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Ladies and gentlemen, good day, and welcome to the Aarti Industries Limited Q4 and FY '20 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Shiv Muttou from CDR India. Thank you, all over to you, sir.

Thank you, Janice. Good afternoon, everyone, and thank you for joining us on Aarti Industries Q4 FY '20 Earnings Conference Call. We have with us today, on this call, Mr. Rajendra Gogri, Chairman and Managing Director of the company; Mr. Rashesh Gogri, Vice Chairman and Managing Director; and Mr. Chetan Gandhi, CFO of the company.

Before we begin the call, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you.

I'd now like to invite Mr. Rajendra Gogri, who will take you through the performance of the company and his outlook on the business. We will then have -- open the forum for Q&A. Over to you, sir.

Yes. Good evening, and very warm welcome to all of you. Firstly, I would like to wish you all be in good health and to stay safe in the current situation of COVID-19. I trust all of you would have received the Q4 and FY '20 financial results presentation that has been uploaded on the stock exchange website and e-mailed to you earlier today.

The financial year ended March 31, 2020, for the business impact from various sectors, including global economic weakness, slow demand in some large usage verticals, especially in agrochemical and automotive industry, sharp volatility in the prices of key raw materials and currencies and finally the worldwide spread of COVID-19 pandemic. Despite such exceptional business conditions, we have had a satisfactory year with several positive achievements. We delivered revenues that are marginally lower by 2% (sic) [3%] but EBITDA was higher by 1.2%, and margin expanded by 60 basis points (sic) [80] to 21.1%.

Profit after tax increased by 8.9% to INR 536 crore (sic) [INR 523 crore]. Here I would like to highlight that the reported figures for the quarter FY '19 are not comparable as they are included in the financials of the Home and Personal Care segment of the company, which was demerged into a separate entity upon arrival -- approval of the scheme of demerger as approved by NCLT in June 2019.

During Q4 2020, operation of the company had disruption about 10 days towards the end of the quarter due to the lockdown imposed by the government. There were restrictions on manpower, logistics and movement of goods for local supplies and exports. We had a commensurate impact on the quarter's financial performance. This has impacted the topline about 9% to 10% and EBIT about INR 27 crores to INR 30 crores, especially in respect to the Specialty Chemical segment.

This also resulted in some additional buildup of inventory as on March 31, 2020.

On account of our results, the consolidated revenue of the company for Q4 FY '20 was INR 1,190 crores as against INR 1,279 crores for Q4 FY'19.

Likewise, the consolidated profit after tax for the quarter was declined to INR 110 crores for Q4 FY '20 as against the consolidated profit of INR 125 crores in Q4 FY '19.

In the Specialty Chemical business, the weak raw material prices that has contractually passed on to customers saw a revenue decline by about 3% for the year.

Operating profit, which we believe is the more important variable for evaluating our business, was almost unchanged at INR 773 crores and EBIT margin expanded by 80 basis points to 21.1%.

Underlying this was a visible shift in contribution from value-added chemistry that increased from 70% of revenue to over 75% of revenue during the year.

Production of some products was also concerned due to -- some extent during the fourth quarter due to some shortage in the supply of nitric acid. During the year, such shortage had an impact on production during Q2 and Q4.

While we derive operating leverage from higher capacity utilization across key manufacturing location, the commissioning of facility for delivering on long-term supply contracts and start of activities at the 4th R&D center in Q4 resulted in higher expenses and impacted profitability towards the end of the year.

The benefits of these capabilities are long-term in nature and will start to accrue progressively from FY21.

On the production front, the production for Nitro Chloro Benzene was about 14,700 metric tons for Q4 and 59,650 for FY '19. While for the (technical difficulty) production about 2,315 tonnes per month for Q4 FY '20 and annual production of 2,217 tonnes per month for FY '19.

Production (technical difficulty) while the annual production was 8,700 tonnes. It may be noted that production for NCB and NT during the year has been impacted due to shortage of raw material, nitric acid.

The Pharma business has been (technical difficulty) present throughout, the revenues increased by 4% while margin expanded by 250 basis points. The successful completion of USFDA audited our manufacturing facilities, testifies to our high standard of quality management, governance and compliance that we believe is a key differentiator to long-term success selling to regulated markets.

Going forward, capacity expansion currently in pipeline will drive deeper penetration in some key therapies such as antihypertensive, cardiovascular, oncology, corticosteroids, et cetera.

We also have a strong pipeline of approvals and visibility to maintain our growth momentum. Overall, I'd like to share with all of you that in our assessment, we have performed -- yes, we've invested over INR 1,100 crores in various projects and have made progress in expanding our manufacturing base, diversified our product mix, continued to invest in R&D product process development and creating a sell -- a solid platform for ongoing business expansion.

We'd also like to share with you an update related to the impact of COVID-19 pandemic on the various aspects of the company's business activity.

(technical difficulty) the company had faced logistics-related challenge for the movement of raw material, finished goods, manpower, et cetera.

As a result, the chemical manufacturing location of the company had initially gone into temporary shutdown of safe mode in a phased manner, while the Pharma business being included in essential good and continued manufacturing operations throughout this period.

Subsequently, based on our wider product profile that include key ingredients to various pharma and agrochemical intermediates, which are included in essential goods, we applied and were granted permission to operate our chemical manufacturing facility and to enable movement of critical workflow material, et cetera.

After securing supply chain on logistics and mandatory compliance requirement, we resumed our operation at our manufacturing units in the first half of April. Businesses are currently operating at about 80% capacity utilization. While supply chain and labor availability challenges are being seen, the company is taking adequate efforts, including revision and rates wherever applicable to secure the resources and mitigate the threat. Outside our office, we are presently in line with the government advisory, the company's head office located in Mumbai is temporary closed and work from home has been facilitated there for the convenient safety of all our employees.

Security measures and additional protocols have introduced to ensure the safeguard of all sensitive information.

Customer demand and movement of materials. Over 60% of the company's revenue comes from end user applications such as agronomical, pharma, fertilizer and FMCG, which are (technical difficulty) due to significant impact of the COVID-19 pandemic and the company's business to that extent remains (technical difficulty) significant change in the operating environment.

Globally, the discretionary portion of customer spending in sectors such as automobile, aircraft, real estate, textile, electronics, et cetera, we expected to remain weaker over medium-term as compared to the past projections.

In view of business of our product with end-users industries such as polymers and additives, dyes, pigments, et cetera are witnessing demand contraction, which is difficult (technical difficulty) with rising global supply chains are looking to hedge the risk (technical difficulty) big reason with reliance on supply from China.

So it is an opportunity for Indian to expand their presence and market share in global markets, which is an opportunity the company continues to pursue aggressively.

Given this changing dynamic, the company is closely monitoring the situation and will take necessary steps to ensure optimal utilization of its unit and also identify potential growth opportunity for long term.

In this respect, the company's large number of long-term plans, the engagement and the wide range of products with various applications, provide the flexibility to adequately align its production with ongoing shifting in global demand.

The company shall be able to provide better guidance once we have more clarity on the matter. It may also be noted that the company expects the execution on its long-term contract to be on track and doesn't expect any significant impact from the COVID-19 pandemic.

To this contract, production for which has been started recently. Further, the company is facing certain challenges related to movement of material at the port, especially at JNPT, Mumbai. The company is monitoring the situation closely and taking adequate steps, including the routing exporters from other alternative ports in Gujarat to prioritize shipments.

Project execution on account of lockdown announced by central and state government and also due to restriction in manpower movement, migration of labor and delayed delivery of equipment, work on company's expansion project has been impacted at the start of the current financial year.

Company has prioritized certain activities to manage the timelines of critical project. While there may be some delay in the project work, the company is closely monitoring the situation and will take adequate steps to secure resources as may be required.

Financial position. The company's financial and liquidity position remains strong based on robust internal approvals and a well-capitalized balance sheet.

The company has continued to meet all its financial obligation on time, increment for all eligible employees have already been announced and they are in process currently.

The company (technical difficulty) support by providing additional monetary assistance and food rations to various temporary worker labors whose lives are affected due to lockdown.

In addition to the existing resources at disposal, the company has secured additional INR 20 lakhs to set that liquidity and meet all its obligations in the future.

Let me reassure that the management continues to closely monitor all key development across these various aspects of business and is taking adequate steps to address any impending issue.

While we accept the situation, we believe that we would have a flattish year in FY '21 with a potential impact coming in Q1 '21 and with recruitment of the same over subsequent quarters.

From FY '20 onwards, we expect to continue on to our long-term growth forecast, nearly 15% to 20% bottom line over 3/4 year period.

