Financial Services. We have with us today Mr. Anurag Choudhary – President and Chief Executive Officer. As a reminder for the duration of this conference, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pritesh Chheda – Senior Research Analyst at Emkay Global. Thank you and over to you sir.

Pritesh Chheda

Thank you Marina. Good evening everybody. Thank you for joining us today. We would like to welcome, the management of Himadri Chemicals and Industries Limited. And thank them for giving us the opportunity to host this call. From the management side we have Mr. Anurag Choudhary, president and chief executive officer of the company. Mr. Anurag Choudhary will first give you a brief on the quarter four performance and the FY11 performance and also share the outlook for the forthcoming years. Now I would like to hand over the call to Mr. Anurag Choudhary. Over to you sir.

Anurag Choudhary

Thank you Pritesh. Good afternoon everyone. I welcome you to the fourth quarter 2010-11 conference call. In regards to our fourth quarter results I'm pleased to say that the sales increased by 40.28% from 143.83 crores to 201.76 crores. We were able to achieve EBITDA of 58.50 crores against 53.24 crores registering a growth of 9.88%. The company was able to achieve profits after tax at 37.64 crores compared to 27.24 crores during the corresponding quarter last year registering a growth of 38.18%. On a year to year basis, we have been able to achieve 48.5% growth in terms of sales to Rs 700 crores from 471.42 crores EBITDA at 206 crores from 197.93 crores profit after tax at 114.39 crores from 107.34 crores.

If you look at the cash profits we are able to generate 151.64 crores compared to 135.70 crores. The interest outflow during the current year has been at 29.70 crores compared to 27.88 crores for the last year. In terms of volumes we have been able to achieve 53,400 metric tons of sales during the current quarter compared to 3700 during the corresponding quarter last year. The company has been able to achieve these numbers basically on two fronts. One, our major market continued to strengthen and there has been very strong demand for the finished products for all the segments in which we are operating. Other than that our coal tar distillation plant, SNF plant and carbon black plant all are operating at 100% capacity utilization. Another good announcement is that we have been able to commission our power plant which was shut down for the last nine months because of the fire and which in fact had a substantial impact on our profitability margins for the last year. So from first of April we have our power plant which is operational and with this has direct impact in terms of-, we do not have to pay any electricity charges at the same time now we are able to sell power to the grid. If we look at the overall performance for the year 10-11, the EBITDA margins stands at 29.47% compared to last year of 42%. The decrease in the EBITDA margins in the current year is because of two main factors. One, there was a fire in the power plant, which resulted in reduction of profitability. The other in the low cost inventory which were carrying in the earlier year was and the benefit which was not in this year as such. Even after that we were able to achieve EBITDA margin of 29.5% for the entire year. Now if we look at the business segment, coal tar pitch business is having a strong demand from the end user industry. The Aluminum prices are at level of \$2500 to \$2700 per metric tons, which has a direct impact on higher capacity utilization- Aluminum smelter globally which result in higher demand for coal tar pitch. Looking forward with the prices of aluminum on per note, we expect the demand for coal tar pitch to remain robust in the coming quarters.

Now if we look at the industry on a whole today we have our global Aluminum capacity of around 42 million tons which is expected to increase to 52 million ton in next 3 to 3.5 years. This will result in additional capacity of 10 million tons which would translate to 2 million ton of new distillation capacity required. So there is a huge potential for growth in the coal tar pitch business. Most of this capacity expansion is coming in Middle East, India and china. So we are rightly positioned our self in the growing markets from where the demand is going to increase in the years to come.

Now if we look at carbon black, there is good demand from the infra industry, tyre industry is seeing a growth of 7% to 8%. Non-tyre segment is registering a growth of 10% to 11% which results in higher demand for our products and we are able to sell our products at a good reasonable price and transfer the increase of price because of the increase in cost to the end users. SNF business is also doing well with the increase in spending in infrastructure. The demand for SNF is good into ready

mix concrete is also increasing at a rapid speed in order to catch up with this demand; the company is expanding its capacity by 50,000 tons from 18,000 metric ton to 68,000 metric ton. We expect all our capacity; we are going to commission three projects in the month of September. The carbon black capacity is going to expand from 50,000 to 90,000 metric tons. The power plant, we are going to increase from 12 megawatts 20 megawatts. The SNF capacity is going to increase more than three forth from 18,000 to 68,000. We are going to start China operation. So production of China is also expected to commence from September 2011. So three projects are going to commission within a short span in the end of the next quarter, with this you will find substantial increase in overall performance in the company in terms of top line and bottom line.

So considering the overall positive and optimistic market fundamentals. I'm of the view that looking forward, the overall results of the company will be substantially stronger compared to last year. If you look at the balance sheet numbers. For the current year, the total debt stands at 848.52 crores compared to 414.25 crores. Cash balance stands at 359 crores. The net worth of the company is at 845.78 crores. We have capital work in progress of 303 crores which we expect to commence production during the current year. Out of total capital outlay of 800 crores we have been able to deploy 303 crores. So if you look at the overall picture the company has been able to deliver what it was promised and looking forward all the projects which was projected to commence production in the month of September are also on schedule as committed by the company. With this now I open the session of question answer session.

Moderator

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and then one. Participants are requested use only handsets while asking a question. Any on who has a question at this time may press * and then 1. The first question is from Girish Solanki from Anand Rathi. Please go ahead.

