

February 13, 2023

To,
Listing/Compliance Department
BSE LTD.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

Scrip Code : 524208

Dear Sir/Madam,

To,
Listing/Compliance Department
**National Stock Exchange of
India Limited**
“Exchange Plaza”, Plot No. C/1,
G Block Bandra-Kurla Complex,
Bandra (E), Mumbai – 400 051.
Symbol : AARTIIND

**Sub.: Transcript of Q3 FY23 Earnings
Conference Call**
**Ref: Regulation 30 of the SEBI
(LODR) Regulations, 2015**

Please find enclosed herewith the Transcript of Earnings Call held on Monday, February 6, 2023 on Audited Financial Results of the Company for the quarter and nine months ended December 31, 2022.

Kindly take the same on record.

Thanking You,

Yours faithfully,

FOR AARTI INDUSTRIES LIMITED

RAJ SARRAF
COMPANY SECRETARY
ICSI M. NO. A15526
Encl.: As above.



Aarti Industries Limited

Q3 FY23 Earning Conference Call Transcript

February 06, 2023

Moderator: Ladies and gentlemen, good day and welcome to Aarti Industries Limited Q3 FY23 Earnings Conference Call.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki of CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone and thank you for joining us on Aarti Industries Q3 FY23 Earnings Conference Call.

Today, we are joined by Senior Members of the Management Team including Mr. Rajendra Gogri – Chairman and Managing Director; Mr. Rashesh Gogri – Vice Chairman and Managing Director and Mr. Chetan Gandhi – Chief Financial Officer.

We will commence the call with opening thoughts from Mr. Rajendra Gogri, who will take us through the performance, update on growth initiatives and outlook on the business. Post this, we shall open the forum for question and answers where the management will be addressing to queries of the participants.

Just to share our standard disclaimer here:

Some statements that will be made in today's may be forward-looking in nature and a disclaimer to this effect, has been included in the results presentation that has been shared earlier and also available on Stock Exchange websites.

I would now invite Mr. Rajendra Gogri to share his perspectives. Thank you, and over to you, sir.

Rajendra Gogri: Thank you, good afternoon, everyone and welcome to our Q3 FY23 earnings conference call. We have shared our results documents and I hope that you had an opportunity to go through them.

We have reported resilient performance during the quarter and nine-months period under review as reflected by higher share from value added products driving better



profitability. This was achieved despite a decrease in demand across some end-user categories which we believe will reverse back by next year. Our teams responded promptly to the dynamically changing situation and utilised their expertise to maintain a strong performance by optimising the product mix and market opportunities. The share of value added products in Q3 FY23 was about 81%. Our expertise and competencies in multiple product value-chains related to Benzene and Toluene remains exceptional and we are leveraging these strengths to establish a solid foundation in newer chemical value-chains, which will further boost the Company's profitability.

As you all know, during the quarter, we saw two key developments:

- The first significant event is that we signed a binding 20-year term-sheet with Deepak Fertilisers for supply of Nitric Acid, worth more than Rs. 8,000 crore. This is a historic partnership which will greatly help us in the long term and ensure that we have a steady and adequate supply of this crucial raw material. This comes into effect from 1st April, 2023 as disclosed earlier, and eliminates the need to invest into backward integration for concentrated Nitric Acid.
- The second progress is the demerger of the Pharma entity of Aarti Industries into a separate Company – Aarti PharmaLabs Ltd. The record date was 20th of October, 2022 and the new company was listed on the stock exchanges, both NSE and BSE on the 30th of January, 2023.

Now coming to the financial performance for Q3 FY23. The financials for Q3 FY22 and 9M FY22 have been re-casted to consider the effect of Scheme of Arrangement for the demerger of Pharma Segment from the Appointed Date of 1st July, 2021. Further we had looked to exclude the shortfall fees and termination fees received in FY22, arising out of cancellation of the first long term contract, to draw an appropriate comparable. As per this, during the quarter under review:

- Revenues increased by 12% Y-o-Y to Rs. 1854 crore, with exports contributing over 48% of the total revenues.
- EBITDA improved by 26% Y-o-Y to Rs 289 crores.
- Profit after tax stood at Rs 137 crores
- Considering these performances, the Board has approved an interim dividend of Rs 1/- per share (i.e 20% of the Face value of Rs 5/- each)

Demand was steady for key products under the essential end usages, further aided by volume gains. As mentioned, demand for products pertaining to Textiles end-use industry remained impacted and to that extent the performance appears tapered. We expect demand recovery to come in from the first half of next fiscal year. Having seen some decline in the raw materials prices in the last quarter, and the impact of that might partly be seen in Q4FY23, the prices of a few raw materials are seeing some upside in the last few days. Having said that, we have robust pricing mechanisms in place to mitigate the impact of inflationary cost pressures, whereby the same is passed on to the customers thereby protecting absolute profitability. Our profitability was further bolstered by the contribution of products with high growth and better margins. We are happy to report that against the guided EBIDTA of about 1100 crores for FY23, we have already achieved the EBIDTA of about 837 crores in the 9M FY23. We are constantly monitoring the developments with reference to the ongoing global recessionary trends and will



work to optimise our product mix to mitigate the same to be able to meet the guidance given earlier. As you would have noticed, depreciation for the quarter has increased and is in line with our expectations, this is on account of the commissioning of our ongoing projects. With continuing depreciation of Indian Rupee against US Dollar, the M2M loss of about 11 crores in respect of our unhedged ECBs were provided for and has resulted the increase in the borrowing costs.