With that, I conclude my opening comments. (technical difficulty) the Q&A session. Thank you.

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Questions and Answers

Operator [1]

(Operator Instructions) We take the first question from the line of Surya Patra from PhillipCapital.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [2]

Sir, just in the outset, if you can clarify, since you have started the first -- the initial phase of the commercial supply deal of -- the agrochemical supply deal, so whether the fourth quarter is factoring any meaningful revenue out of that? And also, if you can update what is the likelihood of the progression of the -- in terms of scale up and all that for the first project? And you are mentioning about the second project should also commission within just 6 months' time gap. So are you confident about commissioning even the second supply deal starting second quarter or so?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [3]

Yes. In this Q4, it was a very nominal growth this time. So there is not much (technical difficulty) at this time.

Operator [4]

Mr. Rajendra Gogri, I'm so sorry to interrupt. Sir, your audio is not very clear. I would like to reconnect you the next. Hello?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [5]

Okay, okay, yes.

Operator [6]

I'll just reconnect you. Just allow me a minute, sir. Requesting participants to please stay connected, we are just trying to reconnect the session back to the conference.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [7]

Hello?

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [8]

Hello. Yes.

Operator [9]

Ladies and gentlemen, thank you for patiently waiting. We have the line from Mr. Rajendra Gogri reconnected. Okay, sir, we have a question from Mr. Surya Patra.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [10]

Yes. So just on the (inaudible) sir, you said that, okay, in the fourth quarter there was hardly anything. But -- so it was like validating basis kind of supply that you have started? Or when should we see the commercial benefit of that happening? And what is the likelihood of the cooperation reaching to a meaningful level in FY '21? Can you just give some clarity about it?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [11]

Yes. The benefit of this contract will start accruing progressively in FY '21. It will be on Q-o-Q basis for the first quarter -- first contract. And second contract, the full fledge commissioning will be happening in the second half of FY '21.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [12]

Okay. And do you think, sir, it will reach -- the first supply contract will see the exit rate to be the -- in terms of utilization would be around 50% of the total anticipated revenue term or it would be higher than that or lower than that, some clarity on that?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [13]

Yes, we have proper structure in place for the contract. And so that is the corresponding impact we'll get in our margins in that. So it will not be totally directly connected to the volumes.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [14]

Yes. Okay. Hence it is some contracted basis or whether -- even if it is -- the uptake is not proportionately higher, but the revenue will be booked proportionately. Is that something like that since you mentioned that there is no increase in volume?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [15]

Yes, yes, yes. So the -- some direct linkage may not be there, but still some impact, obviously, in profitability will come and a positive impact.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [16]

Okay. And secondly, sir, on the COVID impact for the quarter, if we consider, so obviously, it is well understood that there was a kind of a logistics challenge. Even now also you mentioned that currently also you're facing some kind of a challenge so far as the NPT is concerned, so what were the kind of revenue loss because of -- and on the export front and on the domestic front because of the COVID during fourth quarter? And do you see a larger impact of that can be seen in the first quarter because the full quarter impact would be there?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [17]

Yes. For Q4, it will be about INR 100 crore revenue impact on Specialty Chemical side. That is -- for the Q1, obviously, in April, our Specialty Chemical operated around 50% volume. And May also it is around 80% because of some of the plants in Gujarat have not yet started, some of the end-use sector also.

So the first quarter will be definitely under -- will be impacted because of the lockdown.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [18]

So it is higher than -- better than in the March quarter or it will be weaker than the March quarter generally you see?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [19]

Yes, it would be weaker basically. There, we are losing 10% of the quarter. Here, it will become 15 days out of 90, then it becomes more than 15%, I think and that will impact more than other.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [20]

And whether the revenue mix was also to some extent impacted because of the, say, possibly few of the value-added product area, which we could not have manufactured because of the kind of limitation. So

whether the mix, which you mentioned that now it is for the full year, it is 75% is a value-added product. So for the quarter, it is disproportionate?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [21]

But specifically I do not know the number for Q4, what is it like, but it will be of a similar type only. There will not be a big difference.

Surya Narayan Patra, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Pharma Analyst [22]

Okay. And just last one question, sir, on the margin front. So there are various things that is going to happen or happening currently. So like one is that products mix, obviously, going to change with the the commissioning of the new project. Then obviously, the price correction for the input prices as well as relatively lesser price correction in the final product. That's what we are currently seeing. And the impact of the COVID that would be visible again throughout the first quarter. And there is the likelihood of the impact of a global slowdown, which nobody knows in what way that -- means, practically, I don't know that, okay, in what way it can really impact and what is the quantum of that impact? So considering all that, your guidance of around 50% to 20%, so what you have mentioned on the earning front for FY '21, can you just elaborate something on that, how do you see the margin progression from the current levels in port 1?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [23]

Well, there's some clarification. You have misunderstood. Basically, FY '21 will be affected. So as of now, we are not able to give any clear guidance for FY '21. I think more clarity will come after the first quarter when more clarity on a global demand situation will also emerge.

So right now, we are looking at flattish for FY '21. But subsequent years, it will grow. So now if you take this year as a base, FY '20, then we see 15%, 20% growth rate 3, 4 years.

But FY '21 itself is a little bit black box. It is a flattish. It can be higher or it can be a little lower, we don't know.

Operator [24]

(Operator Instructions) We take the next question from the line of Arun Prasath from Spark Capital.

Arun Prasath, Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst [25]

Can you throw some light on...

Operator [26]

Sir, I'm sorry to interrupt, requesting you to please speak a bit louder, sir.

Arun Prasath, Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst [27]

Yes, sure. Sir, can you throw some light on the NCB expansion and the chlorination expansion that we have been talking about? We will -- I know that the demand side is still -- could be a little bit cloudy during FY '20, but will our capacities be ready at least during this year or we'll be still seeing some delay on the commissioning of these expansions?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [28]

Yes, the chlorination expansion is expected to be happening in this Q1 of FY '21 or maybe it may go till July or something because we have got some international technologies, so we'll have to wait because they cannot travel. So we are going to do some remote expedites from them.

Otherwise, in general, there is a project delay of 1 to 2 quarters because of this lockdown. So that will impact on our Nitro Chloro Benzene full utilized expansion, which we are thinking that by FY '21 and we'll have -- that will go more in middle of FY '22, the utilized expansion for Nitro Chloro Benzene. But the first phase will happen in this year, FY '21.

So that is as far as the projections.

Arun Prasath, Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst [29]

Okay. One last one. Another question from my end is that are we seeing any differentiated demand from that site -- from those customers who used to get supply from the China? Are you seeing any increased demand from them in terms of diversification of the procurement sources?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [30]

Yes. That is now, in general, a secular trend, but people want to buy more and more from India and that also supply chain independent of China. So there's no company like us pitching because we are totally backward integrated. And that's why we are getting also an opportunity to go on much higher value-added products also. So that trend will continue and I think it will further post...

Arun Prasath, Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst [31]

Sir, you mentioned negative impact of COVID on Q4 of, say, about INR 100 crores. But if I'm not mistaken, in the first 2 months, that is January and February, China closed much earlier than the rest of the world, there should have been some positive impact also because of that in the first 2 months? Can you elaborate on that front?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [32]

Yes. Can you repeat the question, I just missed it.

Arun Prasath, Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst [33]

Because China closed earlier than the rest of the world, India. So the supply disruption would have received in some positive impact in the first 2 months for the company? So can you quantify that impact?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [34]

No, that actually started happening only in February, March since the downtrend for India for any substantial benefit out of it. The Chinese impact started around Chinese New Year in February. And that...

Arun Prasath, Spark Capital Advisors (India) Private Limited, Research Division - Research Analyst [35]

So no impact.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [36]

Yes.

Operator [37]

Next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Funds.

Sudarshan Padmanabhan, Sundaram Asset Management Company Ltd. - Research Analyst [38]

Sir, my question is, if I look at the overall business, our 60% is basically coming in from the essential part of that pharma (inaudible) then we have 40%. If you can quantify with respect to at least the essential part, what is the kind of demand outlook that we see? And from the nonessential part, I mean, what are these essential -- nonessential parts? How do we see primarily in the near term and the longer term, I mean, how we see the demand from our customers?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [39]

Yes. For agro and all, actually, this year will be better than last year. Last year, we had mentioned that there was -- because of the U.S. weather the agro was impacted in FY '20. So FY '21 should be a normal year for agrochemical as such. Whereas on nonessential, we do now see how things pan out, especially there may be textile, whether people are going out and buying textiles or auto and all that and all. There is one view I was seeing that there will be more purchase of auto because people want to instead of driving -- going in Ola and Uber, they would like to drive themselves.

