



“Aarti Industries Ltd Q2 FY15 Earnings Conference Call”

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MODERATOR	MR. DHIRAJ RAJPAL, ADFACTORS

Moderator: Good evening, ladies and gentlemen. I'm Mridula, moderator for the conference call. Welcome to Q2 FY15 earnings conference call of Aarti Industries Ltd. We have with us today Mr. Dhiraj Rajpal from Adfactors PR Private Limited. At this moment all the participants are in listen-only mode. Later we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Dhiraj Rajpal. Over to you, Sir.

Dhiraj Rajpal: Thank you and good evening every one. We welcome all of you. Thanks for taking out time for Aarti Industries Limited analyst and investor conference call for Q2FY15, to discuss on the performance and the financial highlights of Q2FY15. We have with us today Mr. Rajendra Gogri, Chairman and managing Director, Mr. Rashesh Gogri, Vice Chairman and Managing Director and Mr. Chetan Gandhi, the CFO. We will begin this call with the opening remarks from the management team following which we will open the floor for an interactive Q&A session. Before we begin I would like to mention that certain statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the investor release and the con-call invite which was sent earlier. I would now like to handover 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 a half year ended September 30, 2014. We are glad to present to you another set of growing performance representing all round improvement in performance across all the segments. Total revenue of Q2 FY15 stood at Rs. 761 crores, of this export consisted about Rs. 376 crores that is over 49% of the total revenue. EBITDA for Q2 FY15 was Rs. 122 crores representing a growth of 15% on Y-o-Y basis and by over 8% on Q-o-Q basis. EBITDA margin for Q2 FY15 also improved to 16% from 15.2% for Q1 FY15. Similarly, net profit after tax also grew by 20% on Y-o-Y and Q-o-Q basis and was at Rs. 50.7 crores for Q2 FY15 versus Rs. 41 crores for Q1 FY15 and Rs. 42 crores for Q2 FY14. Volume growth of valuated range of products has resulted in this increase and the same is expected to continue further. Considering the performance the board had recommended an interim dividend of Rs 2.25 per share that is 45%.

Now I would like to give you key highlights of our segmental performance during the quarter ended September 2014. Coming to the financials, the revenue from specialty chemical segment grew about 16% at Rs. 625 crores vs Rs. 537 crores for Q2 FY14. Likewise the EBIT for this segment also increased by 36% to Rs. 104 crores vs Rs. 83 crores for Q2 FY14. The margin expansion and the incremental volume for valuated products have resulted in this growth. The company had recorded production of over 1800 tons per month of hydrogenated products in this quarter ended September 30, 2014 as against production of 1653 tons per month for quarter ended June 30, 2014. We expect the volume to progressively increase and result in growth of revenue and operating profit in the coming periods.

As discussed previously, the growth in pharma segment by way of incremental volume has helped the margin from this segment to increase. Further with increase in volume to the regulated market, the revenue had increased from Rs. 69 crores for Q2 FY14 to Rs. 79 crores for Q2 FY15 thereby posting over 14% Y-o-Y growth. Similarly EBIT has also increased to Rs. 12.5 crores for Q2 FY15 versus Rs. 11.8 crores for Q2 FY14. We expect to continue on the growth momentum.

Coming to the last segment, that is home and personal care, the revenue of this segment for Q2 FY15 was at Rs. 57 crores with EBIT of Rs. 0.7 crores. The business as we know is a low margin business and various efforts are being made to improve the product mix and ultimately to improve the margins for this segment.

Thus, summarizing the quarter's performance, growth across various segments including faster paced growth in Pharma has helped in achieving this performance. You would have also noted that EPS for H1 FY2015 was Rs. 10.4. (effectively 62% of FY14 EPS of Rs. 16.78).

As you are aware that we have been undertaking various expansion activities and are targeting to start commissioning of this project starting from Q4 FY15. Hence with this rationale we feel we will be able to meet our growth estimate of top line growth of about 15%-20% and a profitability growth of about 20%-24% CAGR over next three to four years on account of the margin expansion as well as the volume growth across all segments. With this aspect we expect to build up the performance going forward and also in future years. Thank you. Now we are open to any questions.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing * and 1 again. The first question from Mr. Neeraj Mansingka from Edelweiss. Please go ahead.

