"Aarti Industries Ltd Q2 FY14 Earnings Conference Call"

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MODERATOR	**MR. DHIRAJ RAJPAL, ADFACTORS**

Moderator Ladies and gentlemen, good day and welcome to the Aarti Industries Limited Q2 FY14 Earnings Conference Call. As a reminder, for the duration of the conference, all participants' lines are in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Dhiraj Rajpal. Thank you. And over to you, sir.

Dhiraj Rajpal Thank you and good evening, everyone. We welcome all of you. Thanks for taking out time for Aarti Industries Limited Analysts and Investor Conference Call for Q2 FY14. To discuss on the performance and financial highlights of Q2 FY14 we have with us today, Mr. Rajendra Gogri – Chairman and Managing Director; Mr. Rashesh Gogri – Vice Chairman and Managing Director; and Mr. Chetan Gandhi – Financial Head.

We will begin this call with opening remarks from the management team following which we will open the floor for an interactive Q&A session.

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

Rajendra Gogri Good afternoon, everybody. Thank you for joining us on this call. We shall run you through the operational performance and key highlights for the quarter and half-year ended September 30, 2013. Before we go into the details of performance for Q2 FY14 we wish to highlight that the figure for the quarter and half year-ended September 30, 2012 does not include figures of demerged activities of Anushakti Chemicals and Drugs manufacturing division merged into Aarti Industries Limited w.e.f. April 1, 2012. Hence to this extent these figures are not comparable. It may further be noted that the operations for Anushakti Chemicals and Drugs Limited manufacturing division was primarily into Performance Chemicals. As a result of the above restructuring the financial of the Performance Chemicals segment are not comparable with Q2FY13.

Now, coming to the current performance we are glad to continue on our growth path and present to you another set of growing performance representing all round improvement in performance across all the segments. Total revenue of Q2 FY14 stood at Rs.645 crores. Of this Exports consisted about Rs.302 crores that is about 46% of the total revenue. EBITDA for Q2 FY14 has grown by about 45% at Rs.110 crores Vs EBITDA for Q1 FY14 of Rs.76 crores, while EBITDA margin for Q2 FY14 had improved to 17% from 12.8% for Q1 FY14. Similarly, net profit after tax also grew by over 88%, and was at Rs.42 crores for Q2 FY14 Vs 23 crores for Q1 FY14. The company had recorded production of about 1,649 tonnes per month of Hydrogenated products in this quarter ended September 30, 2013 as against production of 1,638 tpm achieved for quarter ended June 30, 2013 and 1,390 tonnes per month being the annual average for FY13. The overall volumes were majorly similar to that of Q1 as heavy monsoon and water logging in Gujarat in Q2 had affected the logistics and plant operations. However, change in product mix had helped us increase the contribution for the Hydrogenated products. We expect the volumes to progress in the increase, resulting to growth in revenues and operating profit in coming periods.

Now, I would like to give you key highlights of our segmental performance during the quarter ended September 2013. Coming to the financials, the revenue from Performance Chemicals grew about 10% at Rs.447 crores Vs Rs.403 crores for Q1 FY14. Likewise the EBIT for Performance Chemicals also increased by 35% to Rs.65 crores Vs Rs.48 crores for Q1 FY14. During last quarter we had commissioned the expanded capacity for our Pigment Intermediate whereby the production capability have now increased from 300 tons per month to 450 tons per month. This expansion was done to meet the incremental demand arising on account of the closure of a Japanese major manufacturer of this Pigment Intermediate. After successful commissioning of the expanded capacity we have recorded production of about 343 tons per month in Q2 FY14 Vs production of 233 tons per month in Q1 FY14 and 219 tons per month for FY13. Thus, these additional volumes have contributed to increase in profitability of this segment in Q2 and we expect the volumes to further increase going forward.

We are also witnessing strong demand for some of our products catering to the end user application for Oil and Gas industry as well as Plasticizers. We had expanded this capability to meet the growing demand and expect the volumes to increase in the coming quarters. We have further carried out debottlenecking for our Calcium Chloride Granulation unit thereby increasing the production capacities from about 1200 tons per month to 2000 tons per month. This product is majorly exported and has high growth potential in global markets. Thus, on an overall basis where there was no significant volume growth in Hydrogenated products the improvement in margins by altering the product mix incremental volumes of Pigment Intermediate and Plasticizer, etc. had helped improve the EBIT for the segment.

