



“Shree Pushkar Chemicals & Fertilisers Limited Q3 FY-'16
Earnings Conference Call”

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Moderator:

Good Day, Ladies and Gentlemen and Welcome to Shree Pushkar Chemicals & Fertilisers Limited Q3 FY-'16 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Punit Makharia -- Chairman and Managing Director, Shree Pushkar Chemicals & Fertilisers Limited. Thank you and over to you Mr. Makharia.

Punit Makharia:

Thank you very much. A Very Good Morning to all the Ladies and Gentlemen and Welcome to the Conference Call of Shree Pushkar Chemicals & Fertilisers Limited.

On this day I have been joined by Mr. S.N. Sengupta, he is the Associate Director in our company along with Mr. Ratan Jha who is the CFO in our company and the representatives of SGA, as our IR Advisors.

On this morning I would like to thank you for a successful IPO of the company and the subsequent listing in September 2015. Our Results and Presentation have been made available to you all of you on the stock exchange and the same has been also uploaded on the website. I hope that everybody must have gone through the same.

Let me take this opportunity to give you a brief about the company which we have discussed pre-IPO, post which Mr. Sengupta will take over for the Financial Reporting. Regarding the overview of the company, the journey of Pushkar Chemicals started in the year 1993 when it was completely a trading company which was importing few chemical products and intermediates from China and other part of the world and selling to the domestic market. Today, we proudly stand as a completely integrated backward/forward manufacturer of Dyes and Dye Intermediates along with the other product verticals of Fertilizers as well as the Cattle Feed Supplement for which the basic concept of the entire company is to reach zero waste.

Regarding the Dye Intermediates business, over the years we have developed a backward integrated model in Dye Intermediates to better our cost effectiveness. Following a structured growth approach we increased our product lines from two products in 2006 that was Gamma Acid and K-Acid to close to seven products today which includes Meta Ureido Aniline, Vinyl Sulphone and H-Acid as well. Today we are the largest producer for K-Acid in India. With our portfolio we are able to cater to 80% of the Dyes Intermediate industries requirement in India for manufacturing of the Textile Dyes. Dye Intermediates has grown by 13% CAGR over the past 5-years and currently form 71% of year-to-date financial year '16 performance. Basically, we call our company a completely Zero Waste Chemical Company with effluent treatment and discharge being of prominent importance to us. I am happy to say that over the past few years the Pushkar team has strategically worked towards minimizing the effluent and converting



waste into byproduct and make further value added products for Cattle Feed as well as Fertilizers. We have developed a supplement for the Animal Cattle Feed product, called Di-Calcium Phosphate in 2007 which is currently marketed under a tie up with M/s Shivam Chemicals in the State of Karnataka, Maharashtra and Gujarat.

Fertilisers the second vertical of the company which is basically a support structure to the company started in the year 2011. The soil conditioner which is one of the products in Fertilisers is marketed in our own brand called Dharti Ratna in Western Maharashtra. Dharti Ratna is made from the waste gypsum which is generated during the production of the Cattle Feed Supplement. We also have exclusive marketing tie up with DCM Shriram for marketing our products called Single Super Phosphate marketed in Maharashtra and Karnataka.

Further to add upon this, company has got one more business vertical, called Acid Complex. In the year 2009 we entered into the Acid Complex business for developing our own plant for sulfuric acid and its derivative Acids. As an outcome of this Acid division we were also able to generate low pressure steam to support our production requirement and generate 500 KW of power for internal consumption and this power that we generate is at completely zero cost. With the evolution in the products basket from Dye Intermediates to Cattle Feed, Acid Complex and Fertilisers, we have achieved Zero Waste Status and also been able to improve our operating efficiencies over the years.

As promised in our IPO, our forward integration is into the Dyestuff industry which is already taking shape. We have commenced operation at our Reactive Dyes plant on 28th of January 2016 with initial capacity of 3000 tonnes p.a. Our product portfolio includes Reactive Dyes basically which comprises of Yellow, Blacks and Reds. We have also built an book order for almost 2-months in this business. We have already signed an NDA with Huntsman Corporation which is a leading MNC in this sector for the supply of reactive dyes to their textile division. To maintain continuous supply of raw material, we are setting up additional capacity of Vinyl Sulphone and H-Acid for captive consumption which are expected to be commissioned in the current quarter, and the subsequent quarter respectively.