Neeraj Mansingka: Sir, congratulations on the numbers. Can you give some color on how the trajectory of the margins will continue or behave over the next few quarters and years, and what confidence level do you have in the range probably on what approvals or milestones you are looking at when you are talking of growth in the pharma side.

Rashesh Gogri: Pharma, this quarter the margins were about 15%. We expect this pharma segment in the next few quarters to reach to 20% level from the current level.

Neeraj Mansingka: Twenty percent is revenue share or EBIT margins?

Rashesh Gogri: EBIT margins.

Neeraj Mansingka: And, sir, any thought process on what will continue to make the growth come in for the pharma side?

- Rashesh Gogri:** It is all export-led growth and exports with the regulated markets and other ROW markets are increasing quarter on quarter and that is what is, you know, driving the overall revenues.
- Neeraj Mansingka:** Okay. any specific milestones you're looking at in terms of approvals and DMF filings, etc., and just throw some color on that side.
- Rashesh Gogri:** We have at least four or five products, which are US-based products for which we are awaiting approvals and we are expecting in the next three to four quarters.
- Neeraj Mansingka:** Could you provide some color on that in terms of growth and revenues.
- Rashesh Gogri:** The largest product would be at Rs. 10 to Rs. 15 crores levels of revenue once we get the approval. The largest product would give that much. It could be between 5 crores to 15 crores each product broadly
- Neeraj Mansingka:** Okay sir, got that. Second question is on the specialty chemicals side. Can you throw some light on the volumes for the quarter, what you have seen in terms of your hydrogenation volumes or the other volume side?
- Rajendra Gogri:** Hydrogenated volumes was 1800 tons per month from 1650 in Q1 and PNCB ONCB volume was 12,750 tons as compared to 11,935 in Q1 and down the line, next quarter we expect these volumes to go on increasing this year as well as next year Nitro Chloro Benzene and our PDA expansion will go on stream.
- Neeraj Mansingka:** Okay, sir. The Benzene prices, will you see a correction in the margins in Q3? On the domestic side do you see the margin on a percentage remaining flat to slightly lower because of the correction in the prices?
- Rajendra Gogri:** Actually it will increase as a percentage because of the crude oil price going down. The Benzene price is going down, Q2 price averages around 85.8 and November price is already 78. Benzene price is going down, so as a percentage that will always have impact on increasing operating margins.
- Neeraj Mansingka:** That is on the export side.
- Rajendra Gogri:** Both, domestic as well as export it will be of a similar impact.
- Neeraj Mansingka:** Okay. I will come back in the queue. Thank you, sir.
- Moderator:** Thank you, sir. Our next question would be from Mr. Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** Sir, the figures, which you have given, 12750, is for month or it's for the entire quarter?

- Rajendra Gogri:** That's on a quarterly basis.
- Ranjit Cirumalla:** And, sir, the second question is that in the earlier calls you had said you are giving an annual guidance of around 20%-25% PAT growth. Now you have actioned it upto 3 years CAGR.
- Rajendra Gogri:** No, we had given for three to four years guidance from the beginning because these various projects are going to go on stream in the second half of this year and FY15-'16.
- Ranjit Cirumalla:** FY17 you are quite comfortable with this 25% growth.
- Rajendra Gogri:** Yes because in FY16 we will have most of the projects getting completed and the volume will start going up and the full impact on the total volume will start coming through in FY17 and FY18.
- Ranjit Cirumalla:** And I am asking because the first half you have already delivered 42% growth, so would you like to revise for FY15?
- Rajendra Gogri:** Yes, we are basically targeting more than what we have indicated this year itself and the next year also we should be able to reach more towards 24% growth.
- Ranjit Cirumalla:** Okay, sir. Any color on the demand front for the next year?
- Rajendra Gogri:** We have been mentioning two sectors, which are really growing. One is on engineering polymers and second is in agro chemicals, both of them are showing robust growth so we are confident that whatever expansions we are doing we should be able to start filling the volumes quite fast.
- Ranjit Cirumalla:** Thanks.
- Moderator:** Thank you, sir. Our next question would be from Mr. Saravanan Vishwanathan from Unifi Capital. Please go ahead.
- Saravanan V.:** Sir, now that we have proposed to demerge the pharma entity, I wanted to have some specific color on the pharma segment. On the business side, have we got four DMF approvals so far or you would be getting?
- Rashesh Gogri:** In the pharma segment we have filed 27 US-DMFs, we have 32 EU-DMFs and 15 CEPs, and then we filing more DMFs every quarter.
- Saravanan V.:** Okay. Out of the 27 DMFs have we started getting any approvals?
- Rashesh Gogri:** In the US market currently we have five products, which are already commercial and we expect every quarter some more and more products to start.