Speaking about Agri Intermediate and Fertilizer segment the total revenue for the quarter were majorly flat at Rs.91 crores. However, some products realignment has resulted in the EBIT to improve from Rs.16 crores Q1 FY14 to Rs.17.5 crores for Q2 FY14. Of the above revenue, the components of Fertilizer SSP for Q2 FY14 were Rs.12.6 crores as compared to Rs.7.9 crores for Q1 FY14, and Rs.17.56 crores for Q4FY13. In quantitative terms, the sales of SSP in Q2 FY14 were 17,470 tons as compared to Q1 FY14 volumes of 11,054 tons and Q4 volumes of 22,926 tons. Sales in Q1 were affected by account of delay in release of government policy for distribution of subsidy. The increase in volume of Q2 were lower than our expectations. The same way on account of heavy monsoon in various parts of India and high inventory with the end users. Considering the circumstances we have decided to drop the plans for setting up an additional SSP unit at new location namely Jhagadia announced by us earlier this year. Instead, we are in the process of expanding the existing capacity at Vapi, thereby increasing the production capability from about 100,000 tons p.a. to about 140,000-150,000 tons p.a. These expanded capacities will be commissioned by H1 FY15.

Now I will hand over to Mr. Rashesh Gogri for briefing you about the Pharma and Home and Personal Care segments. Thank you.

Rashesh Gogri Good afternoon, friends. As discussed previously the growth in Pharma segment by the way of incremental volume has helped the margin from this segment to increase significantly. Further, the increase in volume to the regulated markets and realignment of product mix had also assisted in improvement of margins. Revenues had increased from Rs.63.3 crores for Q1 FY14 to Rs.69.5 crores for Q2 FY14, thereby posting over 10% Q-o-Q growth and over 62% Y-o-Y growth. Similarly EBIT has also increased to Rs.11.8 crores for Q2 FY14 Vs annual EBIT of Rs.9.5 crores for FY13 and EBIT of Q1 FY14 was Rs.7.3 crores and that of Q2 FY13 of 1.6 crores. Thus, as explained earlier incremental growth in revenue resulted in significant improvement in EBIT. Exports now account for more than 50% of the total segmental revenue. We expect to continue on the growth momentum and target this segment to grow at above 30-35% on an annualized basis.

Coming to the last segment that is Home and Personal Care segment wherein the product portfolio is being reshuffled to improve the performance had shown positive signs. Introduction of new range of Specialty Chemicals have improved overall margin in this segment. Additionally, it has also assisted us in reducing the dependence on FMCG majors wherein the margins are relatively low. Thus, this gradual shift in product mix is now showing results by way of better performance with revenue for Q2 were majorly similar with Q1, the EBIT has increased to Rs.1.9 crores from Q2 FY14 against the loss of Rs.0.23 crores in Q1 FY14. The increase in volume of Specialty Chemicals and product realignment activity would help further improve the performance of these segments.

In addition to the increase in volume and the change in product mix, the performance of all the segments had also been benefitted by the depreciation of Indian rupee in Q2 Vs Q1, and the depreciation of the Indian rupee has been benefitted to our export by way of better margins, and also helped us increase the domestic volumes and margins as import substitute. Thus summarizing the quarter's performance over growth across all the segments including faster-paced growth in Pharma has helped us in achieving this performance. With this aspect we expect to build up this performance going forward and also in future years. Thank you.

Moderator Thank you very much sir. We will now begin the question-and-answer session. First question from the line of Surya Narayan Nayak from Network Stock Broking. Please go ahead.

Surya Narayan Nayak Can you elaborate on the Pharma segment for this quarter why the EBIT margin has grown significantly? Historically, we had margin close to 5% but now it has improved close to 15-16%. And if you can throw light on the sustainability of such kind of margins going forward?

Rashesh Gogri I would like to explain basically in Pharma we are having exports to the high margin regulated markets. The other factor being the removal of DPCO in certain products. So now we are able to charge higher rates for certain products which are going to remain high in future also. Such results will be sustainable going forward.

