



## **“Aarti Industries Q1-FY15 Earnings Conference Call”**

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**MANAGEMENT: MR. RAJENDRA GOGRI – CHAIRMAN & MANAGING  
DIRECTOR, AARTI INDUSTRIES.  
MR. CHETAN GANDHI – CHIEF FINANCIAL OFFICER,  
AARTI INDUSTRIES.**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q1FY15 earnings conference call of Aarti Industries Limited. As a remainder, 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. Siddharth Kumar of Adfactors. Thank you and over to you Mr. Kumar.

**Siddharth Kumar:** Good afternoon and thank you for taking out time for today's concall. We have with us Mr. Rajendra Gogri – Chairman and Managing Director and Mr. Chetan Gandhi, Chief Financial Officer..

We will begin this call with opening remarks from Mr. Rajendra Gogri following which we will open the floor for an interactive Q&A session. Before we begin, I would like to mention that certain statements in this call would be forward-looking in nature and disclaimer to this effect is included in the Investor release and concall invite, which was sent to you earlier. I would now like to handover the floor to Mr. Rajendra Gogri. Thank you and over to you Sir.

**Rajendra Gogri:** Good afternoon everybody and a warm welcome for joining us on this call. We shall run you through the operational performance and key highlights for the quarter ended June 30<sup>th</sup> 2014.

We are delighted to announce that we have been consistent on our growth part for yet another quarter and present you another set of stable performance. Total revenue for Q1FY15 grew by 25% Y-o-Y and stood at Rs. 739 crores. Out of this, exports consisted about Rs. 364 crores and that is about 49.3% of the total revenue. EBITDA for Q1FY15 has improved to Rs. 113 crores from Rs. 76 crores for Q1FY14. The growth in EBITDA has been on account of margin expansion for various products and coupled with increased volume for value-added products having better margins. Depreciation for Q1FY15 was Rs. 18.7 crores versus Rs. 20.2 crores for Q1FY14. The reduction in depreciation is on account of the reassessment and realignment of the fixed asset with the provisions of the new Companies Act 2013 and further in line with the addition of newer asset with latest technology. Finance cost has increased from the last quarter owing to higher proportion of Rupee Loans and certain one-time costs for long term borrowings. As a result, net profit after tax was at Rs. 41.43 crores for Q1FY15 versus 22.53 crores for Q1FY14, an increase of 83.89%.

Now, I would like to give the key highlights of our segmental performance during the quarter ended June 2014. Coming to the financials, the revenue from Specialty Chemical segment posted a healthy growth of 24.63% at Rs. 614.19 crores versus Rs. 492.82 crores for Q1FY14. The EBIT has grown by 52% on Y-o-Y to Rs. 97.71 crores from Rs. 64.03 crores for Q1FY14. Revenues from global market increased from Rs. 228 crores for Q1FY14 to Rs. 323 crores for Q1FY15, a Y-o-Y growth of 42%. When compared with the Q4FY14, you would note that the performances were largely similar on account of capacity expansion activity going on at major units. The production from existing capacities were kept lower as compared to Q4FY14.

However, the margin expansion in existing range of products as well as changed product mix to accommodate more of value-added products with a higher margin have helped maintain the EBIT. Thus, the diversity in product mix and end-user applications had helped to a major extent to provide healthy result in spite of lower volumes. Thus, our continuously monitoring and evaluation of appropriate mix of Specialty Chemicals, helped to ensure optimization of capacities with the maximization of EBIT.

The company has recorded production of about 1,653 tpm of Hydrogenated products for the quarter ended June 30, 2014 as against production of 1,730 tpm achieved for quarter ended March 31, 2014. FY14 annual average was 1,650 tpm. Similarly, Nitro Chloro Benzene production for Q1FY15 was 11,935 MT as compared to the production of 14,150 MT for Q4FY14. Expansion of present capacity from 57,000 MT to 75,000 MT is under final stages and would be commissioned in coming quarters. Likewise, various other expansion projects are underway and would be commissioned in a phase manner in the next 12 months. We expect significant growth in numbers from H2FY15 onwards on account of gradual commissioning of these expanded capacities.