So things are not very clear. It may happen that auto demand may actually increase subsequently in the second part of the year and maybe future.

For aerospace, it is definitely going to be negatively impacted. And electronics also we have to see. Electronics may not impact.

Overall, if you see the global economy itself is going in a slowdown. Europe is expected to be minus, more than minus 5. U.S. also is going to be negative territory. So all those things, generally, will have impact on discretionary spending. And I think as the time goes and (technical difficulty). In Europe, they are already started. And then -- so then you'll get some idea on how people are reacting regarding their purchase in the next 1 or 2 months.

I think that will derive the -- give more clarity on nonessential purchase.

Sudarshan Padmanabhan, Sundaram Asset Management Company Ltd. - Research Analyst [40]

Sir, off this nonessential, what would be the chunkier part of the industry, sir? Would it be auto? Would it be electronics? I mean if I split at 35%, 40%, what would be the component of the 35%, 40%, sir?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [41]

So it will be, 1/4 will be more on textile and some is going in paints in housing, some goes in petroleum additives. So these are 4, 5, 6 sectors, be anything between 15% to 25%. If you take textiles and you take construction and auto, aerospace, electronics and petroleum additives and other chemicals well spread over those by 5, 6 sectors.

Sudarshan Padmanabhan, Sundaram Asset Management Company Ltd. - Research Analyst [42]

Sir, the second question from my side is on the Arti Surfactants listing. I mean, where are we at this point of time? I mean, when do we expect things to kind of get clear as far as the listing is concerned, sir?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [43]

Yes, maybe Chetan is mute.

Operator [44]

Chetan Gandhi, your line is unmuted, you may please go ahead, sir.

Chetan B. Gandhi, Aarti Industries Limited - CFO [45]

Yes. So we've been following up with the SEBI authorities. While we don't have any open pending matters to resolve from our end, we have SEBI approval on this matter. I guess we should be able to resolve that within next 45 days or so. That is what our expectations are. So our team has been trying to follow-up with the SEBI team and see where and how it can be expedited at their end.

Sudarshan Padmanabhan, Sundaram Asset Management Company Ltd. - Research Analyst [46]

Sir, then if I look at the fourth quarter presentation, we talked about supplies of nitric acid impacting us. I would also assume that because would have come off, you would be having this high cost inventory. So if you can give some clarity on whether, number one, availability of raw materials; number two, have we priced the products now to take better margins probably in the first quarter versus the fourth quarter? And if you can also quantify what are hedging because you have talked about some MTM gains and losses every quarter. So some clarity on what are these hedges and how do we keep that?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [47]

See, in general it is not (technical difficulty) moment doesn't impact. The (technical difficulty) price, yes, the last quarter was at INR 51. In the next 10 days, it really declined INR 35 to around INR 20 (technical difficulty)

Operator [48]

Sir, I'm sorry, your audio is breaking up. Sir, we're unable to hear you.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [49]

Hello, can you hear now?

Operator [50]

Yes.

Sudarshan Padmanabhan, Sundaram Asset Management Company Ltd. - Research Analyst [51]

Yes, sir, I couldn't get the part of below the INR 20 a liter, sir on the...

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [52]

Yes. So after that (technical difficulty) some of the products that is not only lag, that benefit will continue. But in general, some inventory loss will accrue in Q1 because of this sharp correction in (technical difficulty)

Sudarshan Padmanabhan, Sundaram Asset Management Company Ltd. - Research Analyst [53]

Yes sir. And on the hedging part, sir?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [54]

Yes. Hedging, generally, our contracts where this rupee portion, we do for like 1 to 3 years proportionate, maybe next 12 months will be higher, then next 12 will be a little lower and then further little still lower. So that is a broad policy. So in general, anything between \$50 million to \$80 million, we see poised over next the 3 years. That's how that corresponding impact comes on quarter-to-quarter basis.

Operator [55]

We take the next question from the line of Naushad Chaudhary from Systematix Shares.

Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [56]

On the volume side, sir, if you can share the PDA and nitrotoluene volume as well?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [57]

Yes. So the PDA volume was roughly around 370 tonnes per month, and the NT toluene (sic) [nitrotoluene] for the quarter was close to 2,850 tonnes for the quarter.

Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [58]

Okay. And just to correct my number, NCB was 14,700 tonnes, and hydrogenation was 2,315 tonnes per month.

Chetan B. Gandhi, Aarti Industries Limited - CFO [59]

Yes. Yes.

Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [60]

Okay. One question on...

Chetan B. Gandhi, Aarti Industries Limited - CFO [61]

Yes, NT number was for the quarter. So...

Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [62]

Yes. And on the balance sheet side, sir, if I look at the overall inventory level on the working capital, there is an increase of around 15 to 16 days in overall working capital cycle and inventory days has gone up by 20 days. I understand that's the impact of this lockdown. So just wanted to understand how much do you see this recovering in the coming financial year? And what should be the normal working capital days?

Chetan B. Gandhi, Aarti Industries Limited - CFO [63]

So the normal working capital days should be -- I mean the entire working capital cycle should be in the range of around -- or close to 100 days. That is a historical trend. It might just be around a similar number, while we are keeping a close watch in terms of the [seeable] cycle and other stuff. And as of now, we don't see any major trend, but we will have to see as to how things progress in the current COVID situation.

But on an overall basis, we expect the working capital cycle to be between 100 to 110 days. There were some higher inventories in March. I believe by end of this quarter, some of that would have already been liquidated. So there would be some reduction, which may happen. Plus, on the value side, the raw material prices have fallen off in Q1. So there will also be a reduction on a value basis. Nevertheless, on a day basis, the inventory days might reduce in Q1.

Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [64]

Okay. Lastly, for the last, I think, 3, 4 months, we had these challenges of raw material in our Pharma division. And I just wanted to understand what is the current status? And has this thing resolved for us?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [65]

Yes. So for Pharma now, we had some issues -- supply-related issues because some of the intermediates were coming from China. But post March, I think the China supplies have improved and also we have been able to get the regular shipments. What we are doing is, we are doing a little bit of higher inventory of all the critical intermediates that are needed for manufacturing API. So for the coming quarter, the situation will get resolved as far as the intermediates are concerned.

Naushad Chaudhary, Systematix Shares & Stocks (India) Ltd., Research Division - Analyst [66]

Okay. Would you be able to give the guidance on margins as well on your chemical and Pharma divisions?

Chetan B. Gandhi, Aarti Industries Limited - CFO [67]

It would be very difficult to make a comment on the margin percentage because, as you know, the percentage is going to be linked with raw material prices, which will be like a bit softer in this year so far or it could be volatile as we move ahead.

On the Pharma side, we're targeting an overall increase in revenues and bottom line by around 20%, 25%. So that's where it is.

Operator [68]

We take the next question from the line of Rohan Gupta from Edelweiss.

Rohan Gupta, Edelweiss Securities Ltd., Research Division - Research Analyst [69]

Sir, first question is, sir, on our CWIP. So sir, I understand that most of our projects are close to 12 to 18 months time lag, gestation period. We are sitting right now on close to INR 1,400 crores worth CWIP as on FY '20. Sir, over the last 2 years, I think we have spent close to -- I mean current year and FY '19, we have spent almost INR 2,000 crores in CapEx and cash flow, but capitalization was hardly INR 400 crores in this period. So this year, FY '21, we are going to see a huge capitalization of the CapEx? If you can just give some number how much capitalization you are expecting in the current year and how much more CapEx we are expecting in addition of this INR 1,400 crores CWIP in the current year?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [70]

Yes. Capitalization to the tune of around INR 1,400 crores, INR 1,500 crores should happen, maybe a little more than that. So -- and nearly more also. Some of the projects which we start now also may get capitalized.

And in general, overall CapEx, we are looking at around INR 1,000 crores to INR 1,200 crores CapEx this year.

Rohan Gupta, Edelweiss Securities Ltd., Research Division - Research Analyst [71]

Sir, despite, you're expecting that there will be some still overall delays in NCB CapEx and then also we are still expecting INR 1,000 to INR 1,200 crores CapEx? If you can just give some more guidelines on what CapEx we are looking at and in which projects.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [72]

Yes. NCB was around INR 150 crores. So that project will continue. And then also the third contractual project which we have signed. So there is around, I think, INR 135 crores or something of that project. And that chlorination project part of that will be further spent in this FY '21. So that will be the other major component coming out of that.

Rohan Gupta, Edelweiss Securities Ltd., Research Division - Research Analyst [73]

Okay. And sir, is the current weakness in overall demand? And I think we are expecting some delays in pickup from the -- both the new contracts. As you mentioned that contract 2 will go to H2 and now there will be gradual pickup in contract -- I mean, project 1 which you have already commissioned. So do you see that with a large capitalization of almost INR 1,500 crores in this year, there will be severe impact on our interest and depreciation with a lower utilization? So the guidance which you are giving, sir, I assume that a flattish guidance which you're talking about is more at bottom line or at EBITDA level. What we are...

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [74]

At bottom line level. So taking into account the higher depreciation already.

Rohan Gupta, Edelweiss Securities Ltd., Research Division - Research Analyst [75]

So it's already factoring in the higher interest and depreciation. So at EBITDA level, we are still expecting at least 10%, 15% growth, right?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [76]

Yes. Yes.

Rohan Gupta, Edelweiss Securities Ltd., Research Division - Research Analyst [77]

Okay. That's pretty helpful, sir. Sir...

Chetan B. Gandhi, Aarti Industries Limited - CFO [78]

Rohan, I just wanted to correct a couple of statements. So one is, when you look at the project commissioning time line, it doesn't happen in 12 to 18 months, it typically spans across 2 to 2.5 years or, in some cases, it features almost like 24- to 27-month trajectory. So one is on that basis. So if you would, I mean, recollect some of the projects which have been there for the last 1.5 years or so, they're getting commercialized towards the end of this year. So that one reflection I just wanted to make it very clear from everybody's perspective.

Rohan Gupta, Edelweiss Securities Ltd., Research Division - Research Analyst [79]

Right. Okay. Sir, the second question is on the demand side. So as you mentioned that roughly 75% of our product is value-added and almost 60% of our demand is coming from the, like, pharma and agro and FMCG, which have not been impacted. So even in the Q1, when we are seeing the supply side issues, are we seeing that the demand still is there and we are not able to meet those demands from these sectors? And do we see that once we are able to address our supply issues, we see that there will be a ramp-up in overall, I mean, revenues in Q2? I mean -- or we are losing business in Q1, which is definitely lost and we won't be able to recover that?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [80]

No. Generally, most of the export business and all we'll be able to -- because effective loss was around 20%, 25%. So there will be -- some business loss, obviously, has happened, but it is not as significant in

that sense. That is, some business loss has occurred. But that we are taking into account in our overall projection.

Operator [81]

We'll take the next question from the line of Nav Bhardwaj from Anand Rathi.

Nav Bhardwaj, Anand Rathi Financial Services Limited, Research Division - Research Analyst [82]

Sir, some -- I wanted a clarification regarding earlier notification that we had given where we had mentioned that we'll be entering into additional new lines of chemistry and products, which will be having multiple-level synthesis. So could you throw some light on that? The notification typically, I think, had come out on the 23rd of previous month.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [83]

Yes. We are starting a new R&D center in New Bombay, and there, we'll be adding more chemistries, like photochlorination and all. It's currently under development. I think we will go for construction of -- start of construction most probably by FY '21 and -- for the newer chemistry. So all of that will be mainly coming online in FY '23 from newer chemistry and newer products.

Nav Bhardwaj, Anand Rathi Financial Services Limited, Research Division - Research Analyst [84]

All right. And what kind of size can we expect these products to be in?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [85]

This will be, in general -- overall, we'll be expanding on our chemistry range. So on a long-term period, maybe 700 crores to 1,000 crores kind of volumes can be generated from newer chemistry and newer product lines.

Nav Bhardwaj, Anand Rathi Financial Services Limited, Research Division - Research Analyst [86]

All right. That's helpful, sir. And also the guidance that we had given beyond '21, that 15% to 20% was a CAGR basis over a span 2, 3 years. That's what we were speaking, right? Just trying to clarify.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [87]

Yes, it is 3, 4 years, taking the base of FY '20 because '21 is -- we don't know. So FY '20 onwards. So '21 -- actually FY '20 will be definitely more than 15% to 20% because FY '21 is available. We don't know what will the baseline intermediate line which will come in FY '21.

Operator [88]

We take the next question from the line of [Aatish] (inaudible) from [Dream Capital].

Unidentified Analyst, [89]

You have cited that the COVID-19 impact has resulted -- has impacted the EBIT by about INR 27 crores to INR 30 crores in Q4. Could you please explain that a bit more? Because, I mean, I would just -- I would imagine that COVID impact was only a week or so in this quarter, and most of the -- most countries have really had restrictive -- restrictions, I guess, during the end of March. [So could you explain this, please?]

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [90]

Yes. You see, basically, about 10% revenue impact on -- that [reaches] around 17%, 18% on EBITDA level because all the labor -- salary and everything was paid and a lot of expenses to continue. So the impact on EBITDA tends to be much more than direct revenue loss. The revenue loss will be around 9% to 10% because some export also -- we've got a little stuck there. But lockdown was about 9 days.

Unidentified Analyst, [91]

Right. Okay. And I know you've indicated a sort of flattish earnings growth for FY '21. But if we consider a decline in earnings in Q1 '21, do you expect Y-o-Y earnings growth (inaudible) the M2M losses in Q4?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [92]

Yes. So definitely [Q4] was impacted Y-o-Y also when we compare to Q1 of FY '20. But as a year as a whole, we see that (inaudible).

Unidentified Analyst, [93]

Would you be able to...

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [94]

And start getting improved results.

Unidentified Analyst, [95]

Yes. Sorry, would you be able to give some sort of a guidance as to what you expect the Q2 to Q4 Y-o-Y growth to be, like a rough estimate?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [96]

Yes. Basically (inaudible) to start revenue and getting those up in Q2, Q3, Q4 (inaudible). So exact guidance (inaudible) quarter-on-quarter basis of last financial year and this financial year.

Unidentified Analyst, [97]

Okay. And just one more thing. I wasn't able to hear properly before. Could you give a quick update on the 3 long-term contracts as in where are they, have you started production with them?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [98]

The first 2 contracts [potential] startup was in Q4 of this year. But the major volumes will start coming -- getting a ramp-up in this FY '21 for the first half. For the second (technical difficulty)

Operator [99]

Sir, I'm sorry to interrupt, your audio is breaking up, sir. We are unable to hear you well.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [100]

Hello? Can you hear now?

Operator [101]

Yes, sir.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [102]

So second one we are starting up in the second half of this FY '21. There is a third one, which was originally thought of that in Q4 FY '21 might get delayed [and it will come in the] first half of FY '22.

Operator [103]

We take the next question from the line of Resham Jain from DSP Investment.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [104]

Sir, just on this long-term contract which you talked about, it was, I think, INR 400 crores CapEx project. And you mentioned that it got commissioned in Q4. So has that capitalization already happened in Q4?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [105]

No, it was only first phase of that. So that capitalization is much lower.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [106]

Some part of it has happened in Q4.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [107]

Yes, yes, much -- very small. Yes.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [108]

And majority of it will happen in Q1 now, this quarter.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [109]

Yes, it will happen in FY '21.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [110]

Okay. Okay. Right. And sir, secondly, in the long-term contract, the original plan was that 40% margin on INR 400 crores of peak revenue, which will come, let's say, 2 years, 3 years down the line. But what you're saying is that even if your revenue will not be that much because of maybe offtake not being there from customers, possibly, but you will get some investment return is what -- how should one look at -- this is how one should look at it?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [111]

Yes, we have some structure in place (inaudible)

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [112]

Sorry, I couldn't hear you.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [113]

No, we have some structure in place. If the lift-up is less, then some compensation has to be paid.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [114]

Okay. But that will be lower than the kind of margin you will earn, obviously.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [115]

Yes, I would say, that will be a little lower than that.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [116]

Okay, okay, okay. Right. And sir, secondly, in the balance sheet, there is this INR 350 crores of increase in noncurrent liabilities. What is that related to? There is a significant increase there.

Chetan B. Gandhi, Aarti Industries Limited - CFO [117]

Yes. So that's related to the long-term advances which we have got against these contracts. So we've got close to -- I mean, as of March 31, 2020, we've got roughly around \$70 million, which is the advance collected from customers over the last 2 years or so, which is outstanding. So that's that number.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [118]

Okay. So this is basically advance received from customers against the project 2?

Chetan B. Gandhi, Aarti Industries Limited - CFO [119]

Yes. Against the future supply. So it will be adjusted over the 7-year...

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [120]

Okay. This is for contract #2.

Chetan B. Gandhi, Aarti Industries Limited - CFO [121]

So it's for -- it's combining for both first and second. It's advance coming in first one as well and second as well.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [122]

Okay. Understood. Understood. And that whole amount, that INR 350 crores is related to that.