Now, let me turn your attention to the production details for Q3 FY23. Production of Nitro chlorobenzene stood at 18199 MT, while the same for Hydrogenation came in at 2995 TPM. For Nitro-Toluene, the production for Q3 FY23 stood at 7528 MT.

I will now take you through some of the expansion initiatives announced and updates around that.

- We are pleased to announce that the Plant associated with the 3rd long term contract had been commercialised by the end of Q3 FY23 at our Jhagadia facility. We expect that the ramp-up as per the contract terms will kick in from coming quarters.
- Other projects, including brownfield expansion of NCB facility at Vapi and few other speciality chemical blocks, are progressing well. These will become operational in over next couple of quarters and start contributing from H2 FY24.
- We have started the initial work around expanding the Ethylation capacity at Dahej SEZ, by 3x with an investment of Rs. 200 crore. Further as shared last time, with our NT capacities reaching over 90% utilisations, we have commenced the works related to debottlenecking of our Nitro Toulene Capacities. We target the capacity increase by about 50% with an objective to cater to certain high growth applications in agrochemicals. We expect both these units to commercialise in H1 FY25.

During the nine-months period, we necessitated a CAPEX of about Rs. 840 crore towards various expansion opportunities shared previously. Our target annual capex will be in the range of Rs. 1100-1200 crores for FY23. Our volume growth from new capacities will occur in the coming two years, but the fixed costs will generally tail the macro inflation, thereby yielding a robust Gross Profit to EBITDA conversion starting FY24. Based on solid business visibility, our EBITDA growth guidance for FY24 & FY25 stands at a CAGR of 25%.

The collective capital expenditure target for FY24 and FY25 remains unchanged, at about Rs. 3,000 crore and will drive strong momentum going forward. This will be aimed towards developing new chemical value-chains and introducing high-potential products that will broaden the addressable market size and respond to increased demand from key customers.

As a Company, we have set our sights high for growth and have taken decisive actions to ensure that we remain at the forefront of our chosen chemical skillsets. Additionally, we see great potential in new chemical value chains and are poised to leverage our expertise to capitalize on these opportunities. The results of our past initiatives will become evident in the next two years, and we are confident in our ability to deliver on expectations. This confidence stems from our commitment of best-in-class manufacturing processes, continuous process enhancements, a strong R&D focus and an unwavering commitment to innovation. Our supreme objective is to create value for our shareholders by taking advantage of favourable industry trends.



That concludes my initial thoughts and will now request the moderator to open the floor for the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, first question is on Q-o-Q basis, our gross profit has been more or less flattish, rather marginally declined, however, we have said that the value-added product's contribution has been higher during the quarter, so does it mean that the discretionary part of portfolio actually had more impact during the quarter and because of which the absolute gross profit has been flattish on a Q-o-Q basis?

Rajendra Gogri: Yes, I think discretionary is a little bit pressured on the dye side, but other sides, we didn't see much impact in Q3 overall.

Rohit Nagraj: Sir, second question is – earlier we were targeting that part of our CAPEX will also go for the Nitric Acid part of the business, either on weak Nitric Acid or Concentrated Nitric Acid, but now since we have got this deal with Deepak Fertilisers, still our CAPEX remains unchanged for FY24-25, so this capital allocation, which was probably earlier done for the Nitric Acid, which part of the business will it be allocated now?

Rajendra Gogri: Our current product, more or less all the CAPEX is ongoing except the two of Nitrotoluene and Ethylation block which will be commissioned in FY25. Everything else should be commissioned in Q4 FY23 and FY24 and the new product line for Chlorotoluene and Multipurpose Plants which is where the additional CAPEX will go.

Moderator: Thank you. The next question is from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.

Vivek Rajamani: This is Vivek Rajamani from Morgan Stanley. Sir, two questions from my end, could you provide a bit more color on the kind of demand trend that you are seeing in your key end segments, particularly if you could just clarify on what is specifically driving the weakness you are seeing on the Textiles side.

Rajendra Gogri: Textiles slowdown has been going on for couple of quarters. I think that is because of global demand slowdown because of which there is high inflation and all. Even countries like Bangladesh, Turkey and the like, were facing problems. But now currently, some global recessionary trends are also visible in other segments also i auto, etc.

Vivek Rajamani: Sir, my second question – on all of your ongoing projects, when once are progressively commissioned over FY24 and possibly FY25, could you touch upon how your revenue exposure could change in terms of your end segment exposure?

Rajendra Gogri: End segment exposure, more or less, it would be around 50-50 with the current ongoing expansion, so our FY25 number will be more towards similar 50-50, but Chlorotoluene and Multipurpose Plants, I think will be more on pharma and agro. Going forward, I think there will be some increase on pharma and agro beyond FY25.