In the case of pharma segment, the revenues were broadly flat at Rs. 67 crores and EBIT of Rs. 6.3 cores for Q1FY15 based on account of the maintenance cum fine-tuning of newer and expanded capacities related shutdown taken in one of the blocks of the USFDA facility. This unit has resumed back in July 2014. Expansion of **Caffeine** manufacturing capacities are on track and is expected to be commissioned in H2FY15. With this rational, we expect the turnover and EBIT for pharma segment to increase from Q2FY15.

Coming to the last segment, that is Home and Personal Care segment, wherein the product portfolios were being reshuffled to improve the performance and improve the overall margin in this segment. Increase in export would also assist in reducing the dependence on FMCG majors wherein the margins are relatively low. The revenue for Q1FY15 was Rs. 58.1 crores, aY-o-Y increase of 55% and 16.35% increase on Q-o-Q basis, i.e. Rs. 49.96 crores in Q4FY14 and Rs. 37.50 crore in Q1FY14. While, EBIT for Q1FY15 was at Rs. 2.59 crores versus Rs. 1.52 crores in Q4FY14 and a loss of Rs. 0.23 crores for Q1FY14. The increase in volumes of Special Chemicals and product realignment activity has helped in the improvement of margins and is expected to contribute to the performance of this segment.

For our major projects in process, we have a total outlay of Rs. 300 crores which would be invested over the next 12-18 months for various basket of products and processes. This CAPEX shall facilitate the growth in topline by about 15%-20%. Considering this, we revised our earlier growth estimates of profitability to 20%-24% CAGR over the next 3-4 years from the earlier estimates of 18%-22% CAGR presented at the analyst meet held in June, 2014.

The growth based on optimized product mix of hydrogenated products and other chemicals catering to polymer, pigment, plasticizers and agri intermediates, oil & gas, etc. along with the

fast paced growth in pharma would help the company grow significant in the coming years. Thank you. We now open up the floor for question and answers.

**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 Niraj M from Edelweiss Capital. Please go ahead.

**Niraj M:** In the Home and Personal Care, you had shown a significant growth in the revenues and you also said that you had debottlenecked some facilities in the past and obviously the outcome is coming now. How much fast can we grow in Home and Personal Care and where can the potential margins be stabilized because this is a wonderful performance since the percentage EBIT margins are improving.

**Rajendra Gogri:** We had done certain expansion which is further in pipeline and will be completed in Q4. Thus major jump will come in FY16. This year, we expect it to be similar to the first quarter numbers.

**Niraj M:** Which means that there will be a consistency in the EBIT margin to be replicated across the year?

**Rajendra Gogri:** Yes, that is what we are looking at present.

**Niraj M:** Can you give some color on the expansion that you are going to do and what revenues can be added, if there is a full 100% utilization on that?

**Rajendra Gogri:** We are increasing in the Pithampur site in Madhya Pradesh, which is nearer to the customers and almost 50% capacity increase is what we expect from the present level and we are also looking at higher margin because of fuel efficiency. So, both the volumes and the operating margins, we expect them to improve.

**Niraj M:** On your restructuring of the debt, I understand you are moving lot of loans from the INR side to the foreign currency. So can you throw some color on that?

**Rajendra Gogri:** That is more on working capital rather than long term. For long term we have borrowed it in NCD in rupees.

**Niraj M:** So how much can the cost of debt go down due to this?

**Chetan Gandhi:** The average cost of debt could reduce by around 1% or 2% and it depends as to how much composition of foreign currency or mix is taken in the blended cost of borrowing. So, if you presume it at around 60% or 70% of foreign currency borrowing, then we can look at 1% or 2% reduction in the debt cost.