Continuing with our diversification strategy we have expanded our Fertiliser segment with introduction of Mixed Fertilisers. We are the first company in Maharashtra to have received license for manufacture of NPK during the last over 7 years. The license for manufacture of this product had been banned by Government of Maharashtra in the year 2009. NPK is a product which is a mixture of Nitrogenous, Phosphorus and Potassium. In fertilisers we have set up the manufacturing facility in our existing granulation plant where we had excess capacity with a nominal capacity of this 20,000 tonnes p.a. I am happy to add that we have commenced production of NPK on January 22nd 2016. Thus in the month of January, company has commissioned two plants -- one is for the NPK another is for the Dyestuff. We are formally launching our NPK product in Maharashtra on 3rd of February that is tomorrow in Pune. For the marketing of NPK, company has already entered into a marketing tie up with DCM Shriram with whom we already have marketing tie up for Single Super Phosphate. All our facilities are located in Lote Parshuram near Chiplun in the State of Maharashtra,



providing us platform for our integrated business model. Going ahead we have few more products in the pipeline where we foresee considerable value additions. Going forward our endeavor continues to drive business synergies in the industry to provide added value to our stakeholders.

Now I would like to hand over the call to Mr. Sengupta to take you through our Financial Performance. Over to you Mr. Sengupta.

S.N. Sengupta:

Thank you, Punit. Good Afternoon Everybody and Thanks for joining this call. Now let me take you through the 9-months Financial Year '16 Results Highlights: We have achieved net sales of about Rs.171.96 crores in the current year. There has been a slight decline by about 12% as compared to the sales which we had achieved during the corresponding 9-months period ended FY '15 .. Though the sales in Rupee terms have gone down the volumes have gone up substantially. Last year we had achieved an EBITDA level of about 12.1% which has now improved to about 14.8%. Similarly, the PBT levels have increased by 36%, from last year's 8% to this year's 12.4% and our PAT levels have gone up by about 26%, last year we had about 6.7% and in the current year we have 9.7%. This is present situation. As Mr. Punit has rightly said we have four divisions, now our major focus area is in Dyes as all the other verticals provide a support structure to the Dye Intermediates division. Dyes Intermediate contributes nearly about 71% of the revenue and this has seen a volumetric growth by about 21% during the current year. The Acid division which forms about 8% of our revenues, the sales have gone up by about 35%. Then in Fertiliser we have had a contribution of about 17% to the business and that has gone up by about 22% in volume. Lastly, the Cattle Feed growth rate has been to the extent of about 19% in volumes and about 15% in value terms. So this is in short what we have achieved during the 9-months period.

My submission would be that though there has been a drop of nearly about 12% in the top line all other parameters have improved substantially. This has been mainly because there has been a stabilization phase in the Dye Intermediates section where you might have been aware that for the last about 1-1.5 years there has been a tremendous amount of volatility in the prices of Dyes Intermediates and for the past about 6, to 9-months it has been slowly stabilizing and we have more or less reached a stable phase that is the Dyes Intermediates prizes are quite normal as compared to earlier period before volatility.

With this I would like to open the floor for the Question-Answers. Thank you.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Saket Bansal from Stock Axis. Please go ahead.

Saket Bansal:

I have a question regarding the total sales which has come to Rs.170 crores and you had an expectation of around Rs.280 crores for the year end. So, I do not think this target is going to be achieved. So going forward, what will be your next target?



Punit Makharia: Saket, compared to last year company has already achieved Rs.170 crores of the sales in this year. Now basically dip into the sales is mainly due to the dip into the prices of the Dyes Intermediate that is called H-Acid. If you see in the last year the company had sold H-Acid at a price of Rs.800 to Rs.1000 on an average or so whereas in this year we have been selling this product almost at a price of Rs.500/Kg and we are selling almost 1300 tonnes of H-Acid in a year. Now if you see last year we have sold H-Acid around 1200 to 1300 tonnes whereas in this year incremental volume sales are around 21%. Overall if you take around 1200 tonnes sales also and there is a price dip of approximately Rs.400/Kg is always a dip of Rs.50 crores of the top line. We have achieved this 21% growth volume wise with better capacity utilization compared to last year.

Saket Bansal: Sir, do you think the prices of H-Acid will stabilize in near future around Rs.500?

Punit Makharia: Yes, it has almost stabilized and the most important thing is that in spite of the dip into this finished product prices the company has achieved better EBITDA margin compared to last year because our business model.