Surya Narayan Nayak May I know out of this Rs.70 crores revenue Y-o-Y what is the change in the export to the regulated markets and the other markets?

Rashesh Gogri The regulated markets, the exports are Rs.18-20 crores. We were earlier less than Rs.10 crores.

Surya Narayan Nayak What was the case in case of last year second quarter?

Rashesh Gogri I think it was around Rs.10 crores.

Surya Narayan Nayak So not much has changed if you can say on the regulated markets?

Rashesh Gogri Rs.10 crores has become Rs.20 crores

Surya Narayan Nayak Is there any change in the product mix of the Pharmaceuticals?

Rashesh Gogri Now, we are catering more towards the high margin regulated markets. Among regulated markets we had launches in US as well as in the European market.

Surya Narayan Nayak Which are the therapeutical segments these products are catering to?

Rashesh Gogri The four major range that we operate in are mostly into anti-hypertensives, anti-cancer and corticosteroids which are used for asthma, and CNS range of products.

Surya Narayan Nayak You said that you are targeting 30-35% growth in Pharma. Is there any CAPEX going forward lined up for Pharma?

Rashesh Gogri We are going to do total CAPEX of Rs.40 crores in this year.

Surya Narayan Nayak By end of the year?

Rashesh Gogri Yes.

Surya Narayan Nayak And how much CAPEX till date we have done in FY13 half year?

Rashesh Gogri It is in various stages of implementation. I think between 25-30 crores has been done.

Surya Narayan Nayak You are also catering to the Personal Care. When shall we able to see a higher margin, at least 10% margin if at all in case of Home and Personal Care?

Rashesh Gogri 10% margins are never going to come. It is more volume-driven business and basically we are competing against other producers who are producing Lapsa and there the margins are 5% or even less. We are trying to change that by making more Specialty Chemicals which have 10% kind of margins, but still they will account for only 50% of the overall volumes.

Surya Narayan Nayak But, you have not provided the capital employed particularly to that sector. If you can throw some light on asset turnover of that particular vertical because the margin happens to be very low.

Rashesh Gogri Asset turnover is currently not high, but we are working on increasing the asset turnover, and I think in the next couple of quarters we will be able to bring it at the desired level.

Surya Narayan Nayak It is almost stagnating around close to Rs.40 crores for two years. Is it going to see some change in the turnover due to the introduction of any new products?

Rashesh Gogri Yes, we are going to have higher turnover.

Surya Narayan Nayak What is the current asset turnover if you can quantify?

Rashesh Gogri Below 3 I think.

Moderator Next question from the line of Manit Varaiya from Vallum Capital. Please go ahead.

Manit Varaiya I have one question which is regarding the basic raw materials of our company. In the recent times we have come across a lot of reports on shale gas which are stating that there can be a shortage of Benzene or Toluene and which could lead to increasing the prices of Benzene and Toluene, which are major raw materials to us. So just wanted to understand how we are prepared to cope up this price rise in the raw material and how our gross margins will get affected by the same?

Rajendra Gogri Because of shale gas overall it is expected that more ethylene will come from that and that will affect the Benzene and Toluene but fortunately India is a net exporter of Benzene and because of that we do not expect any shortages of Benzene in India whereas pricing is concerned it will depend on the global demand and supply situation but whatever interaction we have been having with the various players in this it is not expected to cross much above $1500. Currently, it is around $1200-1300 range. So we do not anticipate any availability and price issues as we have explained in past also because all our competitors are also in the same boat regarding Benzene price. We are able to pass on the price increases to the customers. The only thing is it affects our working capital requirement and in absolute terms our operating margin remains same but as a percentage it tends to decrease.

Manit Varaiya And any kind of effects on volume because of its price fluctuations?

Rajendra Gogri As we have already announced the PNCB-ONCB we are doing debottlenecking. Also as the German company**,** Lanxess has stopped PNCB-ONCB production in end of 2012 we are undertaking the expansion and that progress will start kicking in from Q4 FY14 this year.

Moderator Next question is from the line of Rohan Gupta from Emkay Global.

Rohan Gupta Just a couple of questions from my side. First, if you can give us a break up of asset turnover in each of your business segment, though you mentioned about the PG segment?