**Niraj M:** And what would be the potential fund raising cost for you, for foreign currency in Libor?

- Chetan Gandhi:** That would differ as different banks offer different rates. It could be anything between 300 to 350 over libor. So, it depends as to what are the limits available at various banks and how the sanctions and other transition happens.
- Moderator:** Thank you. The next question is from the line of Ashutosh from Reliance Wealth PMS. Please go ahead.
- Ashutosh:** You did mention about the capacity in the initial remarks. Can you just repeat it. What is the current capacity? What is the expansion which you are planning and the CAPEX in value terms if you can just repeat that?
- Rajendra Gogri:** In NitroChloro Benzene, we are expanding from 57,000 metric tonnes to 75,000 metric tonnes. So it is debottlenecking cum expansion and that should be over by Q4 progressively. The impact will start coming from Q3 on the volume front.
- Ashutosh:** Q3 of this year?
- Rajendra Gogri:** Yes.
- Ashutosh:** In other products?
- Rajendra Gogri:** In other products, this will feed to hydrogenation. So correspondingly, we will have higher capacity utilization there and we are also doing some more expansion on the hydrogenation side which will start in Q4. So every quarter, we are looking at different products, starting from Q3. We are also putting up a new calcium chloride plant. So, this will have impact in the first half of next year and nitrotoluenes also towards the end of this year.
- Ashutosh:** The topline growth which you had in this quarter, what was the volume growth and the realization growth, if you can bifurcate the 25% growth which you had?
- Rajendra Gogri:** In Specialty Chemicals, there was a reduction in topline compared to Q4 snf if you compare the previous year 593 to 729, it would be more or less 50:50, i.e. 50% volume and 50% growth.
- Ashutosh:** And going ahead, the upward revision of this revenue which you mentioned of 22%-24%, so there would be predominantly more traction on the volume front?
- Rajendra Gogri:** Yes, both on volume and the change in depreciation rates, it will have an impact.
- Ashutosh:** And how is the profitability looking ahead in the next 2-3 years, if you can throw some light. What kind of margins you expect?
- Rajendra Gogri:** On an overall earning PAT basis; around 22%-24% growth rate and a topline of over 15%-20%.

- Ashutosh:** And on the EBITDA margins?
- Rajendra Gogri:** PAT will progressively increase because we are looking more on PAT increase as compared to the topline. But EBITDA margins will at times, depend on the basic raw material prices.
- Moderator:** Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.
- Saravanan Vishwanathan:** At a broad level, in our topline growth, are we garnering business from existing competitors or are we targeting new business? In another sense, the user segments, are they also growing at 20%-24%?
- Rajendra Gogri:** There is a growth in the user industry and some of it we are getting from the competitors. So it is a mix of both. So, in PNCB and ONCB, the capacity has gone down. Right now, some imports are taking place. At some places, there will be import substitutions in domestic market, at some places there will be a higher market share in a global market and at some places the products are having a good growth. It is a mix of both growth as well as against the import into India and export market share.
- Saravanan Vishwanathan:** And in the next couple of years, where do you see the debt level stabilizing? Is it going to be at current levels or is it going to increase because there is a working capital component. Will it increase in line with the sales and how are you going to manage your debt levels for the next 2-3 years?
- Rajendra Gogri:** We are trying to reduce the working capital requirement. So we expect the peak of debt equity in FY15 and going forward the debt equity should start coming down.
- Saravanan Vishwanathan:** The Home Care segment, do we want to pursue it for a long term or is there any thought of doing away with it? Are you satisfied with the kind of margins you are generating there? Do you want to devote attention to that segment?
- Rajendra Gogri:** We have gone for expansion and overall we expect that this segment will start contributing more. But then overall as a business, we are continuously looking at how the growth as a whole will pan out.
- Saravanan Vishwanathan:** At least in the near term from a 2-3 year perspective, do you want to focus and invest in that segment also?
- Rajendra Gogri:** Yes.
- Moderator:** Thank you. Next question is from the line of Chetan Thacker from Emkay Global. Please go ahead.