Question and Answer Session

Girish Solanki

You mentioned the decline in realization in margins in on account of two reasons. You spoke about a fire that broke out in the power plant and about low cost of inventory. Could you just quantify the amounts?

Anurag Choudhary

If you look at overall, because of reduction at power plant, the reduction was in the range of 3% to 4%.

Girish Solanki

3% to 4%, I you can quantify in terms of amount that you yet to spend to spare power bill. What is the amount our power bill that you could have saved if it was running on your own...?

Anurag Choudhary

The power bill we saved was around 14 crores each.

Girish Solanki

So this you would have saved basically? And right now it's your 12.5 mega watt is completely up and running?

Anurag Choudhary

Yes completely up and sunning.

Girish Solanki

Okay. And about the low cost of inventory that you spoke about?

Anurag Choudhary

That has an impact of around 20 – 22 crores.

Girish Solanki

During year?

Anurag Choudhary

Yes, last year.

Girish Solanki

So that would continue?

Anurag Choudhary

For 09-10 it had that impact.

Girish Solanki

Okay. And then we also spoke about carbon black expansion you spoke about 60,000 metric ton going to 90,000 metric ton. Currently what is the utilization level at your carbon black facility?

Anurag Choudhary

Currently we are operating at 100%. Of the actual capacity, means when we talk about carbon black the actual capacity is 80% to 85% of the name plate capacity. Because of the...

Girish Solanki

Because of the different grades, that are involved. So the name plate capacity is 60,000 but actual capacity is 50,000.

Anurag Choudhary

No name plate capacity is 50,000 but actual capacity is 40,000 - 41,000.

Girish Solanki

Okay. So you are running at 41,000 42,000, this is what you are saying. And what will be the average realization for the carbon black that you said. Are you basically under that...

Anurag Choudhary

Yeah we don't give products wise realization. But the average realization will be around Rs.37,800.

Girish Solanki

Rs.37,800 is the average for coal tar pitch as well as.

Girish Solanki

Yeah coal tar pitch, carbon black, naphthalene and everything. All the products together.

Girish Solanki

Okay. And which are your clients in carbon black?

Anurag Choudhary

Supply to tyre and non tyre industry.

Girish Solanki

But you mentioned about tyre companies growing by 7% to 8% and non-tyre growing by 10% to 15%?

Anurag Choudhary

10% to 11%.

Girish Solanki

Now when you say non-tyres, are you talking about non-Atma clients?

Anurag Choudhary

Yes and that includes all the small sized customers like conveyer belt and there is all the others rubber applications ... like there are lot of brands which manufacture tyres.

Girish Solanki

Are you also talking about Birla Tyres?

Anurag Choudhary

No all those are into tyres.

Girish Solanki

Cycle tyres because cycle tyres is not...

Anurag Choudhary

Cycle tyre is the non-tyre, yeah that's in non-tyre.

Girish Solanki

So major growth is in the cycle tyres or is it more to do with the conveyor belts and hoses and all?

Anurag Choudhary

More to do with the conveyor belts and other segments.

Girish Solanki

Okay I will come if I another questions . Thanks a lot sir.

Moderator

Thank you. The next question is from Sumit Jain from ASK Investment. Please go ahead.

Sumit Jain

Hi, just wanted to check when is our coal tar pitch expansion going to four lakhs coming on stream ?

Anurag Choudhary

That is coming in December.

Sumit Jain

December?

Anurag Choudhary

Twelve.

Sumit Jain

Sir what we see is project getting postponed on that...

Anurag Choudhary

No the thing is that, what we are doing, it's a green field project for which we are setting up it in Orissa so this project is in fact coming in December. In the mean time the board is evaluating second phase of extension at the existing site so that the

demand is going to increase in the next 12 months time. We are fully positioned in-line with the market to supply that material. So may be by the next, once we discuss the next quarter call, we will be announcing another expansion at existing site only.

Sumit Jain

So effectively we will have 1.5 lakh incremental in Orissa plus there would be some expansion in...

Anurag Choudhary

Yeah there will be some additional expansion which would be coming in production in between that period.

Sumit Jain

So how long will it take to have brown filed expansion in our existing site?

Anurag Choudhary

It will take 12 months.

Sumit Jain

From the time we are today?

Anurag Choudhary

Yes. So, that's under both consideration once we are clear able to.

Sumit Jai

Sir roughly what would be that capacity?

Anurag Choudhary

I think in the next call we will be able to give you a clear picture on that.

Sumit Jain

So brow field expansion will be up and running and September 2012, roughly?

Anurag Choudhary

Yes,

Sumit Jain

And Greenfield will be up and running in December 2012?

Anurag Choudhary

Yes.

Sumit Jain

But why did-, green field getting postponed what are the bottleneck there.

Anurag Choudhary

Basically is the land issue which is there in Orissa.

Sumit Jain

Have we acquired the land now?

Anurag Choudhary

We are not able to acquire the land. Some or other issue crops up because of the availability of the land.

Sumit Jain

Which is where we are planning to now move Brownfield expansion?

Anurag Choudhary

As infield measure we are planning to extend the capacity relatively and so that target project can come in two three months gap.

Sumit Jain

Okay and are we having that 100% utilization even in CTP because the CTP capacity at 2,50,000.

Anurag Choudhary

So we are running at 100%.

Sumit Jain

150000 should be our throughput?

Anurag Choudhary

Yes.

Sumit Jain

No roughly 60,000 62,000 should be our throughput totally...