- Saravanan V.:** Okay. The pharma segment at this point in time caters to US, Europe, as well as rest of the world market.
- Rashesh Gogri:** And India market also.
- Saravanan V.:** Okay.
- Rashesh Gogri:** In pharma segment we have API, which goes to these markets and also we also export and sell locally the regulated N minus 2 intermediates. So N minus 2 intermediates approvals can be much quicker and we don't have to wait for three to four years, like in the case of UK or US.
- Saravanan V.:** Okay. Got it, sir. And does the caffeine business gets clubbed under pharma or is it part of specialty chemicals?
- Rashesh Gogri:** It gets clubbed under pharma because it is a drug also, so it goes in pharma.
- Saravanan V.:** Okay. Is it possible to share the net block and debt that would be assigned to the pharma business?
- Rajendra Gogri:** This is going to happen in next year. As far as assets are concerned these plants are totally separate physically, so fixed assets are totally segregated as well as stock, debtors and creditors because there are not any common raw materials. Things are very clear. There will not be any factory where, there will be overlapping between the various businesses, but debt and equity side that we will go into full detail next year when we do the complete exercise.
- Saravanan V.:** But can we assume from the year one it will be a profitable company?
- Rajendra Gogri:** Yes.
- Saravanan V.:** Okay. The current management would continue to run the pharma entity? How will time be allotted to both the entities.
- Rajendra Gogri:** Now also there is bifurcation of responsibilities. The promoters will be remaining same for all the three entities. There is not going to be any difference.
- Saravanan V.:** Okay, sir. Thank you. I'll get back to you.
- Moderator:** Thank you, sir. Our next comes from Mr. Rohit Nagaraj from Sunidhi Securities. Please go ahead.
- Rohit Nagaraj:** Congratulations for a good set of numbers. Sir, what was the CAPEX during the first half?
- Rajendra Gogri:** Including Capital WIP it was about Rs.130 crores.

- Rohit Nagaraj:** Okay. And none of it is capitalized?
- Rajendra Gogri:** No, part of it is capitalized and part of it will be capitalized in the second half.
- Rohit Nagaraj:** Okay. And out of the total debt what would be dollar denominated debt?
- Chetan Gandhi:** The dollar denominated debt would be around 30% to 35% of the total debt right now.
- Rohit Nagaraj:** Ok. And what would be the cost of dollar debt and if you can bifurcate between the rupee debt?
- Chetan Gandhi:** Dollar debt would be somewhere between LIBOR plus 2-1/2 to L plus 3-1/2 so that's the broader range on dollar debt and the rupee would be somewhere between 11% to 13%.
- Rohit Nagaraj:** Okay. And how much can we go in terms of dollarization, I mean, 30% can go up to what level?
- Chetan Gandhi:** Go up to let's say around 50%-60% or so.
- Rohit Nagaraj:** Okay. So that is the maximum or peak level?
- Chetan Gandhi:** Yes, because I was talking of term loan in rupees so that we can't change.
- Rohit Nagaraj:** Okay, but there is a possibility that as and when those come for, say, renewal we can go to dollar rate.
- Chetan Gandhi:** Based on the rate and structure available at that point of time we can take a call.
- Rohit Nagaraj:** Okay. So this particular quarter was there any benefit from the interest front because of dollarization?
- Chetan Gandhi:** There was some benefit on that front, so that's why you would have seen borrowing cost reducing to some extent.
- Rohit Nagaraj:** Okay. And in terms of the pharma business if I understood correctly, per product we are expecting something like 5 to 15 crores revenues for the year, is that understanding right?
- Rashesh Gogri:** Yeah, yeah for the US market.
- Rohit Nagaraj:** Okay. And in terms of pharma business, is there any competition from the domestic market because most of the players are now entering into pharma segments, APIs and intermediates. So how confident are we in terms of keeping the margins. So how confident are we to keep margins on a sustainable basis.