Chetan B. Gandhi, Aarti Industries Limited - CFO [123]

So the -- I guess the entire amount of \$70 million would end up to almost like INR 450 crores -- sorry, INR 500-plus crores. So that larger chunk of this noncurrent liability would be related to that.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [124]

Okay. Understood, understood. And sir, one final question is on the CapEx, which you mentioned, of around INR 1,000 crores this year. So this is from the cash flow perspective, INR 1,000 crores in addition to INR 1,400 crores of CWIP, which is pending. Is that right?

Chetan B. Gandhi, Aarti Industries Limited - CFO [125]

Yes, yes, yes.

Resham Jain, DSP Investment Managers Pvt. Ltd. - Assistant VP [126]

And sir, is it possible to give a breakup of this -- that what kind of capitalization will happen out of this total? Because it's like INR 2,400 crores of total capitalization over the next maybe 18 months or so. So is it possible that when -- out of this -- large part of it, when will it get capitalized, in Q2, Q3, Q4 or next year?

Chetan B. Gandhi, Aarti Industries Limited - CFO [127]

Yes. Probably, we can -- we'll have to work something on that, also look at some of the delays which we are looking at a couple of projects and [the price].

Operator [128]

We take the next question from the line of Keshav Lahoti from Angel Broking.

Keshav Lahoti, Angel Broking Private Limited, Research Division - Analyst [129]

As the second quarter and fourth quarter of last year was impacted due to nitric acid shortage, how is the situation now? How this year will pan out?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [130]

Hello?

Keshav Lahoti, Angel Broking Private Limited, Research Division - Analyst [131]

Hello? Am I audible?

Chetan B. Gandhi, Aarti Industries Limited - CFO [132]

Can you just repeat that question?

Keshav Lahoti, Angel Broking Private Limited, Research Division - Analyst [133]

Yes. As we say that 2 quarters were impacted due to nitric acid shortage, how you think FY '21 will pan out on the basis of nitric acid?

Chetan B. Gandhi, Aarti Industries Limited - CFO [134]

So as of now, we -- I mean, earlier, they had some challenges on the facility or expansion, which was coming up. Am I audible?

Keshav Lahoti, Angel Broking Private Limited, Research Division - Analyst [135]

Yes. Yes, sir.

Chetan B. Gandhi, Aarti Industries Limited - CFO [136]

Yes. So we believe that would have been majorly resolved as discussion we've been having with them on a regular basis. So I guess, this year, we really will be keeping our fingers crossed, and we don't expect any major challenges on nitric acid supply. But let's see how things progress.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [137]

So overall, there is enough capacity unless there is some breakdown in their plants, either breakdown or some raw material issues. Otherwise, we have enough capacity in the acid.

Keshav Lahoti, Angel Broking Private Limited, Research Division - Analyst [138]

Okay. Okay. Got it. As we say that we are right now at 80% capacity, is it due to demand or labor shortage you are not operating at full capacity? Hello?

Operator [139]

Sir, please stay online. We are just trying to reconnect.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [140]

Yes, there are some demand-related issues also and some labor, but labor issue is largely sorted out. So some partial demand-related issues in certain products.

Operator [141]

We take the next question from the line of Rahul Jain from LionRock Capital.

Rahul Jain, [142]

Can you hear me?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [143]

Yes.

Rahul Jain, [144]

Hello?

Chetan B. Gandhi, Aarti Industries Limited - CFO [145]

Yes, go ahead. Go ahead.

Rahul Jain, [146]

Okay. So there's a couple of questions. One is with respect to the supply -- the long-term trend of supply shifting from China to India we have talked about quite a few times before. Have you seen increase in overall intensity of communication from your customers with respect to supply shifting away or giving you more orders or more volume going forward? Has that changed dramatically? And secondly, with respect to the profit growth guidance over the next 3, 4 years, I'm just trying to clarify again, are you saying that on the base of FY '20, the profit growth over the next 4 years, including FY '21, '22, '23, '24, would be about 15% to 20%?

Chetan B. Gandhi, Aarti Industries Limited - CFO [147]

Yes. So the understanding is right on that basis. And could you just repeat your first question again?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [148]

Yes. I will answer that. So we are getting some inquiries and additional demand from China from our global customers. So that is a phenomenon that has started since last 1 year or so, and that is going to continue. But I think, currently, due to this COVID situation, I think everywhere, there is uncertainty. So last couple of months, all these discussions have a little bit slowed down, but I hope they will resume going forward.

Rahul Jain, [149]

And one quick clarification with respect to your hedges. I think we started this hedging policy a year or 2 ago. Since then have you been consistently putting more hedges? Or once the previous hedging program run out, there will not be further hedging done?

Chetan B. Gandhi, Aarti Industries Limited - CFO [150]

So we maintained a policy -- I mean, considering the overall business what we have and long term -- so it's not just a long-term contract of 10 years and 20 years. We've got various products wherein there could be contracts of 3 years and 5 years or so. But there's a certain component of dollar rupee, I mean, the delta part of it in few of those contracts, which needs to be protected. So we took a conscious call that somewhere between \$50 million to \$80 million is the kind of hedge book we will consistently maintain. And that -- you're right, we've started it almost 2 years back, and we will try and maintain it at that level.

Rahul Jain, [151]

So it will be continued. So it's not a one-off...

Chetan B. Gandhi, Aarti Industries Limited - CFO [152]

Yes, yes, yes.

Operator [153]

We take the next question from the line of Ranjit Cirumalla from B&K Securities.

Ranjit R. Cirumalla, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [154]

On this project front, I believe that we have got into this project a couple of years back when the crude oil was already at a different level, and we are now having an altogether different crude oil level. So I just wanted to understand whether this would change the dynamics of that particular project because we have guided for a 45%, 40% EBITDA margin, then the sales of around INR 400 crores at least for the project (inaudible). So would there be any changes with regard to these numbers?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [155]

Yes, the absolute number, it remains the same. So basically, as a percentage, it will increase if the raw material price is a little lower. So generally, it is always -- benzene is always a pass-through model crude oil. Base product is our raw material. When benzene is INR 50 or INR 100 or INR 25, it doesn't affect absolute EBITDA level. Only as a percentage, obviously, if the crude is lower, the percentage margin goes up.

Ranjit R. Cirumalla, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [156]

Okay. This would be true for the other [statistics] as well.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [157]

Yes, yes, one thing is very clear. Any long-term contract, the raw material will be always pass-through. We cannot afford any -- raw material risk in any long-term term contract. Even in a yearly contract -- wherever we have -- even yearly contract, we'll have that because we don't know, benzene in a year also can become double. 1-year contract also will have always raw material pass-through.

Ranjit R. Cirumalla, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [158]

(inaudible) given the crude oil is like at a different level altogether. I think that would also cover the fixed cost, the overhead cost. I think beyond a point, the pass-through would become difficult?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [159]

No. Any contract with 1 year or more will always have a pass-through, whether (inaudible) benzene will always get passed on. Only quarterly contracts and all, quarterly, generally, in a lot of places, we have quarterly orders. So there, it doesn't get passed through in the middle if crude goes down or something. But any 1-year or more contract every time, it will always be around [true pass-through] model.

Ranjit R. Cirumalla, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [160]

Okay. And how the PDA prices have been moving? We have been benefiting a bit in the past. Some clarity on that would help.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [161]

Yes. Now we have to see as the market will now start opening up. We have a textile [concern and all]. It's still not open yet. So then we'll have the idea. A little bit of softening is there, but the entire clarity, I think, should come in June. We'll have an insight.

Ranjit R. Cirumalla, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [162]

Okay. Sir, last couple of bookkeeping things. Would you be able to share the inventory without loss in this particular quarter and the M2M of the ForEx rate in this and the fourth quarter?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [163]

Inventory loss is not much for this year. There is not much inventory loss.

Chetan B. Gandhi, Aarti Industries Limited - CFO [164]

This quarter, we don't have any. In Q4, the impact is not there. So the major impact of the crude for (inaudible) would come in Q1. As regards the ForEx, the impact is like the interest cost is up by around INR 7 crores and even on the revenue, there's an impact of around -- sorry, interest cost is up by around INR 8 crores because of M2M on the ECBs. And overall revenue, there's an impact of around INR 7.5 crores. This is also provided by way of note to the account.

Ranjit R. Cirumalla, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [165]

And sir, lastly, in the opening remarks, you said that there was an impact of INR 27 crores to INR 30 crores in the EBITDA. This was due to COVID? Or...