- Chetan Thacker:** I just missed on the production numbers for both NCB and hydrogenation for the quarter and the corresponding numbers which you shared. And the shutdown which you took on the pharmaceutical plant, what was the reason for that and what was the revenue or loss from that?
- Rajendra Gogri:** NCB production for Q1 FY15 was 11,935 tonnes as compared to Q4 FY14 of 14,150 tonnes and for hydrogenated products; it was 1,653 tonnes as compared to 1,730 tonnes of the previous quarter. And in pharma, there are some of the blocks, that we were stabilizing in the facility. So, around 15%-20% topline was less as compared to normal.
- Chetan Thacker:** And what was the reason?
- Rajendra Gogri:** It's because we have just expanded, and that requires some fine tuning.
- Chetan Thacker:** Going forward, once we have the NCB expansion, how much can hydrogenation volumes go to?
- Rajendra Gogri:** We expect that to cross 2,000 tonnes in the third quarter.
- Chetan Thacker:** Currently what is the installed capacity on hydrogenation?
- Rajendra Gogri:** Installed capacity depends on product-to-product. Some products take higher capacity per tonne. So it cannot be judged on that basis, but the way we look at a product mix, we feel around 2,000-2,200 tonnes levels of volumes are feasible in our current setup and next year the volumes will increase.
- Chetan Thacker:** The guidance remains on expansion on pharmaceutical margins as well?
- Rajendra Gogri:** Yes.
- Chetan Thacker:** The guidance which you shared of 22%-24%; that is on the topline or the bottomline?
- Rajendra Gogri:** That was on the bottomline.
- Moderator:** Thank you. Next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** In terms of pharma, you said that the H2 of this year will see a growth because of some new capacities. What exactly does it mean and what kind of growth rate can we expect in terms of revenues from this?
- Rajendra Gogri:** Not H2, but in Q2 itself, we expect growth in Pharma, in both the topline as well as EBIT.
- Rohit Nagraj:** We had a relatively low quarter in Q1 because of the shutdown. So, we will have that positive impact and addition from some new capacities, which will come on stream right?

- Rajendra Gogri:** Yes.
- Rohit Nagraj:** In terms of some of the financials, what was the CAPEX which was done during Q1?
- Rajendra Gogri:** That will be around 50 crores.
- Rohit Nagraj:** In the interest component, you said that there was a one time cost because of some long-term borrowings. So what could be that component?
- Rajendra Gogri:** One time cost was in the range of Rs. 1.5 crores.
- Rohit Nagraj:** Okay...
- Chetan Gandhi:** As I said, we are in the process of revamping some of the structures, wherein we have only sanction for rupees only and converting that to a foreign currency loan sanction; there has been some one-time processing fee related to that as well.
- Rohit Nagraj:** So effectively, this probably would be the peak quarterly interest cost that we are expecting?
- Chetan Gandhi:** Yes.
- Rohit Nagraj:** Incrementally, it should successively go down.
- Chetan Gandhi:** Yes, it will go down.
- Rohit Nagraj:** The operating expenses were also relatively lower on a sequential basis. Is this because of the inherent operational efficiencies or any other reason for the same?
- Rajendra Gogri:** As a percentage, we have seen some operational efficiency improving this quarter, especially on the maintenance cost.
- Rohit Nagraj:** The other income is relatively very low in Q1. Last year was there any one-offs in the other income?
- Rajendra Gogri:** Yes. There was actually some dividend income as well as sale of assets last year.
- Rohit Nagraj:** And what could be the component of the same in last FY14 for the entire year per se?
- Rajendra Gogri:** That will be there, but it may not be as much as previous years.
- Moderator:** Thank you. The next question is from the line of Dixit Mittal from Shubhkam Ventures. Please go ahead.



- Dixit Mittal:** Given the guidance of 15%-20% top-line growth, can you give the breakup in terms of what will be the pharma segment growth and what will be the Home and Personal Care and Specialty Chemicals growth?
- Rajendra Gogri:** For Pharma, we expect it to grow at higher level, more towards 20-25 and other two will be at around 16-20.
- Dixit Mittal:** In Pharma, how much will be the margin expansion from current level?
- Rajendra Gogri:** That will progressively increase with the margins as more volumes continue.
- Dixit Mittal:** Last year we had around 12% EBIT margins. So will we see expansion in that or for the near term those margins will sustain?
- Rajendra Gogri:** No, that will continue to expand as we get a higher top-line.
- Dixit Mittal:** What will be the peak margin in your view at which we can sustain over long-term?
- Rajendra Gogri:** It can reach upto 20%.
- Dixit Mittal:** What is the status on Greenfield expansion at Dahej. By when do we expect to commission that?
- Rajendra Gogri:** Last quarter of FY16.
- Dixit Mittal:** For the next 2-3 quarters, what are the projects that will drive the growth? One you mentioned that the NCB capacities are coming up and second is hydrogenation. So, will these two be enough for the next 2 years or some other capacities are also coming up?
- Rajendra Gogri:** We are putting up another calcium chloride plant in Vapi. Then we are also increasing some chlorination facility, some other hydrogenation facilities in Jhagadia and nitro-toluene chemistry will be started. So all those are going to happen in next 12 to 15 months. So by Q3 FY15, all those will be on stream. So all those will start coming in volume as well as on operating profit.
- Dixit Mittal:** This 300 crores CAPEX that you are planning in the next 1.5 years. So, what will be the incremental revenues from these 300 crores?
- Rajendra Gogri:** That will be around 1,000 crores.
- Dixit Mittal:** So three times ?
- Rajendra Gogri:** Three to four times is on a normal basis.
- Dixit Mittal:** In last two years also, we have done substantial CAPEX of around 300 crores, right?