- Rashesh Gogri:** Yes basically whatever current revenues are coming from past approvals, so on those we may not have any competition because whichever was competition that we have fought three years back. So going forward how our new projects are starting that is where the key is and we are having good ongoing projects with new products also.
- Rohit Nagaraj:** Okay. Thanks a lot.
- Moderator:** Thank you, sir. Our next question comes from Ms. Veena Patel from Wealth Management.
- Veena Patel:** Although we may have some CAPEX coming on stream in this financial year also, is it possible for us to give fine details on which projects are going to come on stream for FY15?
- Rajendra Gogri:** Nitro Chloro Benzene expansion, PDA, the hydrogenation units what we are implementing that's also part of that will get completed.
- Veena Patel:** Sir, in case of Nitro Chloro Benzene can we expand the capacity from 57 metric ton to 75 metric ton?
- Chetan Gandhi:** Yes.
- Veena Patel:** Okay. we have a plant for calcium chloride granulation and for pigment intermediates?
- Rajendra Gogri:** Yes.
- Veena Patel:** Sir, out of the total budgeted CAPEX of around 300 crores, how much have we spent for FY15 and how much will get cleared for FY16?
- Rajendra Gogri:** Around 220 or so will go in this year and the rest will carry forward next year.
- Veena Patel:** And by FY17 all the projects will be fully operational?
- Rajendra Gogri:** Yes.
- Veena Patel:** Sir, what was the gross debt for the first half of this year?
- Rajendra Gogri:** Rs. 1,175 crores.
- Veena Patel:** Okay. It is including even the current maturities?
- Chetan Gandhi:** Yes.
- Veena Patel:** And, sir, what would be the tax rate for the entire year?
- Chetan Gandhi:** We basically are now falling into MAT, so the tax rate would be 21%.

- Veena Patel:** Okay. And this will continue for the next year also?
- Chetan Gandhi:** I guess we should be continuing this for the next few years. Because then we will be getting that MAT credit off. The next four-five years or three-four years we might have this rate.
- Veena Patel:** Okay Thank you very much.
- Moderator:** Thank you, ma'am. Our next question comes from Mr. Rohan Gupta from Emkay Global. Please go ahead.
- Rohan Gupta:** I could not get the impact, which you were talking about of the falling crude prices. Can you, sir, explain it a little bit more in detail?
- Rajendra Gogri:** One of our key raw materials, Benzene, is derived from crude, so if crude starts going down the product the impact comes on Benzene price which was in Q2 was about 85.8, that is expected to be averaging in Q3 more towards 76-78 range. But our margins are more on a volume based, so absolute margins are not affected, but as a percentage the margin increases.
- Rohan Gupta:** So you are saying that in terms of absolute EBITDA may not be affected, but we have to pass on the benefit to the customer of the falling Benzene or raw material prices, right?
- Rajendra Gogri:** Yes. So it affects the top-line but absolute EBITDA the impact is less because in general you have to pass on, depending on the customer to customer, product to product, how much you pass on is a matter of full detail, but as a business generally it gets passed on, both increase and decrease.
- Rohan Gupta:** Okay. So in that case it may look like our margins are increasing, but our absolute EBITDA may remain more or less constant, right?
- Rajendra Gogri:** Yes, It decreases the topline so it gives benefit on working capital
- Rohan Gupta:** Okay. Sir, when you guide for 15-20% topline growth are we also factoring any of this reduction of prices of final product?
- Rajendra Gogri:** This was a general guideline. So depending on how long these kind of things are sustained. If these are sustained for a longer time and it still goes down then the top-line growth may not be of that range.
- Rohan Gupta:** Sir, this year first half we have seen a very strong revenue as well as PAT growth of almost as high as 45%. So when you guide for 20% to 24% PAT growth, I understand, you are giving a slightly conservative number, but you must be factoring some of the risk in giving that number, otherwise you would have been very much confident of guiding 40% to 45% PAT

growth. So, sir, what are those risks, which you are factoring in when you are indicating 24% PAT growth?