Chetan B. Gandhi, Aarti Industries Limited - CFO [166]

Yes.

Ranjit R. Cirumalla, Batlivala & Karani Securities India Pvt. Ltd., Research Division - Research Analyst [167]

So mainly due to COVID, these lower utilization rates, right?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [168]

Yes. That was a COVID-related number.

Operator [169]

Next question is from the line of Abhijit Akella from IIFL.

Abhijit R. Akella, IIFL Research - VP [170]

Just 1 or 2 clarifications on what you said earlier. So for FY '21 out of -- when you see this flattish bottom line PAT number, what kind of contribution from the new projects are we sort of building into this? Can we assume that out of the -- should it be roughly half of the full year potential from those projects?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [171]

We have a little more than that in the first contract, yes.

Abhijit R. Akella, IIFL Research - VP [172]

Okay. So it means, out of the INR 160 crores potential, a little more than INR 80 crores is what we can build in for this year?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [173]

Yes (inaudible).

Abhijit R. Akella, IIFL Research - VP [174]

Okay. And on the second one, sir, would that also be similar? Or...

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [175]

No, no, second one will commission only in the second half. So there will be, you can say, only a 1 quarter impact. It is more of 25%.

Abhijit R. Akella, IIFL Research - VP [176]

Okay. And lastly, on the CapEx plan, sir, this INR 1,000 crore number, does that include maintenance as well? Or are these purely growth projects? And if you could give us some sense of the breakdown of these amounts, that could be helpful.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [177]

No, that includes maintenance CapEx also, typical of around depreciation number of INR 200 crores to INR 250 crores, including maintenance CapEx.

Abhijit R. Akella, IIFL Research - VP [178]

Okay. Among the others, you had mentioned a couple of contracts. But on the chlorination piece, how much would we be incurring, sir?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [179]

Chlorination now will completed in 1 plant in this year and then some more -- in that chlorination chain, some more investment and that will be commissioned in FY '22. That will be another couple of hundred crores from chlorination (inaudible)

Operator [180]

Next question is from the line of [Amar Mourya] from AlfAccurate.

Unidentified Analyst, [181]

Sir, out of this INR 1,400 crores of CWIP, what would be the quantum of this second multiyear project?

Chetan B. Gandhi, Aarti Industries Limited - CFO [182]

Yes. The second multiyear project was having an outlay of roughly around INR 250 crores to INR 270 odd crores. I guess, only a smaller part of that has started. So major chunk would come in, in FY '21. Part of it would be there in CWIP and some more spending will happen in the first half.

And as we move into the commissioning phase, I don't -- we don't have the specific number right now, but that's where it.

Unidentified Analyst, [183]

Okay. And I believe even for the project 1, there will be some bit of number, which will be still there sitting in the CWIP, right? That would be how much?

Chetan B. Gandhi, Aarti Industries Limited - CFO [184]

So there will be...

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [185]

Yes. That is a substantial amount there as well.

Chetan B. Gandhi, Aarti Industries Limited - CFO [186]

That is a substantial amount, yes.

Unidentified Analyst, [187]

So like, sir, if you can quantify approx, maybe INR 300 crore plus?

Chetan B. Gandhi, Aarti Industries Limited - CFO [188]

Yes, it will be above INR 300 crores.

Unidentified Analyst, [189]

Okay. Sir, INR 300 crore approximately for this and around about INR 250 crores for this. Sir, INR 550 crores number is basically -- out of the INR 1,400 crore number is for project 1 and project 2. And other than that, how much would be for the nitrobenzene project?

Chetan B. Gandhi, Aarti Industries Limited - CFO [190]

So, we...

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [191]

Nitrobenzene is not significant. It is our major chlorination expansion -- yes, very high. That is another big...

Unidentified Analyst, [192]

Okay. So how much would be that, that Jhagadia project?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [193]

INR 200 crores roughly for chlorination plant.

Unidentified Analyst, [194]

INR 200 crores for chlorination. So sir, then, I mean, if you can just quantify like out of INR 700 crores remaining, what would be there in that INR 700 crores then?

Chetan B. Gandhi, Aarti Industries Limited - CFO [195]

So there are lot of projects, like in pharma also we are expanding the capacity for both the USFDA approved plants what we have. And there are various other projects which are going on. I don't think, it's possible to quantify at this time as (inaudible)

Unidentified Analyst, [196]

Okay. No issues. No issues. Got that. Got that. Sir, secondly, like you indicated that in pharma, we are expecting something around 25% growth on the revenue on the bottom line front. Is that correct, sir, I mean, which I heard? I think you had mentioned in some...

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [197]

20% to 25% top line (inaudible)

Unidentified Analyst, [198]

Okay. Sir, basically, is it largely coming because of this capacity expansion, which we are doing or is it part of that capacity will be coming in this year?

Chetan B. Gandhi, Aarti Industries Limited - CFO [199]

Okay. The next FY '22, we'll see a further growth.

Unidentified Analyst, [200]

Noted. But this 25% growth, you're talking about the '21 number, right? 20% to 25% growth, you are talking about the '21 or '22?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [201]

'21. '21.

Chetan B. Gandhi, Aarti Industries Limited - CFO [202]

'21.

Unidentified Analyst, [203]

'21. Got that. Got that. And sir, in terms of the overall volume growth, in pharma, how the growth would be in '21 full year basis on a pharma -- in a pharma overall volume growth, if you can give?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [204]

Yes. So basically, volume growth will be 10% to 15%, but largely, we will do product mix in a couple of quarters which we are launching for the U.S. market. So our partners have got approval, and those will start. So -- and we also have couple of good intelligent projects for the innovators that are going to get commercialized going forward. So we will have good margins there.

Unidentified Analyst, [205]

Okay. Margins there. Got that. So there would be an improvement in the profitability as well as because the pricing would be better in these projects?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [206]

Yes, yes, yes.

Operator [207]

Next question from the line of Rohit Nagraj from Sunidhi Securities.

Rohit R. Nagraj, Sunidhi Securities & Finance Ltd., Research Division - Senior Research Analyst [208]

Sir, just one clarification on the first contract for which we have started the plans in Q4. The revenue potential per year, if I'm not wrong, is INR 400 crores, right, the INR 4,000 crores 10-year contract?

Chetan B. Gandhi, Aarti Industries Limited - CFO [209]

Yes.

Rohit R. Nagraj, Sunidhi Securities & Finance Ltd., Research Division - Senior Research Analyst [210]

Yes. And we said that 50% utilization in first year, that is FY '21. Is that right? So INR 200 crores (inaudible)

Chetan B. Gandhi, Aarti Industries Limited - CFO [211]

So what Mr. Gorgi was saying that -- referring to a query of some other analysts was that in FY '21, from the targeted EBIT of, let's say, at 40% EBITDA margin, we should have generated INR 160 crores at a peak level. Are we looking at generating INR 80 crores or -- so Mr. Gorgi was saying that because of the kind of structure what we have in the contract, we should look at generating, I guess, more than INR 80 crores. Yes, close to INR 60 crores or more than that much in terms of the first year in FY '21. That is what we are saying.

Rohit R. Nagraj, Sunidhi Securities & Finance Ltd., Research Division - Senior Research Analyst [212]

Okay.

Chetan B. Gandhi, Aarti Industries Limited - CFO [213]

Yes. So maybe the turnaround would not be that much of 50%, but the numbers could be of that range.

Rohit R. Nagraj, Sunidhi Securities & Finance Ltd., Research Division - Senior Research Analyst [214]

Okay. Okay. And in terms of debt. So currently, the long-term debt stands at around INR 600 crores. And we have a capitalization of almost INR 1,400 crores plus the incremental CapEx of INR 1,000 crores. So how much of incremental debt are we expecting in FY '21?

Chetan B. Gandhi, Aarti Industries Limited - CFO [215]

So the long-term debt is of -- magnitude of INR 800 crores. As you would know, the long-term debt repayments, which are falling due in 12 months gets accounted as a part of current liability. So what we have noted is only the long-term part or the noncurrent part of the long-term debt. So it's INR 800 crores, of which INR 280 crores is getting paid off in this year. We would look at -- including the prepayment of NCB and cost optimization measures, probably we'll look at gross debt of somewhere between INR 700 crores to INR 800 crores over long-term to be raised in current year.

Rohit R. Nagraj, Sunidhi Securities & Finance Ltd., Research Division - Senior Research Analyst [216]

Okay. And the rest will be primarily through internal accrual.

Chetan B. Gandhi, Aarti Industries Limited - CFO [217]

Part of that would be internal accrual and -- but from the INR 750 crores or something, roughly INR 300 crores would be utilized for repayment of debt. On a net basis, the addition could be around INR 450 crores to INR 500 crores.

