



“Aarti Industries Limited Q1 FY16 Results Conference Call”

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MODERATOR: MR. ABHAY KULKARNI – ADFACTORS

Moderator: Ladies and Gentlemen, Good Day and Welcome to Aarti Industries Limited Q1 FY16 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by entering '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to the Mr. Abhay Kulkarni from Adfactors. Thank you and over to you, Mr. Kulkarni.

Abhay Kulkarni: Thank you Melissa. Good afternoon and Thank you for taking out time for today's con-call. We have with us Mr. Rajendra Gogri – Chairman and Managing Director, Mr. Rashesh Gogri – Vice 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 statements in nature and disclaimer to this effect is included in the investor relief and concall invite which was sent to you earlier. I would like now to hand over 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. Before we begin the discussion on the operational performance let me update you all the proposed scheme of amalgamation of Gogri & Sons Investments Private Limited, Alchemie Leasing & Finance Private Limited, Anushakti Holdings Limited and Anushakti Chemical & Drugs Limited with Aarti Industries Limited that has been by approved by the Hon High Court of Maharashtra at Mumbai on July 10 and Hon. High Court of Gujarat at Ahmadabad on July 31st. This shall result in to a net reduction/cancellation of about 52.7 lakhs of equity shares that is about 5.95% of equity capital. Equity capital itself reduced from 8.85 crores shares to 8.33 crores shares. These would result into increase in EPS, ROCE and ROE of the company.

We shall now run you through the operational performance and key highlights for the quarter ended June 30th, 2015. We are delighted to announce that we have been consistent on our growth path for yet another quarter and present you performance in line with the forecast given at the Analyst Meet in May 2015. Total revenue for Q1 FY16 stood at 683 crores versus Rs.740 crores for Q1 FY15. Out of this export consisted about 329 crores that is over 48% of the total revenue. EBITDA for Q1 FY16 has increased to Rs.132 crores from Rs.113 crores for Q1 FY15. Operating margin increased to 19.3% for Q1 FY16 as against the annual average of 15.9% for FY15. Finance cost has declined owing to the high proportion of foreign currency working capital loans, as a result net profit after tax was at Rs.60.9 crores for Q1 FY16 versus 41.4 crores for Q1 FY15, an increase of about 47%.

Now I would like to give the key highlights of our segment performance during the quarter ended June 2015. As you are aware our specialty chemical pricing is largely linked with the variation in the key international raw material prices, which are passed on to the customer and

the delta or profits are generally fixed in absolute per kg basis. Since November last year we had witnessed a softer crude prices which had kept our input prices lower. As a result, the specialty chemical segment revenue for Q1 FY16 stood at Rs.558 crores against Rs.614 crores for Q1 FY15. However, on the overall volume front we had witnessed YoY volume growth of about 9% to 10% which has resulted into EBIT growth of about 20% YoY to Rs.118 crores from Rs.98 crores for Q1 FY15.

During Q1 FY16 the company has commissioned part of its PDA expansion capacity thereby announcing the production capacity from 250 tons per month to 450 tons per month. The further scale up from 450 tons per month to 1000 TPM is also expected to be completed in next five to six months time. Further with respect to the Nitro Chloro Benzene expansion from 66 tons per annum to 75,000 tons per annum, the project has entered its final stage and we expect to commission the balance capacity towards the end of Q2 FY16. You may recollect that the part expansion from 57,000 tons per annum to 66,000 tons per annum was commissioned in Q3 FY15. The company had produced to about 15,275 metric ton of Nitro Chloro Benzene as compared to 14,770 metric ton per Q4 FY15 and 12,750 for Q1 FY14. These expansions shall enable the company to increase its volume in high growth end user application such as polymer, agro and specialty chemicals.

In the case of pharma segment, the revenue grew from Rs.67 crores for Q1 FY15 to Rs.91 crores for Q1 FY16. However the EBIT for Q1 FY16 was at Rs.5.6 crores versus Rs.6.2 crores for Q1 FY15. The EBIT was lower on account of operational issues in one of its new expanded capacity during Q1FY16. The Company's US FDA facility was subjected to the inspection by US FDA authorities. The inspection report has been recently closed favorably. The efforts of the team to maintain the best quality standards and practices helped the company to achieve this feat. This would facilitate and expedite faster approvals for various APIs in pipeline and also help in increasing the volumes of existing products. Thus the company expects a significant increase in its regulated market operations in coming period resulting into faster pace growth of its top-line and segmental profits.

Coming to the last segment that is home and personal care segment where in the product portfolio was being reshuffled to improve the performance and improve the overall margin in the segment. Increase in export would also assist in reducing the dependence on FMCG majors wherein the margins are relatively low. The revenue for Q1 FY16 was Rs.34 crores versus Rs.58 crores for Q1 FY15 while EBIT for Q1 FY16 was Rs.97 lakhs versus Rs.2.6 crores for Q1 FY15 and 89 lakhs for Q4 FY15.

