



“Aarti Industries Q3-FY15 Earnings Conference Call”

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MANAGEMENT: MR. RAJENDRA GOGRI – CHAIRMAN & MANAGING DIRECTOR, AARTI INDUSTRIES.
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Moderator Ladies and Gentlemen, Good Day and Welcome to the Aarti Industries Q3 FY'15 Earnings Conference Call. 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 the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Parin Narichania. Thank you. Over to you.

Parin Narichania Thank you and Good Evening, everyone. We welcome all of you. Thanks for taking out time for Aarti Industries Limited Analyst and Investor Conference Call. We have with us today Mr. Rajendra Gogri – Chairman and Managing Director; Mr. Rashesh Gogri – Vice Chairman and Managing Director, and Mr. Chetan Gandhi – the CFO. We will begin this call with the opening remarks from the management team, following which we will open the floor for an interactive Q&A session.

Before we begin, I would like to mention that certain statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the 'Investor Release' and the 'Con Call Invite' which was sent earlier. I would now like to hand over the floor to Mr. Rajendra Gogri. Thank you. Over to you sir.

Rajendra Gogri Good Afternoon, everybody. Thank you for joining us on this call. We shall run you through the operational performance and key highlights for the Quarter and 9 Months ended December 31st 2014. Total revenue for Q3 FY'15 stood at Rs.692 crores Vs Rs.650 crores for Q3 FY'14. Total revenue for the quarter Export consisted about Rs.361 crores that is over 52% of the total revenue. EBITDA for Q3 FY'15 was Rs.103 crores Vs Y-o-Y EBITDA of Rs.108 crores and net profit after tax for Q3 FY'15 was at Rs.43 crores Vs Rs.37 crores for Q3 FY'14.

The board has recommended second interim dividend of Rs.1.5 per share considering the first interim dividend of Rs.2.25, the aggregate interim dividend declared is Rs.3.75 for FY'15, last year, total dividend was Rs.4.5 per share for FY'14.

Before going into the financials, I would like to apprise you that towards the end of Q3 FY'15, we have witnessed a sharp depreciation of Indian rupee after having stable currency for past 3, 4 months, Indian rupee in the last fortnight of December has depreciated sharply and have again appreciated back to the old levels was in January 2015. The monthly average of Indian rupee for September was Rs.60.9, October Rs.61.35, November Rs.61.72, and December initial period Rs.61.91, but it ended at little above Rs.63 on 31st December. Since we had about 2 to 3 months equivalent of our Exports, rupee depreciation towards the end of the quarter resulted in to the mark-to-market loss of about Rs.4 crores.

Now, let us look at the segmental performance during the quarter-ended December 2014. The revenue from Specialty Chemicals segment grew marginally at Rs.568 crores Vs Rs.557 crores for Q3 FY'14. As you are aware that our business is largely operated on cost plus model,

wherein the delta fare is fixed in absolute basis and per kg margins remain stable and the raw material price fluctuations are passed on to the customer. Thus absolute EBITDA is based on volumes and not the price fluctuation. During Q3 FY'15, we had witnessed unusually sharp fall in Crude prices, which has resulted into the sharp fall of Crude-linked products as well. Benzene which is one of our major raw materials and also follows the trend and has fallen from the price of Rs.85 per kg for Q2 to about Rs.70 per kg for Q3. Our inventory of Benzene as a raw material is not more than 4 to 5 days due to limitation of Surat facility. However, the same is present in the component of various final products, and obviously, in our entire value chain. For instance, there will be some Benzene in our inventory of our product PNCB and the price of Benzene declined affects the value of our PNCB and similarly for other products, thus it is unusually high fallen Benzene prices that witnessed a steep fall in the valuation of various products. It may also be noted that some of this in fact were recouped as our pricing to the customer has time laid, and some orders which were executed in Q3 would be based on Q2 raw materials and so on, thus impact to EBITDA is lower to this extent considering these factors, the impact is approximately Rs.8 to 9 crores. As a matter of fact, the lower Benzene prices would benefit us over long term by better operating margins. Also, our operations are working capital-intensive. Lower prices reduces the working capital quantum, thus helps in reduction of debt and the finance cost as well. Hence, on an overall basis were lower, benzene prices benefit us by better operating margins, lower finance cost, better profit before tax, and improved ROC and so on.

