AARTI INDUSTRIES LIMITED

**November 10, 2023**

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

**BSE CODE –524208**

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.
**NSE CODE:AARTIIND**

Dear Sir/Madam,

**Sub.: Transcript of Q2 FY24 Earnings Conference Call**
**Ref: Regulation 30 of the SEBI (LODR) Regulations, 2015**

Please find enclosed herewith the Transcript of Earnings Conference Call held on Monday, November 6, 2023 on Audited Financial Results of the Company for the quarter and half year ended September 30, 2023.

Kindly take the same on record.

Thanking You,

Yours faithfully,
**FOR AARTI INDUSTRIES LIMITED**

RAJ KUMAR SARRAF
Digitally signed by RAJ KUMAR SARRAF
Date: 2023.11.10 14:33:11 +05'30'

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

**Aarti Industries Limited**
Q2 FY24 Earnings Conference Call Transcript
November 06, 2023

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**Moderator:** Ladies and gentlemen, good day and welcome to Aarti Industries Limited Q2 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, Mr. Solanki.

**Nishid Solanki:** Thank you. Good afternoon, everyone and thank you for joining us on Aarti Industries Q2 FY24 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. Call with opening thoughts from Mr. Rajendra Gogri, who will take us through the Performance Overview, Progress on the Growth Plans and Outlook on the Business. Post this, we shall open the forum for Q&A where the management will be addressing queries of the participants.

Just to share a standard disclaimer: Certain statements that may be made in today's call may be forward-looking in nature and the disclaimer to this effect has been included in the "Results Presentation" that has been shared earlier and also uploaded on stock exchange website.

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

**Rajendra Gogri:** Thank you. Good afternoon and a warm welcome to everyone present on the call today. We are here to discuss Aarti Industries' Q2 FY24 earnings. Firstly, festive greetings to each one of you. I would like to take you through the performance, update on growth initiatives and strategy.

We have exhibited strong resilience and delivered robust performance on a sequential basis, which came on the backdrop of continued external pressures, reflected by 16% gains in absolute EBITDA compared to the previous quarter. While the challenges with respect to global inventory destocking, high interest rates, recessionary trends across various end-markets, slowdown in export markets and geopolitical tension persists, we witnessed some recovery on Q-o-Q basis. In light of this situation, I believe our teams have displayed remarkable agility to swiftly navigate to products that are experiencing a more favourable demand scenario. This was possible due to our comprehensive understanding of the market conditions coupled with dedicated efforts for enhancing our market position and driving operational excellence.

While I anticipate these headwinds to persist over the next few months, we are witnessing gradual recovery quarter-on-quarter for various products. We maintain optimism about potential demand revival in the end use segments such as agrochemical, polymer additives and other discretionary applications, as we move forward. That said, we have observed some recovery in Dyes, and few specialty applications, while other end-user segments are yet to recuperate. We expect the worst to be over in H1 FY24 and anticipate that it will take a few more quarters for normalised demand across various end segments/product lines. Thus we expect consequentially better performance in H2FY24 and foresee FY25 to be a normalising year considering the current pace of recovery. We are continuously engaging with our customers to increase the market share and to widen the market base.

Now, let me cover the key performance highlights. Financials are on a consolidated basis.

Our revenues increased by 2% to Rs. 1,597 crore in Q2 FY24 over previous quarter Q1 FY24. EBITDA grew by 16% on Q-o-Q basis to Rs. 233 crore in Q2 FY24, the better EBITDA performance was a result of volume expansion with near stabilising of realisation for some products. Interest cost was higher on account of revaluation loss of about Rs. 12 crore with respect to unhedged long-term loans.

Profit after tax stood at Rs. 91 crore in Q2 FY24, higher by 30% over previous quarter Q1 FY24. This was in-line with better operational performance, further aided by lower tax provisions and accrual of Deferred Tax assets.

I will now share the production details for Q2 FY24. Production of Nitrochlorobenzene stood at 19014 MT as compared to 20276 MT in Q2 of last year and 17293 MT in Q1 FY24. For Hydrogenation, this came at 3136 TPM over 2558 TPM in the same period last year, and 2868 TPM in Q1 FY24. For Nitro-Toluene, the production for Q2 FY24 stood at 7560 MT as against 4954 MT in Q2 of FY23, and 9320 MT in Q1 FY24.

Moving your attention to updates on key projects. Our revamp of the Acid unit has been completed recently. All the other projects including capacity increase of Ethylation & NT and introduction of Chlorotoluenes value-chain among others are progressing well and will start commissioning in a phased manner, from next year. In addition to this, we are looking at unique opportunities in the sunrise sectors and will delve more as we achieve some breakthrough.