Rajendra Gogri: If you annualize the first half of this year compared to the full year the growth is 20%, but we expect to end the year with more than 24% in this year.

Rohan Gupta: Okay. Sir, earlier when we used to talk about our business we used to also include pharma. Now with the proposed demerger of the business do you still think that there will be scope for margin expansion?

Rajendra Gogri: Yes, the chemical margin will expand by itself because we are increasing the volume and we don't expect the manufacturing overheads to increase as much, that is one part. More value added product come in, so that also increases EBITDA margins. But the constant raw material prices, the percentage margins should improve.

Rohan Gupta: Okay. So right now we are probably making almost 16% to 16.5% segment margin in just chemical business not including pharma and HPC. So, where do you see this 16% performance can turn 16.5%, at best case or peak margin where it can go, in the next three years, including all the operating, leverage benefit?

Rajendra Gogri: It can go to, 17%, 17.5%. It can go up to 18% as well in near term.

Rohan Gupta: Okay. Sir, earlier, if I remember the concalls, you had mentioned that in HPC business you may plan to hive it off if it is not picking up, so are there any thought process on that?

Rajendra Gogri: Basically we are expanding there also,, but obviously when we are trifurcating the company, if it is a separate company it becomes easier for anybody else to have some alliances or take over or anything, it becomes much easier. So once it becomes a standalone, separate business, there can be a dedicated efforts and steps taken for betterment of this operations.. .

Moderator: Our next question comes from Mr. Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Sir, during the first half out of the 25% revenue growth, how much was led due to price increases and what was the volume growth?

Rajendra Gogri: More than 15% is led by volume growth.

Rohit Nagaraj: Okay. And at least that much volume growth is likely to continue in the subsequent quarters if not the price increases.

Rajendra Gogri: Yes, as we mentioned it is quarter-to-quarter depending on the commissioning of the capacities, the volume growth will continue on different product lines.

- Rohit Nagaraj:** Okay. Fair enough, sir. That's all from my side.
- Moderator:** Our next question comes from Mr. Saravanan Vishwanathan from Unifi Capital. Please go ahead.
- Saravanan V.:** In the specialty chemicals business what percentage of the business is volume-based pricing? You mentioned raw material prices or even dollar movements may not affect our margins as most of it is cost plus, so what percentage of the business is cost plus?
- Rajendra Gogri:** Seventy-five percent plus business will be cost plus.
- Saravanan V.:** Okay. That's why we are confident that any rapid movement in raw material or currency may not affect us.
- Rajendra Gogri:** Yes.
- Saravanan V.:** Okay. Sir, in the pharma business what kind of therapeutic areas we are dealing with or we are therapeutic area neutral?
- Rashesh Gogri:** In the pharma business, we are present in four major therapeutic areas, mainly anti-hypertensive, anti-cancer, steroids and CNS segment
- Saravanan V.:** Okay. In the HPC segment you were mentioning about some trifurcation. The demerger talks are about only Pharma Company or even HPC?
- Rajendra Gogri:** HPC also will become a separate entity.
- Saravanan V.:** So there will be three different companies?
- Rajendra Gogri:** Yes.
- Saravanan V.:** Okay, sir. Thank you.
- Moderator:** Thank you. Our next question comes from Mr. Sumant Kumar from Elara Capital. Please go ahead.
- Sumant Kumar:** Hi, my question is regarding CAPEX. What is the plan for CAPEX for FY15 and 16?
- Rajendra Gogri:** We have mentioned the total CAPEX was about Rs. 300 crores, out of that around Rs. 220 will go this year and the rest will come in next year and then depending on the other projects. We are also looking for putting captive power plant, there are some other projects, which may start coming in in FY16.
- Sumant Kumar:** And this will only be in specialty chemical, the CAPEX?