Moderator: Thank you. The next question is from the line of Niteen Dharmawat from Aurum Capital. Please go ahead.

Niteen Dharmawat: My question is how much CAPEX is spending now including the maintenance CAPEX and what is the revenue there that we will have from this CAPEX?

Rajendra Gogri: This year, we have spent around Rs. 840 crore and for this year around Rs. 1,100 to Rs. 1,200 crore and next two years what we have guided is Rs. 3,000 crore. So, with the current ongoing expansion, except Nitrotoluene and Ethylation, more or less everything will get commissioned by the first half of FY24.

Niteen Dharmawat: And what is the revenue there that we are expecting considering the current prices?

Rajendra Gogri: We are targeting Rs. 1,700 crore EBITDA by FY25. Generally, revenue guidance depends on the raw material, but it should be upward if you take 5 times Rs. 8,500 crore plus.

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

Archit Joshi: Sir, in this quarter, I think some revenues must have also flown from the second contract, if we were to adjust for that, has our base business seen some volume growth given that we are still seeing some challenges on the dyes and pigments portfolio? Have we been able to mitigate the effect of those pinpoints by addition of some other products, if you can guide something on that front?

Rajendra Gogri: If you remove the shortfall fee and the termination fee, overall EBITDA growth has been about 26%, so there is a growth because of the second contract as well as increase in the volume of our regular products also in Q3 compared to the Y-o-Y number.

Archit Joshi: Sir, just volume growth that you are talking about in the base business, does that seem to be sustainable maybe in the next two quarters even, as you have mentioned in the presentation for 2 to 3 more quarters. We are seeing some challenges again in the dyes and pigments portfolio, so even without that would we be able to maintain this volume growth?

Rajendra Gogri: Yes, overall, we will see that the volume growth will happen, but sometimes for some of the products we may have to put them into non-regular markets. So, generally, we will try to keep the volumes, but the non-regular market may tend to have lesser margins.

Archit Joshi: Sir, and another thing that I noticed in the presentation was a couple of new technologies that you have spoken about, the Vapor Phase and the Continuous Flow, I think this is the first time we are mentioned of such a thing in the presentation or on the con-calls. Any color that you can give on this if this is going to be embedded in our existing facilities or if there is going to be a change in some process or if this is going to be targeting a completely new product set, anything on that end?

Rajendra Gogri: No, this would be for the new product lines basically. For the existing product, we are not changing any processes.

- Archit Joshi:** Some more elaboration, sir if possible, what kind of streams are there in this technology?
- Rajendra Gogri:** Yes, in Chlorotoluene, we will be doing a lot of downstream production, a lot of new chemistries will come and also, in our Multipurpose Plants we have identified some products which will have this kind of chemistries.
- Moderator:** Thank you. The next question is from the line of Sagar Sanghvi from JP Morgan. Please go ahead.
- Sagar Sanghvi:** Sir, I have two questions, one is on the longer term – we had earlier given a guidance for FY24 and FY27 where our bottom line increases up 2x or 3-4x, does that still remain the same and what will drive it? The second is, you had mentioned about a turnaround in discretionary demand in the next 2-3 quarters, so again what will drive this turnaround given that there is a recessionary environment moving over?
- Rajendra Gogri:** Overall, guidance both FY24 and FY27 we should be able to achieve. General slowdown, that we see from the customer end and everything, that can last about next 2 to 3 quarters, I think that is the broader feedback what we are getting from the customer side.
- Sagar Sanghvi:** If I can just slip in one more question, on the tax rate how do you look at tax rate going ahead because you have been getting some tax breaks, does that continue with these new plants having been commissioned?
- Chetan Gandhi:** The new facilities coming in have for the initial period a higher depreciation under IT and this is where there will be certain tax benefits available, plus we have few units operating in SEZ, couple of other tax swaps which will be there for few years, so the tax rates will continue to remain softer.
- Sagar Sanghvi:** So, it should be ballpark in 20% range?
- Chetan Gandhi:** I guess it will be lower than that.
- Moderator:** Thank you. The next question is from the line of Surya Narayan Patra from Phillip Capital. Please go ahead.
- Surya Narayan Patra:** I have couple of questions, first question is about the crude price correction and the significant correction in the freight cost that we have seen in the recent past – has the full impact of this been seen already in the revenue and the product prices or is that yet to be seen in the subsequent quarter, sir?
- Rajendra Gogri:** Generally, for domestic, it gets passed on a month-to-month basis as far as the Benzene and Toluene prices are concerned. In exports, it has to have, where we have contractual, it gets passed on with a quarterly lag basis, but Benzene again has started showing some upward trend in the month of January, so February prices have again gone up and freight has further softened in Q4 overall.
- Surya Narayan Patra:** So, in fact sir, that was a kind of a concern that possibly the revenue growth number will be impacted because of the correction in the freight as well as crude and what we are seeing in this quarter is that the growth is largely contributed by the stronger almost like 38% kind of growth in the exports whereas the domestic prices possibly we have seen the impact of this correction already, hence the

growth has got softened. So now considering the kind of slowdown concern what you are indicating and this quarter's performance and also the likely repricing of the products are driven by the crude and freight, so should we build any kind of concern for the export growth in the subsequent quarter?