During the six-months period, we necessitated a CAPEX of about Rs. 575 crore towards various expansion opportunities shared previously. Our target annual capex will be in the range of Rs. 1200-1300 crores for FY24. Overall, we are committed to deploying Rs. 2,500 to 3,000 crore for the outlined growth initiatives over a two-year period, as we anticipate rapid growth for the Indian Chemical industry in the foreseeable future. This will not only enhance our proficiency and capabilities in existing as well as newer high-end chemistries, but also expand our addressable market size.

In-line with the current demand scenario, we believe FY24 to be a transitional period with moderated performance over last year. However, FY25 onwards, we will see healthy accretion to earnings in a phased manner as the macro challenges eases out, on-ground demand improves and also with newer projects begin to contribute.

I will now conclude by saying that we are fully ready to unlock newer opportunities as India remains a sweet spot for global majors. We continue to believe that this will be a golden decade for India given its cost competitiveness, huge talent pool, growing domestic market and favourable manufacturing shift from other Asian/ western countries. Aarti Industries will remain nimble and capitalise these opportunities backed by its world-class manufacturing expertise and R&D capabilities. With this promise, we will be able to enhance value for all our stakeholders.

This concludes my initial remarks, and I now request the moderator to open the forum for Q&A session. Thank you.

**Moderator:** We will now begin the question-and-answer session. We'll take the first question from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.

**Vivek Rajamani:** First, if you could just touch upon the demand trends that you're seeing in October or this quarter for your end markets, I just want to get a sense which sectors are actually seeing the biggest recovery, and which are the sectors which are being the biggest drag? And secondly, sir, I think you mentioned in your opening remarks that you're starting to see some ASP stabilization in some products. So, just from either an ASP or a margin perspective, if you can just talk about how it has moved on a QoQ basis between your regular and your non-regular markets, that will be very helpful?

**Rajendra Gogri:** Yes, overall, demand in discretionary sites, whether it's dyes, pigments, polymers, we are seeing improvements quarter-on-quarter, even in Q3, but agrochemicals are still more on a molecule-specific. So, there we are seeing more challenges as far as segment-wise demand recovery is concerned.

**Chetan Gandhi:** For margin, margins per product, I think we are doing better than what we were doing in last quarter in this discretionary and this segment, which Mr. Rajendra Gogri mentioned, so we are doing better there where the demand is coming back, I think we are seeing some margin improvements, whereas some drag in agro, pharma and markets I think we are seeing. So, that is the overall mix in terms of margin.

**Vivek Rajamani:** Just one small clarification. This margin improvement that you're seeing in discretionary segments, is that coming both from your regular markets and your non-regular markets?

**Rajendra Gogri:** I would say on both.

**Moderator:** We'll take the next question from the line of Abhijit Akella from Kotak Securities. Please go ahead.

**Abhijit Akella:** Just on the margin point, a little bit longer, so the sequential increase in margins, what exactly would that be attributable to -- is it that there's been some favorable shift in product mix or is it expansion spreads in some of our base products itself or is it inventory gains on benzene for example, what exactly might it be, and can we expect this to sustain into 3Q and 4Q as well the same level of margins going forward?

**Rajendra Gogri:** Yes, product mix also is a factor where more, on a higher margin, product sales are there. Specific product-to-product where some demand increase, stabilization is taking place, there is some sort of a margin increase, is also what we have observed. So, in general as the demand also starts recovering, we see that some margin benefit is also starting to accrue.

**Rashesh Gogri:** We are seeing recovery in our traditional markets and so this is not a dumping market that non-traditional market where we are seeing improvement, we are seeing improvement in the traditional markets which was always a better margin market. So, again, the orders have come back so that our overall mix of margin has improved basically.

**Abhijit Akella:** So, sounds like this is sustainable in 2H FY24 as well?

**Rajendra Gogri:** Yes.

**Abhijit Akella:** Also, just so curious, whether you know N-Methyl Aniline might be a product on which we make better margins than on our overall portfolio or is that not the case?

**Rajendra Gogri:** As we have been always saying, it is more on EBITDA per Kg. As a percentage margin, different product will have different percentages.

**Rashesh Gogri:** We are not commenting on individual products anyway.

**Abhijit Akella:** Then on the demand side, you pointed to a gradual recovery in the second half. So, I mean, when we look ahead sequentially 3Q versus 2Q maybe 4Q as well. How much of an improvement can we expect in the revenue or EBITDA run rate? Or maybe if I could ask it another way, what sort of EBITDA guidance should we work with for FY24 and then maybe FY25, please?

**Rajendra Gogri:** The first half total is about Rs.433 crore. So, second half upward of Rs.500 crore. Overall, annually, we see that around Rs.950-1,000 crore is the current visibility for EBITDA for this year, FY24. And FY25, it will be difficult to give guidance now, but I think our general guidance earlier was Rs.1,700 crore. So, we see that at least 5% to 15% is the maximum decline over that number. But overall FY25 also, quarter-on-quarter there will be an increase as the demand also recovers and our new plant of ethylation and NT gets commissioned, so FY25, we will have a quarter-on-quarter kind of an increase in EBITDA.