Rohit R. Nagraj, Sunidhi Securities & Finance Ltd., Research Division - Senior Research Analyst [218]

Fair enough. And just one last clarification. So in terms of the other costs, if I look at the year-on-year number, the other costs have -- other operating expenses have gone up by 5%, 5.5%. So is there scope of optimization in those, and what would be the increase in other expenditure in terms of the fixed nature of those expenses in FY '21?

Chetan B. Gandhi, Aarti Industries Limited - CFO [219]

So there are couple of additional sites which are coming on stream. So like few of them -- the new R&D center came on stream towards end of FY '20. The new project sites at -- for the first and second contract will start full-scale operation. The chlorination unit is also setting into commercial phase in Q1 or by July.

So there are like -- these capacities which are going to come up, so there will be some cost increase happening on those bases as well.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [220]

Yes, generally, that includes your asset management and administration costs, so that will have that impact there.

Rohit R. Nagraj, Sunidhi Securities & Finance Ltd., Research Division - Senior Research Analyst [221]

Right. And the tax rate, what is the guidance for this year and next year, for '21, '22?

Chetan B. Gandhi, Aarti Industries Limited - CFO [222]

So we will probably have similar kind of tax rate. I guess, it should be between 18% to 21% kind of stuff.

Operator [223]

We take the next question from the line Nitin Agarwal from IDFC Securities.

As there's no response from the current participant, we take the next question from the line of Bhavesh Bajaj from Quantum Advisors.

Bhavesh Bajaj, [224]

Sir, actually, just wanted to know that there was one anti-raid conducted on the manufacturing facilities as well as the offices. And also did not have any tax-related contingent liabilities. So can you just throw some light on why was this raid conducted and what was the outcome of the raid?

Chetan B. Gandhi, Aarti Industries Limited - CFO [225]

See. We believe it was more of an investigative activity. We haven't yet got a fuller report on that because even the IT team and other team have also been impacted because of the lockdown situations. We will await their report, but we do not see any significant impact on the company's position.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [226]

And in general, now they don't raise any demand or anything. It generally will go for further assessment. And -- but overall, we don't see any impact going forward.

Operator [227]

Next question is from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [228]

Sir, in terms of production scheduling, let's say, for the next quarter, how do you go about it generally with uncertain times? What is the lead time before which you get customer orders when you start manufacturing? So if you could just give some color on that.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [229]

No. Production scheduling, basically, broadly, a lot of export orders and all, generally we'll have a 2, 3-month visibility. And in also domestic orders, generally, we'll have, on most of the customers, next 2, 3 months visibility based on that -- their demand. Then...

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [230]

So if you say 80% run rate that we are running, we have visibility that these products will get pushed in the next quarter or so? Or is it that we are stocking up so that you were able to see demand come back in, let's say, second or third quarter, so that we can start pushing out?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [231]

No. Up to certain products, we will set up, but otherwise, our volumes are very large. Certain products we cannot step up. So it will become product to product. Certain products where we see there's going to be a little bit long-term impact, so there, we do not like to stock that up. But what we see that, currently, there is a sharp depreciation of the consumption in India, which is almost now around for more than 2, 2.5 months. So that is almost taking away around 20% of the demand.

So once they restart, I think it has to be a bit more normal. One short, almost 20% demand of some -- certain products has gone up.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [232]

Got it. In terms of your long-term contracts, anything that you're hearing from the customers in terms of rescheduling the delivery supply chain, in terms of pushing by 2, 3 quarters or any of that sort? Or once you start, you will see that for FY '20, whatever committed orders will be taken? Or some of them will be pushed into FY '21?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [233]

No, whatever FY '21, I think, whatever (inaudible)

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [234]

Okay. And in general, we've been saying that the agro, pharma (inaudible) markets, about 25%, 30% broadly use pocket. In the earlier calls -- earlier all the participants have asked about mixing the essential products and nonessential. You mentioned that agro is still doing okay, and pharma is also meeting some growth. When it comes to these consumer-based -- consumer products that we supply to, let's say, auto (inaudible) and coupling along with the fact that you're still saying you'll see a flat growth. Is it that whatever growth you are going to see in agro and pharma will more or less compensate for the other segment's decline? Or means that we can still see probably a top line decline also if the demand doesn't shape up?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [235]

Yes, I think we are already riding for demand. We have some growth in this sector, agro and pharma, and some decline in the other sectors. So that is currently, we are seeing (inaudible) obviously, agro and pharma volume, whatever is increasing, their volumes are going to increase this year. And their volumes throughout other than auto and textile are going to be down.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [236]

So you see mostly both of these compensating for each other (inaudible)

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [237]

That's why we are saying flattish in retention or what exactly on the discretionary side, what exit we have, exit we pan out. How people go out and buy textile now. They are spending less on entertainment and traveling after this pandemic (inaudible) the expenditure behavior of the people globally and within India, because your entertainment and traveling and food expense is going down. So how their spending basket -- but the incomes are also going down. So this is very complex scenario. Quite different than 2008 recession, where there was -- this service sector impact was not there. Currently, the service sector is much, much more impacted.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [238]

Okay. Got it. And on your long-term contracts, is currency depreciation a benefit to you? Or is it also a part of it?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [239]

Partially, it gets -- partially the approval helps definitely.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [240]

I didn't get that, sir. Is it like you get the benefit partially or do you hedge it?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [241]

No. We have certain -- generally, there's a certain portion we have structure in place and certain portion we have to take a call. Generally, that's how we work.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [242]

Okay. That means, is it favorable to us? At least by a small margin also, is it favorable?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [243]

Yes. Yes. Yes. It is going down for whatever portion, which we are to -- supposed to hedge that either we can hedge and get 4% benefit (inaudible) other portion, that is always -- in most of these contracts, we always have inflation and ForEx mapping effect.

Operator [244]

We take the next question from the line of the Dipesh Mehta from SBICAP Securities.

Dipesh Mehta, SBICAP Securities Ltd., Research Division - Information Technology Analyst [245]

Sir, just want to understand our CapEx plan and continuity. Now considering the weakness which we are seeing in end-user industry and related flattish kind of outlook at least for near term, do we expect some kind of slowdown? Because if I look your debt to EBITDA, EBITDA likely to be more or less flattish or maybe a marginal growth next year, but we plan to have around INR 500 crores higher debt from net debt perspective. So I just want to understand your overall philosophy about debt, how you want to manage debt equity and debt EBITDA? And what would be the comfort trend, if you can provide some perspective?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [246]

Because of COVID, lot of projects have been pushed out by 1 quarter or 2 quarters. And some of the construction also is not starting now in -- which was supposed to start in April, May will get pushed out in October, November. So that impact will be there as far as the timing of project is concerned.

And as we have said earlier also that our now target of debt will be a range of 0.8 to 1, which is really 0.7 to 1 kind of the target. We previously reached 0.8 to 1.2. And now internally, we have revised between 0.7 to 1 as a target for debt to equity.

Dipesh Mehta, SBICAP Securities Ltd., Research Division - Information Technology Analyst [247]

And you don't think we will bridge this, even, let's say, the -- some weakness which we are currently seeing, and situation, it continues for some time, we don't expect it to bridge, even we maintain our CapEx?

Chetan B. Gandhi, Aarti Industries Limited - CFO [248]

Yes, yes, yes.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [249]

I don't think we will be bridging that, yes.

Dipesh Mehta, SBICAP Securities Ltd., Research Division - Information Technology Analyst [250]

Okay, okay. And sir, second thing is about overall pharma side, when we are looking 20%, 25% growth even this year, it seems our chemical business likely to have more weakness despite one of the long-term contract likely to contribute. So if you can help us understand area of weakness, I -- broadly, you indicated some segment. But if you can provide more color about what area we are seeing more weakness and -- because if we do reverse working, it seems to be chemicals, beside agro and pharma doing (inaudible) I think weakness seems to be more pronounced.

Chetan B. Gandhi, Aarti Industries Limited - CFO [251]

Yes. That's basically chemicals 50% coming from the discretionary. All the 4, 5 sectors, if you take a textile, auto, aerospace and construction, this become 4, and some oil additives. Even fuel additives also people are (technical difficulty) all those sectors (technical difficulty) people driving. So all those sectors are definitely globally far impacted. So our idea will be continuously either take more market or reshuffle the product mix and all that. But definitely, it's not volume that is going to be there on those sites for this year.