**Rajendra Gogri:** Yes.

**Dixit Mittal:** So has that now started generating cash revenues?

**Rajendra Gogri:** Yes. That has already started and over the last few years, expenditure on affluent treatment and automation have also proved to be substantial.

**Moderator:** Thank you. The next question is from the line of Chetan Thacker from Emkay Global. Please go ahead.

**Chetan Thacker:** What was the net debt figure at the end of the quarter?

**Chetan Gandhi:** It is around 1,050-1,070 crores.

**Chetan Thacker:** And we can expect that to peak closer to 1,150-1,200 crores?

**Chetan Gandhi:** That could be a bit higher number to estimate, but it will depend also on how the raw material prices and other things vary. Otherwise, I don't expect it to go to beyond 1,150 crores.

**Chetan Thacker:** Have issued some NCD during the quarter?

**Chetan Gandhi:** Yes, we just issued that in July.

**Chetan Thacker:** That is to repay an old debt or is it an addition to the existing, for CAPEX?

**Chetan Gandhi:** It is a general purpose NCD which we have slotted, so partly for CAPEX, partly for long-term working capital and corporate purposes.

**Moderator:** Thank you. Next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.

**Saravanan Viswanathan:** Now that our exports are growing year-on-year. So what is going to be our hedge plan. Some of it will be covered by our imports, but at the broad level what is the hedge strategy?

**Rajendra Gogri:** Based on the existing order; what is rupee cost that; is what we hedge. That is a normal policy.

**Saravanan Viswanathan:** So you would cover for the next 2 months, 3 months receivable or will it be order based?

**Rajendra Gogri:** Yes. At least for next one month, it gets automatically covered. Other than that, it can be also be a case that some of them will be long-term orders and some of them will be medium-term orders. So, approximately it comes to 2-3 months.

**Saravanan Viswanathan:** Our foreign currency borrowings; that also has a natural hedge?

- Rajendra Gogri:** Part of that is used against this hedge from exports.
- Saravanan Viswanathan:** So you do not see a currency risk to whatever guidance you have given us?
- Rajendra Gogri:** We have been always telling 20% of our export has a currency impact. So whatever the guidance is; it is based on assuming a devaluation of about 4%-5%, which is taken based on the inflation rate differential. So we are considering approximately 4% devaluation of the rupee for the year.
- Saravanan Viswanathan:** In the same breathe, in terms of raw material pricing how much of volatility have you built in your guidance?
- Rajendra Gogri:** Raw material price volatility does not make a huge difference as far as absolute EBITDA is concerned. So that is something which does not affect much because it is more of a cost plus model.
- Moderator:** The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Which are the geographies that are actually contributing to the higher exports? Any specific trend that we have seen in the recent quarters that a particular geography is doing pretty well?
- Rajendra Gogri:** We do our business with North America, Europe, Japan, China and also Latin America and Asia. So, I would say it is spread all over the world.
- Rohit Nagraj:** But not a particular trend as to particular geography or getting more orders from certain geography because of which the growth has been relatively better?
- Rajendra Gogri:** China, we expect will grow as a percentage composition. US and Japan also have grown. But, overall we expect growth everywhere. So, the percentage composition might vary but the growth will be there in all the geographies.
- Rohit Nagraj:** And in terms of the growth rate of 15%-20%, what could be the growth from domestic market and the bifurcation in terms of exports?
- Rajendra Gogri:** Export will be higher than domestic market. So it will be like 60% of exports as we focus more on exports as compared to domestic market.
- Rohit Nagraj:** In the analyst meet you had indicated that there is restructuring of gross holdings happening. So any update on the same?
- Rajendra Gogri:** That is under progress. We have got the approval of CCI as well as the RBI. So now we are in the process of subsequent formalities with the stock exchange, and SEBI. So we are looking to finish it off by the end of the financial year or by April. That will reduce the equity for about 5%-6%?

- Moderator:** Thank you. The next question is from the line of Dixit Mittal from Subhkam Ventures. Please go ahead.
- Dixit Mittal:** In this quarter, the top-line growth was of 25%; so what was the contribution of rupee depreciation in percentage terms?
- Rajendra Gogri:** There was a huge rupee depreciation as compared to the last year. There was about 5%-6% depreciation. But there is not much significant impact of rupee depreciation.
- Dixit Mittal:** Does the pricing of the final product depends on the exchange rate as well, or if the rupee depreciates, then we have to pass on the deficit to the client?
- Rajendra Gogri:** Yes. So 20% is which affects. So, some of them get passed on to the customers. In the Indian competition context, passing on to the customer is more as compared to the context where we compete with the international players.
- Dixit Mittal:** As you said that margins are cost plus, so the margins are fixed in absolute terms per tonne or in percentage terms?
- Rajendra Gogri:** Per tonne.
- Dixit Mittal:** In dollars per tonne while exports?
- Rajendra Gogri:** Yes, if I compete with a non-Indian firm, it will become a dollar per tonne.
- Dixit Mittal:** In India it will be rupee per tonne?
- Rajendra Gogri:** Yes.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** In terms of margins, we have done about 15.3% during this quarter. So is this the base that we can assume for the entire year; that progressively margins will increase and probably will not come down from these levels?
- Rajendra Gogri:** Yes, overall we have been telling that the margins will improve. So in the previous year, during the entire time they were about 15.02. That progressively will increase but it all depends upon an absolute increase and it also depends on the benzene prices, which is the key raw material.
- Rohit Nagraj:** Given that the benzene prices remain stable over the next couple of years and all our capacities come on stream, what could be the peak operating margins that we can expect. I mean we have

touched somewhere near 17 percent in FY09 or FY13. So what is the peak that we can expect if the other variables remain at the same level as they are currently?

**Rajendra Gogri:** Yes, we can reach to those peak levels of around 17.

**Rohit Nagraj:** So that is the peak that we can reach to. I mean, beyond that will it be difficult unless there is good contribution from the pharma segment, which is probably going to earn higher margins, right?

**Rajendra Gogri:** Yes.

**Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

**Ranjit Cirumalla:** I was looking at your gross margins which have been more or less stable rather declining on a sequential basis. These are functions of low contribution from the pharma segment?

**Rajendra Gogri:** Yes.

**Ranjit Cirumalla:** You have been telling that you have been enjoying the product mix changes. So that way, then the gross margin should expand in the ensuing quarters. Would that be a fair assumption?

**Rajendra Gogri:** It is more on value-added products and at some instances absolute margins becomes more important than the percentage margins.

**Ranjit Cirumalla:** How have the benzene prices behaved in the last quarter?

**Rajendra Gogri:** Last quarter, average price was about Rs. 82 as compared to the previous quarter of about Rs. 88.

**Ranjit Cirumalla:** Rs. 88 in the fourth quarter?

**Rajendra Gogri:** Yes.

**Ranjit Cirumalla:** And sir Y-o-Y basis in the first quarter of the last year?

**Rajendra Gogri:** Rs. 78.

**Ranjit Cirumalla:** In one of your answers you eluded that in ONCB and PNCB, the exports have slowed down and you are now over catering to the local demand as input substitution. So how has the prices of these two products behaved domestically?

**Rajendra Gogri:** The prices as such are stable if you take out the impact of benzene prices.

**Ranjit Cirumalla:** Okay. So there is not much price hike being witnessed off late in these two products?

- Rajendra Gogri:** Not in the last 6 months. Compared to the previous year, Yes.
- Ranjit Cirumalla:** The other operating income has almost kind of doubled. Is there any one-off in that particular thing that is around 14-15 crores.
- Rajendra Gogri:** The other operating income becomes more because of the export incentives. So that will generally continue.
- Ranjit Cirumalla:** This run rate is sustainable?
- Rajendra Gogri:** Yes, we have to always count it in including other operating income.
- Ranjit Cirumalla:** We have been paying the tax rate quite lower than the normal tax rate. Do we have any facilities which are under tax shelter?
- Rajendra Gogri:** We have power plants which are under exemption. That is the only one. Rest is more as an impact of depreciation and the government has given 5% extra early depreciation. So that impact is also there.
- Moderator:** Thank you. The next question is from the line of Prashant Trivedi from Axis Capital. Please go ahead.
- Prashant Trivedi:** I just wanted to understand the long term growth perspective of the business beyond 2-3 years. So when I see Specialty Chemicals, probably the bigger players are not entering in the market because the margins and the overall market size may be too small for them to really devote that kind of attention to it. So given that, will we grow beyond next 2-3 years by introducing new products? So, how scalable is our business over the next 5-10 years?
- Rajendra Gogri:** Yes. We have a very strong customer base and they are also growing. So we expect to participate in their growth for the existing products and also there are some new chemistry that we are adding like ethylene based chemistry and we are the only one in India to do so. So, there are certain country risks associated with it, but people would like to buy from somebody from India and not just China. So, the existing products as well as the newer products will drive the growth for at least the next 6-7 years and we are not looking at any issues related to that.
- Prashant Trivedi:** So the 15%-20% revenue growth that we are guiding for; that is predominantly from our existing products only, right? We are not really looking forward to introduce any new products for the next 2-3 years?
- Rajendra Gogri:** The new products will come more in FY17, once we have our Dahej plant on the stream because that is an entirely a new chemistry and it will be our new product. Also once we start the nitro-toluene based products, that itself will renew and then some downstream based on nitro-toluene to come in FY16.

- Prashant Trivedi:** And who are the key user industries for that?
- Rajendra Gogri:** Nitro-toluene is more for agro-chemicals than pigment, printing inks, optical brighteners and they are general. So some other wide ranging applications also.
- Prashant Trivedi:** If I understand correctly, the fertilizer that we produce, we market that through Deepak right?
- Rajendra Gogri:** Yes.
- Prashant Trivedi:** But still in our balance sheet I can see subsidy receivable component. So could you explain what is that component?
- Rajendra Gogri:** Subsidy is applied by Aarti itself. That is why it comes in our balance sheet.
- Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** You just eluded that there would be a good demand because of the MNCs facing country risk. Can you elaborate a bit on that and how big that potential could be and how sustainable could it be?
- Rajendra Gogri:** In general, there is a trend of moving from China to India, both country risk as well as increase first in China and long-term devaluation of Indian rupee against Chinese currency. So all those factors are making multinationals to increase their buying from India for their newer requirements rather than China.
- Ranjit Cirumalla:** Is it sustainable in the long term, probably 5, 6 or 10 years kind of a view or it is just a near term impact?
- Rajendra Gogri:** No. Since in chemicals, you cannot produce immediately, so it will be more sustainable at least for a very long time because this is a structural change which is taking place.
- Ranjit Cirumalla:** Any specific products we can mention in that?
- Rajendra Gogri:** No, it will be across the board, whether it is on agro intermediates or polymer intermediates or printing ink or construction chemical.
- Ranjit Cirumalla:** More in the intermediates or towards the high value end.
- Rajendra Gogri:** Generally these are more on M-1, M-2 kind of products.
- Ranjit Cirumalla:** The final consumer would be the MNCs?
- Rajendra Gogri:** From there, they will make some of the end use products?

- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** On competitive intensity, now we are almost at top 2 or 3 in the ladder in most of the chemistries that we deal with and we have been witnessing a strong demand across geographies. So any such expansions happening with the competitors as well or the competitors are relatively at their own earlier base?
- Rajendra Gogri:** It is different for different products and all different competitors. Some of them may expand, some may not. Generally, not all of them expanding.
- Rohit Nagraj:** So there is no serious threat from competition coming and expanding the capacities and probably taking away our share which we are expecting going ahead.
- Rajendra Gogri:** Yes, we expect our share to increase and the competitors increase in capacity will be lower than us.
- Rohit Nagraj:** Any plans on inorganic opportunities in India or outside that we are envisaging. We have a CAPEX plan which is ahead of us. Beyond that, anything which is on the cards or we are looking out for?
- Rajendra Gogri:** For next two years, it is totally ruled out and after that possibilities are there
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Rajendra Gogri:** Once again thank you very much for taking out time for the conference call. Our best wishes on Independence Day. Happy extended weekend. Thank you.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Aarti Industries that concludes this conference. Thank you for joining us and you may now disconnect your lines.