Anurag Choudhary

No. So what is happening, the oil which is generated from coal tar distillation it is not reflected in this volume because those are used in-house for making carbon black. So these quantities are not considered. When we tell you that total quantity, is the total net sales quantity.

Sumit Jain

Okay. Is our advanced carbon black project operational now?

Anurag Choudhary

Carbonization pitch we are already producing 240 to 230 tons per year. So now what we are doing is, we told you we are setting up a graphitization plant through which will just multiply the value addition. So that plant is also under commissioning under implementation and we expect that plant to commission by October and with this plant commissioning we will not be substantially impact in the initial phase on top line or bottom line because first we will be going for October for this new product. So the capacity what we are setting up now is small. Once we are able to get the approval and when the process is streamlined, then we look forward a very big growth in this line of business, which is one segment in which the company is having a high growth road map. So for that first we need to complete this process with small quantities. So I think the next 12 months will be critical and once we are able to complete this then there will be a huge growth in this line of business.

Sumit Jain

Okay. Our current capacity is 240 right?

Anurag Choudhary

240 yes.

Sumit Jain

So that is being used as getting being used as - getting approval right?

Anurag Choudhary

No approval, this is an intermediate product. Our final target is just like coal tar pitch. So we are setting up a new plant for that. So once that is commissioned and fully operational then we will be able to get the approval from the customers.

Sumit Jain

What would be the realization once the graphitization is being done at our end?

Anurag Choudhary

Yeah the realization will vary from 800,000 to 950,000, will be rupees per metric tons.

Sumit Jain

And here we will get to what capacity in next two years?

Anurag Choudhary

For this carbon?

Sumit Jain

Yeah.

Anurag Choudhary

Its very small capacity, they are setting up 10 metric ton graphitization plant. So once that is stabilized, then we go for bigger plant.

Sumit Jain

So our plan of going to 1000 metric ton is now shelved for the time being?

Anurag Choudhary

No shelved it is just because we want to go for advance carbon material instead of carbonized. So we want to first complete this process. So 10 metric ton is per month capacity. Once we are able to stabilize and get the product approved, then we will immediately set up that higher capacity.

Sumit Jain

Okay. And what will be the set up time for or rather ramping up time for china JV.

Anurag Choudhary

China JV will be 3 to 4 months.

Sumit Jain

So if it is getting operational in September 2011. By December 2011 will be at 100% utilization?

Anurag Choudhary

Not actually 100% will be to stabilize; it will take 4, 5 month to stabilize to 100% with the new market. So we expect it to run at initially at lower capacity then by the end of 3, 4 months it will jump to higher capacities.

Sumit Jain

Okay so by when can we expect to go to roughly 100% capacity in china?

Anurag Choudhary

That will be at the last quarter of the current year.

Sumit Jain

So by Q4 will be at 100% utilization.

Anurag Choudhary

Yes.

Sumit Jain

Okay and do we have any orders there?

Anurag Choudhary

The order is not a problem because from there you can export to a global market.

Sumit Jain

So Qatar is one that you thought will be our existing...

Anurag Choudhary

But there are other smelters also available other than that there is other markets now which we can cater from that place south America market.

Sumit Jain

okay and at what capacities will be break even, EBITDA levels here? At what capacity utilization?

Anurag Choudhary

It will be at around 65% for this year.

Sumit Jain

Will break even.

Anurag Choudhary

Yes.

Sumit Jain

So Q3 when it's getting operational we will have some losses here in this nature.

Anurag Choudhary

It will not be having actually losses it will be more or less at par only.

Sumit Jain

Okay. That's it from my side sir. Thank you.

Moderator

Thank you. The next question is from Avinash Gupta from Globe Capital. Please go ahead.

Avinash Gupta

Just wanted a clarification on this Aluminum business that you mentioned which is I think the biggest market for you, is that correct?

Anurag Choudhary

Yes.

Avinash Gupta

You mentioned that three to three and half years we are getting additional capacities 10 million ton coming online for aluminum.

Anurag Choudhary

This is that global capacity which is going to, which is expected to come in three to three and half years

Avinash Gupta

Now to use this capacity additional 2 million tons of distillation capacity for coal tar?

Anurag Choudhary

Yes right.

Avinash Gupta

Okay and how much are we planning to add?

Anurag Choudhary

We have a substantial expansion plant, but at the first phase is at 100000 tons and after that we are considering. So if we look at three years to five years plan, the company has a huge expansion plan. So we will be very aggressive in terms of expanding our capacity when that it comes to making the requirement of the customers. But with in the first phase first will be the 100000 tons, which is the announced capacity. But beyond that there is lot of growth is going to come.

Avinash Gupta

Well this is already commissioned? 1,50,000 tons.

Anurag Choudhary

No this we have already committed that CAPEX has been committed. The funds have been raised.

Avinash Gupta

Okay and this will go in stream by September?

Anurag Choudhary

December 12.

Avinash Gupta

December 12 okay, this is the plant in Orissa?

Anurag Choudhary

Yes.

Avinash Gupta

Is there any limitation that we want to stick to Orissa like if land becomes a problem there?

Anurag Choudhary

No – no I don't think it will be resolved. It's not that such a bigger problem. It will be resolved there, I think – it's only the size that we are trying to finalize, trying to take the location advantage. So it's not a big issue.

Avinash Gupta

One more thing that, you mentioned about that margin we are getting shifted accounting to the low cost inventory. Is there a fair amount of cyclical in the pricing of the product? I mean that do the pricing cyclical like any other commodity like crude or copper or aluminum or...