For our various projects in pipeline we have a total outlay of Rs.450 crores to Rs.500 crores including normal CAPEX which would be invested over FY16 and FY17 for various basket of products and processes. This CAPEX shall facilitate the growth in volumes of about 15% to 20% considering this and the Q1 FY16 performance we expect to continue our growth momentum. The growth based on optimized product mix catering to polymers, pigments, and

plastics as an intermediate oil and gas etc along with the fast paced growth in pharma would help the company grow significantly in the coming years. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Niraj Mansingka from Edelweiss. Please go ahead.

Niraj Mansingka: Sir my question is on few numbers related to the production, can you repeat the Nitro Chloro Benzene product numbers, I think I missed out that.

Rajendra Gogri: Yes, it is 15,275 metric tons.

Niraj Mansingka: Okay. And sir how was the hydrogenation, how much was the run rate on an average for the quarter?

Rajendra Gogri: That will be around 4,700 tons for the quarter.

Niraj Mansingka: And second thing, can you give us some color on the average benzene price for the quarter as well for the last quarter?

Rajendra Gogri: Average benzene price for the last quarter was about Rs.53.

Niraj Mansingka: Sir if you notice, a quarter back also the average benzene price was lower at Rs.50, so then how come the margins have expanded, can you give some color on how the expansion has led to the margin and how much reduction in the prices later on will reduce the margins that is already gone up?

Rajendra Gogri: You see, last quarter there was a less margin because there was a inventory effect in Q4 due to steep fall. But going forward we do not expect major fluctuations. So say from this Rs 53 if the crude is going down so the benzene price may come to say Rs 50 for Q2 the variations is very less. So we do not see any significant inventory losses in subsequent quarter as such.

Niraj Mansingka: And what about sir the reset of the prices, what is the entire reset of the final prices to consumers, was there some delay in the reset in the quarter which led to margins or is it just normal business activity in the quarter?

Rajendra Gogri: No, as such last quarter's average and this quarter's average more or less are similar, so the benzene pricing impact is virtually not there as far as the pricings are concerned.

Niraj Mansingka: Okay, got it. Sir and how much was the debt of the company?

Chetan Gandhi: Debt should be close to 1,175 crores, marginally lower than the March numbers.

Niraj Mansingka: Right. And what about the CAPEX, how much did you spend for the quarter approximately?

- Rajendra Gogri:** About 65 crores.
- Niraj Mansingka:** Okay. And sir can you give some more color on the pharma side now, how much time the plant was shut down and how much recovery in the revenues and margins can happen because now that plant has come back to the stable state as well as how the approvals of FDA can lead to growth in the numbers for next two years?
- Rashesh Gogri:** Basically we had one plant which is manufacturing caffeine for high end customer was shut down for practically the entire quarter and there we only did some trial production of 5 ton against the capacity of 60 tons per month. So that I think in current quarter we are going to operate at 50% level. And regarding this FDA we expect approvals in four products which have been pending due to the FDA clearance which we got in early July, so we expect the ANDA approval for our customers and these orders will kick in next quarter.
- Niraj Mansingka:** And sir how large can these revenues grow because of these four products?
- Rashesh Gogri:** We expect US sales to reach to \$10 million in calendar year, means in one year starting calendar year 2016.
- Niraj Mansingka:** From the current levels of?
- Rashesh Gogri:** Current level I think should be little less than 40 crores, so it would be around 6 million.
- Niraj Mansingka:** Okay. And sir how much was this caffeine plant contributing as a percentage of revenue approximately?
- Rashesh Gogri:** No, this was a new plant where we had to change particular machine and install a new machine to meet the norms of one large customer. So this plant otherwise was not manufacturing very big quantity but it was supposed to manufacture larger quantity in last quarter but this we had to go for the change. So now next Q3 onwards it will start manufacturing close to 120 to 150 tons per quarter?
- Chetan Gandhi:** But we had to still account for the operational expenses and depreciation.
- Moderator:** Thank you. Our next question is from the line of Vaibhav Bid from Motilal Oswal Securities Limited. Please go ahead.
- Vaibhav Bid:** Sir apart from the caffeine plant that was shut for the quarter, all the plants which were operational last quarter were operational this quarter, right sir?
- Rajendra Gogri:** Yes.
- Vaibhav Bid:** There was no planned shut down as such on the pharma side, right?