Rajendra Gogri May be we can take this later on, on asset turnover.

Rohan Gupta My second question will be on the growth prospect, as you mentioned for the Pharma you are planning almost 35% growth. Similarly, how you see the growth in other segments, Performance Chemicals and Agri business and Home and Personal Care?

Rajendra Gogri I think Home and Personal Care also has been already discussed in the previous question. As far as Performance Chemicals and Agri Intermediate as we had given in our initial briefing our Hydronated product volumes will further go up, and because of that volume increase, we expect higher top line as well as higher operating profit in that segment, and also because we are expanding PNCB, ONCB, so that will also increase. Basically, some structural changes are taking place mainly because of the exchange rate. The exchange rate which used to be around 55 stabilize around 61. So that is increasing the margins not only in exports but also against imports because some the products the pricing is done on a landed basis. Thus benefitting the Company

Rohan Gupta If you can just share a little bit more about what is the percentage of our revenue linked to (IPP) Import Parity Price basis where we are gaining from the currency fluctuation or currency depreciation?

Rajendra Gogri We have got a variety of number of products. So some of the products gets impacted

Rohan Gupta Those products contributing what percentage of our revenues, just some sense that will give us a fair idea about that how is the currency benefit is there?

Rajendra Gogri That will be 8-10% where there will be benefit on that front

Rohan Gupta 8-10% based on pricing is done only on the IPP?

Rajendra Gogri Because 50% is exports.

Rohan Gupta And balance of 10% is from the domestic market price. So only 40%.

Rajendra Gogri There are two things. One, the pricing is done on the domestic competition where the import parity sometimes does not make a difference and some of the products is more of international competition where the international parity comes into the picture, and some products like Sulfuric Acid and all, are the type of products which are purely domestic, there is no import taking place.

Rohan Gupta Similarly, like Benzene which are our key raw material and because of depreciation of currency the input price will go up. Thus, it will be nullifying the overall impact.

Rajendra Gogri It is basically on the value addition that is where the benefit comes in. So in absolute terms the price increase in rupee is more than the price increase in rupee terms of the raw materials.

Rohan Gupta Would it be possible for you to quantify the currency benefit element in our first half number in terms of our segmental profit on overall basis?

Rajendra Gogri In first half the sharp movement in exchange rate changes impacted the PAT . Generally, when we are moving from 55-60 at least Rs.10-12 crores benefit per year. For every one rupee in depreciation the Company gains at least about Rs.2 crores in the bottom-line.

Rohan Gupta And June quarter was affected because of the huge volatility in the currency?

Rajendra Gogri Yes.

Rohan Gupta Even in the September current quarter then we should estimate that not much has come; only Rs.2-3 crores will be there because of currency element?

Rajendra Gogri Yes.

Rohan Gupta So the overall performance has improved just not because of the currency fluctuation but some measures taken by the company also, and as you have mentioned that getting into some segment which has helped in taking price increases.

Rajendra Gogri Regarding the asset turnover in the Pharma we are about 3.8; and Home and Personal Care was about 1.65; and Performance and Agri is about 2 for quarterly numbers.

Management These are quarterly numbers not the annualized numbers.

Rohan Gupta This is asset turnover you have mentioned, right?

Rajendra Gogri Yes.

Rohan Gupta So that does not matter whether it is quarterly or annually.

Management It matters. It is linked to quarterly turnover. Annualized means you will have to multiply by 4.

Rohan Gupta If similar numbers can be shared for the working capital requirement in each segment?

Rajendra Gogri Working capital requirement tends to be higher in Pharma, around 60-70 days is debtor level and around 90-100 days is stock, combined is 160 odd.

Rohan Gupta And we generally have creditors' days also of 60 days or something?

Rajendra Gogri Yes around 50-60.

Rohan Gupta For the growth which you are projecting is close to (+30%) on top line and considering that our net working capital requirement will be close to 100 days that is roughly 30% of the revenue, so how are we planning to fund the increasing working capital which will be required by our business?

Rajendra Gogri 30-35% actually more on the operating profit. As you know as the turnover increase in Pharma we expect that operating profit to increase more. So 30-35% more increase in EBIT. The overall turnover will increase around 20% for the company as a whole.