Anurag Choudhary

No-no-no. So our main product we have selling price linked to our raw material. The price of our raw material increases, it transfer to the customer and it's a decrease there again transferred to the customers. So there is no problem as such.

Avinash Gupta

No in that case, that means in the past, we have built up the inventory anticipation that price will move up in future.

Anurag Choudhary

Yeah that was in 2009-10 in the initial we had a substantial inventory at a lower cost benefit of which was taken in 2009-10 that's the reason why the EBITDA was at 42%.

Avinash Gupta

Yes I'm trying to understand, I mean, in the normal quarter business, raw material would not affect our business margins.

Anurag Choudhary

Yeah that's right.

Avinash Gupta

At this apply also the carbon black that is the second importer for us ?

Anurag Choudhary

Yeah carbon black, most of the raw material is in house.

Avinash Gupta

So this is a byproduct of the coal tar?

Anurag Choudhary

That's right.

Avinash Gupta

Okay. Now I don't think if you mention your existing capacity from SGS 18,000 to 68,000 ton.

Anurag Choudhary

Yes.

Avinash Gupta

SNF is used in application maintenance of graphite electrodes

Anurag Choudhary

No. The main is SNF, it finds application in ready mix concrete.

Avinash Gupta

It finds application in.

Anurag Choudhary

RMC Ready-mix concrete. This is the conventional cement and increases the strength of RMC.

Avinash Gupta

One more problem, when are you posting this conference transcripts in then website because, on the web site when I tried to update myself I could not find some of the annual reports of the previous con calls there.

Anurag Choudhary

We would put it on that.

Avinash Gupta

Okay thank you that would be helpful. Thank you very much.

Pritesh Chheda

I have a follow up question here Marina.

Moderator

Please go ahead sir.

Pritesh Chheda

Sir on the power side, there has to be impact on revenues as well because our surplus power which was supposed to sell to the grid right?

Anurag Choudhary

Yes correct.

Pritesh Chheda

And if you could quantify that impact because obviously it would slow down the EBITDA. So if you could quantify that impact in terms of revenues loss which would automatically come next year.

Anurag Choudhary

In terms of selling to Grid we will able to sell additional 3 megawatts of power.

Pritesh Chheda

Okay and in FY11, what was your required consumption of power and if 12 megawatts of the plant that you have installed, is it that 9 megawatts is your utilization and three mega watt is what.

Anurag Choudhary

12 megawatt is the installed capacity, if you look at the power load factor and everything and it depends on the grades which you are manufacturing. So with the mix, actually production with the power which is able to generate changes. So in net the existing capacity we can sell 3 megawatts of surplus power.

Pritesh Chheda

Then how much can you generate actually?

Anurag Choudhary

We can generate 8 to 8.5 megawatt.

Pritesh Chheda

Is that the peak generation or?

Anurag Choudhary

No this true the stand up generation this is standard generation which we are talking of on an optimized basis.

Pritesh Chheda

That's the standardized generation.

Anurag Choudhary

Yes that's right.

Pritesh Chheda

Okay. In which 3 mega watts could have been sold to grid even that is a loss of revenue which have impacted the EBITDA. And if you quantify this 3 megawatt how much would it be in the Rupees crore terms? Or if you could give us the price at which it was supposed to wheeled to the grid?

Anurag Choudhary

If we quantify, it should be around 6.5 crores.

Pritesh Chheda

Okay. Second, few clarifications . The Brownfield capacity is 150,000 tons right?

Anurag Choudhary

The new expansion.

Pritesh Chheda

And since at the Brownfield so it's at the existing locations?

Anurag Choudhary

No it is a Greenfield.

Pritesh Chheda

Okay so 1.50 lakh is a Greenfield which you are planning to in Orissa. Which is coming up in December 2012 likely? Or and is there any other coal tar pitch capacity that you are looking at?

Pritesh Chheda

In between, we are at the discussion stage, maybe we come up for a Brownfield expansion at the existing side which is yet to be decided. Looking at the growth for the coal tar pitch which is going to come in the next 12 months . So we need to have expansion in place.

Pritesh Chheda

Okay. So then for benefit of all if you could break down that 800 crore CapEx, capital which you quantified out of which 300 crore you have spent in CWIP, what does this 800 crore include in terms our estimation?

Anurag Choudhary

This includes carbon black expansion SNF expansion. SNF expansion at Roorki. We are also setting up one SNF plant in Uttaranchal in Roorki.

Pritesh Chheda

So is that 18 to 68 or it is additional?

Anurag Choudhary

It is additional capacity which we are setting up in Roorkee.

Pritesh Chheda

Okay so if you could tell us the figure so it would be beneficial, carbon black, the CAPEX figure.

Anurag Choudhary

Actually we have done the CAPEX on our entire carbon project basis. Since all are correlated projects, it is related to some. So in these projects which are considered as carbon black expansion, SNF expansion at our existing site plus Roorkee advanced carbon expansion, China expansion, coal tar pitch plant at Orissa.

Pritesh Chheda

And China capacity is 100,000?

Anurag Choudhary

No this cost considers 50,000.

Pritesh Chheda

Okay it just spends only 50 okay. Marina let's take the questions.

Moderator

Sure sir. The next question is from Sagar Karkhanis from Nirmal Bang Securities. Please go ahead.

Sagar Karkhanis

I just have two questions, first is you mentioned that for your Brownfield expansion will take around 12 months. For setting up a Greenfield distillation plant, how much time would that take?

Anurag Choudhary

18 months.

Sagar Karkhanis

18 months. Because a couple of weeks back there was some classified advertisements in the new papers saying that India's largest chemical manufacturer is planning to enter into coal tar pitch business. So since so far we have seen an environment where you have been a clear industry leader. So if you see any major big players coming into the market. How do you see the scenario changing sir?

Anurag Choudhary

The market is growing at a high pace. The lot of Aluminum smelter capacities are coming up and for. If we look at the coal tar industry, the industry has been totally different. If you go back five years, seven years all the integrated steel plants in India, they are having coal tar distillation. They had a huge investment in coal tar distillation, but they were not able to meet the requirements of customers in terms of quality aspects. So, eventually all of them closed down. So with the technology which Himadri has been able to develop is the effort of last 20 years of research and development and a lot of learnings has gone into it. So for a new player coming and being able to take up our share overnight, it's a big question in itself.

Sagar Karkhanis

Okay got it sir. One more question is on my understanding on the pricing; you said that your finished product prices realizations are linked to raw material cost. So what I was understanding is that your raw material use, source it from as the byproduct of coke oven batteries right?

Anurag Choudhary

Correct.

Sagar Karkhanis

So is it at the prices of those byproducts determines your final product prices or your final product prices are determined by the input cost?

Anurag Choudhary

Yeah input cost determines the final product price.

Sagar Karkhanis

Okay all right that's it sir thank you.

Moderator

Thank you. The next question is from Avinash Gupta from Globe Capital. Please go ahead.

Avinash Gupta

Little more clarifications. Which are the other people who are competing you said that it is not easy for some new competitors to come in.

Anurag Choudhary

Today the margin is having around 65% to 68% of Himadri. We are having 65% to 68% of the market share and Himadri is the only company in the organized sector in this line of business. So there is no direct competitor to match the quality of Himadri. They are small players who are having small fragmented capacity, who are supplying the balance quantity. So, there is no single competitor who is in the organized sector.

Avinash Gupta

Okay except for you nobody will be able to make that grade required for Aluminum industry and in all smelters.

Anurag Choudhary

In all yeah. On a high scale organized basis.

Avinash Gupta

Okay and what about the imported manufacture overseas?

Anurag Choudhary

Manufacturing overseas they are companies like Coppers, Rutgers, JIP, and OCI.

Avinash Gupta

How are we placed in terms of price vis-à-vis them.

Anurag Choudhary

The practical more or less at the balance on a global basis and these companies are already operating in different geographies and they don't have any surplus quantity to supply to India. On the other hand the material which is required in India is in liquid form and globally also it is liquid form at a temperature of 200+ degree temperature. So it becomes impossible to export this material. Given the logistics in India there it is because there are no smelters, which are located in India like Middle East.

Avinash Gupta

Okay that means practically these kinds of plants will have to be fairly close to the aluminum smelting plants.

Anurag Choudhary

Yes most of aluminium smelting goes like we are having our plant in West Bengal. We are supplying to all the smelter. We have a dedicated fleet of 110 tankers which move the material at 200 degree centigrade.

Avinash Gupta

Okay we can't really have real serious competition in this field?

Anurag Choudhary

That's right.

Avinash Gupta

Now, you were saying there is like carbon black I understand is commodities, where is the prices driven by the market?

Anurag Choudhary

Yes correct.

Avinash Gupta

And therefore the market cannot fluctuate, this of course being in a liquid form only one nearby supplier would be driven by the formal negotiation.

Anurag Choudhary

Yes

Avinash Gupta

And In coal tar practically, the negotiations of projects where most of the cost would pass through. Okay, number one. And as far as carbon black in concerned that is a commodity play and that is driven by the market.

Anurag Choudhary

Yes.

Avinash Gupta

Okay now you got some other remaining products like SGS and the concrete mix and all this. How much these products constitute as a percentage of your sales approximately.

Anurag Choudhary

In terms of volume these constitute around 12% to 13%.

Avinash Gupta

And in terms of value also it will be the same?

Anurag Choudhary

Yeah value also 13% 14%.

Avinash Gupta

Okay. Thank you.

Moderator:

Thank you. The next question is from Girish Solanki from Anand Rathi. Please go ahead.

Girish Solanki

Sir my question is again pertaining to the aluminum industry. You said your market share is around 65% to 68%. How big is this market?

Anurag Choudhary

165,000 tons.

Girish Solanki

165,000 tons . In terms of value if you can quantify.

Anurag Choudhary

Because these are the products which we have negotiations so we don't quantify...

Girish Solanki

I'm saying only CTP.

Anurag Choudhary

Yeah CTP I'm saying.

Girish Solanki

It is 165.

Anurag Choudhary

Because its 600 to 700 crore market.

Girish Solanki

Right and our total top-line for the company is around 700 crores . Now if you could breakup in the top-line, what is the amount you said in the last gentlemen's answer, you gave mentioned it is 12% in terms of value has been contributed by other products.

Anurag Choudhary

Other products mean naphthalene and others.

Girish Solanki

Right. So remaining 88% can be safely assumed from CTP?

Anurag Choudhary

And carbon black.

Girish Solanki

CTP and carbon black, right. In terms of carbon black you also mentioned the entire quantity of the creosote oil is been met from internal demand, am I right on that?

Anurag Choudhary

Not entire. Entire creosote oil goes to carbon black.

Girish Solanki

Because you generate around 44,000 tons that is what you mentioned if you reduce 44,000 ton.

Anurag Choudhary

The additional requirement we purchase from the outside market.

Girish Solanki

Now what would be the amount of additional requirement because 44,000 tons means $44,000 \times 1.8$, you would require around 80,000 tons of creosote oil to manufacture?

Anurag Choudhary:

We will be requiring around 160,000 tons of creosote oil.

Girish Solanki:

160?

Anurag Choudhary:

At an expanded capacity.

Girish Solanki:

No at the current capacity what will you require? You will require 80,000 tons?

Anurag Choudhary:

At the current capacity 80,000 tons.

Girish Solanki:

Right so how much do you source internally. Internally your capacity is around 240,000 tons of CTP which can manufacture or generate close to 21% or 50,000 tons right?

Anurag Choudhary:

Yeah it can manufacture around 80,000 of oil.

Girish Solanki:

Your present capacity can manufacture 80,000 tons ?

Anurag Choudhary:

Yes.

Girish Solanki:

What is the ratio now days , if I am having one ton of....

Anurag Choudhary:

32%

Girish Solanki:

32% of creosote oil comes out of it?

Anurag Choudhary:

Yes.

Girish Solanki:

Okay then going by the calculation currently you entirely sources it from your internal division. Am I right?

Anurag Choudhary:

It depends on the product mix also whether we want to source from internet or you want to take from outside depends upon on the grade you want to manufacture.

Girish Solanki:

Okay now second largest product for you in terms of CTP would be naphtha I guess.

Anurag Choudhary:

Yes.

Girish Solanki:

So in terms of naphtha how much sales do we do?

Anurag Choudhary:

Naphthalene we use in both, we sell to in-house also sell directly to the customers also.

Girish Solanki:

Okay so what will the SNF sales?

Anurag Choudhary:

Total SNF and naphthalene together is 12%.

Girish Solanki:

Okay SNF and naphthalene is 12% and the remaining is your CTP and carbon black.

Anurag Choudhary:

Carbon black that is right.

Girish Solanki:

In carbon should I safely presume it is close to Rs.54, 000-58,000 a ton?

Anurag Choudhary:

Sorry we don't give product wise price.

Girish Solanki:

Okay just a fallback on the earlier gentleman's question where you mentioned to him you will be selling around 3 MW and you mentioned in terms of crores you will generate 6.5 crores but I was doing some calculations I am getting close to 8 crores or something am I missing something?

Anurag Choudhary:

I have reduced the PLF taxes and all those things and the cost which is required for generating that has been reduced.

Girish Solanki:

So you are talking about EBIT level of profit but what I presume is your 12.5 MW might be from the waste gas or something or is it am I right?

Anurag Choudhary:

But still waste gas you need to, running cost is there.

Girish Solanki:

There might be 25 p to 30 p of running cost at the most I guess or including debt and interest might be 70 p.

Anurag Choudhary:

Whatever cost is there, interest cost is there.

Girish Solanki:

So you are talking about after excluding 70 p of depreciation of interest cost as such.

Anurag Choudhary:

Whatever it is there, total if consider the selling at 2.5 or 2.6 per minute so after reducing the PLF factors so it comes to around 6.5 crores.

Girish Solanki:

Okay fine thanks a lot.

Moderator:

Thank you. The next question is from Avinash Agarwal from Sundaram Mutual Fund, please go ahead.

Avinash Agarwal:

Sir just one question, this Brownfield expansion if we do, would we then cancel our Greenfield expansion or?

Anurag Choudhary:

No. We are going for Greenfield expansion that is already finalized. Brownfield is in interim measure because of demand requirement so that product is going at a very high growth rate. The demand from the end user industry is increasing in next 12 months. We will see there will be a big increase in demand. So, in order to meet that demand in time. We are planning with interim measure but that in fact increase the capacity of coal tar distillation plant.

Avinash Agarwal:

Okay but can we reduce the other plant side, the Greenfield?

Anurag Choudhary:

No we are not going reduce that is already fixed. In fact if you look at the demand side may be we have to increase it further.

Avinash Agarwal:

Sir this land request you have in Orissa is about 30 acres is what we have....

Anurag Choudhary:

But actually the thing is that we want to locate it very near to the raw material source that is the reason

Avinash Agarwal:

Okay, so this 30 acres is a private land or is it?

Anurag Choudhary:

It is a private land. Just because it is not that land issue basically it is the location issue, we want to take the advantage of the location that is the reason.....

Avinash Agarwal:

Okay is the problem that people don't want to sell or is the price a problem.

Anurag Choudhary:

No, price and selling is not the problem. The thing is that we want to have the plant located at a particular site so this site some issues are there, local issues related to because there are two factors one is that we want to be is where the railway siding at the same time we want to be near the source of raw material. So the availability of the land is the problem. So may be we decide to move some 5-10 km this side, that side and that is not going to have any big impact.

Avinash Agarwal:

Okay and in the existing Brownfield expansion that we were talking do we have that excess land?

Anurag Choudhary:

Yes we have the land, we have the infrastructure so that is the reason we will be able to do it at a faster pace.

Avinash Agarwal

And the equipment suppliers are not an issue?

Anurag Choudhary

No.

Avinash Agarwal:

Okay sir. Thank you and all the best.

Pritesh Chheda:

Sir if you could give us the working capital what it is in the balance sheet right now any changes in the inventory or debtors or credit available if you could tell us those figures and secondly what is the other income in the quarter and also in the year? So what is the nature of the other income?