- Rashesh Gogri:** No planned shut down. In one plant we had changed some technology which was another caffeine there also we had gone for better process to save some cost, there we resulted in standardizing the process and thereby the cost had gone up. So that was another reason why the performance of pharma is little bit subdued, particularly due to the caffeine.
- Vaibhav Bid:** But caffeine plant would form how much percent of your sales?
- Rashesh Gogri:** Caffeine is close to 40% of pharma sales.
- Vaibhav Bid:** Okay. But this was a new plant that was shut down, right sir?
- Rashesh Gogri:** We have two plants of Caffeine and one plant is also manufacturing intermediate for the new plant which is for high end customers, so that intermediate for both the plants was affected and the newer plant was not working, so both issues resulted simultaneously in this quarter.
- Vaibhav Bid:** Okay. But that loss would be upto how much and on the turnover, I mean loss of turnover?
- Rashesh Gogri:** Turnover loss was not there because we were having inventory so we could push out, but there was no production.
- Vaibhav Bid:** Yes, that's why production loss maybe.
- Rashesh Gogri:** The newer production was at high cost so that resulted in lower EBITDA.
- Vaibhav Bid:** Lower EBITDA, okay. So what was the EBITDA for this quarter for pharma sales?
- Rashesh Gogri:** 5.6 crores. So about 3 crores loss was there because of this caffeine plant, both the caffeine plant.
- Vaibhav Bid:** Okay. And sir now that your amalgamation is approved so are there any thoughts on the demerger of the pharma & specialty chemicals unit?
- Rajendra Gogri:** That process will be initiated after the first, because this amalgamation the entire formality will be over by September and after the completion of this first half the demerger is expected to, the procedure is expected to start after that maybe in November or December.
- Vaibhav Bid:** And it has already been decided right, the demerger process, everything is in plan, right?
- Rajendra Gogri:** Broadly yes, but we have to still look at some matter and will take a call in November.
- Vaibhav Bid:** And how much time would the demerger also take?
- Rajendra Gogri:** Generally it takes about 8 to 10 months the entire process, current year number still will be of the merged entity.

- Vaibhav Bid:** Sir so now that the average benzene prices, your inventory losses have gone and so now your realizations have increased actually. So I just wanted to understand what kind of a model you follow in terms of the pricing, like whatever be the cost, your absolute term spread remains the same, right sir?
- Rajendra Gogri:** Yes. Whenever we do the pricing, the variations in the RM prices are passed on to the customers and the delta per kg remains the same. The delta is revised at the renewal of each contract. So additional delta may change from time to time depending on various factors, other cost or demand, supply, exchange rate, etc.
- Vaibhav Bid:** Okay. I just wanted to understand from a lay man's perspective that suppose your cost comes from 100 to 95, your spread will still remain Rs.10, right sir?
- Rajendra Gogri:** Yes, more or less.
- Vaibhav Bid:** So that is why your EBITDAs are increasing this quarter, right?
- Rajendra Gogri:** Yes.
- Vaibhav Bid:** That is the entire math if someone wants to do it?
- Rajendra Gogri:** Yes, that's why we have been always telling, our actually EBITDA is more volume dependent and not top-line dependent.
- Vaibhav Bid:** Okay. And sir so this year what kind of growth guidance can we expect, I mean now that your four ANDAs have been approved and the projects being commissioned at Chemicals side?
- Rajendra Gogri:** Overall if you just multiply this first quarter result four times then our growth is near 30% on YoY is entire over to FY15 to FY16 four times the first quarter will give PAT of about 30%.
- Vaibhav Bid:** Of PAT growth?
- Rajendra Gogri:** Yes.
- Vaibhav Bid:** Okay. And in terms of revenues I guess they will be flat, right sir?
- Rajendra Gogri:** Yes, revenue might remain flat.
- Vaibhav Bid:** But the PAT growth will be there. And sir currently what is the total debt on the balance sheet, I missed out someone had asked I guess.
- Chetan Gandhi:** Its about 1175 crores.
- Vaibhav Bid:** And can we expect this to remain stable in terms of the working capital debt?

- Chetan Gandhi:** Yes, if the RM prices remain similar.
- Vaibhav Bid:** Okay. And currently what is your utilization of your working capital debt?
- Chetan Gandhi:** About 75%.
- Vaibhav Bid:** And the interest rate of how much?
- Chetan Gandhi:** That depends on the mix, what mix you have, for FOREX loan it will be a LIBOR plus around 2%.
- Vaibhav Bid:** I think but most of your loans are FOREX loans, right sir?
- Rajendra Gogri:** We have a mix, both foreign as well as Indian currency.
- Vaibhav Bid:** Okay. And sir all these expansions that are taking place, the realizations of those will start happening post FY17, right sir, third quarter FY17?
- Rajendra Gogri:** Actually as soon as expansion gets completed the volume growth starts coming in.
- Vaibhav Bid:** But for this year we do not expect any volume growth, right sir?
- Rajendra Gogri:** No, if you see the Q1 FY15 to Q1 FY16 already we have 10% volume growth, so there will be volume growth over FY15 to FY16 and same way from FY16 to FY17 and FY17 to FY18, there will be a continuous volume growth as a various projects get commissioned and starts getting more and more mature.
- Vaibhav Bid:** Okay. And in terms of sir this 500 crores expansion, is there any long-term debt that we are going to take or is it accruals?
- Rajendra Gogri:** No, accruals plus obviously our sales will increase, so there will be working capital debt and also partly we will take long-term debt.
- Vaibhav Bid:** And how much long-term debt can we assume?
- Rajendra Gogri:** It will all depend on how other factors such as material prices move and so on.
- Vaibhav Bid:** I mean 50-50 or 60-40, any approximate?
- Rajendra Gogri:** 50-50.
- Vaibhav Bid:** Okay. And sir congratulations, you also gave dividend for this quarter also?
- Rajendra Gogri:** This quarter we have not given.