Rajendra Gogri: Yes, as far as the freight is concerned, generally freight has been also more or less a pass through with the customer, sometime with a lag because the kind of freight which has increased in the last couple of years, there is no option, but to pass it on to the customer in that sense because some decline in regular export market is there, so we will have to reshape all the products. There will be some impact on the export demand in coming quarters.

Surya Narayan Patra: While the export demand would be a kind of for concern, but considering the ramp up in the multiyear supply contracts that we have just initiated or the third contract which is getting initiated now and that the demand concern will be overcome by these new product introductions, is it fair to believe, sir?

Rajendra Gogri: This will be the first quarter, so ramp up will take time because of these new contracts.

Surya Narayan Patra: Sir, just an extension to this one, what is the cumulative CAPEX that you would have done for all these three multiyear contracts, because the third contract has also now commissioned? We know that these multiyear contracts are the downstream products of our existing line of products, so what is the complementing CAPEX that we would have done in our existing products along with the multiyear contract CAPEX? If you can share these two things that will be helpful.

Rajendra Gogri: Actually, second and third is not of a downstream kind, it is more of an independent, second and third contract. The first contract which got cancelled was more of an integrated kind. The direct expense of all of the three contracts will be, maybe around Rs. 1,000 crore and if you take indirect, maybe another Rs. 300-Rs. 400 crore extra because of that.

Surya Narayan Patra: So, that means Rs. 1,400 crore kind of CAPEX which has not kind of contributed anything is likely to be the growth driver for FY24?

Rajendra Gogri: Now, the second contract is already contributing, right.

Surya Narayan Patra: But that is in the initial stage of ramp up, right, sir?

Rajendra Gogri: No, second contract has fully ramped up. This is the third contract which we have commissioned now in Q3 of FY23 which will be going on a ramp up phase next year.

Surya Narayan Patra: With regards to the margin outlook, how should we see this? You had indicated that the newer projects which will be starting from FY24 and are likely to have a margin profile in the range of 25-30%. So, since we are almost approaching FY24 and currently our blended margin what we are witnessing is in the range of around 15-16% level and the newer projects are likely to have the margin profile of 25% plus - so the blended kind of scenario, what should it be, could you give some sense on that because it is quite clear that the growth on the EBITDA side, is likely to flow in as indicated, but on the margin's front, how qualitatively is that going to be changed?

Rajendra Gogri: Actually, the value-added product sales will be starting mainly from FY25. So, the impact of the high margin will be coming post FY25. So, slowly the percentage share of this high, more value-added product goes up and overall gross margin at the constant raw material will increase beyond FY25.

Surya Narayan Patra: Just lastly, a small question sir, is it possible to share what is the cumulative R&D spend, although it is not a line item for us, but what is the R&D spend that we should be doing for a year as a percentage to sales?

Rajendra Gogri: It will be about 1%.

Moderator: Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Just first of all on the EBITDA for the quarter on a sequential basis, it is of about 8%, it seems to be driven primarily by lower other expenses which seem to have fallen quarter-on-quarter, so is this margin expansion largely due to the fall in freight costs and may be power and fuel costs as well or would we have to pass this on to customers and instead grown volumes on a sequential basis – what exactly is the reason for this and in case it is related to a decline in expansion, do we need to pass this onto customers in the subsequent quarter?

Rajendra Gogri: No, the expansions are generally not passed on. If you see Q2, we had that maintenance shutdown which has resulted in higher expenses, that partly got corrected in Q3, so it is the raw material and the freight which gets passed on to the customers in general, but there is some volume growth and some saving in expenses which is part of the contribution on EBITDA.

Abhijit Akella: So, this can be retained?

Rajendra Gogri: Yes.

Abhijit Akella: On the second long-term project that has been commissioned, is it possible to just share what revenue run rate it is operating at right now?

Rajendra Gogri: We will not have an immediate number on that I think.

Abhijit Akella: Or even the first one, has it ramped up compared to the 15-20% utilization rate that was quite earlier?

Rajendra Gogri: First one is still slower, we had taken a shutdown in this Q3 for that, but the demand of that downstream product is slow overall.

Abhijit Akella: On a Y-o-Y basis, is it possible to share some volume growth number?

Rajendra Gogri: Because we have too many different products, generally the volume growth numbers we are not sharing or taking out. Overall, the value-added percentage was about 81% in this quarter.

Abhijit Akella: So, one of the things was just that you have spoken about the softness in Textiles which will probably hopefully fade away in 2-3 quarters, we also spoke about Auto showing some signs of softness and there is also lot of talk in the industry about agrochemicals sort of seeing some demand weakness because of high inventories

worldwide. So are you seeing some signs of softness there as well and how do you expect these industries to shape up in coming quarters?

Rajendra Gogri: Yes, Agro is more molecule specific, so some molecules we are seeing that, other molecules they are quite strong, so it becomes very molecule specific inventory impact and we don't see that impact not more than a quarter on inventory correction on agro for some of the products, but not all of them in that sense.