Anurag Choudhary:

The other income is basically the exchange fluctuations which is there and the interest and the part interest which we are getting from the funds we have parked with the mutual funds which constitute the other income and if you look at the balance sheet size, the inventory stands at 39 crores, Sundry debtors at 156 crores, cash and bank balance at 359 and basically the cash in balance is high because the money is already in the company for the projects to be set up.

Pritesh Chheda:

Okay what is the current liability?

Anurag Choudhary:

Current liability is at around 63.78 crores and provisions are at 33.08 crores.

Pritesh Chheda:

And what is the gross block figure at the end of FY11.

Anurag Choudhary:

The gross block figure at FY11 is 682 crores.

Pritesh Chheda:

682 crores and lastly sir the IFC, FCCB is it converted or what is the status there and what are the....

Anurag Choudhary:

That is not yet converted. It is long term convertible 10 year convertible. So it is only two years that is has happened. So we expect it to be converted in the next few years.

Pritesh Chheda:

So that is about \$25 million?

Anurag Choudhary:

No that is \$7 million.

Pritesh Chheda:

\$7 million and so once you convert that there are no other convertibles which are pending in the balance sheet?

Anurag Choudhary:

Yes, there is no other convertibles is pending.

Pritesh Chheda:

So what would be the equity capital once that gets converted?

Anurag Choudhary:

That will add another 2.3-2.4 crores of equity.

Pritesh Chheda:

So $38.5 + 2.5$ makes about 41.

Anurag Choudhary:

40.2 crores.

Pritesh Chheda:

That is it and we do not have any other convertibles other than that?

Anurag Choudhary:

No we don't have any other convertibles.

Moderator:

The next question is Girish Solanki from Anand Rathi, please go a head.

Girish Solanki:

Sir I just wanted to understand the dynamics of CTP, we basically might be requiring coal tar to the extent of 71-72% of the capacity that we have and we might be requiring 20% of pitch that might be imported or domestically from where do we source this coal tar and what is the scenario of availability in India?

Anurag Choudhary:

Coal tar we source from all the integrated of steel plants where they have coke oven batteries and looking forward with the kind of expansion we expecting in Steel Authority of India so availability will not be a problem.

Girish Solanki:

Can you just explain me the dynamics in terms of your requirement in terms of million tons that steel plant mill needs?

Anurag Choudhary:

Like today we are having 250 tons of coal tar distillation capacity we need 250,000 tons of coal tar.

Girish Solanki:

Right but to generate 250 tons of coal tar what is the amount of steel capacity that needs to come up?

Anurag Choudhary:

For this 250 tons of coal tar you need 3.5% i.e. 4% of coking coal capacity.

Girish Solanki:

So you need 25 times.

Anurag Choudhary:

Yes coking coal capacity. So that transforms into 6.5 million ton of choking coal capacity.

Girish Solanki:

And how much do we have presently in India? I am sorry for my ignorance.

Anurag Choudhary

In India we have currently choking coal capacity of around 20-22 million ton.

Girish Solanki:

So are saying the excess coal tar that is generated by all these people they might be selling it or either exporting it.

Anurag Choudhary:

No they are using it in-house for different requirement.

Girish Solanki:

Okay and another question that I had is you mentioned about you gross block is close to 32 crores what will be the similar capacity if somebody wants to set up at the current price what is the amount that is required basically for setting up a similar plant?

Anurag Choudhary:

No, actually this gross block does not comprise of one plant, it comprises of various plants.

Girish Solanki:

Yeah you have your carbon black, you have your SNF, and all these plants putting even the power plant but I am only coal tar pitch plant if a gentleman wants to put up what will be the amount that needs to be invested at the current price? Since you are putting in China and you also expanding, and also talking about Greenfield I presume that....

Anurag Choudhary:

See the CapEx required for 100,000 capacity plant will be around 220-225 crores?

Girish Solanki:

Okay and this is plain vanilla CTP plant, or are you talking also about power plant?

Anurag Choudhary:

No nothing.

Girish Solanki:

Okay in terms of power generation what is the quantity that is generated per ton of CTP?

Anurag Choudhary:

No from CTP power is not generated, it is generated from carbon black.

Girish Solanki:

Oh you are talking about through carbon black you manufacture power not through CTP.

Anurag Choudhary:

No.

Girish Solanki:

That means you might be basically 6000-8000 metric ton you manufacture you can generate 1 MW right?

Anurag Choudhary:

Yes.

Girish Solanki:

Okay another question that I had in terms of contribution if you could put some light on the contribution per ton into CTP.

Anurag Choudhary:

We don't have product basically because we are operating in a segment, i.e., carbon chemicals so we don't give product wise contribution but overall if you look the average selling price has been at 37,700 and the raw material price has been around 20,000.

Girish Solanki:

You said 37,800 right?

Anurag Choudhary:

Yes.

Girish Solanki:

And raw material would be?

Anurag Choudhary:

20,000.

Girish Solanki:

Okay, so this is your gross margin definitely.

Anurag Choudhary:

Yes gross margin.

Girish Solanki:

And you didn't answer the question regarding the imported soft pitch. Do we import soft pitch or we have to.....

Anurag Choudhary:

It depends on time to time, depends on the economy, it is not necessary that we have to import depends on the economies. What is the price, what are the different point based on that decision is taken.

Anand Rathi:

Okay if you could put some light in terms of what is the amount of units of power that goes into manufacturing of a one ton of CTP.

Anurag Choudhary:

It is not power-oriented manufacturing process.

Girish Solanki:

No because you mentioned that you lost 14 crores so I just wanted back track and know what is the overall requirement? Say if I want to say manufacture 1 ton of CTP, I might be requiring 400 units?

Anurag Choudhary:

No, this includes the requirements from each and every segment like carbon black, then it includes SNF, then it includes advance carbon material, then it includes coal tar pitch, it includes carbon black plant, which we are talking.

Girish Solanki:

If you could mention what is the combine, your carbon black might be requiring close to 400 units per ton. What is the other part, if you could just plug in the gap?

Anurag Choudhary:

The power cost per metric ton is you say can be around- if you don't generate any power. Suppose you don't generate any power, overall on an average power cost will be around the Rs.1800 per metric ton.

Girish Solanki:

Rs.1800 per metric ton. Okay that will serve my purpose. Thanks a lot sir.

Moderator:

Thank you. We have follow up questions from Sagar Karkhanis from Nirmal Bang Securities, please go ahead.

Sagar Karkhanis:

Just one last question, I wanted to understand this negotiating part of this integrated steel plant from whose coke oven batteries you source your coal tar pitch. If they don't supply to you for the internal use which we are using what is the additional contribution that it generates for them when they use it internally.

Anurag Choudhary:

Actually it is not determined by the contribution side, they have their specific requirement, and they complete requirement in the balance quantity they are selling. Actually it is bi-product they don't attribute any cost to that.

Sagar Karkhanis:

No I am saying that if they don't sell it to you then what are the other options that they have?

Anurag Choudhary:

No they don't have any other option they have to sell because whatever we require in-house that they already consumed they cannot consume beyond what they are consuming today.

Sagar Karkhanis:

Okay. Thank you.

Moderator:

Thank you. The next question is from Ganesh Agarwal from Inam Securities, Please go ahead.

Ganesh Agarwal:

Hi, I wanted to check how your raw material cost behaved over the last 4-5 months.

Anurag Choudhary:

They have been upward movement in terms on 10-15% in raw material prices.

Ganesh Agarwal:

Okay and this mainly coal tar or is it through low-grade CPT in China?

Anurag Choudhary:

Coal tar.

Ganesh Agarwal:

Okay and the low-grade CPT that you purchase from China has that seen any increase?

Anurag Choudhary:

See the price overall has increased in all the products.

Ganesh Agarwal:

Okay and on a quarter-on-quarter basis there is a substantial decline in other expenses they have come down from 37 crores to 17 crores so what is this on account of mainly?

Anurag Choudhary:

If you look on top-line also we have rearranged the figure. We have few figures which have been rearranged like now is net sales which does not include any commission which we are paying and does not include in-house consumption of power and fuel with the company was consuming previously. So that is the reason it has been removed from the top-line and also from the expenses.

Ganesh Agarwal:

Sir the expenses and sales that you are talking of is mainly for carbon black?

Anurag Choudhary:

Yes.

Ganesh Agarwal:

Sir your tax rate has come down from 25% of PBT in the first three quarters to 10.5% this quarter. So how is that?

Anurag Choudhary:

Yes. This is attributable to the 2-3 factors one is we have been recognized as R&D Center. So all the expenses which have been incurred from Research and Development are billing higher rate of depreciation on that. Other than that there have been reductions in the tax rate because of surcharge being reduced so the net liability has been recalculated, the deferred tax payment has been recalculated because of that there has been effect in the PBT.

Ganesh Agarwal:

Sir final question on your ForEx gain this is realized on debtors or....

Anurag Choudhary:

This is attributable to both the imported material which we import and also on the exports what we do.

Ganesh Agarwal:

Okay that is it from side. Thanks.

Moderator:

Thank you. Ladies and gentlemen that was the last question, I would now like to handover the conference back Mr. Pritesh Chheda for closing comments.

Pritesh Chheda:

Thanks Marina. Just one question sir. What would be the taxation next year?

Anurag Choudhary:

Taxation will be normal, we expect because of lots of projects being commissioned and we are going to have two plants which is being SEZ, so we expect it to be at a rate of 25-28%.

Pritesh Chheda:

Okay. Many thanks to you. On behalf of Emkay, I would like to thank you for joining us in the call and giving us insights on the quarter four and FY11 performance. I thank all the participants as well for attending the call, over to you Mr. Choudhary if you have any closing remarks.

Anurag Choudhary:

Thank you everyone for joining the conference call and for your continued support we appreciate your interest in our company and our vision is to transform Himadri which was predominantly years back a coal tar pitch company to a Carbon Corporation. When we talk of Carbon Corporation we believe in unleashing values of each and every component which are there in coal tar and try to bring in value addition by producing new products and setting more and more forward integration products. Today if you look at Himadri, we are catering to the core of the economies from aluminum industry, to graphite electrode industry, to automobile, to green and clean power, to infrastructure industry, and to Sunline Industry like lithium-ion battery. Looking forward the new business segments are going to be much bigger and stronger like advance carbon material, SNF business which is bringing a lot more values and strong growth in the future to come. I thank you for your continued support and finally we remain committed to enhancing shareholders value by executing our strategy of providing our customers with highest quality of products, services and continuing focus on our safety, health, and environmental issues. Thank you everyone for joining the conference call.

Moderator:

Thank you. On behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.