- Vaibhav Bid:** The final dividend that is basically.
- Rajendra Gogri:** Yes, final dividend will come in September, yes.
- Moderator:** Thank you. Our next question is from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.
- Sarvanan Vishwanathan:** So first quarter you had mentioned that there was a volume growth of 9% to 10% and with pharma division coming back to full utilization from Q2 so with the remaining part of the year there will be a better volume growth right?
- Rajendra Gogri:** Yes.
- Sarvanan Vishwanathan:** Okay. And in terms of tax rate, what kind of tax rate should we assume sir going forward, same 24% levels or slightly higher?
- Rajendra Gogri:** It should be around 23% to 24%.
- Sarvanan Vishwanathan:** And I might have missed out on this, were there any inventory losses in the Q1?
- Rajendra Gogri:** No.
- Sarvanan Vishwanathan:** Okay. So everything has been taken?
- Rajendra Gogri:** Yes.
- Sarvanan Vishwanathan:** And among the user industries, are you seeing any trends like you cater to a diverse set of industries like polymer, paint, pigments, oil, and gas. So any specific industry which is giving you the impetus?
- Rajendra Gogri:** We have growth in right now polymer and then pigments, some of the dye stuff also because the import from China is reducing so that is helping growth in dye stuff also, some growth in pharmaceutical segment also from our specialty chemical some product going into pharmaceutical, so those are also growing. So it is across various sectors.
- Sarvanan Vishwanathan:** Okay. So irrespective of, I mean any specific user industry growing we are on target to grow our volumes, right?
- Rajendra Gogri:** We adjust our product mix depending on which is growing, so that adjustment continuously takes place but obviously as I mentioned because of the Chinese factors and all in India the manufacturing is increasing of chemicals so part of that helps us in our import substitute and part of the end user industry also their volumes are increasing. So those volumes more go in dye stuff and partly on pigment side in domestic market and export will be more on pigment and agro and polymer, so it is a mix across the sector.

- Sarvanan Vishwanathan:** And finally in the next three quarters are you seeing any seasonality or it will be similar to the current quarter?
- Rajendra Gogri:** No major seasonality. However in third quarter we take the mandatory acid shut down. Hence, in general the third quarter that impact comes partly but depending on how the volume growth takes place based on various projects which we will be completing, the numbers might vary. So it will depend on these factors.
- Moderator:** Thank you. Our next question is from the line of Vipul Shah from Networth Stock Broking. Please go ahead.
- Vipul Shah:** Sir, on specialty chemicals you have mentioned that your volume growth was around 9% to 10% whereas our EBIT growth in specialty chemical segment was around 21%, so I guess our EBIT per ton has improved significantly so is it likely to sustain going forward?
- Rajendra Gogri:** Yes, volume growth part of the manufacturing expenses will not go to the similar level, so manufacturing that will always push as a percentage on EBIT. And second thing as I was mentioning, we are continuously trying to change product mix for higher margin product.
- Vipul Shah:** And sir from Q2 our capacity will be expanded for NCB, so do we have a demand visibility for that expansion both in terms of NCB or downstream products?
- Rajendra Gogri:** Yes, yes we have.
- Moderator:** Thank you. We have the next question from the line of Kishan Gupta from CD Equisearch. Please go ahead.
- Kishan Gupta:** As I can see from the Press Release that the volumes grew by 14% first quarter but somehow you said it is 10% first quarter. So could you clarify please?
- Rajendra Gogri:** Yes, actually there is some error, it is an overall number, 14% is an overall number, 9% to 10% is for specialty segments, you see pharma there is growth in the volume.
- Kishan Gupta:** How much is the pharma volume growth?
- Rajendra Gogri:** Pharma volume turnover has grown from 67 crores to 90 crores.
- Kishan Gupta:** The volume growth?
- Rajendra Gogri:** The volume growth will be above 25% in pharma.
- Kishan Gupta:** So how come you have clubbed both and put a number?

- Rajendra Gogri:** Generally it is an overall number, when we have given summary sales so those numbers are based on combination of all the segments there.
- Kishan Gupta:** So when you say 10% volume growth is it for chemicals, overall or pharma?
- Rajendra Gogri:** Yes, is only chemical.
- Kishan Gupta:** And how much interest expense was capitalized in Q1?
- Chetan Gandhi:** Q1 will be about 4 crores.
- Kishan Gupta:** 4 crores capitalized?
- Chetan Gandhi:** Yes.
- Kishan Gupta:** Versus how much in the same period last year?
- Chetan Gandhi:** That is also similar number.
- Kishan Gupta:** Okay. Sir what is expected trajectory for finance cost, like this time you did 30 crores so what is expected as you commission your projects so what is the expected trajectory?
- Rajendra Gogri:** Continuously we are adding new projects, so finance cost should be similar to last year, maybe lower than it.
- Moderator:** Thank you. Our next question is from the line of Niraj Mansingka from Edelweiss. Please go ahead.
- Niraj Mansingka:** Yes sir, just wanted to know, this year end now you have 9% volume growth and you are heading towards some maintenance generally period on Q3. On average what volume growth would you be doing this year?
- Rajendra Gogri:** Overall still 14%-15% growth we are targeting.
- Niraj Mansingka:** Right. But sir I think you have answered this question, just wanted to have a clarity again, the volume growth was 9% but EBIT growth was significantly higher. Now can you again explain what lead to the rupees per kg margin increase because this obviously implied a margin on rupees per kg also increase?
- Rajendra Gogri:** We are making so many products, so there cannot be rupee per kg on a broader terms, it is a product mix, there are two things, one is going for more profitable products and second thing the manufacturing expenses does not go as proportion to the volume growth. So in general that's how we have been telling that if the volume growth is 15% the bottom-line there would