Saket Bansal: I did not get about the growth rate in all your products like Acid, Fertiliser and Cattle Feed.

Punit Makharia: As far as the Fertiliser is concerned it is 22% volume growth, as far as the Cattle Feed is concerned it is 19% volume growth, as far as the Dyes Intermediate is concerned it is 21% volume growth and as far as the Acid Complex is concerned it is 35% volume growth. Saket, on Presentation Page #5 if you see you will get in terms of the revenue as well as in terms of the volume also. To give you more clarity if you look at the Dyes Intermediate on the Page #5 you will find that there is revenue de-growth of 24% which has impacted on to the top line.

Saket Bansal: You have not paid any tax this quarter.

Punit Makharia: We have already made a provision for tax in the year-to-date September 2015 that was in H1. Since we have already started the production of our Dyes plant as well as our NPK plant we believe that the depreciation would be there as far as the income tax laws is concerned. So in the December 2015 quarter-end Q3 we have not provided any tax because at the time of tax calculation there will be depreciation impact on the same. On the full year we would be mostly into the MAT because of that we have not provided for the taxation.

Moderator: Thank you. The next question is from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: Sir, just wanted to know these two plants that we have commissioned in January. How much incremental sales will they generate?

Punit Makharia: Mr. Gala as far as the Dyestuff is concerned this plant is of a capacity of 3000 tonnes in a year whereas we are projecting an achievement level of around 80% or so. If you talk about the final sales price of the product this is in the range of almost Rs.400/Kg and accordingly I think



you can calculate that there should be incremental sales of approximately Rs.80 crores to Rs.100 crores in a year.

HR Gala: So far as all three Dyes are concerned, the price is more or less same?

Punit Makharia: It is almost nearly same; 5-10-15% some up and down in one or the other product, otherwise as a thumb rule, yes, you can talk about the same.

HR Gala: What about this new Fertiliser plant NPK?

Punit Makharia: This product we have already started on 22nd of January and the product launching we are doing tomorrow in Pune. We invited all our dealers and distributors for this event.

HR Gala: So 20,000 tonnes will give how much of incremental turnover?

Punit Makharia: 20,000 tonnes is the price of around Rs.15,000/tonne, so that works out to be approximately Rs.30 crores of incremental sales. One more very important thing Mr. Gala in this case as far as this NPK product is concerned we have not put up any new plant. Whatever the existing plant we had earlier for our soil conditioner we are taking into utilization because there we had underutilized capacity.

HR Gala: What are our future CAPEX plans for adding the other capacities like you said that you will have to spend some money for backward integration to support this Reactive Dyes and you will be commissioning that also in current quarter?

Punit Makharia: Basically from the IPO we have raised the funds for which Rs.53 crores would be going into the CAPEX and total IPO size was Rs.75 crores, out of Rs.75 crores almost Rs.13-odd-crores have gone to the PE Fund, who has participated by OFS. Now balance Rs.62 crores has come into the company, out of this Rs.62 crores almost Rs.53 crores is for CAPEX. So apart from Rs.52 or Rs.53 crores of this money we are additionally doing CAPEX of Rs.18.5 crores, that is for the business of SOP that is Sulphate of Potash for which we had earlier taken a term loan sanctioned from State Bank of India, now we have refused to avail the term loan. So in totality if you see that the total CAPEX is going to be approximately Rs.70 crore Out of Rs.70 crores the company has already started the Dyestuff plant which is a major CAPEX of approximately Rs.28 crores.

HR Gala: So this SOP plant of 10,000 tonnes, when are we going to commission?

Punit Makharia: SOP plant is completely imported technology and we have bought it on a turnkey basis and the plant has already arrived in India and all these commissioning, erection work is going on, we are hopeful to start somewhere plant in the month of April, in fact we were planning to start in the month of March, but I personally believe that it will be somewhere in April 2016.

HR Gala: How much incremental sales will that SOP give of 10,000 tonnes?



- Punit Makharia:** This would give approximately Rs.45 to 50 crores of the incremental sales to the company.
- HR Gala:** All these incremental sales which are going to be added to our mainline products, will our EBITDA profile improve especially in Reactive Dyes because it is a value-added product?
- Punit Makharia:** If you see over the last year we have already improved our EBITDA. Last year the company achieved top line of Rs.267crores whereas the EBITDA levels were pertaining at a level of 12%point some odd percentage. Now in this year whereas this top line has gone down but this EBITDA levels and other profit levels have gone up, this is mainly because of this kind of business model we have. Since we have a completely zero waste and zero debt model with us as of now...
- HR Gala:** I agree to that. My question was that now since we are getting into Reactive Dyes, so that is a value-added product. Will that give further incremental EBITDA margin beyond say 14.6% that we have achieved?
- S N Sengupta:** We are adding Dyes Intermediate where instead of talking in terms of EBITDA I would be able to talk in terms of what is the additional margin which we are going to get, the delta. This is our selling price minus the raw material cost. Now in Dyes normally if at all you see that where we are going to add about Rs.100 crores of top line at the installed capacity in a year, the delta is roughly about 40%, there is a raw material component of about 60%. So this is more than the Dyes Intermediate section which we have where the margins are somewhere around 70%.So there is an additional margin of about 10% which is added from the incremental sales. The similar is the case for SOP where the raw material cost is again about 65%, so we are going to get roughly about Rs.41 to 45 crores at the installed capacity, so there also we will be able to add something more in the EBITDA levels. Then coming to NPK, there the margins are slightly lower than as compared to these two products -- Dyes and SOP -- there we will be having roughly about 25% as the delta. So there of course the addition to the top line is going to be much less, it will be somewhere around say about Rs.3 crores in the current year. So overall you can expect that EBITDA levels going to go up but this will also depend upon what is the product mix in the sales, so that will finally determine what is the percentage of the sales which go up?
- Moderator:** Thank you. The next question is from the line of Rukun Tarachandani from Kotak Asset Management Company. Please go ahead.
- Rukun Tarachandani:** Sir, if you can just elaborate on the last quarter results, I understand that our top line has come down because of decline in realizations. But, why has the EBITDA also come down by about 13% year-over-year in the last quarter?
- S N Sengupta:** If at all you talk in terms of sales of three months of '15 and three months of '16 there has been decline to the tune of about 17% in the total receipts. This is basically because of the price variance, but then if at all you compare quarter-to-quarter operations there has been a certain amount of depression in the market typically which is a global phenomenon that is the last



about three months, there has been quite a bit of pressure in the market and we are no exception to that. However from January onwards the things have started looking forward and we think that we should be able to make use of that. Is it clear sir?

Rukun Tarachandani: I did not get all of it, but basically what you are saying is that the last quarter you did see some slowdown but from January that has started improving, right?

Punit Makharia: Yes, there has been a dip in the EBITDA when compared to last year, there is a dip to the tune of about 10%.

Moderator: Thank you. The next question is from the line of Abdul Kareem from HDFC Securities Limited. Please go ahead.

Abdul Kareem: First, I wanted to know could you diversify your revenue as for the sales to direct customer?

Punit Makharia: As far as the Fertiliser vertical is concerned for that we have a marketing tie-up with DCM Shriram. So whatever the product we sell in Fertiliser as of now except Dharti Ratan that is our soil conditioner for this product entirely we have a marketing arrangement with Shriram. Now the second product that is this Di-Calcium Phosphate which is our Cattle Feed, for this we have got an agent which is Shivam Chemicals. So these two products are basically sold through the marketer and agent. Now, as far as the Dyes Intermediate is concerned which is having 71% of the total revenue, in this segment most of the products of the company are sold directly to the consumers, we generally do not entertain traders in between, our business is direct to the consumers in which there is a large set of customers like multi-nationals and this big ticket size consumers. So for Dyes Intermediate business we don't have any traders or agents or something like that.

Abdul Kareem: What was the percentage of export revenue?

S N Sengupta: Presently, we have export revenue up to the tune of about 10% on an average, but with these Dyes section coming into stream where we expect a much larger proportion of sales because of our NDA signed with Huntsman, there is a likelihood of good export. So in the coming year we expect that this will be much higher than the current by about 10% to 11%.

Abdul Kareem: Could you say the contribution from the Huntsman Corporation or Archroma Management LLC?

S N Sengupta: No, we do not have, we have a non-disclosure agreement with Huntsman and we are going to manufacture certain of their products which they are manufacturing somewhere else which they are trying to shift to India, that is what we are going to manufacture, and in addition we will be having sales to other consumers as well.