**Abhijit Akella:** If you could please just help us with the capacity utilization rates on your three long-term projects, basically? On the balance sheet we see that the payable days have gone up quite sharply in 1H, offsetting an increase in inventories. So, if you could please just highlight the reason for that?

**Rajendra Gogri:** Capacity utilization of the long-term first contract which got cancelled, their products we are suffering on the demand side, so not much significant improvement there. Second contract which is the way it is structured; it is more or less capacity utilization-agnostic. The third contract we have just commissioned. So, this year is more of a product stabilization. We don't see any significant EBITDA coming in for the third contract in FY24, the major thing will come in FY25 for the third contract.

**Chetan Gandhi:** On the payable days, we had a couple of imports happening where the credit period is generally more than the domestic sourcing. So, that's where the payable days are higher than the previous quarter numbers.

**Abhijit Akella:** Is this more of a tactical shift towards imports or is this more of like a strategic move?

**Chetan Gandhi:** For some of the raw materials, not the major ones, and not the benzene and other one, but for a couple of other raw materials, we do have imports coming at a better pricing. So, as of now that seems to be the strategy.

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

**Rohit Nagraj:** The first question is on the first contract. So, we were planning to change the structure of the plant so that we can manufacture something else from the dedicated plant. So, are there any more new things that we have worked on? Is there a possibility that next year we will be able to at least use part of that plant for manufacturing any new products, so, any thought process on that?

**Rajendra Gogri:** We have not taken any firm decision on that yet. We are still evaluating the possibility of using it for the same product. As I mentioned earlier also, maybe it's couple of more quarters that we will need for us to know whether we should partly use it for some other products or something, that call has not been taken yet.

**Rohit Nagraj:** Second question is in terms of our guidance, so this year we are planning to reach about Rs.1,000 crore, next year, Rs.1,700 crore minus something. So, from 1,000 to 1,700, what could be the increase from the base set of capacities that we are currently having? What could be the contribution to EBITDA from the newer projects that will get commissioned during next year?

**Rajendra Gogri:** NitroChloro Benzene has been expanded so that ramp up will happen. The contract-III also will come into the rampup and next year, a major project which will gets commissioned is ethylation and NT expansion and some other debottlenecking. So, that would be the mix ramp up of the project, which has been commissioned in FY23 and FY24 as well as the new project of this ethylation and NT which will be commissioned in FY25.

**Chetan Gandhi:** Also, the expectation on the volume which has currently not been there, so with the recovery of the global volumes it will also add on to this.

**Rohit Nagraj:** Just a last clarification on the debt front. So, again, by the first half the debt has gone up to Rs.3,200 crore. What is the peak debt that we are looking at and when are we likely to hit that run rate maybe in for FY25, and FY26, any thoughts?

**Chetan Gandhi:** We do have cash of Rs.400 plus crore. So, the net debt would be around Rs.2,700 something. I don't think the debt numbers will significantly go up from here towards the end of FY24. So, on a net debt basis we should be somewhere between Rs. 2,700-2,800 crore or Rs. 2,900 crore in a worst-case scenario.

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

**Ankur Periwal:** First question is on the global demand as well as supply scenario. If you can share your thoughts on the overall competitive intensity, the demand slowdown as well as intensity especially from China and are there any new capacities coming in or shutting down, your thoughts please?

**Rajendra Gogri:** As we mentioned that global demand is gradually recovering and we see the next two, three, quarters, there will be demand revival and obviously because of the Chinese economy also going slow down, in general the Chinese competitive intensity has increased in last few quarters. But as the global demand improves, we see that that the competitive intensity also will reduce. So, that's how we see that both demand revival as well as some decrease in competitive intensity.

**Ankur Periwal:** Any change in the global supplies' capacities there?

**Rajendra Gogri:** No significant new changes.

**Ankur Periwal:** Secondly, on the pricing bit, there has been volatility across the pricing for our products. Do you believe, more or less, that there is stability now or probably looking at maybe October or the recent trends, that price volatility still remains?

**Rajendra Gogri:** Generally, in prices, we have a raw material pass-through. Raw material volatility is not impacting much. Generally, a little bit margin improvement, as already mentioned in earlier question, for some of the products we have seen.

**Ankur Periwal:** Lastly on the CAPEX, so around Rs. 1,200-1,300 crore for this year and I think you had guided for around Rs. 2,500 crore of CAPEX over FY24 and FY25. How much of this will be on productive CAPEX and expected asset turn there?

**Rajendra Gogri:** Yes, the total was Rs. 2,500-3,000 crore. The new assets which are coming up in our new zone, they are higher value-added products. So there, the asset turn will be more towards around 1.2x to 1.3x.

**Ankur Periwal:** Presumably this will be margin-accretive to our current business?

**Rajendra Gogri:** Yes.

**Moderator:** The next question is from the line of Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

**Aditya Khetan:** My first question is, sir, when we were listening to all the global and domestic agrochemicals and the pigment companies, most of the companies have given out a very weak guidance on to the demand side and most of them have also shifted the improvement in demand outlook towards the first half of the next calendar year. So still sir, we have witnessed an improvement in volumes and margins. So just want to know the disconnect between the global commentaries and our improvement in volumes.

**Rajendra Gogri:** Yes, basically, we have a very wide spread of products and wide end use market that kind of helps us to put the products where there is more demand. And overall, also generally it also becomes product-specific. Obviously, the improvement will come more in this calendar year FY24 because in the last quarter generally multinationals tend to buy less. So, Q3 FY24, the general international buying is less. So, in the calendar year/FY24 first half we'll see more demand growth.

**Aditya Khetan:** And then on the volume improvement on quarter-on-quarter basis into the NCB and into the hydrogenation business, which are the major geographies wherein we have increased our exports? Because what we believe is that US and Europe for these markets, continue to remain weak. So which are the markets that have shown an uptick in terms of your volume growth?

**Rajendra Gogri:** Yes, we have been exporting to various markets including China, other Asian and European countries also. We are a very, very well spread geographical baskets.

**Aditya Khetan:** Any specific geographies which have witnessed an improvement, that's what I wanted to understand?

**Rajendra Gogri:** In some of the Asian markets, we have been able to see improvement and in some European countries also.

**Aditya Khetan:** If you can share the PDA volumes for the quarter, sir?

**Rajendra Gogri:** This PDA volumes were 316 tons per month.

**Aditya Khetan:** In our end user industry, in home and personal care business, how much would be that contribution? Since the last few months we were witnessing that, because of higher inflation, the volumes were not able to pick up. So, how is this segment changing now and can this be a segment which can further lead to improvement in volumes going ahead or it would be at the same level which is currently?

**Rajendra Gogri:** Our exposure to home and personal care is very limited. I will not get into details, but some of the products what we see, some pressure is there in the demand, but overall, as a company as a whole, that's not a very big output.

**Moderator:** We'll take the next question from the line of Rohan Gupta from Nuvama. Please go ahead.

**Rohan Gupta:** First question is on our end user industry wise growth, which we have seen on a QoQ basis, in volumes. I understand that global agrochemicals are still challenging. Can you give some sense that which were the end user industries which have given a sharp growth and how has been the agrochemicals industry growth for us?

**Rajendra Gogri:** Yes, agrochemicals are continuing to be challenging, but on polymers and additives and dye stuff side and all, we have seen growth.

**Rohan Gupta:** Sir, any ballpark number, end user industry wise, like how much was agrochemicals' degrowth and what kind of volume growth would have seen in polymers and additives, a very ballpark number?

**Rajendra Gogri:** That number we will not have readily available.

**Rohan Gupta:** Sir, we have seen that the crude oil started going up and that may have some follow up impact on benzene prices as well. Have you seen any kind of improvement so far in our margins because of low raw material cost benefit or do you expect going forward we will have some benefit because generally we tend to gain in a rising raw material price scenario?

**Rajendra Gogri:** So generally, we have a pass-through, so raw material pricing impact is not there. If local it gets immediately passed through and exports sometime in a quarterly pass through.

**Rohan Gupta:** The third question is on net debt. Chetan, sir, you mentioned that maybe we can see net debt peaking at Rs. 2,700-2,800 crore. While given the current weakness, we are still looking at maybe a base-case EBITDA of almost Rs. 1,400-1,500 crore for FY25 while we are continuing with the cumulative CAPEX of Rs. 2,500-3,000 crore, so that seems that our cash flows may not be sufficient enough to meet this CAPEX including working capital requirement. So, any change there because earlier the projections were on the higher side, but now given the weakness, so we are expecting a lower cash flow generation, so how we see that our peak net debt or net debt level next year with keeping the CAPEX same?

**Chetan Gandhi:** No, I believe the question which was there earlier was reference to the debt numbers for this year and not on a peak net debt, so it was more related to by end of FY24 where we see the debt numbers. As you rightly said, we do have CAPEX of plans and there is also the volume uptick is going to be gradual over next few quarters, so the debt level will increase. At this point of time, it will be a bit difficult to work on the net debt basis because we still have a lot of areas to look into such as the raw material prices, have started moving up, the impact of that you will have to be evaluated and seen. So, on debt numbers basis, I guess the net debt would increase in FY25. I believe it should peak-out somewhere in FY26, and from there it will start tapering off. Putting a number at this point of time would be a bit difficult. Probably we can take it up at some other time, maybe next quarter or so.

**Rohan Gupta:** Sir, in terms of our capacity utilization level, so we have already definitely invested significantly and our CAPEX plans are still going on. While we see that the recovery will be slower and China where the competition is still pretty large in terms of commodity side of the business, so do you see that the threat from China is likely to continue in terms of the pricing? Because we have heard that there are huge capacities built up in China at least in a lower and other product value chains, where 25% to 35% of our products' markets compete. How do we see and is there any possibility that we may rejig our CAPEX plan over next two years and slow down a little bit?

**Rajendra Gogri:** No, basically the impact of this Chinese competition increase is already there. So, we don't see much of any further change in that. These projects or whatever we are doing, we have already started working on that. We don't have any plan to change on overall whatever we have guided being Rs. 2,500-3,000 crore over this two-year period.

**Moderator:** The next question is from the line of Surya Patra from PhillipCapital (India) Private Limited. Please go ahead.

**Surya Patra:** Sir, my first question is on the export and domestic mix. So, there is a 10% swing in this quarter from the earlier period. In fact, there is a strong growth in the export that is what we are witnessing, while the domestic market is remaining subdued. How should one read this – should one think that okay, the domestic market is suppressed by the Chinese dumping and all that, whereas you would have seen some export demand in let's say hydrogenation-based products, aniline and all that, in the export side that would have supported the export mix. So practically, your sense on how should one really read this?

**Rajendra Gogri:** So basically, overall direct export and indirect export is one component. Majorly being a global player, we will have to count for direct export and indirect export which is counted in local sales. And the other thing is which is purely for local demand. So sometimes this decrease in local sales maybe is also because of the downstream pressure especially in the agrochemicals side, where our customers buy the product locally and then make the product and export. So, that's how the situation is.

**Surya Patra:** So, that means is it fair to believe that the direct export is seeing a kind of a stronger momentum than in the domestic market?

**Rajendra Gogri:** Yes.

**Surya Patra:** This mix is likely to sustain in future going ahead again, sir or it may correct?

**Rajendra Gogri:** Overall, we see that we'll have this kind of a good export.

**Surya Patra:** Because in fact, for a very long period, we always used to have an export mix of more than 50%. But when we witnessed a post-COVID or during COVID domestic momentum gaining, then there was a kind of 10% showing downward for the export that we had witnessed, which is reversing again. So, that's why my question is it now fair to think that export will be a dominant piece going ahead?

**Rajendra Gogri:** Yes, currently, but then again once we have our contract-III is there, that is full export. So, generally, we don't see on that way or local is more depending on where our product demand is there. Sometimes, the end use consumption shifts, then the product gets sold locally and the finished goods get exported. But overall, we have been saying, 40% to 55% range of export, that kind of thing should continue.

**Surya Patra:** Just a clarification relating to this fact only. So, are these contract-II as well as contract-III, both are in the optimal utilization levels for the quarter?

**Rajendra Gogri:** No, contact-III is still on the first year, it's more on stabilization.

**Surya Patra:** Means that will see a kind of gradual ramp up even in the second half versus first-half?

**Rajendra Gogri:** Yes. The major gain in fact will be in the next year for that.

**Surya Patra:** Second question is on the volume mix. What are we witnessing, is it that there is a kind of a strong recovery in the PDA sequentially and even in the hydrogenation as well as the Nitro Chloro Benzene? While Nitro Toluene on a temporary peak base of the previous quarter, we have seen some sequential thing. But otherwise across board there is a kind of more than strong double-digit recovery in the volumes that we are witnessing. So, does this indicate that despite this demand weakness what we are generally witnessing in the global market, we are kind of displacing some Chinese competition and hence this position and that's why this can sustain even in the second half? Is it the right understanding or how should we think of this QoQ volume recovery?

**Rajendra Gogri:** So basically overall, the volumes were down, and the recovery is taking place. Then ultimately you have to move from company-to-company within company product-to-product. For the kind of products that we have, we are seeing that the demand is picking up, and we see that from Q2 to Q3, Q4, generally the demand forecast what we are getting from customer it is getting more and more normalized.

**Surya Patra:** One question is on the margins. In fact, we know that your model is a pass-through model where it is better to look at the absolute EBITDA basis. But, given the fact of this crude fluctuating - appreciating because of the geopolitical tension, then normalizing again – during that situation continuing this way, then the recovery what we are witnessing for our products basically, and the China dumping aspect, which is still continuing - considering all these factors and the recovery what you are guiding for the second-half, so at least on the margin front, it is fair to believe that you have already bottomed out in the first quarter in terms of margin which was the lowest ever?

**Rajendra Gogri:** Yes, per Kg margins what were there in the first quarter were lower and margins, you can say it is bottomed out.

**Surya Patra:** Just last one clarification then from my side. See, obviously, we know that while the base business is likely to see a kind of a sequential progression, both in terms of volume as well as margin now; and the way that you have indicated – that the incremental earning boost to the performance is likely to come from the ethylation and ethylation products and the nitrotoluene expanded phase, which is practically, I believe, scheduled from FY25. So, if you can give some sense, in FY25, when do you really expect these incremental – the ethylation one and the nitrotoluene expansions are likely to contribute?

**Rajendra Gogri:** We are currently targeting commissioning toward the end of Q1 of FY25 for this ethylation and nitrotoluene. That's what I mentioned earlier also, that FY25 also will see a progressive increase in volume and EBITDA. So, second half will be better than the first half because of this volume.

**Surya Patra:** You are saying this will start from the first quarter. But since these are like ready projects for us and we have been working on this for some time, so do you have a contract or order book basis here about the ethylation and the nitrotoluene downstream products? Just to give a kind of guidance here or any order book position that you are already having or how is it sir?

**Rajendra Gogri:** Yes, we have a good volume visibility on these expanded capacities.

**Surya Patra:** Irrespective of the demand situation, whatever is prevailing in the market currently?

**Rajendra Gogri:** Hopefully, by the time the demand also is expected to get normalized, right, in calendar year 2024, in the first half.

**Moderator:** The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

**Nitin Agarwal:** Over this first half a reasonable control has been there on the staff cost and other expenses. So, on the other expenses, barring the reduction in power cost, any other factor which is contributing?

**Rajendra Gogri:** Freight is the major component of the other cost.

**Nitin Agarwal:** Sir, are there more opportunities to optimize staff costs and other expenses for us going forward?

**Rajendra Gogri:** Yes, as we had mentioned earlier also, the operating leverages and everything will kick in and will be more or less stabilizing on our employees' level. Some more optimization may happen.

**Nitin Agarwal:** Sir, is there a volume growth number that you have in mind for next year that the business can overall deliver?

**Rajendra Gogri:** It becomes difficult with too many products at two different prices, but overall in general, the volumes across the board we will see growth.

**Moderator:** The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

**Sanjesh Jain:** First is on the volume growth on the industries where we are seeing the recovery. It is that they are now getting the favorable days because I think the destocking phenomena started in polymer and dyes and pigments ahead of the agrochemicals. Rising crude price is also driving the restocking because this year, the prices may remain high. Is that what we are seeing or do you see there is a strong underlying demand recovery because if you look at the pigment rise in sales or the textiles that doesn't show the optimism we are sharing on the volume side of it?

**Rajendra Gogri:** Yes, I think once the inventory kind of reaches to an optimal level, it was mainly of an inventory correction, and I think different products that is getting to a level. Some actual end user demand also is a factor because of overall crude inflation and all. But the major demand issues were mainly because of this inventory correction. There is a level for different products, I think it is reaching a level where they have to operate at that particular level of inventory.

**Sanjesh Jain:** But my whole question was on our confidence of CY25 having the strong volume recovery, if it is a restocking-based volume recovery without underlying completely recovering, are we still very confident of the volume delivery?

**Rajendra Gogri:** Yes, the volume degrowth this year also is also substantially driven by inventory correction, if you see FY24, the amount of volume degrowth has taken place and some demand increase underlying also, but it will be still mainly that inventory correction related degrowth which will be coming back.

**Sanjesh Jain:** My last question is on the margins. Are we sitting on any of the inventory gain because there was a sharp rise in the crude derivative prices and has that given any tailwind or that is not really a major factor in the margin expansion?

**Rajendra Gogri:** Nothing significant in the inventory gains.

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

**Archit Joshi:** So, just trying a bit on the margin front. Earlier sir, we used to sort of give a split of our five blocks wherein we used to operate wherein we used to classify chlorination and nitration, more of commoditized products and the hydrogenation, ammonolysis and halex chemistries, i.e., more of specialized kind. And the split used to be somewhere close to 80:20, 80 favor of specialty of course. Would it be safe to assume that maybe in the first half, we have experienced more of specialty products in the mix and the inferior margin products are not a part of the current sales, which is why we have been able to see decent margins for this quarter?

**Rajendra Gogri:** So that were not specialty, what we call a value added. In general, the value-added's percentage is increasing overall. So that value-added percentage increase in EBITDA margin to sales in general. So, that is where the impact comes.

**Archit Joshi:** So, we have seen that impact, got it. Sir, just another confusion that I had on the CAPEX front, we have mentioned that Rs. 1,200-1,300 crore of CAPEX for this financial year and Rs. 2,500-3,000 crore of CAPEX, would that be on the top of this, would this be FY25 and FY26 or the current Rs. 1,200-1,300 crore part of this Rs. 2,500-3,000 crore CAPEX?

**Rajendra Gogri:** Yes, current Rs. 1,200-1,300 crore for this year will be part of that. So, we have been guiding for the two-year period. So, Rs. 2,500-3,000 crore guidance includes the FY24 numbers.

**Archit Joshi:** So, I think previously when we had met during the plant visit, we were expecting CAPEX from asset restoration, debottlenecking sustainability, and plant infrastructure with some R&D related CAPEX that got capitalized in FY24 and currently we are largely working on the NT and ethylation loop coupled with the zone-3 or site-III projects for MPP and Chlorotoluene, which is what it is either a part of the CWIP or some of it is capitalized, would that be a fair assumption?

**Rajendra Gogri:** Yes, most of the CWIPs are of the ethylation in zone-3 and some are regular also, sustainability related CAPEX. and other value-added products also is part of the WIP and I think a lot of that will get capitalized.

**Moderator:** The next question is from the line of Nitesh Dhoot from Dolat Capital. Please go ahead.

**Nitesh Dhoot:** So, my question is with reference to one of your products which goes in for Octane boosters. So, if you could explain the demand for this particular product and is it part of any contract, long or short term or how sustainable is the ongoing demand that we are witnessing there.

**Rajendra Gogri:** It's a growing product. We see the kind of demand what we have seen, we should be able to sustain and maybe grow also, and this product is also for other end use also.

**Nitesh Dhoot:** So, ex of this product, has there been significant growth in the other exported products also or this has been one of the drivers if I may ask?

**Rajendra Gogri:** Yes, there is a growth in the other also and this one also is a substantial part of it.

**Nitesh Dhoot:** Lastly, on the sunset review on MPDA, just trying to understand if MPDA's contribution in the overall revenue is anything significant or even non-acceptance of this review by CBDT would impact us in any way?

**Rajendra Gogri:** No, the demand has been very slow on that especially in the local. So, this sunset review is not going to have any significant impact. But I think we should be able to continue that anti-dumping duty.

**Nitesh Dhoot:** If you could just explain on the sequential decline of 17% that you're seeing on the domestic side, which end users would have been the key contributors there?

**Rajendra Gogri:** The agrochemicals are a major contributor.

**Nitesh Dhoot:** On the domestic side as well?

**Rajendra Gogri:** Yes.

**Moderator:** The next question is from the line of Krishna Kumar from Avendus Spark. Please go ahead.

**Krishna Kumar:** Sir, following on the previous caller's question on one of the key products that our export growth has been good, any key reason why we are gaining market share on this particular product - is the competition slow, if you could just give us help us understand reasons why we are having a good traction on this particular product?

**Rajendra Gogri:** We're trying to spread our market base and develop newer markets for these products.

**Krishna Kumar:** But primarily any particular end-market segment this product that goes into?

**Rajendra Gogri:** It is a specialty product going into different end uses.

**Krishna Kumar:** Sir, if I see your domestic and export run rate, our exports are more or less holding around Rs.800 crore run rate mark, whereas our domestic realizations have come from Rs. 950-odd crore to 750 crore. Now, we understand that let's say pricing is actually coming down and exports is the only one that is holding. If agrochem is not doing well globally, is it that dyes and other markets we are kind of gaining market share versus other countries, any specific reason for this export shift if you could help us understand?

**Rajendra Gogri:** Basically, this demand contraction, whether it happens in domestic or export, that's what becomes important. Some of this decline in domestic sales is because of the ultimate agrochemicals demand in the global market is impacted. So, our customer who is buying within India and then exporting the products, those have got impacted. That's what I earlier also mentioned. Because we have a lot of domestic sales which is indirectly exported and that is where the impact is.

**Krishna Kumar:** So, export sale is also not for any agrochem markets, it's just for the other sectors is where we are gaining?

**Rajendra Gogri:** No. there are so many different products. So, sometimes what happens is that agrochemicals intermediates going in export their impact is less, then the intermediates which is going in domestic market impact is more, so that's how the things move. It becomes very product-specific ultimately.

**Krishna Kumar:** Sir, in one of your previous comments the Rs.1,700 crore guidance that you've given, if you're seeing that guidance could change by 5% to 15%?

**Rajendra Gogri:** Yes. That is the current estimate and then we will see how we are able to get fine tuning as we go on.

**Krishna Kumar:** So basically the Rs. 1,700 crore can read as Rs. 1,450-1,600 crore then if we take that 5% to 15%?

**Rajendra Gogri:** Yes.

**Moderator:** We'll take the next question from the line of Ranvir Singh from Nuvama. Please go ahead.

**Ranvir Singh:** Sir, two clarifications. One, our fixed contract revenue that from unit-II and unit-III, so what was the total contribution of the two units?