Rajendra Gogri: Most of them.

Sumant Kumar: And what kind of asset turnover are we expecting?

Rajendra Gogri: targeting the Asset turnover to be about four.

Sumant Kumar: So we can expect revenues at Rs.1200 crores levels in the next two years.

Rajendra Gogri: Yes, but the volume will start coming in progressively. The expansions are taken with a horizon of about 3 to 4 years future demand, so the impact will catch up slowly.

Sumant Kumar: The revenue will come in FY17 or 18?

Rajendra Gogri: It will mature by FY18.

Sumant Kumar: And the margins will be the same level that we are currently at?

Rajendra Gogri: No, as the volume increases the margins also will increase.

Sumant Kumar: So will be able to generate margins at the similar levels from 300 crores?

Rajendra Gogri: Yes, actually it will be more, because some of them are already debottlenecking type or in the existing infrastructure, so for all the incremental volumes, which will be generated from this CAPEX will have higher operating margins.

Sumant Kumar: Ok. Including the 300 crores CAPEX that you have to plan, what will the free cash flows be in FY16-17?

Rajendra Gogri: Net of dividend, in three years will become Rs. 450 crores and if you add the depreciation of another Rs. 300 crores, so Rs. 750 crores cash flow will be generated; out of that fixed assets and working capital increase will have to be deducted, so on that basis.

Sumant Kumar: For the CAPEX, are you raising any debt or will be through internal as well?

Rajendra Gogri: The debt is there.

Sumant Kumar: Three hundred crores, what is the proportion of today?

Chetan Gandhi: We typically maintain debt equity at the current level.

Sumant Kumar: Okay. So the debt is at the same proportion?

Chetan Gandhi: Yes.

Sumant Kumar: Thank you.

Moderator: Thank you, sir. We have Mr. Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Sir, we have been improving the capacity in anticipation of good demand for the products. Are there any indications from the domestic competitors or international competitors that they are also expanding their capacities too and probably it would have some kind of threat to us, your thoughts on the same?

Rajendra Gogri: Wherever demand growth will be substantial some expansion will take place by some other international players, but overall what expansion we have taken we see that those kind of volumes will start filling, so there is not much new CAPEX coming on by the competitors on the same product line.

Rohit Nagaraj: Okay, so there is not going to be a significant threat as such at least for the near to medium term?

Rajendra Gogri: Yes.

Rohit Nagaraj: Okay. Thank you.

Moderator: Our next question will come from Mr. Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta: Sir, my question was on the interest cost saving. Basically you mentioned that right now our US-denominated debt is up to 30%, but can go up to almost 60%.

Chetan Gandhi: Yes.

Rohan Gupta: And the cost of US borrowing is LIBOR plus 2.5% right?

Chetan Gandhi: Yes, it will be between 2.5% to 3.5%.

Rohan Gupta: And do we follow a hedging policy, sir?

Chetan Gandhi: We do have a hedging policy.

Rohan Gupta: So the 2.5% you're talking about is including the hedging call?

Chetan Gandhi: No, the concept over here is that we do have significant export, so the way of looking at it is either I hedge my export or I can take a foreign currency loan and use it as a natural hedge against the export receivables. So we can use either of that option. So if I am considering to hedge to the extent of export receivable, it will be kept open, it will be considered as a natural hedge.