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



Pragya Vishwakarma: I want to understand the EBITDA margins for these four basic segments, for Dyes Intermediate, Acid, Fertilizer and Cattle Feed?

S N Sengupta: Basically EBITDA margins we are not directly calculating on all of this but on an average I should be able to tell you that the EBITDA margins as far as our Dyes Intermediate is concerned that is roughly about say 13.5% to 14% in our DCP we have roughly about 38% to 39%, as far as our Acids we have roughly about 28%, and as far as Fertilisers is concerned, we have roughly about say 9% to 10% and overall last year we had about 11.84% which has now moved up in the current year.

Pragya Vishwakarma: On industry overview, I wanted to understand are the Dyes Intermediate prices more volatile than Dyestuff prices?

Punit Makharia: Basically the kind of industry there is high environmental concerns. Let me first of all give you a brief about the industry because before I answer to your question you must understand where this industry is coming from and now it is where. Basically all these products were earlier manufactured in the European countries, I am talking about a very old story, now in the times to come all these European countries slowly and gradually discontinued the manufacturing of Dyes Intermediate, then all these products were slowly and gradually shifted to China as well as to India. So at that point of time these were the developing countries and environment was not at that point of time a very great concern for these kind of countries. Now what has happened is that in times to come China and India have become very vigilant on the terms of the environment and the pollution effluents which resulted into a lot of fluctuations of these prices in the last 2-years which has come to a stabilizing phase in this year only. What happened in China is that most of the industries which were closed in China or they had to switch over to other measures for treating their effluents which is a cost to them. Whereas our company is concerned we have taken the measures for controlling of effluents almost 4-years back when we migrated for manufacturing of Cattle Feed as well as Fertilisers. So what I see is that basically it is not a concern that what you produce and what quantities you produce, the main concern is how you produce and how more cost effectively you produce. An effluent which is an expense for the others is basically revenue for this company. Suppose, if any other competitor would have been there in our place, he would be trading the effluents, he would be incurring a lot of cost on that, whereas our company is making some value added product out of the Waste Effluent.

Pragya Vishwakarma: On NPK, so the capacity is around 15,000 tonnes per annum and the incremental sales which I guess was said as Rs.30 crores, right?

S N Sengupta: It is 20000 tonnes is what we have declared as installed capacity.

Punit Makharia: Pragya, it is like this; we already are having a plant for making soil conditioner, the plant capacity is almost 42,000 tonnes a year, but we are not utilizing that plant for more than 5,000 to 10,000 tonnes in a year. So we have spare capacity of close to 30,000 tonnes in a year. Now why we are not making more soil conditioner? Because whatever soil conditioners we are



making is making out of the Waste Gypsum what we generate from the Cattle Feed business. So whatever Cattle Feed Gypsum we have that we convert into the soil conditioner. Over and above that we don't have any additional Gypsum to convert into the soil conditioner. Since we do not have extra Gypsum, the extra capacity we converted into the NPK business because NPK is also needs a granulation plant and soil conditioner also needs a granulation plant, with slight modification we have shifted that entire plant focus into the NPK business.

Moderator: Thank you. The next question is from the line of Anshuman Mohta from Nagramal Saraf Securities. Please go ahead.

Anshuman Mohta: We have aggressively moved on forward integration in to Reactive Dyes which we are seeing the main cash crop in the coming future. So, how would we fight the competitors who are already present in the market and how would we be place price wise as compared to them?

Punit Makharia: Anshuman, basically the kind of business model we have, no one else has. I am sure that you must have done a study before asking this question, no one in our peer competitor has got this kind of a business model what your company has. Now since no one has that kind of a model, I have a strong belief that there is no question of this competitiveness. As far as the marketing is concerned, we have already entered into an NDA agreement with Huntsman and let me inform to everyone that it is a non-exclusive agreement, in that agreement certain quantities have been committed by Huntsman that they will be lifting, whereas the balance quantity, company has got its own source of sales. We are already in touch with a few other multinationals and a few other foreign good customers also for the sales of the balance products. As of now we already have an order book of 2-months. So we do not feel that there would be any competition for us to sell Dyestuffs. If you see our history of earlier business period since we were only making one product in Dyes Intermediate now we are making almost seven products in Intermediate, over and above we have added Cattle Feed business, we have added Fertiliser business, and we have added acid business. So as of now we are selling everything.

Anshuman Mohta: If our Dye business is successful, if we are able to manufacture 3,000 tonnes, are we going for a further capacity in the coming years?