Abhijit Akella: One last thing, just on the CAPEX that has been incurred, on Chlorotoluenes and then on the asset upgradation initiatives, is it possible to share some figures with us regarding how much is being spent there and what sort of economics we are expecting from that in terms of revenues and profits?

Rajendra Gogri: The Chlorotoluene spending will start from the next year actually, FY24, so till now the major expenses have been on our existing product line, all these contracts and expansion from asset restoration on the existing product line and some few speciality chemical blocks.

Abhijit Akella: Is it possible to just break that up, sir for us, the asset upgradation and the Speciality Chemical lines, how much have we spent exactly?

Rajendra Gogri: That bifurcation, we will not have handy.

Abhijit Akella: Maybe I will connect separately with you on this.

Moderator: Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential. Please go ahead.

Keyur Pandya: I think it has been partly answered, just wanted to understand if you can give some idea on contract one and two, on what we had earlier guided versus, what current rate that we are right now ? Where we are running at as far as contract one and two are concerned?

Rajendra Gogri: Yes, contract two expansion we are as per our original guidance. For contract one, the demand is slow, so in general what we had guided was about maybe 30-40% this year and may not materialize where contract one is concerned.

Keyur Pandya: Contract two would be Rs. 200 crore per annum when stabilizes right?

Rajendra Gogri: No, that is more about Rs. 500 crore, but it is not purely and directly related to the topline the way it is structured, EBITDA is generally protected coming out of second contract.

Keyur Pandya: Sir, on contract one, you mentioned is probably the end product is also facing some slowdown, as in absolute terms what kind of revenue should we expect, either say FY23 or FY24 after considering that slowdown?

Rajendra Gogri: FY24, I have to take some number out of that, maybe around Rs. 200 crore, but the margins are still under pressure in those lines.

Moderator: Thank you. The next question is from the line of Rohan Gupta from Nuvama. Please go ahead.



- Rohan Gupta:** Sir, first question is on our start of Q1 after pharma demerger in Q2 we mentioned roughly Rs. 1,100 crore kind of guidance for EBITDA for FY23 looking at the current number and you have mentioned that there is some pickup in the demand environment, what kind of numbers one can expect now, is there any upward reasons there given the 9 months number?
- Rajendra Gogri:** No, overall, I think as mentioned there is some global slowdown, so we are not revising guidelines. We will try to reshuffle the products and everything to meet the guidelines of roughly about Rs. 1,100 crore.
- Rohan Gupta:** Sir, second question is in terms of our Aarti Pharma, what kind of sales we do from there, we are supplying some intermediates to them because earlier some intersegmental sales was there, so what kind of business is coming right now from Aarti Pharma, we have anything on that?
- Rajendra Gogri:** No, we don't have any significant sale to Aarti Pharma.
- Rohan Gupta:** So, there is not significant revenues coming or going to Aarti Pharma?
- Rajendra Gogri:** No.
- Rohan Gupta:** Sir, just an observation on the current quarter numbers and trend like that purchase of the stocks in trade has gone up significantly with roughly Rs. 126 crore while we always had adjusted Rs. 60 crore kind of trading business, so what is this? Why, all of a sudden, is there a sharp increase in purchases of stocking trade, any particular product commissioning or lack of any existing intermediate which we were manufacturing and have to buy from outside?
- Chetan Gandhi:** Yes, one of the reasons for this increase in that was the transitional period because the demerger was effective on 20th of October and there were certain orders which would have been received by us in the name of Aarti Industries for the pharma business, so those orders we still have to continue servicing from Aarti Industries, so it is more of a transitional period activity, nothing beyond that.
- Rohan Gupta:** Sir, just last from my side on the contract one, you mentioned that the products after the termination, we are still running on the 30-40% kind of utilization. You mentioned that there is a global weakness in the demand environment for Dicamba Intermediate, do you see that this environment or the sluggishness in the Dicamba Intermediate will continue or you see that there is a sharp pickup happening or are we evaluating any possibility of further forward integration in complete Dicamba which we had once planned for that or can you break it in part and use partially these capacities also, facility also for making some other chemicals as well?
- Rajendra Gogri:** Yes, currently basically, we are looking at slowdown in that even FY24, we don't expect that what we have guided 70% may not happen, so overall we are evaluating under our strategy on that whether we can go downstream or we can try to convert the other line into some other products where we have two different lines in that. So, that detailing we are trying to work out how to optimize those assets.
- Rohan Gupta:** So, if I understand rightly sir, I think that including the peripheral investments in excess along with this contract we had some Rs. 800 to Rs. 850 crore investment made in this and at the current level 30-40% utilization or maybe even not looking at 70% utilization next year, so it means that it will not contribute anything to the bottom line with these run rate and Rs. 800 crore to Rs. 900 crore investment will not fetch anything, is that understanding correct, sir?

Rajendra Gogri: No, these are the downstream components which will not be utilized. The upstream, we will be starting to giving to the other products. This particular molecule doesn't have much use, but the precursors that we are now going into the other markets.

Rohan Gupta: So, the ancillary investment which we have made along with this project, that is being utilized now, that is only the Rs. 600 crore investment which we made.

Rajendra Gogri: Yes, correct, that will get ramped up in the next two years to almost fully utilized level.