Rohan Gupta You are guiding for 20% top line growth for FY14?

Rajendra Gogri Yes.

Rohan Gupta And despite being such a good first half it means that in second half you are either looking just a flat number of the last year.

Rajendra Gogri If you see the first quarter was less. If you consider second quarter we are around Rs.(+60) crores on a PBT level, and even if we maintain the same level we are going to see around 15-20% growth on the PAT level for the entire year.

Moderator We shall take a follow up question from Surya Narayan Nayak from Network Stock Broking. Please go ahead.

Surya Narayan Nayak Your Performance Chemicals vertical appears to contribute nearly 70% of the revenue. In this light I just want to understand the margin in the first quarter why it has dropped to 11.9%. If you compare the Benzene prices then in third quarter of the last year in spite of Benzene price going up from $1250-1500 per ton you could able to maintain margin of close to 15%. But why in spite of hauling Benzene prices you could not sustain the margin to that level and fallen to 12%?

Rajendra Gogri You are asking about previous quarter?

Surya Narayan Nayak Previous year from September 2012 to December the prices of Benzene shoot up from $1200-$1500. But in spite of that you could maintain the margin at around 16% and followed by 14.5% in the subsequent quarter, but first quarter in spite of benign prices of Benzene, your margin has fallen to 12%. Why I am asking is that your Performance Chemicals segment is contributing maximum. Is there any lag effect to that or if you can explain on that what was the reason for the significant fall in the margin?

Rajendra Gogri Actually, the margins have improved.

Surya Narayan Nayak First quarter I am asking, 11.9%?

Rajendra Gogri First quarter, one of the reasons we have given was the exchange rate which has affected the margins.

Surya Narayan Nayak Sir, the prices of Benzene also had fallen?

Rajendra Gogri Benzene effect generally has a lag of a quarter and its impact is there. Also we have changed the product mix from low margin business to high margin ones resulting in higher realizations.

Surya Narayan Nayak First quarter margin of around 12% is an aberration if you look at, is it the case?

Rajendra Gogri Yes.

Surya Narayan Nayak Another point coming back to your Benzene pricing let us say with the advent of this Satorp Refinery in Saudi, they have also huge capacity of 400,000 barrels per day, around 20 million tons p.a., they are also having Benzene capacity. So are you going to see any downward pressure on the Benzene prices because Reliance was dictating all through the Benzene prices. So are you observing any kind of good pricing offer by Satorp on the global front where you can procure at competitive prices.

Rajendra Gogri Basically, Benzene prices are not dependent on individual territory or individual manufacture. It is more of a global demand and supply and because India being a net exporter we buy mainly from Reliance on an import parity basis and you get certain benefits above import parity.

Surya Narayan Nayak Where do you see the Benzene prices stabilizing at around $1200-1300?

Rajendra Gogri It is on this level right now. And as such we are not much worried about Benzene prices as a company, because we are able to pass on that. Actually, higher the Benzene price we generally get more margins, because we are able to get something more from the customers in general. But, in general whatever indication we have got from the Petrochemical sector that it will not cross $1500.

Surya Narayan Nayak Again, in the Agriculture Intermediary segment you told that you have dropped the idea of having SSP plant at Jhagadia. So would you please throw some light on how you would be able to grow that segment which is the second largest? What is the way forward because the contribution of overall profitability is falling because the revenue contribution is also falling?

Rajendra Gogri In that particular segment in fertilizer we have got lot of agro intermediates which is contributing the turnover. The Fertilizer was only about 12 crores out of 90 crores. Fertilizer project we have dropped but there are a lot of other products which are intermediates which are mainly exported.

Surya Narayan Nayak So out of around Rs.80 crores of Agri Inputs you are totally exporting, is it the case?

Rajendra Gogri No, overall still 50%. But if you take-out the Fertilizer and Nutrient revenues, then it will become more than 60%.

Surya Narayan Nayak Currently, who you export most, if you can give the name of the clients?

Rajendra Gogri Basically, we are exporting world over and all the major global companies.

Surya Narayan Nayak That I am aware but if you can name the largest importer of your intermediates?