Punit Makharia: Yes surely, let me give you one more clarity, basically in dyes there are two kind of processes - one is a synthesis process and another is a drying process -- when I say synthesis process it is basically mixing, coupling and digestion of the two intermediates to make a particular dye. Then it comes to a drying process. We have a synthesis capacity of 500 tonnes in a month, but we have a drying capacity of 250 tonnes in a month only. So we just need to balance our plant whereas your plant can immediately go from 250 tonnes to 500 tonnes, that will be 6000 tonnes p.a. But since we only have a drying capacity of 250 tonnes p.m, that is why we call ourselves 3000 tonnes Dyestuff manufacturer, which can be easily doubled in a couple of months.

Anshuman Mohta: So we are looking at tripling our revenues in next 2-3-years I guess then?

Punit Makharia: Anshumanji, I cannot say, but yes it will be on a growth phase...



- Anshuman Mohta:** Yes, it has a growth trajectory, 40% growth?
- Punit Makharia:** Yes.
- Moderator:** Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** Sir, our Reactive Dyes plant is operational on 20th Jan. So, has this been stabilized or it would take some more time?
- Punit Makharia:** Ritesh, very honestly speaking, we have just started on 28th, now we have already taken three batches into the plant and batches have come to the RO stage, RO is a one stage before the drying stage. During the process we have found certain issues which we have been sorting out and we are hopeful that the plant should be stabilized in next 10-days, it should not take more than that.
- Ritesh Poladia:** So about mid-Feb plant should start?
- Punit Makharia:** No, plant has already started. For a regular production, yes, you can say around mid-Feb.
- Ritesh Poladia:** What are the extra overheads like in terms of labor this plant will take? Quarterly, our employee expense is about 2.67 crores, about 10% growth. So this plant also will have additional labors or from the same set of labors this plant will be ...?
- Punit Makharia:** No, there would be additional team which is already in place since September-October onwards because earlier if you remember we were planning to start the Dyes plant in the month of December and this Dyes plant is almost 30-days late, and before starting of the plant we had recruited almost the entire team into the Dyestuff plant. Whatever the incremental salary and wages you see, it is mainly on account of the Dyestuff because recruitment we started from September onwards or so.
- Ritesh Poladia:** This additional H-Acid and Vinyl Sulphone when would that be starting?
- Punit Makharia:** We will be starting within this year only as far as the Vinyl Sulphone is concerned and as far as the H-Acid is concerned that should be before Diwali somewhere in September 2016.
- Ritesh Poladia:** So there would be some curtailment of H-Acid external sales because that we would be using in Dyes?
- Punit Makharia:** No, that will not be there, Ritesh. The reason being that whatever the Dyes we will be manufacturing, this additional capacities of H-Acid and Vinyl Sulphone we have created for manufacturing of the Dyes only. The entire requirement of the Dyes of H-Acid and Vinyl Sulphone will be met through the additional built up capacities.
- Ritesh Poladia:** But for the next two quarters for H-Acid we would be using the existing H-Acid?



Punit Makharia: Vinyl Sulphone we will be starting in this quarter. H-Acid we will be starting by H1 of next year. What you say is also correct. Both the products are ready with us till that such time, yes, there would be some internal usage of H-Acid and Vinyl Sulphone.

Punit Makharia: What is happening is the figure on average capacity utilization in the Intermediate segment is to the tune of roughly about say 65% to 68% currently. We still have roughly about another 20% capacity available. In case if at all we need whatever for this transition period till September by when additional H-Acid is created and it goes into stream, we should be able to have better utilization of that capacity of our existing plants going forward.

Ritesh Poladia: The reason for asking this question is the EBITDA margin swing what we can see from this Dyes plant would be totally visible only after H2 of next year am I correct or can we see some margin increase in H1 also?

S N Sengupta: No, you did not get me what I explained to you earlier is that we have a certain amount of spare capacity in the H-Acid plant which is existing. We are on an average having currently about 67% to 68% utilization in the H-Acid plant, which now suppose if at all we need for this transition period, we should be able to utilize our capacities a little higher to meet our H-Acid requirements.

Ritesh Poladia: But there will not be any external sales decline?