Further in Q3, every year our acid unit goes for annual maintenance. That was for about 3 weeks. This result in the loss of volume and higher maintenance cost in this quarter, which impact the EBITDA for Specialty Chemicals segment by about Rs.4 to 5 crores. With the impact of mark down on inventory, FX M2M EBIT for this segment for Q3 FY'15 declined to Rs.88 crores.

On the project front, we are yet to announce the commercialization of our first phase of expansion of Nitro Chloro Benzene capacity in December 2014 and the final phase is expected to come on stream in Q1 FY'16. Against the existing area expansion capacity of 57,000 tonnes, we have issued over 37,200 tonnes that is about 88% capitalization; capacity utilization is first 9 months. Further, with respect to our expansion of PDI capacity from 250 to 1000 tonnes, we will be commissioning the first phase of expansion to 450 tonnes in Q4 FY'15 and the balance is expected to go on stream in FY'16, thus this expanded capacity would enable to us to increase our volume in the end user applications of Polymer Specialty business and Agrochemicals, etc. In the Pharmaceuticals segment, the revenue had increased from Rs.52 crores for Q3 FY'14 to Rs.75 crores for Q3 FY'15, thereby posting over 45% Y-o-Y growth. Similarly, EBITDA has also increased to Rs.8.8 crores for Q3 FY'15 Vs Rs.4 crores for Q3 FY'14. Yearend holidays at a regulated market result into lower offtake for a few products which kept the EBIT lower for Q-o-Q basis. However, the same are expected to regain from Q4 onwards. Thus on an overall basis, we expect to continue on the growth momentum as guided in Part-3 as well.

Coming to last segment, that is Home and Personal Care segment, the revenue for this segment for Q3 FY'15 was at Rs.50 crores with EBIT was a loss of Rs.(-0.9) crores. During Q3, the margins were affected by an anti-dumping duty imposed on one of the product streams. Also in some of the raw materials, the prices have increased; unfortunately, the same could not be passed on to the customers. The revisions are expected to happen in Q4 and thus the operations are expected to be back in black in Q4 FY'15.

Summarizing the quarter's performance. foreign exchange, mark-to-market loss, acid unit shut down, and inventory mark down, resulting into lower EBITDA, but dollarization of loans during Q2 and Q3 FY'15 had brought the interest cost down and the lower tax rate has posed 16% growth in Y-o-Y PAT. As you are aware, we have been undertaking various expansion activities and are targeting to start commissioning these projects starting from Q4 FY'15, and with these rationale, we are hopeful to be able to meet our volume growth estimate of about 15% to 20%, and profitability to grow at about 20% to 24%, CAGR over the next 3 to 4 years on account of the margin expansion and volume growth across all segments. Thank you.

Moderator Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Abhinav Gupta from Edelweiss. Please go ahead.

Niraj: This is Niraj from Edelweiss; I am joined with Abhinav as well. Two questions: one, what was the production volumes in the Hydrogenation and Nitro Chloro Benzene, etc.

Rajendra Gogri Nitro Chloro Benzene was about Rs.12,500 tonnes and Hydrogenated product was 1600 tonnes per month.

Niraj: And how much was the shut-down period for the plant?

Rajendra Gogri Shut down period was about 3 weeks in the Sulphuric Acid.

Niraj: What would be the debt for the company till now?

Management About Rs.1180 crores.

Niraj: Will we see a reduction in the working capital requirement in the next one or two quarters?

Rajendra Gogri Yes, working capital requirement will definitely go down because overall we have about 4-months working capital cycle. So, with this Benzene price going down, will help in working capital requirement.

Niraj: Can you quantify please, it will be useful?

Rajendra Gogri If the Benzene price goes down by Rs.15, about Rs.30 crores working capital which will go down.