Rajendra Gogri BASF is the largest chemical company in the world. We are the largest supplier to BASF from India. So across the segment we supply to BASF, we supply to Bayer, we supply to Syngenta, all the major agrochemical company, whether they are printing ink company or polymers, so we have a very strong customer base.

Surya Narayan Nayak What is the reason for this half of the fiscal the receivable days has been trimmed considerably?

Rajendra Gogri That has been instruction to our marketing department because of exchange rate in rupee terms the prices are going up. So it is essential that we keep our working capital under control. So we are trying to aggressively get from the customer, sometimes even giving them more of 12-15% kind of discount so that we can keep our working capital requirement under control.

Surya Narayan Nayak Is there any change in the policy shift so far as the working capital management is concerned?

Rajendra Gogri There is no policy, it is more of an aggressive collection.

Surya Narayan Nayak Such type of aggression will continue in the second half as well?

Rajendra Gogri Yes.

Moderator The next question is from the line of Chetan Takkar from Emkay Global. Please go ahead.

Chetan Takkar I just wanted to understand on the margins like the way we pass on any increases in cost to the end customers with a lag. So would it work reverse as well wherein customers would obviously want to squeeze the margins because of the rupee depreciation going forward?

Rajendra Gogri Basically it depends on where the competition is. If there are Indian competitors then all the competitors may try to reduce the prices. If the competitor is Chinese or if the competitor is European then that much pressure will not be there for reducing the prices. It is balancing. But in general overall we are able to retain part of this benefit.

Chetan Takkar The margins of close to 15-16% on Performance Chemicals, you think we will able to hold on to it in the next half as well?

Rajendra Gogri Yes.

Moderator Next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli What was the sales in FY13 of PNCB ONCB category?

Rajendra Gogri FY 2012-13 was about 48,000.

Chirag Dagli And how much this will be in terms of crores?

Rajendra Gogri Actually, lot of this goes into our captive consumption. If you see we have a very well integrated product line. Substantial part of this gets into downstream consumption.

Chirag Dagli Of this 48,000 how much would we be consuming on our own?

Rajendra Gogri Almost 50%.

Chirag Dagli What I was trying to gauge was, Lanxess shutting capacity what sort of market opportunity will this open up for us?

Rajendra Gogri That has opened up lot of possibilities, lot of exports to European and some international markets and some products where there was a competition from Lanxess into India and that also has gone down. So that has opened up the additional volumes and also as we have increased the Pigment Intermediate capacity, our captive demand also is increasing. That is the reason we are doing this expansion.

Chirag Dagli What would have been Lanxess' capacity the one that got shut down for PNCB ONCB?

Rajendra Gogri It will be I think around 20,000-25,000 tons that is where they were operating in.

Chirag Dagli So technically that is the kind of opportunity that opens up for us assuming that there is a third-party market for that and we do not need that?

Rajendra Gogri Technically, yes. Actually now they have become our customers because some of them they require material.

Chirag Dagli And we have enough capacity to address this 20,000-25000 tons?

Rajendra Gogri We are expanding from our present 57,000-80,000 tons.

Chirag Dagli So we have capacity to target that market?

Rajendra Gogri Yes.

Chirag Dagli: On the working capital side I am sorry I missed that comment. You said you tightened the working capital requirement. So you are basically collecting money faster?

Rajendra Gogri I am also giving incentive to customer to pay faster by giving higher discounts more towards 15% or so, and there are also international customers because internationally the money is available at much lower cost.

Chirag Dagli And this will continue you are saying?

Rajendra Gogri Yes.

Chirag Dagli: Any quantitative thoughts in mind in terms of reducing working capital by 10 days, 20 days, 30 days, is there a target there or is it more a general policy?

Rajendra Gogri As far as debtors are concerned I think this kind of level is what we can get. More than that will be difficult. Inventory also basically because we have lot of value added products, so we have to have lot of intermediate inventory increases. We are continuously trying to reduce the inventory levels also.

Chirag Dagli This every one rupee movement will give you 2 crores benefit. This is on the sales side or on the profit side?

Rajendra Gogri Profit side.

Moderator We are going to take a follow up question from the line of Ashwin Subramaniam from Techno Shares and Broking. Please go ahead.

Ashwin Subramaniam Your other income has shown almost a 50% increase. Can you just let us know what are the components of this other income?