**Rajendra Gogri:** This contract-III as mentioned is more stabilizing and contract-II the way it is structured that the EBITDA is not directly connected to the sales.

**Ranvir Singh:** I understand this is a fixed EBITDA, but what portion of it is currently contributing to our total either in revenue or EBITDA that I wanted to understand?

**Rajendra Gogri:** That number we will not have readily available right now.

**Ranvir Singh:** Secondly, when we say that FY25 we'll see the normalization of business, so exactly what kind of growth normally we consider, I understand this would be a gradual improvement there, but is there any number in our mind that we are expecting for FY25?

**Rajendra Gogri:** No, whatever the sudden very, very decline which has happened in demand for various products which we have seen in this year because of the destocking, so those should become normal. The inventory correction I think will get normalized and we'll move to a consumption and sales kind of a matching.

**Ranvir Singh:** You mentioned the production number of Nitro Chloro Benzene, Hydrogenation and Nitro Toluene, actually I missed this number. So, if you could help me again?

**Rajendra Gogri:** Nitro Chloro Benzene is 19,014 tons and hydrogenation is 3,136 tons per month.

**Ranvir Singh:** Just for basic understanding, of these three categories, which one is a better margin product, just to understand that how the mix is actually impacting our margin, whether it's a Nitro Chloro Benzene that gives us better margin than Hydrogenation or Nitro Toluene is a better margin bucket?

**Rajendra Gogri:** Nitro Chloro Benzene is a base product. So, there margin per rupee will be lower, and Hydrogenation and those are more valuable products, so, as a percentage to sales, those margins are higher.

**Moderator:** We'll take the next question from the line of Nirav Jimudia from Anvil Research. Please go ahead.

**Nirav Jimudia:** Sir, on the Nitro Toluene side, volumes have fallen on our QoQ basis. So, is it because of our ONT, OT chain not doing well and that's why we have restricted production and sales of NT or it's because of the PNT and the other products which come along with the production of NT and those products not doing well, that's why we have restricted the production of NT in this quarter?

**Rajendra Gogri:** It's more related to agrochemicals side demand. We have taken some shutdowns also, so production was impacted.

**Nirav Jimudia:** Sir, was there any restrictions on the sale of Metalochlorine in Europe, predominantly in France and because of which probably the demand restriction or demand fallen would have happened on the OT chain, is this a right understanding on the fall in the volumes for NT?

**Rajendra Gogri:** No, I'm not aware of any restriction in those geographies.

**Nirav Jimudia:** On the Nitric Acid side, the prices have fallen, so last year the prices were very high So does the raw material benefit of the fall of those nitric acid prices get reflected fully in Q2 or further improvement in our margins could come up with the fall in the prices which have happened in the first half of FY24?

**Rajendra Gogri:** We have a contractual structure. So, it is more or less you know ammonia link prices.

**Nirav Jimudia:** Sir, just a last clarification on the number which you mentioned that next year we could do Rs. 1,700 crore plus/minus 5% to 15%. So hypothetically assuming that per Kg improvement in the margins with the product mix also changing next year, what sort of volume growth we would require to do so that that sort of number could be achieved?

**Rajendra Gogri:** So, across the board, various product lines, there will be volume growth as we have mentioned earlier also that.

**Nirav Jimudia:** Some rough understanding of the blended volumes which need to be clocked so that we could achieve those numbers of EBITDA?

**Rajendra Gogri:** No, we are not taking out those kinds of a blended number. Becomes its very difficult the total product range is very wide and the pricing of the products are Rs.1,000 plus to Rs. 5 sulphuric acid, so the volume becomes difficult.

**Rashesh Gogri:** Margin improvement as well as volume improvement, so it is a mix of both that we expect that will improve our numbers.

**Moderator:** The next question is from the line of Siddharth Gadekar from Equirus. Please go ahead.

**Siddharth Gadekar:** Sir, just wanted to understand the split in the exports between our regular markets and the non-regular markets.

**Rajendra Gogri:** It's more or less substantially on a regular market. Non-regular will be more about 10%.

**Siddharth Gadekar:** Because we had highlighted that in the non-regular markets, our margins would be 10 percentage points lower, but despite some higher exports, our margins have improved substantially. So, is there any particular reason behind that?

**Rajendra Gogri:** So, the non-regular market margins are generally lower, so that impact is there. That is what we will see that once we move towards more regular markets that benefit is going to accrue in future.

**Moderator:** Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you.

**Rajendra Gogri:** Thank you everyone for taking out the time to join us on our Q2 FY24 earnings conference call. Hope we have addressed all your queries. If you have any further questions, please feel free to contact our Investor Relations team, and we will address them. We look forward to connecting with all of you again in the next quarter. Thank you once again.

**Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of Aarti Industries Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.