be higher growth because of the less growth in manufacturing expenses, administration expenses, depreciation, and all.

Niraj Mansingka: Okay sir, thank you. And what was the status on the Toluene project in Dahej?

Rajendra Gogri: So that we are targeting towards the end of this financial year commissioning.

Niraj Mansingka: So by March 2016?

Rajendra Gogri: Yes.

Niraj Mansingka: And any thought process on how the revenue profile will look in the next one year after that in Dahej?

Rajendra Gogri: Yes, that will be first commissioning year as far as Dahej is concerned, so you do not expect a huge jump in revenue in that site.

Niraj Mansingka: Sir any direction on numbers quantifying that?

Rajendra Gogri: It should be in the range of 100 crores to 150 crores initially.

Niraj Mansingka: Okay. Sir post Dahej expansion will the tax rate go down?

Rajendra Gogri: Yes, Dahej is tax free, then we are going to put up a power plant which will be commissioned by end of FY17 and profits of power plant also will be tax free, that's why next few years will continue to be in MAT.

Niraj Mansingka: Right. And sir could you share some more color you told of the Chinese factory, a few more color on what is happening in the chemical market in China?

Rajendra Gogri: Chinese products are becoming more costlier and the availability is getting tighter, so two things are happening, there is more opportunity for Indian chemical manufacture against the import from China and also in the international market. So that is a major factor which is happening and for potential growth in manufacturing of chemical in India. So company like us it will benefit us directly from import subsidization for the product which we manufacture and also some of our customers will add the products or add the capacity so our sales then will increase and also our export will increase. So that is going to be the situation for us or in general chemical industry.

Niraj Mansingka: But would we see the margin expansion happening for your side?

Rajendra Gogri: Yes, obviously when the Chinese costs are increasing there will be a benefit on pricing also.

- Moderator:** Thank you. We have the next question from the line of Abhijeet Vora from Sunidhi Securities. Please go ahead.
- Abhijeet Vora:** Sir just wanted to have a figure of inventory gain, you must have got a small inventory gain in this quarter?
- Rajendra Gogri:** So broadly Rs.3 benzene has risen, would result into gain of 1 crores to 1.5 crores.
- Abhijeet Vora:** Okay. And can you just repeat the number, like 15275 it is the volume for which product?
- Rajendra Gogri:** It is Nitro Chloro Benzene.
- Abhijeet Vora:** Okay. And what was the YoY growth in this number?
- Rajendra Gogri:** Last year Q1 was 12,750.
- Abhijeet Vora:** And any FOREX gain or like something in this quarter?
- Rajendra Gogri:** No.
- Moderator:** Thank you. Our next question is from the line of Vaibhav Bid from Motilal Oswal Securities Limited. Please go ahead.
- Vaibhav Bid:** Sir do we have any revenue visibility for the next three quarters in terms of the order book?
- Rajendra Gogri:** Yes, we have this year and also for next year.
- Vaibhav Bid:** Okay. So we have already a fix order book, right sir?
- Rajendra Gogri:** No, not order book, in the sense the kind of volumes we will have.
- Vaibhav Bid:** But no, is there was confirmed order book from clients or you were just trying to assume that we will get from these these guys?
- Rajendra Gogri:** The way our business is there, generally it is not like customer will fix from one supply to the other, so we have fairly strong relationships and we have fairly good idea what are the kind of the requirement they will be having and some places we have a firm contract also.
- Vaibhav Bid:** And sir all these new plans that you are coming up with, Nitro Chloro Benzene, so these are for the same set of clients?
- Rajendra Gogri:** Yes, clients will remain same, with the product are similar the clients will be similar but where we have a huge expansion like PDA and all that we are moving from 250 to 1000 tons, there we will be starting entering to a new set of customers.

Vaibhav Bid: So have we already started marketing for those things?

Rajendra Gogri: Yes, yes we have done some trial qualifications also.

Vaibhav Bid: Okay. And so these guys are export guys, right sir?

Rajendra Gogri: Yes.

Vaibhav Bid: So any particular market we are targeting?

Rajendra Gogri: Actually it will be both American and Asia.