S N Sengupta: External I do not see. Unless there is some peak requirement at some point of time where we might have to rely on outside sources or our internal sources. The basic idea of putting the H-Acid and the VS plant was that we do not have to depend on our existing customers for Intermediate. These are still exclusive details. This will come into force totally by mid of next year and on an average if at all you see that the average raw material cost for Dyes Intermediate manufacture is roughly about 68 to 70% whereas if at all you take from Dyes Intermediate to Dyes the raw material cost is roughly about 78% to 80%. Whatever we are manufacturing right from Chemicals to directly Dyes, it is 0.7×0.8 roughly about 56% will be the raw material cost and even if you take it rounding up to 60%, there we have additional margins that is what I think sometime back I had explained. From that point of view we will be having definite increase in the EBITDA. It only depends upon which products we are in a position to push through.

Ritesh Poladia: Right now, the capacity of Reactive Dyes is 3,000 tonnes and with balancing equipment we can double it. So this incremental H-Acid and Vinyl Sulphone would be sufficient for 6,000 tonnes?

S N Sengupta: Normally whenever we talk in terms of capacities, each segment has a different capacity and whichever is a bottleneck that determines the final capacity of your entire production, it is a normal standard procedure. Here what we have is that we have got 6000 tonnes of synthesis capacity and we have roughly about 3000 tonnes of drying capacity. If at all we are in a position to increase drying capacity by adding one more spray drying plant, then we should be



in a position to double it up. As far as your question of H-Acid and VS these are being tuned for the entire production of 6000 tonnes.

Moderator: Thank you. The next question is from the line of Kunal Nopani from AUM Fund. Please go ahead.

Kunal Nopani: I want to understand is H-Acid the largest product that you have in your Intermediate category?

Punit Makharia: No, it is not only H-Acid, Kunal, we are producing Vinyl Sulphone also, that has got also almost equal contribution in our top lines also as compared to H-Acid.

Kunal Nopani: Can you give me some volumes for both Gamma Acid, Vinyl Sulphones and what are the realizations on those?

S N Sengupta: Mr. Kunal, installed capacity for Gamma Acid we have 480 tonnes annually, for K Acid we have 960 tonnes installed capacity, for H-Acid we have 2400 tonnes per annum as the installed capacity whereas for VS we have 2700 tonnes. This is exclusive to what our existing capacities are. In addition, we are adding 1000 tonnes of VS in the new plant, and about 750 tonnes of H-Acid in the new plant.

Punit Makharia: Kunal, we do not provide volume wise sales for all the quantities we produce because we produce almost 15-20 products in our company, so we do not provide each and every product quantum wise. Since we have four different verticals, having so many products it is difficult to maintain and we do not have as of now, and because of other competitive reasons also we do not provide those kinds of details.

Kunal Nopani: I just wanted to get some color that whether the change in realizations have been similar across these products or?

Punit Makharia: You can see from this PPT Presentation on Page #5 Kunal that is very much crystal clear, there is a volume wise growth in each and every segment.

Moderator: Thank you. The next question is from the line of Abhay Tibrewala from Vision 8 Investments. Please go ahead.

Abhay Tibrewala: Sir, my question is particularly on the H-Acid. Currently, it is like quoting as Rs.400/Kg. So, once we see if the prices go on increasing suppose around 500, 700 Kgs next say two or three years, so what is the incremental shift in EBITDA we will see? My other question is on the agreement with Huntsman, if you can add color like how much quantity they are taking with us if you can just throw some color on that agreement?

Punit Makharia: Abhay, taking your first question if the H-Acid prices go up in years to come what will be the impact on our financials. It is very difficult to predict at this point of time because we believe in a stable business model, we believe in stability and if again all this instability comes then



obviously there would be some increment into the raw material prices also. It is very difficult for us to predict if the H-Acid goes around 700-800, then what will be our EBITDA margin. I am sure if the finished product travels to north, raw materials will also travel to north. At this point of time it is very difficult for us to predict, but, yes, we can assure one thing is that company will have good EBITDA margins, whatever we have been having earlier in the year we will be having better than that. As far as further details of the Huntsman agreement, it is not good on our part to disclose the details because those are all confidential agreements we have signed and NDA has been also signed by us, on a public domain it is not advisable and not good on our part.

Moderator: Thank you. The next question is from the line of Rohit Chavan from Vallum Capital. Please go ahead.

Rohit Chavan: My first question would be related to H Acid again. I would like to know the overall competitive scenario in this particular product, where do we lie in the cost of production in this product compared to our competitor in India as well as if possible if you can throw some light on competition from China?