- Niraj:** Which is not the large portion of the working capital, sir?
- Rajendra Gogri** This working capital impact will depend on how much the price goes down, the current quarter, the prices are running around Rs.50 of Benzene. So, the reduction would be depending on where the Crude and the Benzene settles. The impact will be visible towards end by March or in the Q1, the total impact of this price reduction would be visible.
- Niraj:** Would we also see impact in the profit because there has been a lag in the pricing of Q2 and Q3, will also this happen in Q4 in case there is a small bounce back in the Benzene prices?
- Rajendra Gogri** Yeah, that will definitely happen actually. The bounce back is expected to be slow and gradual, hence it would take some time. Normally the variations are about Rs.3 to Rs.5 on a Q-o-Q, but this time there is a huge decline and hence there is an larger impact.
- Niraj:** Can you give some color in the Chemical industry, how has been the situation of pricing and competitiveness after this correction in the Crude prices?
- Rajendra Gogri** Basically, these are the sharp reductions, generally tendency in the entire value chain was to reduce the inventories, and that is sometime affects the volumes also because everybody is trying to reduce the production also. But it is also based on the fact as to how the end-product industry is panning out, whether there is scope for pass on or is this impact significant in the final product and so on. So in some cases, the impact is not significant and hence the volumes are not affected. Also being year end for many companies, they want to have lower stock and improve their financials, so this also factors in the customer demand. But once this settles down, as it looks now in the month of February or so, then again the volumes picks up, because there is overall end user customer demand. So, it was a temporary impact where everybody was trying to keep the inventory at a lower level.
- Niraj:** Have you seen margin expanding or coming down?
- Rajendra Gogri** Absolute Margins are going to be similar, as we mentioned, we are more or less on volume-based. In some cases, we did not pass on all the benefit to the customers, so some of the products there is some margin expansion.
- Moderator** Thank you. Our next question is from the line of Sarvanan Vishwanathan from Unify Capital. Please go ahead.
- S Viswanathan:** My first question, from Q2 to Q3 Benzene prices have corrected from Rs.85 to Rs.70 per Kg and you just mentioned that in Q4 it has even dropped to Rs.50 per Kg, so in Q3 we have said that Rs.8 crores impact in the financials on account of the fall in Benzene prices, so a similar impact would also be there in Q4 because Benzene prices have further corrected from Rs.70 to Rs.50?

Rajendra Gogri	Benzene, ultimately is having linkages to Crude which is very volatile. But if we assume on an another Rs.15 price decrease, then similar impact as that of Q3 will come. But overall, we expect the profit to go up because we have this acid shut down impact and increase in volumes, so, even if Rs. 9 crores kind of thing continues in the next quarter, our profits are expected to increase in Q4 from the Specialty segment
S Viswanathan:	When you mean profit is it in absolute terms or even the EBITDA margins?
Rajendra Gogri	Yeah, Absolute EBITDA. Also because the price going down, margin as a percentage also up. Both absolute EBITDA as well as margins are expected to go up in Q4 even though the price in inventory side may come down.
S Viswanathan:	Second question on Pharmaceuticals segment, what is the reason for fall in operating margin?
Management	The reason for fall in operating margins is that some of the products which is at more quality takes some more time for production and the sales are happening in Q4. Also because of year end holidays in regulated markets, there was slowdown of offtake in last quarter.
S Viswanathan:	Have those issues been rectified, can we go back to the normal margins in Q4?
Management:	Yes.
S Viswanathan:	This quarter tax rate seem to be slightly lower compared to the first half. Any specific reason?
Chetan Gandhi	The company would now be required to pay tax under Minimum Alternate Tax rate, because we have significant expansion activities going on. So, there are certain benefits available for these investments. So, now, we would be falling under MAT.
S Viswanathan:	We can expect MAT rates to continue?
Chetan Gandhi	Yeah, it might continue at least for two years' time.
S Viswanathan:	On the corporate reorganization timeline, first Anushakti merger will be completed, only then demerger will happen, is it?
Rajendra Gogri:	The first part is expected to be completed in Q1 FY'16, there only the demerger procedure will be initiated after that.
S Viswanathan:	The demerger will take place within the end of next financial year?
Rajendra Gogri	Yeah, it will be in the next financial year, FY'16 probably, however there are some activities which needs to be carried out prior to that.