- Rohan Gupta:** Okay. So actually the 30% utilization, which you are doing of this, is only in line with the exports what we are doing, right?
- Chetan Gandhi:** Yes.
- Rohan Gupta:** Okay. With the revenue increase over the next two to three years and our exports growing in the same proportion, the US-based borrowing will go up?
- Chetan Gandhi:** That's what we are looking at.
- Rohan Gupta:** Okay. So there the borrowing will be at the same LIBOR plus 250 to 300 basis points?
- Chetan Gandhi:** It could be around that range.
- Rohan Gupta:** Okay. Our interest cost or blended average interest cost will come down?
- Chetan Gandhi:** Yes.
- Rohan Gupta:** Okay. Sir, on our raw material, Benzene, do we have rolling contract on a monthly basis or a three-month contract from the raw material supplier?
- Rajendra Gogri:** On a monthly basis.
- Rohan Gupta:** And similar for the finished products also, we have a monthly basis contract?
- Rajendra Gogri:** Yes. Sometimes we have quarterly, but based on previous three months average.
- Rohan Gupta:** Okay. There has been huge volatility in crude prices recently, so will it lead to any sort of margin fluctuation in our business, that's what I wanted to understand
- Rajendra Gogri:** There will be no significant impact.
- Rohan Gupta:** Sir, in pharma business you mentioned that almost we have 27 DMF in US-DMF itself and more in other territories. You mentioned also the revenue potential of each DMF, is almost Rs. 5 to Rs. 15 crores. Even if you take Rs. 10 crores from each DMF then 270-280 crores roughly is from US markets only. What is the revenue potential from other markets?
- Rashesh Gogri:** Pharma, each project will mature with a different time horizon. All DMFs we may not have customers or may have multiple customers, so it is not that we will have all 27 DMF at average Rs. 8 to Rs. 10 crores levels.
- Rohan Gupta:** Okay. And pharma will be primarily export or domestic as well?
- Rashesh Gogri:** Currently in this quarter we were around 57% to 58% export in this current quarter.

Rohan Gupta: And going forward will it change or it will remain the same?

Rashesh Gogri: We are expecting at least 50% to 60% exports every quarter.

Rohan Gupta: Okay sir. Thank you.

Moderator: Thank you, sir. We again have Mr. Saravanan Vishwanathan from Unifi Capital. Please go ahead.

Saravanan V.: I wanted to understand the inspection schedule for US FDA plant. When was it inspected last time and are we awaiting any inspection now?

Rashesh Gogri: Next year January we are expecting EDQM inspection and US FDA inspection could be later next year, but nowadays, they come any by giving one day's notice.

Saravanan V.: That's right. But we already have a US FDA approved plant, right?

Rashesh Gogri: Yes. It has been audited twice. One of the plants has been audited twice and one has been audited once.

Saravanan V.: Okay. Thank you. So will both the plant have inspection in 2015.

Rashesh Gogri: One of the major site, we have one API site and the other site it the intermediate site. So the API site typically if we count three-year cycle of FDA inspection then it will fall for next year. The inspection will come next year.

Saravanan V.: And for the intermediate site?

Rashesh Gogri: For the intermediate site they don't follow three-year concept, so it's as and when kind of thing.

Saravanan V.: Okay. Thank you.

Moderator: Thank you, sir. Our next question comes from Mr. Rohit Nagaraj from Sunidhi Securities.

Rohit Nagaraj: Sir, you mentioned that this year we will be doing about Rs. 220 crores of CAPEX, so how much of that could be capitalized and would most of that be capitalizing before?

Rajendra Gogri: Some of them definitely will continue as a Capital WIP for the next year. Some capitalization will take place in Q3 and some in Q4.

Rohit Nagaraj: Okay. So if I understand correctly, in the first quarter and second quarter the depreciation has largely been flat. So it seems like we haven't capitalized any significant portion during the first half.

- Rajendra Gogri:** Around Rs. 80 crores we have capitalized.
- Rohit Nagaraj:** Okay. So during the first half Rs. 80 crores has been capitalized and that too on a staggered basis, so some part was capitalized in Q1 and some part in Q2.
- Rajendra Gogri:** Yes.
- Rohit Nagaraj:** And, sir, in pharma we had a total of nine lines, have they been increased?
- Rashesh Gogri:** We had earlier four lines, which has been increased to nine lines.
- Rohit Nagaraj:** That's right. So currently we have the nine lines in place?
- Rashesh Gogri:** Yes, all nine lines are operational in the US FDA plant..
- Rohit Nagaraj:** Okay. Thank you.
- Moderator:** Thank you, sir. There are no further questions. Now I hand over the floor to the management for the closing comments.
- Rajendra Gogri:** We thank you very much for attending this conference call and as we have stated in the past with ongoing expansions we are looking forward to a good growth in both top-line and bottom line in the coming years. Thank you.