Dipesh Mehta, SBICAP Securities Ltd., Research Division - Information Technology Analyst [252]

Sir, in a geographical difference, let's say, U.S. versus Europe or some other market, if you can quantify or specifically mention?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [253]

Basically, whatever economic indicators are coming, contraction in Europe will be more than the U.S., so that's how the contraction will happen.

Maybe the questioning will be what are the spending EBITDA people will change post-COVID because service is going to go down, which is an entertainment, restaurant and travel. Whether that is compensated by changing in buying books, then the impact on books will be less. So there's a totally new ballgame

which has happened. So how the psychology post June, July when things get stabilized in West. That clarity may come in only in second half of 2020, July to December, how the demand patterns are referring.

Dipesh Mehta, SBICAP Securities Ltd., Research Division - Information Technology Analyst [254]

Sir, why I ask it specifically because if I look FY '20, we have seen North America flattish for us versus Europe doing well for us. Now you expect it to work other way for us in FY '21?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [255]

Yes.

Operator [256]

Next question is from the line of Harsh Bhatia from Emkay Global.

Harsh Bhatia, [257]

I had 2 questions. The first one was pertaining to aniline specifically. It makes up around 10% to 15% of the raw material. So just wanted to understand that whether it is 100% domestically sourced or some part of it is imported? This is in line with the antidumping duty that was filed in January against China. So if you are importing anything from China, how would that be impacted? And how the management is looking at it? So that is the first question.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [258]

Yes. Basically, aniline, we are importing close to 70% to 80% of our total requirement.

Operator [259]

Excuse me, sir, sorry to interrupt. (inaudible) can you speak a little bit louder, sir. Your audio is not audible.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [260]

Yes. We are importing close to 70% to 80% of our aniline requirement. And we have several sources. There are Chinese as well as European also. So we anticipate them against which we have export orders also. So we can always import it without paying duty. And for our local requirement, we can buy from the domestic source. Our total requirement is quite large and the domestic source can't fulfill the entire requirement.

Harsh Bhatia, [261]

Right, right. For GNFC and the domestic players just announced for almost 50,000 tonnes. And in the next 1 or 2 years, I think the demand for Aarti Industries will cross that. Second question was basically trying to understand that pharma benefit that would accrue on the API side. We have seen that Gilead signed some contracts with Cipla and Jubilant Life Sciences. Cipla being our client. So how do we lead into this remdesivir and hydroxychloroquine API benefit that will come in? And where do we stand in that pharma value chain? Are we one step before the API or we'll be producing the same API and supplying it to them? Any color on that?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [262]

Yes. As far as the overall API is concerned, our overall volumes in API of highly profitable products are going up with more and more approvals and we have customers onboarding us for their requirement. So that is going to lead into the higher top line growth as well as the bottom line growth.

As far as your question on the COVID-based treatment-related APIs, we are not present in remdesivir value chain, whereas we (inaudible) which is an important key intermediate for manufacturing hydroxychloroquine, but that is at an intermediate level. So we are not at value-added higher and minus 1 product or anything like that.

Operator [263]

We take the next question from the line of Avishek Datta from Prabhudas Lilladher.

Avishek Datta, Prabhudas Lilladher Pvt Ltd., Research Division - Research Analyst [264]

Sir, just wanted to just clarify, like the segments which you mentioned, like textile -- these -- auto, they account cumulative for how much percentage, sir?

Chetan B. Gandhi, Aarti Industries Limited - CFO [265]

So basically, that is of around 40. And then textile, auto (inaudible) aerospace, chemicals, petroleum additive. So generally, we are considering more in our discretionary (technical difficulty)

Avishek Datta, Prabhudas Lilladher Pvt Ltd., Research Division - Research Analyst [266]

Hello?

Chetan B. Gandhi, Aarti Industries Limited - CFO [267]

Yes. So these are -- these would be accounting for roughly around 40%. We have largely considered more from a discretionary spend perspective from the consumers spending behavior end.

Avishek Datta, Prabhudas Lilladher Pvt Ltd., Research Division - Research Analyst [268]

But in the earlier presentation, you were given to understand that pharma and agro typically accounts for around 35% to 40%.

Chetan B. Gandhi, Aarti Industries Limited - CFO [269]

Yes. So what happens is you're looking at it from the perspective of the part of specialty chemical, which is there. Now the pharma segment itself is a separate 15%. And FMCG is another 5% to 7%. So all of that put together makes the revenue split for the company as a whole of around 60% towards pharma, agro and FMCG and fertilizer, and 40% is far vertical.

Avishek Datta, Prabhudas Lilladher Pvt Ltd., Research Division - Research Analyst [270]

Okay. And secondly, sir, there have been some reports of incentives being given by China, around 13% export benefits. Have you seen any increased competition from China because of that, sir?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [271]

Not much. I think, 2%, 3% pricing because there is lot of volatility in the pricing anyway because of the crude oil price going up and down. So I think all those savings have been marked somehow. So we don't see any major impact as such.

Operator [272]

We take the next question from the line of Kishan Gupta from CD Equisearch.

Kishan Gupta, CD Equisearch Private Limited, Research Division - Senior Analyst [273]

Hello?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [274]

Yes. Line got disconnected. Hello?

Kishan Gupta, CD Equisearch Private Limited, Research Division - Senior Analyst [275]

Hello?

Chetan B. Gandhi, Aarti Industries Limited - CFO [276]

Yes, sir, go ahead with your question.

Kishan Gupta, CD Equisearch Private Limited, Research Division - Senior Analyst [277]

(technical difficulty) INR 1,000 crores, INR 1,200 crores of CapEx, so how was -- how much was your CapEx planned before COVID?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [278]

Hello? Hello?

Kishan Gupta, CD Equisearch Private Limited, Research Division - Senior Analyst [279]

Hello?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [280]

Yes. Can you repeat the question? I think suddenly voice were mixed.

Operator [281]

Mr. Kishan Gupta, could you please repeat the question? We are unable to hear the audio.

Kishan Gupta, CD Equisearch Private Limited, Research Division - Senior Analyst [282]

Hello?

Operator [283]

Sir, please repeat your question, your audio was not audible.

And as there is no response from the current participant, we move on to the next question from the line of Aditya Mongia from Kotak Securities.

Aditya Mongia, Kotak Securities (Institutional Equities) - VP [284]

Sir, so I had a question. So this has been talked about a lot on the call, which is India substituting for China in terms of specialty chemicals. I wanted to get a sense from you as to which is the biggest bottleneck in accelerating this trend? Is supply chain that -- even otherwise, if you could just focus a bit more on supply chain obstacles to what kind of accelerate (inaudible) China?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [285]

Yes, it will be mainly for research and development. People have to develop the technology, speciality, and put up the plant. And the government has to be more flexible in product mix on the environmental side. So (inaudible) develop the product. So one will be the development of product and second thing is now, if you are given some flexibility in your product mix also, that can expedite the thing. So this is a very, very secular trend. So it will happen slowly. Continuously, this is going to happen, as more and more products are developed and some of the product growth, market share will increase from here. There is a global growth. India will have a more share of the products which are already held.

Aditya Mongia, Kotak Securities (Institutional Equities) - VP [286]

Okay. So am I then right in assessing that this is not as much of costing of Chinese products going up, it's just a focus on R&D from India plant that will lead this from here on?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [287]

Yes, basically, one thing is well competitiveness in general has increased. Because of that, a lot of product which were not competitive in India might have technology, so that we will -- can come faster. And that's what we have seen in some of the products, which are not made in India earlier and they are stopped, they started coming back. But then like we are also developing a lot of products. So we will also develop the product and put in the markets. Chemical industry, we don't get (inaudible) and all that. So for this, people will have to invest in (inaudible)

Aditya Mongia, Kotak Securities (Institutional Equities) - VP [288]

Understood, sir. Just a related question, this you're answering in the respect of you're obviously developing more products, but for existing products, is there thought process being shared by customers of them wanting to ship right away from China to India for existing products wherein both Chinese and Indian companies are competing?

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [289]

Yes, absolutely. That trend is also there, that increasing the sourcing as a percentage from India. Existing products also definitely benefit comes. And for the newer opportunity, you have to invest some money. Existing products also, the volume growth will happen.

Operator [290]

Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Over to you all, sir.

Rajendra Vallabhaji Gogri, Aarti Industries Limited - Chairman & MD [291]

Yes. It has been a pleasure interacting with you over the call. We thank you for taking time out and engaging with us today. We value your continued interest and support. If you have any further questions or would like to know more about the company, kindly reach our Investor Relations site. Thank you.

Operator [292]

Thank you very much. Ladies and gentlemen, on behalf of the Aarti Industries Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.