Moderator	Thank you. Our next question is from the line of Dikshit Mittal from Subkham Ventures. Please go ahead.
Dikshit Mittal:	Can you give the volume growth during the quarter?
Rajendra Gogri	Volume growth in Specialty Chemicals was about 5% to 7%. As I mentioned the tendency for some customers who wants to reduce their inventories, so, which has affected the volume growth in this quarter.
Dikshit Mittal:	So do you expect the volume growth to be better in Q4 in line with your full year guidance of around 15% CAGR?
Rajendra Gogri	Yes. Our expansions for NCB capacities for first stage is complete and we expect the volumes to come in from this as well, and also the prices stabilizing, we expect higher volume growth in Q4 and then subsequent quarters also.
Dikshit Mittal:	Because the inventory restocking happens, so that means Q4 will be much higher than 15%?
Rajendra Gogri	Yeah, it might be between 15% to 20%.
Dikshit Mittal:	What is the amount of dollar debt in our books?
Management	30% to 35% of short term debts.
Dikshit Mittal:	This Rs.4 crores M2M loss, that was dollar-denominated debt only or something else was also there?
Chetan Gandhi	The mark-to-market was on the dollar debt and the rupee bouncing back in January, we expect that number to where the numbers were in March are. So, whether it could be recouped or whatever.
Dikshit Mittal:	How much is the Benzene inventory in your books right now?
Management	Benzene inventory would not be more than 2, 3 days stock, in quantity, they have to be a very small number; less than 500 to 700 tonnes.
Dikshit Mittal:	As you mentioned this lower commodity prices will help in lower working capital, so sir can you quantify how much lower will it be next year if the prices remain at the current levels?
Chetan Gandhi	Benzene prices has to go down by around Rs.15 or so, then Rs.30 crores is the reduction in working capital.

- Moderator** Thank you. Our next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.
- Rohan Gupta:** This mark-to-market basically inventory write-down which you are talking about, this is only on the inventory which you have and not yet realized, so maybe when you do the pricing of the current quarter, then these losses can be recouped?
- Rejendra V.Gogri** No, generally, it is inventory cycle. When it reverses, we start gaining it back. So, what may happen this sharp decrease in Benzene prices when it goes again slowly. So, the benefit may get spread over a few quarters.
- Rohan Gupta:** No, I wanted to understand because you have a back-to-back arrangement with all your customers, right. So the inventory loss of Rs.9 crores which you are talking about probably will be based on the inventory valuation which you have done at the 31st December?
- Management** Yes.
- Rohan Gupta:** Now, the product when it is shipped to the customer you would have already taken care of the prices, so that is what I am asking that, will it be recouped in current quarter?
- Rajendra Gogri** No, it cannot be recouped. Basically, the pricing and all are done either on the current prices or based on the formula of the previous quarters. So, generally we remain in the inventory of the WIP finished goods, that is kind of a segment item which is remaining in the stock. So, that valuation will go up and down based on the Benzene pricing.
- Rohan Gupta:** So how the pricing is done to your customer at say rolling basis, 7 days previous prices of the raw material or a month prices old, how frequently your revise it?
- Rajendra Gogri** Generally, they are monthly process, sometime are three-monthly if they are non-contractual.
- Rohan Gupta:** So it is mainly coming because of the Benzene prices have been falling much sharply to capture in the contractual prices, so that has been the reason, right?
- Rajendra Gogri** Yes. In the last periods, Rs 2 – Rs 3 going up and down is a very common phenomenon, so, it does not affect the EBITDA and EBIT number.
- Rohan Gupta:** As of now when we speak Benzene prices are at Rs.50 per Kg?
- Rajendra Gogri** Yeah, it is around that level now.
- Rohan Gupta:** So there is further mark down of almost from Rs.70 to Rs.50 and that can have a similar impact on our Q4 P&L as well?