Rohan Gupta: So, it is only related to this plant which was I think the investment was Rs. 600 crore if I am not wrong?

Rajendra Gogri: Around Rs. 500 crore was coming from this plant.

Rohan Gupta: So, that investment will still fetch you lower utilization of just only 70% and where we are evaluating further possibility of getting into other products?

Rajendra Gogri: Yes.

Chetan Gandhi: Just one more thing on this, as regards to that investment, just to refresh, that is largely a significant component of termination and shortfall compensation, so the investment is substantially funded out or cashed out, so technically there is no cash flow which has gone into that.

Rohan Gupta: Yes, that we understand because you already got the termination fees along with the two years EBITDA number, that we understand, that is already mentioned in the balance sheet, right?

Chetan Gandhi: Yes.

Rohan Gupta: Just last from my side sir, last time we have guided for further reduction in debt and we mentioned that roughly, last quarter debt was at peak levels, so do we see that the working capital has gone up in between, what kind of debt level we are looking at year end?

Chetan Gandhi: So, again the debt level should be virtually a bit lower than what we had seen on the peak part, may be around Rs. 2,600-2,700 crore debt level could be seen, so some part of it is because of reduction in the commodity prices or the freight cost and other thing which is resulting in the reduction in working capital.

Rohan Gupta: So, still it will be Rs. 2,700 crore you are talking about the gross, what kind of that net debt number?

Chetan Gandhi: No, I am looking at more or less gross and net would be similar.

Rohan Gupta: This I am asking because we looked at when in Q2 concall you mentioned that this is the peak debt and we will see some reduction in net debt level and this can come down by year end.

Chetan Gandhi: We already done some reduction.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: First question on Slide #9 wherein we are saying that (+50) products are in the pipeline from R&D perspective, are these products largely for the existing value chain or these are the new value chain that we have talked about?

Rajendra Gogri: Yes, these are mainly from the new value chain, but some from the existing value chain also, but more than 3/4th will be of new value chain.

Ankur Periwal: So, from a timeline perspective these will be FY24 onwards getting commissioned, right?

Rajendra Gogri: Yes, FY25 onwards.

Ankur Periwal: And sir, second question on the volumes front, while I understand near term slowness in terms of macro etc, but from a medium term let us say from a 3-5 year perspective, what should be our volume growth on a like to like basis?

Rajendra Gogri: Basically, what we are seeing there in around 40-50% volume growth. That is what we are guiding on EBITDA and more or less that volume growth will transfer on our existing product line about 40-50% growth and then the new products will come in.

Ankur Periwal: If I got you right, 25% CAGR which is 50% almost growth is largely volume driven largely from the existing product segments?

Rajendra Gogri: Yes.

Ankur Periwal: So, any top-up there from Chlorotoluene or the other initiatives will be inching up the growth further?

Rajendra Gogri: Correct. So, that will be more of FY25 onwards. So, it will be commissioned in FY25. So, we don't see much coming in from those in FY25. We are commissioning here. The new products' real contribution towards EBITDA will come from FY26.

Ankur Periwal: And here, we are largely gaining market share because the reason I checked on this was historically, looking at the chemical business EBIT, the growth has not been as sharp versus what we are guiding now, so is it any specific area wherein we are gaining market share globally if you can help us understand that?

Rajendra Gogri: Yes, in some of the products, the first contact downstream, upstream capacity, which now we will try to fulfil, then Nitrochlorobenzene, new capacity, which are coming, then the Ethylation plant that are totally additional volumes, which we are tripling and Nitrotoluene also we are expanding. So, across the board, somewhere the new will get started in FY24 and FY25 and the rest, which is already commissioned, so there will be some ramp up on these first contract-related upstream capacities.

Ankur Periwal: And sir, lastly, if I may, on a 9-month basis, if you can define how should one look at the volume growth here? I understand it is a mix of multiple products, but broadly, directionally, what would be the range?

Rajendra Gogri: That it has become difficult and again, contractual, new contract has different kind of volumes and all. So overall, the value-added percentage has increased to 81%. The specific number will not have on volume growth.

Moderator: Thank you. The next question is from the line of Ranjit Cirumalla from IIFL Securities. Please go ahead.

Ranjit Cirumalla: Firstly, on the second long-term contract, if I understand it right, there was an advance that we have got for setting at this particular contract, so to that extent, this should be a largely noncash flow, at least for this particular year, is that understanding right?

Rajendra Gogri: Correct.

Ranjit Cirumalla: So, how long would that be, whether we would be exhausting that this year or?

Chetan Gandhi: Sorry to correct that. It won't be a noncash flow thing, there will be cash flow coming in from the contract. So, the advance doesn't get adjusted against the supply, it is partly adjusted and it will be there fairly a longer period of time.

Ranjit Cirumalla: So, how long would that continue over the next 2 to 3 years?

Chetan Gandhi: No, it will be more than 3 years, but we can't give the exact details on kind of confidential, but it will be there for more than 3 years, for sure which gradually phased out over time.

Ranjit Cirumalla: Sir, can you put a number to that gradually phasing, will it be 20%-25% each year or even less than that?

Chetan Gandhi: A little bit lower than that.