Vaibhav Bid: And sir in terms of your working capital, currently what are the debtor, creditor days on an average and your inventory?

Chetan Gandhi: 110 days net working capital cycle.

Vaibhav Bid: So can it come down or it will remain stable?

Chetan Gandhi: I think it will start coming down.

Vaibhav Bid: Because of the inventory...?

Chetan Gandhi: We are trying to control inventories.

Vaibhav Bid: Like by procuring inventory only on order or...?

Rajendra Gogri: Yes, with increase in volume we are trying to see that the inventory days does not increase.

Vaibhav Bid: Okay. So you all won't keep inventory for long period, that is what you are saying, right?

Rajendra Gogri: Yes, we are trying that we can reduce the inventory by where we have campaigns and all we adjust the campaign in such a way that we do not have to accumulate more inventory.

Vaibhav Bid: Okay. And on the debtor side any, or will it remain stable?

Chetan Gandhi: Debtor side, not too much significant reduction we are seeing, maybe one or two days.

Vaibhav Bid: And on the creditors it will still be same, right sir?

Chetan Gandhi: Yes, both debtors and creditors do not seem much change.

- Vaibhav Bid:** And sir just one question, very layman question, if someone has to ask you what is the USP of your business which will keep you different from the other guys like Atul or maybe SRF, so how would you kind of tackle that question?
- Rajendra Gogri:** We will need half an hour minimum discussion on that because they are totally different, Atul is a downstream customer for ours, our main advantage is we have a global scale, we are highly backward integrated and we have a lot of technical advantage in our technology and diversified end used base and 50% exports. So all those combined we are able to supply customer basket of products, so that gives us edge in marketing. And scale gives an advantage in scale and better process gives advantage on the cost side so cost and market both sides and the volume will give efficiency in purchasing and other expenses. So these are the three, four factors. And another key factor is co-products which I think needs more explaining.
- Vaibhav Bid:** In the sense, the new products or...?
- Rajendra Gogri:** Certain product like Nitro Chloro Benzene, two products are formed simultaneously in the chemistry, and then you have to be strong in further processing or marketing this product simultaneously.
- Vaibhav Bid:** So these products none of the listed companies in India are doing it?
- Rajendra Gogri:** No, no.
- Vaibhav Bid:** And how big would be the market for Nitro Chloro Benzene?
- Rajendra Gogri:** Nitro Chloro Benzene, we are almost 70% or more of India's production and China maybe three to four times India's manufacturing, China and India are the only manufacturers globally for this product.
- Vaibhav Bid:** And sir on the structural changes that are taking place in this sector also like China becoming more expensive and people want to now like the US giants want to now spread their risk and that is why they are sourcing from India also. So can this be a permanent structural change we can expect, tail wind sort of a thing or is this a temporary thing where demand can again go back to China?
- Rajendra Gogri:** In general you do not expect the Chinese cost to go down broadly, but it can happen on product to product that some product their pricing may go down then what they are having right now. Whereas customers are moving from China to India for de-risking that will continue because on a macro factor India will continue to be more competitive socially on exchange rates.
- Vaibhav Bid:** Because these exchange rates no one can really predict, do it can turnaround anytime and that is the inherent risk that we carry with ourselves.

- Rajendra Gogri:** No, not only exchange rate, country risk also like some of our customers they are buying only from China so they want us to put the plants, even they may be ready to pay us a little higher price but they want to spread some geographical risk also which need not be purely on exchange rates. Indians are considered generally more reliable.
- Vaibhav Bid:** And sir on a broader sense we have a visibility of the next four to five years how the growth will take place, right sir?
- Rajendra Gogri:** Yes.
- Vaibhav Bid:** Like a plan for the next six years for growth that way, that is why all these expansions are taking place, right sir?
- Rajendra Gogri:** Yes.
- Vaibhav Bid:** And sir the asset terms on these CAPEX can we expect it to be 1.5?
- Rajendra Gogri:** It will be more than 2.
- Moderator:** Thank you. We have the next question from the line of Rohan Gupta from Emkay Global. Please go ahead.
- Rohan Gupta:** Sir you mentioned the CAPEX guidance of roughly 500 crores if I am not mistaking, right?
- Rajendra Gogri:** Yes.
- Rohan Gupta:** Sir I think it has been increased then because couple of quarters back you have already increased it from almost 300 crores to 400 crores, so is it because of a higher visibility or you are getting more contract that's why you have revised the CAPEX?
- Rajendra Gogri:** Yes, some of the projects there is more visibility now so that again we will be starting.
- Rohan Gupta:** So this 500 crores is over next two years?
- Rajendra Gogri:** Yes.
- Rohan Gupta:** Okay, so by FY18 we would have spent almost Rs.500 crores, that's what you want to say?
- Rajendra Gogri:** FY17.
- Rohan Gupta:** So in next just three quarters of this year and four quarter of, so within seven quarters we will be spending that amount?
- Rajendra Gogri:** Yes.

- Rohan Gupta:** And sir revenues, how soon we can ramp up the benefit of this Rs.500 crores CAPEX which you will be putting, I mean by FY18 would it be utilizing it 100% or it will go to beyond FY19 or something?
- Rajendra Gogri:** Some of them whatever we have already spent, currently it will take three to four years to materialize to reach to 80%, 90% capacity utilization.
- Rohan Gupta:** So you want to say that with this Rs.500 crores CAPEX by FY17 we will definitely create a visibility of another 1000 odd or maybe as you said the asset turn is more than 2x, so 1000 crores to 1250 crores sort of revenue visibility we will be creating by this CAPEX, right?
- Rajendra Gogri:** Yes.
- Rohan Gupta:** And is any of this money going into projects which will fetch higher margin for us or they will almost remain in the same trajectory in which we are right now?
- Rajendra Gogri:** Some of the products which we will be adding will have a higher margins also.
- Rohan Gupta:** Sir you mentioned that China facing cost pressure so there is an opportunity for Indian planers to see some margin expansion, so in what range you see that margins can improve by 50 basis points or 100 basis points or 200 basis points, what is your sense on the current product portfolio how much margin expansion can happen?
- Rajendra Gogri:** Yes, depending on product to product it can become 1% to 3%.
- Rohan Gupta:** That's fair, pretty high margin because our average margin right now is 16% to 17%, right?
- Rajendra Gogri:** Yes. I am saying product to product so average you can put is a number will be around say 1.5%.
- Rohan Gupta:** And that can be achieved over a period of 1 to 2 years or it will be elongated?
- Rajendra Gogri:** One to two years.
- Rohan Gupta:** Sir you mentioned that there is some operational issues at the pharma plant, what were those issues and how soon we can correct them?
- Rajendra Gogri:** As we have mentioned that we had some issues in caffeine related production in pharma so these issues will get resolved in this quarter.
- Rohan Gupta:** So that did not affect our top-line but our margins were affected, right?
- Rajendra Gogri:** Yes, because we had stock which we could liquidate.

- Moderator:** Thank you. We have the next question from the line of Amish Kanani from JM Financials. Please go ahead.
- Amish Kanani:** I just wanted to understand our export basket, how diversified it is in terms of Europe, America and the rest of the world? And a lot of other companies have seen turbulence in their revenue because of the currency fluctuation be it Europe being depreciated or other emerging market as well, so we do not seem to have that kind of problem. So if you can just explain the diversified geographic mix of exports and why we are not having those kind of issues?
- Rajendra Gogri:** We have around one-third each, Europe, America and rest of the world but more than 95% of our exports is dollar denominated even what we export to Europe, because the customer who are buying that they are also exporting their downstream product so they try to do cross hedging, so they buy from us in dollar terms.
- Amish Kanani:** Okay. And sir in terms of, if my notes are correct, Benzene price per kg has actually gone down by more than 30% whereas our top-line in specialty chemical is gone down by 9%, so I was wondering whether how does it work out in terms of what is other revenue given that 10% is a volume growth, Benzene price has gone down by 30% and why the revenue has gone down only by say 19%?
- Rajendra Gogri:** Because other than Benzene we have a lot of other raw materials as well, there is a value addition which somewhat dilutes the Benzene factor.
- Amish Kanani:** So what is the approximate Benzene to total revenue as a percentage, is it 50%, 60% or more or less?
- Rajendra Gogri:** so Benzene will be more of 30% of the total.
- Amish Kanani:** And sir one last question is on the interest rate side, sir interest rate we have started to see benefit of what you had indicated in terms of converting into foreign exchange, so my question is one, is it complete in the sense that the run rate of interest rate will stabilize here or there are some more benefits that we can extract and whether both in terms of interest low being in terms of percentage terms as well as quantum wise working capital how do you see in the rest of the year which can help us indicate where the interest rate could go?
- Chetan Gandhi:** You would in fact have some more benefits, may not be significant but there are some benefits coming on account of further rationalization on the overall borrowing structure and whatever interest rate deduction generally happens that would add to this benefits.
- Amish Kanani:** Okay. So you are saying there is a scope for further overall reduction in the interest cost in terms of percentage?
- Rajendra Gogri:** Yes.

- Amish Kanani:** And in terms of absolutely requirement of working capital how is it panning out because as what you indicated in the call because your total quantum value of turnover is coming down, maybe the working capital requirement is also coming down.
- Chetan Gandhi:** Yes, the working capital quantum is linked to the raw material prices, so if the raw material prices happens to be in this range and as we say that we are putting in efforts for reduction of inventory days or keeping it at a lower level then there should be some reduction in working capital days.
- Amish Kanani:** Okay. So you have seen that there is some efficiency, there is a scope for efficient management there also?
- Chetan Gandhi:** Yes.
- Amish Kanani:** And in terms of percentage did you say that now it is equally split between FOREX and domestic 50-50 or it is more now FOREX?
- Chetan Gandhi:** It is more of FOREX now.
- Amish Kanani:** Any percentage where it is FOREX?
- Chetan Gandhi:** Closer to 60%.
- Moderator:** Thank you. We have the next question from the line of Abhijeet Vora from Sunidhi Securities. Please go ahead.
- Abhijeet Vora:** Sir only one question from my side, you work on cost plus margin basis so when we talk about margins as a percentage of revenue it does not make any sense, so what I can I understand, I am new to the sector, but what I can understand is what kind of volume growth you guide normally that does down to your EBITDA, but how to understand that in a broader manner that how the margin profile may improve or deteriorate, how one can understand that part because it is difficult to understand for me from layman perspective.
- Rajendra Gogri:** As you rightly said it is volume driven, so should the overall volume increase it will push the operating profit more, so I think that is what is basically happen.
- Abhijeet Vora:** So we as analyst we should not look at the margin number either in per ton basis or, that is not available basically on a percentage because it is solely the volume which can drive the EBITDA?
- Rajendra Gogri:** Yes, because we have a lot of products so combined with putting these many assets the overall volume guidance will give guidance broadly on operating profit increase.

- Abhijeet Vora:** Or we can look at from the perspective like pharma, specialty chemical what kind of margins you make in these businesses?
- Rajendra Gogri:** Yes, that is definitely where pharma we are saying is around growth of about 20%.
- Abhijeet Vora:** And the margins and EBITDA margin would be like of what kind?
- Rajendra Gogri:** EBITDA margin for last year was about 12%.
- Abhijeet Vora:** And then specialty what it was?
- Rajendra Gogri:** Annualized was about 16% last year.
- Abhijeet Vora:** And when you talk about like you are increasing your PDA capacity and the NCB expansion, actually how this can be, volume growth will be there but what this means from the perspective of margin expansion and where these products will be largely used in the broader segments or the sectors you are catering to?
- Rajendra Gogri:** NCB they are more towards back end so there is a very wide usage, they are used in dye stuff, polymers, agro, pharma, and it is a wide range. Whereas PDA are more substantially used in dye stuff and polymers, so these are the end use industries.
- Abhijeet Vora:** Okay. Sir my question is like how we can see with the improvement in the volumes and largely your expansion focusing on these capacity expansions how these may be looked upon in terms of margin expansion either in per ton basis or per kg basis?
- Rajendra Gogri:** Per kg basically as I mentioned earlier there are two parts in the margin, one is the raw material cost and second is a manufacturing expenses. So as you increase the volumes the manufacturing expenses which includes your maintenance cost, your staff cost, your factory administration cost and all, those do not increase proportionally. So operating profit increase is going to be more than the volume increase in general.
- Moderator:** Thank you. We have the next question from the line of Ranjit Cirumalla from Batlivala & Karani Securities. Please go ahead.
- Ranjit Cirumalla:** Just wanted to get the Benzene prices of 1Q FY15 what would have been?
- Rajendra Gogri:** That number was Rs.82.
- Ranjit Cirumalla:** And second thing is on the hydrogenation thing, so I think you have mentioned it during 1Q FY16 it was somewhere around 4700 but if I recollect for the past few quarters we have been doing around 1600 to 1800 kind of a thing. So has there been a significant jump in the hydrogenation?

- Rajendra Gogri:** No, that is quarterly number sir.
- Ranjit Cirumalla:** So this 4700 is a quarterly number and earlier used to be on a monthly basis, right?
- Rajendra Gogri:** Yes, that might have discussed on Q&A but it is not absolute number which matters, here again it is a product mix which will make a difference.
- Ranjit Cirumalla:** Sure. My next question is on that particular thing that we have been maintaining that we have been going up the value chain on more on the product mix side, I just wanted to get some sense on the kind of products and how big the margins are in that particular thing?
- Rajendra Gogri:** Yes, some of the products have higher margin there.
- Ranjit Cirumalla:** Can you name some of them or some more clarity on the kind of products?
- Rajendra Gogri:** It various chloro anilines this is what we make.
- Ranjit Cirumalla:** And sir my last question on this that we have now guiding for 450 to 500 crores kind of a CAPEX for the next two to three years and now we after this merging thing we would also be going ahead with a demerger thing, so can we get a sense of this 450 to 500 crores CAPEX split across our segments?
- Rajendra Gogri:** That detailing we may have to do but...
- Ranjit Cirumalla:** Broadly specialty and pharma that should serve the purpose?
- Rajendra Gogri:** 15% will be on pharma side, a major from balance would be for speciality.
- Ranjit Cirumalla:** And the remaining would be safe to assume we would on the specialty?
- Rajendra Gogri:** Yes.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Rajendra Gogri for closing comments. Please go ahead, Sir.
- Rajendra Gogri:** As we have been mentioning in our previous concall and analyst meet also with ongoing expansion of various existing products and processes and also new products and processes we expect continuous growth in volumes and on bottom-line in all the segments and with this merger and reduction of equity about 6% that will also increase in earnings per share and ROC and ROE for the company. Thank you very much for joining for this conference.
- Moderator:** Thank you Gentlemen of the Management. Ladies and Gentlemen, on behalf of Aarti Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.