- Rajendra Gogri** yeah probably, it depends as to where the prices behave in Q4. If it becomes similar, so, actually the EBITDA could mirror each other, and the acid unit shut down and increase in the volume will increase the EBITDA.
- Rohan Gupta:** The maintenance shut down which you have taken was a regular phenomenon which you take almost every year in third quarter, right?
- Rajendra Gogri** Yes.
- Rohan Gupta:** On the capacity which is coming in NCB, your production was going on in December month. So when you expect to ramp it up and what will be the impact in Q4 of this year, Q1 of next year and Q2, how soon we can see the ramp up there?
- Rajendra Gogri** Last Q3 was about 12,500 tonnes, in Q4 we expect in the range of about 14,000 to 14,500 tonnes, then more than 15,500 tonnes in Q1 kind of base numbers we should be getting.
- Rohan Gupta:** So then by Q2 of next year, we can expect 100% utilization of the expanded capacity?
- Rajendra Gogri** Yeah, generally 90% level.
- Rohan Gupta:** And a similar expansion we can expect in the PDA capacities also?
- Rajendra Gogri** Yeah, PDA we are going about 450 tonnes. So, by Q2, it goes to 500 tonnes capacity also we will be able to reach.
- Rohan Gupta:** And the reason which you mentioned we could not get for the fall in interest cost for the current quarter?
- Rajendra Gogri** The working capital borrowings was more in dollar this quarter compared to the previous quarter.
- Rohan Gupta:** So mark-to-market was lower or actual interest cost which was lower?
- Rajendra Gogri** Actual interest costs were lower.
- Rohan Gupta:** Because of a fall in interest rates or what?
- Chetan Gandhi** No, borrowing in Indian rupee, you pay out interest of almost 11 or 11.5%. If you borrow in dollar, your interest rate would be around 3% to 4%. So, that the difference is.
- Rohan Gupta:** But sir, your dollar debt and rupee debt portion does not change, right, the ratio almost remains same, neither we have seen any sort of a sharp depreciation in the currency, so why our interest

cost would have been lower, was the component of dollar debt was higher in the current quarter?

Chetan Gandhi No, basically, we had more of rupee debt which in Q2 if you would recollect, we started exercise of dollarizing in some of our loans, so, we now have some more dollar loans which are in foreign currency as compared to what was there in Q1 and other thing, it is an ongoing activity. So, that is the reason why the interest has actually scaled down.

Rohan Gupta: You mentioned that 30-35% of your debt is dollar debt, right, and what was the ratio in Q2?

Chetan Gandhi Q2, it is almost like around 5%-10% lower.

Rohan Gupta: Is there any possibility that we can draw down more on a dollar debt?

Chetan Gandhi Yeah, we are exploring that thing, we basically have to look at managing the entire asset portfolio though dollar debt is one aspect, but you also have to look at it on the company as a whole. So, on a cost benefit perspective, we have to take a call. So, we are doing that activity on a regular basis.

Rohan Gupta: We have to see whether there is a further possibility in terms of interest reduction or not?

Chetan Gandhi Yeah.

Rohan Gupta: On Pharma business you mentioned that we could only get one point, there is some value product production was affected. What were the other two reasons which you mentioned that affected the Pharma business profitability and revenues?

Rashesh Gogri Basically, there was a slowdown in orders of some other regular products like the year end slowdown in Europe and other markets.

Rohan Gupta: So it is overall slowdown in other markets which affected our sales of Pharma business?

Rashesh Gogri No, because of the Christmas and that happens every year.

Rohan Gupta: So in Pharma business you are hinting that will recover in Q4?

Rashesh Gogri Yes, we are very confident.

Rohan Gupta: Sir, the inventory restocking which is happening at the customer end, which you mentioned that because of the falling end product prices, there is a tendency of reducing the inventory, so is that over or there is still room for the customers to reduce the inventory and that may still affect our overall volume growth in Q4?

- Rashesh Gogri** No, it is over now. So, now as the prices have little bit rebound, people are looking at placing more orders. So, now the inventory reduction is over, inventory increase cycle has started. So, that is why we will see volume growth.
- Moderator** Thank you. Our next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** During the first nine months our total revenue growth has been about 16%. So how much of that would have been contributed through volumes?
- Chetan Gandhi** If you look at the first nine months, I guess a larger chunk of this would be because of volume growth because on the value front prices have fallen. So, I would say 15% or probably something more than that would be on account of the volume growth.
- Rohit Nagraj:** So largely the entire 15% is volume growth, there is hardly any contribution from the price rise?
- Chetan Gandhi** Yeah.
- Rohit Nagraj:** In terms of CAPEX, how much has been capitalized during nine months and if you could just provide guidance for total FY15 and how much CAPEX would be done in FY16 too?
- Rajendra Gogri** Total this year WIP around Rs.230 to 240 crores range, next year also of a similar order.
- Rohit Nagraj:** This Rs.230-240 crores would entirely be capitalized?
- Rajendra Gogri** No, ongoing WIP also is there, so, maybe it will be less than that.
- Rohit Nagraj:** FY16 if I heard right, you said similar kind of CAPEX and what would this CAPEX offer?
- Rajendra Gogri** There are various projects already we have announced, Dahej project will be there and then Nitro Toluene project, additional Chloride plant, for all those projects CAPEX will be coming and then also commercialize.
- Rohit Nagraj:** There would be about Rs.400-450 crores of CAPEX during FY15 and '16 put together?
- Chetan Gandhi** You can presume that way sir, broadly.
- Rohit Nagraj:** I understand that the CAPEX which we are doing during this year there would be a volume growth of say 15-20%. For the CAPEX which we would be doing for FY16 of about Rs.200 crores plus kind of number, what kind of volume growth would we be expecting and for what period of time this CAPEX would be or the capacities would be sufficient like we do not need CAPEX for say till FY18 or so, if you could just provide some guidance on that?

- Rajendra Gogri** Whatever expansion that we are doing for say, Nitro Chloro Benzene or Chloro Benzene, would meet demand for another 3 - 4 years. So expansion at most for some of this may come in FY'19 or FY'20.
- Rohit Nagraj:** And the near project that you talked about for those projects, what kind of volume growth do we expect from those projects which will come in FY16?
- Rajendra Gogri** Basically, depends on product-to-product. PDA around 250 levels, we look at around 750 to 800 tonnes. So, it is three-fold. Somewhere Nitro Chloro Benzene what we were operating at 52k, so that ultimately is going to be above 70k. So, it will be 30% to 40%. That is depending on the different product line we may have between 30% to 100%. So, Nitro Toulènes will be the entire new line of products.
- Rohit Nagraj:** If you could provide us probably sometimes later after the results what would be the new projects wherein we are requiring CAPEX because if I remember correctly during our annual presentation we have indicated that we have projects of about Rs.300 crores on which we had CAPEX guidance for the next 12 to 18 months but I am unable to actually gather what the next 120 or 150 crores of CAPEX would be for which new projects. So if you could just give us probably accounted idea about which projects will be coming in and what kind of revenue growth or volume growth we are talking about for those projects, that would be really helpful for all of us?
- Rajendra Gogri** Again there will be a normal CAPEX for FY'16 also, and some capacities also we are increasing more than what was originally planned, so, that is also going to increase. Some of the CAPEX, we are going to go in for Dahej also. It is not done still, so, combining all this will add up to about 500 crs.
- Moderator** Thank you. Our next question is from the line of Veena Patel from iWealth. Please go ahead.
- Veena Patel:** Sir, my question was pertaining to our segment performance. If I heard it correctly Specialty Chemicals was impacted because of the shutdown of the acid plant and because of the lower offtake and the inventory write-down also. But going ahead with new capacities coming on stream, so what kind of growth can we see in the Specialty Chemicals division?
- Rajendra Gogri** Yeah, this volume growth will be there.
- Veena Patel:** So it will be in what terms? Because we have been mentioning of about 15-20%. So out of that guidance of 15-20% major chunk would be coming from Specialty Chemicals?
- Rajendra Gogri** Yeah, but Pharma also will be growing, so both would grow.
- Veena Patel:** Can you just quantify maybe in a broader range about how much would be the growth for Specialty Chemicals first and then we can speak about Pharma?

- Rajendra Gogri** Pharma, our growth is expected to be more than 20% and Specialty Chemicals more towards 15%; that is the growth break up between the two segments are there.
- Veena Patel:** Coming to Specialty Chemicals, within that we have a sub-division of the Agro Chemicals and Performance Chemicals, and within Performance Chemicals, we have Engineering Polymers also, so wherein we are moving the higher value chain. So what kind of margins we can look from this particular division, because we are moving into more and more higher value-added products?
- Rajendra Gogri** Yeah, because of more value-added products and also spreading up overheads over larger volumes, so, we expect the operating margins to improve in the coming years.
- Veena Patel:** What kind of margins are you targeting for Specialty Chemicals division?
- Rajendra Gogri** It will be higher by about 2% to 3% from the current levels.
- Veena Patel:** With all the capacities coming on stream, this would be around 2 to 3-years down the line. So in case of Pharma, what kind of margins we can look ahead?
- Rajendra Gogri** Last year it was about 12% and then slowly going forward, next 1 or 2 years, I think around 20% level will be targeting.
- Veena Patel:** Pharma, you can reach the margins of 20%, that is what you are referring to?
- Rajendra Gogri** Yes.
- Veena Patel:** What is giving you that kind of confidence?
- Rajendra Gogri** Basically, there are a lot of overheads are already covered on whether it is depreciation or the manpower or maintenance cost. You go on pushing the volume higher. On the incremental volumes, the margins are more than 30%, so, that we would go on pushing the margin lines.
- Veena Patel:** Sir, in case of this particular quarter, the employee cost was on the higher side when you compare to the Q3 of last year, so consistently our employee cost has been increasing and this quarter was on the higher side. So what was the reason for that?
- Chetan Gandhi** The employee cost would be related to two factors; probably, there could be some increment or Diwali-linked bonus or performance bonus, etc.
- Veena Patel:** Any Addition of the employees ?
- Chetan Gandhi** In terms of our expansions and new operations, there would have been additions as well. But it is more of a general phenomenon.

Rajendra Gogri For the newer sites where the physical infrastructure is added, we have some new employees, otherwise, the normal increment will be in the range of 8% to 12% is your employee cost increase because of the annual increment.

Moderator Thank you. Our next question is from the line of Rohan Gupta from Emkay. Please go ahead.

Rohan Gupta: So you are increasing your CAPEX guidance. So now it stands at almost Rs.400-450 crores over next two years which earlier was almost Rs.300 crores, is it right, sir?

Rajendra Gogri This Rs.300 crores for 12 to 18 months, now, we are talking about the entire next year, it is a normal CAPEX and then the Dahej plant also which was not included earlier, where we are going to do installation, right now, not part of Aarti industries but we expect that merger to take place in next year.

Rohan Gupta: So it is almost equally distributed in '16 almost Rs.200 crores and Rs.200-225 crores in '17 also you will incur similar amount, right?

Rajendra Gogri Not in '17, it is up to FY'16.

Rohan Gupta: So it is up to FY'16, Rs.450 crores you will be incurring?

Rajendra Gogri This is FY'15 and FY'16 combined.

Rohan Gupta: Earlier, we were planning to meet through all our internal cash flow generation. So now are we planning to increase our debt guidance because you said the current debt is probably the peak debt and it may not go beyond this level, so, do you think our debt portion will go up to fund this CAPEX?

Rajendra Gogri Basically, what we have been telling is the debt-equity level. As the working capital also increasing, so some debt we will be taking in this year also.

Rohan Gupta: So what will be the comfortable debt-equity for you and beyond the level you will not go ahead?

Rajendra Gogri: Normally, when you are in CAPEX spending cycle, sometimes it goes to around 1.2-1.3 those levels also, and then when you are in a stabilizing cycle, you move towards 1, so that is how the debt-equity cycle moves.

Rohan Gupta: So it may go even 1.2 or even cross that with the working capital debt also?

Rajendra Gogri: As we mentioned, with the lesser working capital requirement and all, we are more or less peaking on this year only.

- Rohan Gupta:** Sir, we have been hearing that also you mentioned that in China a lot of capacities were closing or because of the significant pollution control norms, a lot of opportunities came to us. Recently, we started hearing that a lot of capacities are building up in China, and in fact they have shifted to other locations, so new production has started coming. So are you facing some sort of pressure or is there any some sort of pressure on the industry as far as the Specialty Chemicals is concerned from China?
- Rajendra Gogri:** Not really, not much those kind of thing we have seen in our product range.
- Moderator:** Thank you. The next question is a follow up question from the line of Sarvanan Vishwanathan from Unify Capital. Please go ahead.
- S Viswanathan:** Last financial year during consolidation of financials of these numbers we had close to Rs.10 crores profit from that company. So can we see a similar number in this financial year also?
- Rajendra Gogri:** Yes, it may be higher than that.
- S Viswanathan:** On Rs.450 crores of CAPEX, can we broadly assume that every Re.1 spent in this CAPEX maybe in the next 2-3 years will give us Rs.3 of sales or even more than that?
- Rajendra Gogri:** Between Rs.3-4 that is the normal what we are looking at.
- Moderator:** Thank you. The next question is from Rohit Nagaraj from Sunidhi Securities. Please go ahead.
- Rohit Nagaraj:** Our interest cost has reduced during this year on a sequential basis every single quarter we have reduced it and now it stands at around Rs.32-35 odd crores. if we consider that Benzene prices continue to stay at say a level of Rs.70 odd, would there be run rate of Rs.35 crores which will continue over the next at least for 2-3 quarters, there would be marginal uptick or slight benefit probably due to even for the dollarization of the debt, so would that be a fair assumption?
- Rajendra Gogri:** Yes.
- Moderator:** Thank you. The next question is from the line of Sonal Shrivastav from Religare. Please go ahead.
- Sonal Shrivastav:** I just wanted to understand with regard to our expansion that is happening in the Toluene chemistry side. Over the years, we will be commissioning that project after Q4 as you had indicated. I broadly wanted to understand three-four years down the line, what kind of potential we could see from this line of business from the Toluene side, is it that big a opportunity as it is like in Benzene Chemistry that we have built in over the years?