Puni tMakharia: I hope Rohit you must have done the study of the industry also. If you see India as far as the H-Acid is concerned there are only seven manufacturers as of now, and out of seven our company is also one of them. When compared to other six players we are the most competitive in terms of the cost, in terms of the environment. We have a few of our own raw materials like all acids. We do not have any extra cost where the environment is concerned. As far as the transport is concerned, we have got our own logistic fleet also. If we compare ourselves with other peer competitors we have an edge. Same would be also applicable for the Chinese manufacturers.

Rohit Chavan: I would also like if you can throw some light on the Chinese situation right now, what is going on in Chinese Dyes and Intermediate market?

Punit Makharia: Rohit, if you just Google about the Chinese environment condition, you will get everything. I do not need to reply you anything. Then I think I need to learn something more from you. As of now if you see Beijing, Shanghai has got highest level of air pollution. Maximum deaths in China are because of the air pollution. Just by creating a facility, just by building a big and new plant is not going to make your business model successful, you need to add something into your business model to make it completely stable and viable. If you want to build big capacities and become the largest manufacturer of Asia or world or whatever it may be, it is not going to help you in running the business. You need to do business in a different way altogether which other people have not been doing. What we have done? If you go through our entire business model as well as you compare ourselves with our Indian peer competitors and with China, you will immediately come to know that, yes, there is a vast difference because in India also if you see most of these plants of our other peer competitors are getting closure orders very frequently from the Pollution Control Boards. Almost couple of times in a year they are also closed, whereas your company has got a completely stable business model,



touchwood by grace of the God, there has been no such kind of closure for the last five years or so. This is only because of this entire change into the business model what we adopted.

Moderator: Thank you. The next question is from the line of Anshuman Mohta from Nagarmal Saraf Securities. Please go ahead.

Anshuman Mohta: Regarding Reactive Dyes, as we said that if we increase our drying part to double it for 500 tonnes p.m., you will be doubling your capacity for Reactive Dyes. So do we see that in the coming years we will not be an Intermediate company much we will become more of a Reactive Dye company?

Punit Makharia: Again, you are asking a forward looking question, that is not correct on my part, but yes, the kind of vision we have conceived is that to become a completely textile solutions company. I think that is enough for myself to reply.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: One question on this Reactive Dyes. Are we producing all the colors or a particular color?

Punit Makharia: In Reactive Dyes there are three basic colors and further products are just produced by mixing and matching of these three basic colors. Initially we will be going for three basic colors that is black, red and yellow.

Ritesh Poladia: On NPK, we would be selling at about Rs15,000 per tonne. Urea I believe is about less than Rs6,000 per tonne. Is farmer opting for...?

Punit Makharia: NPK means there is in it N, P and K. It is a mixture of urea, DAP and MOP all three and urea is below Rs6000 and MOP is below Rs16,000 and DAP is below Rs.25,000 a ton. It is a mixture of these three products. Blending is done in a prescribed ratio to get our finished products. What you are trying to say is that that guy is selling iron for Rs.6, you are selling this iron for Rs.15, is it like that?

Ritesh Poladia: No, definitely this would be comparable with the other Complex Fertilizers because we are selling at Rs. 15,000 so DCM Shriram will sell at Rs. 20,000-22,000.

Punit Makharia: No sir. Above 25% EBITDA level, trading level will not be available in the fertilizers industry.

Ritesh Poladia: They also have to pay distribution cost?

Punit Makharia: Rs.5000 per ton means 25% but you are talking about 33%. That high level is not there.

Moderator: Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.



Punit Makharia:

We believe that we have been able to answer all of your questions on a very clear note and we hope that we have satisfied and replied all your queries. If any further queries will be there you can please get in touch with our Investor Relations Team that is SGA Advisors. Going ahead in the years we can assure one thing that the company has been doing continuous efforts towards building a “Zero Waste Chemical Company” and which will be adding more values to our customers as well as to our investors also. Going ahead with our new Dyestuff division and a pipeline of new products to be launched shortly for which we are confident of delivering values not only to our customers but value to our stakeholders. Thank you and thank you once again.

S N Sengupta:

We look forward to your standing cooperation all along. Thank you.

Moderator:

Thank you very much members of the management. Ladies and Gentlemen, on behalf of Shree Pushkar Chemicals & Fertilisers Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.