Ranjit Cirumalla: And the rest will be kind of a cash flow?

Chetan Gandhi: Yes.

Ranjit Cirumalla: So, our EBITDA CAGR for the next two years is 25% and we have also said that most of our CAPEX is likely to come on stream in the first half of FY24, so I assume that there would also be higher overheads on account of capitalization, so to that extent, the EBITDA growth should be a bit lower, so would it safe to assume that the 25% CAGR that we are guiding would be skewed towards FY25?

Rajendra Gogri: Yes, it will be more towards FY25, yes.

Ranjit Cirumalla: And lastly, the way I understand the business is, we generate a lot of isomers, so we carry out one reaction and there are multiple products that we generate, the fluorination, hydrogenation or nitrogen process and when we say that our exposure to the discretionary is around 50%, so the question is that would that 50% inventory also impact the other 50% of the business, where there is a demand, but there could be a situation that we might not be able to cater that because we are contained by our ability beyond the point we might not be able to produce because there is a slowdown in the larger part of the portfolio?

Rajendra Gogri: No, generally, we are able to place it on a non-regular market. So, generally, we are able to manage, if a particular segment has a lower demand in a regular market, we try to place it in a non-regular market.

Ranjit Cirumalla: That is what we did during the COVID as well, in the initial part of COVID.

Rajendra Gogri: Yes, correct.

Moderator: Thank you. Next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Sir, two things, one is you talked about this 25% EBITDA CAGR over the next two years, now you also talked about certain softness being there in some of the segments like textiles and autos, so what is the risk in your assessment on this guidance? What should be mindful of?

Rajendra Gogri: So, we expect there is a normal demand situation should resume. At least FY25 should see a totally normal demand. It is mainly based on that.

Nitin Agarwal: And sir, is there any source of upside to this guidance, which elements can surprise us on the positive side on to this guidance?

Rajendra Gogri: Overall, if there are certain products and some shortages are cleared, then higher profits can come up because of that.

Nitin Agarwal: Have you been seeing any instances of these in recent times where in certain products where because of various reasons, the issues in China or Europe, there have been shortages and price improvements or the supplies have been largely normal across most of your products?

Rajendra Gogri: Yes, currently, most of the products are in a normal situation.

Nitin Agarwal: And sir, lastly, this whole talk which has been there about China Plus One, later, Europe Plus One also, in your assessment, how much of that has played out and in which shape and form are you seeing it playing out?

Rajendra Gogri: China Plus One is a very long-term structural thing, which is going on for last maybe 5-7 years. I think it will continue to happen for next 5-10 years, whereas the Europe Plus One is over a long term. Some of the energy intensive products, you see that the investment in Europe might become less because the energy will become costlier. So, that may open up opportunity for India. Then Europe Plus One also may take 2-3 years that you have to identify the products where they will open other long-term opportunities.

Nitin Agarwal: Sir, have you had any conversations with your clients around this, the potential fallout from this Europe Plus One or this is right now largely a concept, and it has not much really translating into numbers of Indian industry just yet?

Rajendra Gogri: No, it is just discussions are going on these possibilities in that, but that impact will come after 2-3 years except some people have surplus capacity and you temporarily put up, but in general, I think for the newer capacity, it will take 2-3 years.

- Nitin Agarwal:** And sir, just last one, on FY24, you said bulk of the growth will be driven by our current products and FY25 is where some of the newer products will start to contribute in a more meaningful way, that understanding is correct, sir?
- Rajendra Gogri:** Even up to FY25 will be more of the current product line because in FY25, the new product line, it will be the first year. So, we don't see any significant EBITDA coming from new products in FY25, but some volumes will start coming in FY25 from the new products.
- Nitin Agarwal:** On that, the fact is that we have the same product lines that you have which you are saying will be driving growth in FY24 and FY25. I mean, what has been the reason that our growth has seen relatively little contribution for some of these existing products and have been little on the muted side over the last few quarters? What is going to change in your assessment over the next 2 years on this current portfolio, which can drive up such a reasonably strong growth versus what we have done in the recent past?
- Rajendra Gogri:** Yes, basically, this entire, the first contract backward chain, which we had expanded that we expect that to get filled in and this new Ethylation and Nitrotoluene that is a new capacity, which we are adding is based on more visibility and Nitrochlorobenzene expansion will happen. So, those are the things which will lead to this volume growth and some other Speciality Chemical also we have added. So, that will also drive the growth.
- Nitin Agarwal:** Sir, last one, on Pharma business, how are you planning to share more details on the business? Anything which is planned sir, if you can share it on this call?
- Rajendra Gogri:** Basically, 9-month results are already in public domain in Pharma. So, EPS for 9 months was about Rs. 16.6, annualized EPS about Rs. 22 for Pharma. On an absolute number, PAT is about Rs. 151 crore and EBITDA is Rs. 264 crore for 9 months in Pharma and then after Q4, obviously, there will be a regular interaction for Pharma.
- Moderator:** Thank you. The next question is from the line of Ritesh Gupta from Morgan Stanley. Please go ahead.
- Ritesh Gupta:** Sir, just one quick clarification, did you say that your FY23 to FY25 growth, 25% CAGR is more FY25 driven rather than FY24 driven? Sir, I got confused when you answered to a particular participant?
- Rajendra Gogri:** Yes, because FY24, even some slowdown might go on in maybe 1 or 2 quarters and FY24 is I think will be more of a turbulent year in that sense. So, that clarity we will be able to give in Q4.
- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** If you see the 9-month sales number versus FY22 and FY23, roughly about Rs. 860 crore is the increase, which is completely driven by exports, which means domestic seems to be flat for 9 months. Now considering that commodity prices have generally gone up and also some new plants have kicked in for you, it appears that your volume growth overall seems to be negative, is the number quite large in textile, so we are not seeing any growth in domestic? Are other segments also not doing great? Any thoughts or color on this?