- Rajendra Gogri:** We do not expect the similar size; Nitro Chloro Benzene now we are looking at 75,000 tonnes capacity, in Nitro Toluene in about 3-4 years we are looking around half of that, around 36,000 tonnes levels, relatively smaller products.
- Sonal Shrivastav:** Are there other products also in Toluene Chemistry that could be added subsequently in Stage-III, Stage-IV as intermediates, because we are starting with one product right now, but are there other products available also and opportunity there in global and domestic markets which could be looked at because when we have done backward integration and we have incurred huge CAPEXs to get into the Toluene Chemistry side, and the size of the business that we are seeing is not as big as that, so just wanted to understand those kind of opportunities also that would be available?
- Rajendra Gogri:** Basically, we will be doing also not only Nitro Toluene, we will be doing the Hydrogenation of that, we get all the ortho toluidine, para toluidine and then we are also going to do the Chlorination and then doing Hydrogenation. So there will be a range of products which will be coming from this Nitro Toluene downstream, we are going to do installation of ortho toluidine and then installation of para toluidine. So we will be building similar to Nitro Chloro Benzene, we have a basket is kind of half of these.
- Sonal Shrivastav:** The basket itself means opportunity globally also would be half of Benzene Chemistry?
- Rajendra Gogri:** I am comparing Nitro Chloro Benzene and Nitro Toluene, not the entire chain.
- Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from Batliwala & Karani Securities. Please go ahead.
- Ranjit Cirumalla:** Sir, you have been saying that the correction in the Benzene prices would bring the working capital requirement. So just wanted to know capital employed in a sequential basis has risen, so is it mainly to do that CAPEX or it was an impact of lower working capital in 3Q?
- Rajendra Gogri:** Capital employed is largely some amount would be because of the working capital change and some would be related to the CAPEX activity which is going on. So it is a combination of both.
- Ranjit Cirumalla:** It would also include the working capital as far as Specialty Chemicals is concerned?
- Rajendra Gogri:** Yeah, because sometimes for the working capital reduction to happen, let us say, the prices would have corrected in Q3, the impact would come in Q4 and Q1 next year substantially in a progressive manner
- Ranjit Cirumalla:** The other expenditure at Rs.135 crores has been higher. So any particular thing about that or it would be a normal run rate?

- Rajendra Gogri:** Previous quarter was around Rs.129 crores, Q1 you would see it is almost similar.
- Ranjit Cirumalla:** What is the current Nitro Chloro Benzene capacity we have as on December '14?
- Rajendra Gogri:** We are increasing from 57,000 to 75,000.
- Ranjit Cirumalla:** You said a part of that is commissioned in December 2014, wanted to know howmuch?
- Rajendra Gogri:** Half of like, 57,000 to 66,000 already done and the second phase will be from 66,000 to 75,000.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management to Aarti Industries for closing comments. Over to you.
- Rajendra Gogri:** We thank you very much for attending this conference. We expect a good fourth quarter because of the higher volume in both Specialty and Pharma and also on consolidated basis we will get profit from associates, so standalone as well as on a consolidated basis we expect to have about 20%+ growth in bottom line in this year also. Thank you.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of Aarti Industries that concludes the conference call. Thank you for joining us. You may now disconnect your lines.