Rajendra Gogri We were having some shares of Aarti Drugs, one of our group companies and 150,000 of those shares we have liquidated in this quarter.

Ashwin Subramaniam My second question was now the half year is over. So what do you think will be your overall outlook for the next half year on a segmental basis?

Rajendra Gogri Segmental basis, looking at second quarter numbers, we should double it up in second half in most of the divisions.

Ashwin Subramaniam Your exports have shown very good growth on a quarter-on-quarter basis. So do you see the trend continuing in the coming two quarters as well?

Rajendra Gogri Basically, some of the products the domestic demand also is there, our import subsidiary demand is there, but the major growth is going to come in export market only, because domestic economy is not growing that much.

Moderator Next question is from the line of Ashwin Patel from N.V. Patil Shares. Please go ahead.

Ashwin Patel I just wanted to check what is the reason you would like to attribute for the QoQ PAT growth of 88%?

Rajendra Gogri Basically, the previous quarter was low. So on that basis it looks little bit higher. There are couple of factors; product mix has been changed, the exchange rate also has benefited and there are some volume increase. So these three factors combined we are able to increase the operating margins and correspondingly EBITDA and PAT.

Ashwin Patel And any CAPEX plans for the next year?

Rajendra Gogri This PNCB ONCB expansion we are already doing, and in the SSP instead of putting up a large Greenfield project we are expanding in our existing site. In the Pharma segment also we have expansion plans.

Ashwin Patel How do you see your performance in the next cyclical year?

Rajendra Gogri Next cyclic year at least minimum 20% growth in bottom line.

Moderator We are going to take a follow up question from the line of Surya Narayan Nayak from Network Stock Broking. Please go ahead.

Surya Narayan Nayak Can you throw some light on the status of the ongoing projects whatever had been declared in FY13?

Rajendra Gogri This PNCB ONCB expansion in Q4FY14 we expect it to complete by first quarter of FY15, and the SSP expansion in the first half of FY15. Some further debottlenecking for some of our other products also is going on, and we had also announced one project in Dahej, but that will be going more on FY16.

Surya Narayan Nayak Any sales contribution has come from any new CAPEX this year till date?

Rajendra Gogri The Pigment Intermediate and some contribution has Pharma has come from the new CAPEX,

Surya Narayan Nayak All of your Pharma facilities are US FDA compliant?

Rajendra Gogri Out of four, two are US FDA registered.

Surya Narayan Nayak So two are US FDA?

Rajendra Gogri The major Pharma sites are US FDA registered .

Surya Narayan Nayak Do you have a plan to register the balance two also?

Rajendra Gogri No. They are catering more to domestic markets.

Surya Narayan Nayak If you can quantify the CAPEX amount for FY15 as well?

Rajendra Gogri In FY15, we are going to expand on Polymer sites as we anticipate some opportunities that we are planning, and Dahej project will also come up. We are still in the process of finalizing the CAPEX for the next year, but it will be approximately to the tune of Rs.100 crores.

Surya Narayan Nayak Will it be funded through internal accruals or you will be requesting to some debt?

Rajendra Gogri Basically it will be both internal accruals and debt. But Going forward, we intend to lower our debt-equity.

Surya Narayan Nayak Earlier, you were resorting to ECB and external funding because of rupee depreciation. Have you changed your course towards the rupee rate?

Management Due to Rupee, depreciation and increase in forward premium and hedging cost we believe Indian markets have been able to offer some better rates. We are looking at raising Rupee debt rather than using the foreign currency flows.

Surya Narayan Nayak In future we will be seeing more of rupee debt, right?

Rajendra Gogri It depends on how the cost works out for the debt..If the forward premium is around 4% we may look at international but currently rupee loan seems to be more attractive.

Moderator As there are no further questions I would now like to hand the conference over to Mr. Rajendra Gogri for closing comments. Thank you.

Rajendra Gogri We thank all the participants and as mentioned in our opening remarks with depreciation of Rupee the overall operating profits and margins will increase. Also the Jhagadia plant and the Pharma business is expected to witnessed surge in volumes. We expect good growth for FY14 as well as for FY15. So overall things are looking good. Thank you.

Moderator Thank you sir. On behalf of Aarti Industries Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.