Rajendra Gogri: No, Textile is generally domestic. Textile has a very less export component, but overall, I don't think it will be negative. We have not looked at that way actually in the bifurcation of export and local.

Vishnu Kumar: If you just look at the 9-month number, FY22-23, it is practically flat, so obviously, the commodities prices have gone up, so it appears that at least the volume could have been negative?

Rajendra Gogri: Yes, that is, in general, we always tried to reshuffle depending on the market, the remote potential in export market will push it there, but it has not been analyzed that there will be a decrease.

Vishnu Kumar: Sir, how much would be textile out of our overall domestic sales? Any rough idea you could give us?

Rajendra Gogri: So, we are more around 15%-20% range. So, textile market and domestic may be around 20%-25%.

Moderator: Thank you. The next question is from the line of Meet Vora from Axis Capital. Please go ahead.

Meet Vora: Sir, just wanted to understand our thought process behind tying up volumes of Nitric Acid with Deepak Fertilisers, so earlier, we were contemplating a Rs. 200 crore of CAPEX for setting up a Concentrated Nitric Acid plant and in last call, we mentioned that this plant has been ordered, but now given that as we grow our business, Nitric Acid is our key RM and even Deepak Fertilisers is not expanding their capacities, so how do we see this, will we be able to suffice our volumes from this agreement?

Rajendra Gogri: Yes, Deepak Fertilisers also plans to expand that capacity overall because Deepak Fertilisers is a multi-location, multi-plant for both weak Nitric Acid and Concentrated Nitric Acid. So, it is kind of de-risk us rather than having one single stream plant for us. That is an advantage of sourcing from Deepak Fertilisers compared to our own single plant dependency and second thing, it frees up the cash flow for more on value-added specialized chemistries. So, these were the two main reasons which were driving this.

Meet Vora: Secondly, we have highlighted that this quarter performance has been aided by newer capacity additions, so is there any other capacity addition except for first long-term contract and the second and third long-term contract?

Rajendra Gogri: Other than that, may not be any significant capacity addition in this quarter now.

Meet Vora: So, this 9-month performance has been aided by second and third long-term contract addition?

Rajendra Gogri: Yes.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, in our presentation, we have mentioned that in FY22, 5% revenues came in from China and given that recently, the restrictions have been lifted, have you seen any demand pickup, particularly for the exports in China?

Rajendra Gogri: Yes, I think demand from China has now normalized, overall.

Moderator: Thank you. The next question is from the line of Surya Narayan Patra from Phillip Capital. Please go ahead.

Surya Narayan Patra: Sir, just wanted to check about the cost component relating to the energy and freight, in fact, FY24, just two components put together was about 8%, so for FY23, the cost share, what should be the percentage to sales, sir?

Rajendra Gogri: I think that detail may have to be taken out specifically.

Chetan Gandhi: We have to pull that numbers out for that Surya.

Surya Narayan Patra: Secondly, some clarification sir, just what we are trying to say is that this third contract what we have commissioned, so this year, we may not find any meaningful contribution even in the fourth quarter, practically, that will be contributing from the first quarter, is that right, sir?

Rajendra Gogri: Yes.

Surya Narayan Patra: Even the other new projects, so you have said for FY24, the Chlorotoluene project, the MPP project and the expansion of the NCB, these are the three key kind of commissioning of projects that we should be seeing along with the Speciality Chemical project, is that the kind of right understanding?

Rajendra Gogri: No. Multipurpose Plant will get commissioned in FY25 and Chlorotoluene will be FY25 and FY26. There will be multiple blocks for Chlorotoluene, so over that two-year period, we will have commissioning of various Chlorotoluene blocks.

Surya Narayan Patra: So, then what are the projects that you are indicating for FY24, sir?

Rajendra Gogri: So, Nitrochlorobenzene and some other Speciality Chemical blocks, which are currently under construction.

Surya Narayan Patra: Just one las question, so this year, the first agrochemical Dicamba project, utilization should be in the range of around 20% or so, that is the kind of right number we should consider?

Rajendra Gogri: Yes.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Rajendra Gogri: Thank you everyone for taking out the time to join us on our Q3 FY23 earnings conference call. Hope we have addressed all your questions. If you have any further questions, please feel free to contact our Investor Relations team, and we will address them. Stay safe and we look forward to connecting with all of you again in the next quarter. Thank you once again.

Moderator: Thank you very much. On behalf of Aarti Industries Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines.