

November 29, 2021

To, BSE Limited Corporate Relationship Department P.J Towers, Dalal Street, Fort, Mumbai- 400001 Scrip Code: 531921	To, National Stock Exchange of India Limited Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai 400051 SYMBOL: AGARIND; Series: EQ
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Dear Sirs,

Sub.: Transcript of Q2 FY 22 Earnings Call Pursuant to Regulation 30 and 46 read with clause 15 of Para A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

We hereby confirm that we have uploaded the transcript of the Q2 FY 22 Earnings Call held on Friday, November 26, 2021 on our website viz: www.aicltd.in

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Thanking you

For Agarwal Industrial Corporation Limited


Dipali Pitale
Company Secretary & Compliance Officer



Transcript

Conference Call of Agarwal Industrial Corporation Limited

Event Date / Time : **26th November 2021, 04:00 PM IST**

Event Duration : **53 min 25 secs**

Presentation Session

Moderator: Ladies and gentlemen, good day and welcome to Agarwal Industrial Corporation Limited Q2 FY22 earnings conference call, hosted by HEM Securities Limited. 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 * and then 0 on your touchstone telephones. Please note this conference is being recorded. I would now like to handover the floor to Ms. Astha Jain from HEM Securities Limited. Thank you and over to you ma'am.

Astha Jain: Thank you Moumita. Good afternoon, ladies and gentlemen. Thank you for joining the Agarwal Industrial Corporation Limited Q2 FY22 earnings conference call. Joining us on the call today are senior members of the management team, Mr. Lalit Agarwal – Whole Time Director and Mr. Vipin Agarwal – Chief Financial Officer. We will commence the call with the opening thoughts from the management team, post which we will open the forum for Q&A session, where the management will be glad to respond to any queries that you may have. At this point, I would like to add that some of the statements made or discussed on the conference call will be forward-looking in nature. The actual results may vary from these forward-looking statements. I would now like to hand over the call to Mr. Vipin Agarwal to commence, by sharing his thoughts on the performance and strategic progress made by the company. Thank you and over to you, sir.

Vipin Agarwal: Good afternoon, everyone. Thank you very much. And a very warm welcome to everyone who has joined us today. I take the pleasure of welcoming you all to the Q2 FY22 earnings conference call of Agarwal Industrial Corporation Limited. Let me first start by giving you a brief overview of the company's business and then we will take you through the financials of the company. We will then be happy to take questions, if you have any.

Agarwal Industrial Corporation is one of the largest integrated Bitumen players in India. We have developed a wide range of innovative Bitumen products that are used in various construction of roads and waterproof proofing solutions. The same product is also used in the colour industries and the ink industries. We are among the few players in India, who provides customers with last mile connectivity through our own fleet of vessels. We import raw materials. Own manufacturing plant to supply various Bituminous product and storage facilities across the Indian ports to cater to the demand and our own road transportation vehicles to deliver Bitumen to customers at the plant site. Today our Group, is owning about 650 Bitumen and LPG tankers and five bulk vessels, which sets us apart in the Bitumen industry. We, along with our subsidiaries

have six manufacturing facilities, located across Taloja, Vadodara, Belgaum, Hyderabad, Guwahati and Kotli. We have seven bulk storage terminals located at Hazira, Mumbai, Dighi, Haldia, Mangalore, Karwar and Vadodara.

Now, I would like to take you through the second quarter of the company's financials, 2022. We have reported a revenue of 158.94 crores, which is 67% higher compared to 95.14 crores in the Q2 FY21 and Rs.427.98 lakhs in (not clear), which is 96.85% higher compared to Rs.217.41 lakhs in the Q2 FY21. We reported an EBITDA of Rs.1301.71 lakhs in the Q2 FY22 as compared to Rs.933.98 lakhs in Q2 FY21. In terms of H1 FY22, our total revenues have grown by 134% to Rs.56,818 lakhs, as compared to Rs.24,305 lakhs in H1 FY21. Our EBITDA for H1 FY22 increased by 109% and stood at Rs.3852 lakhs, whereas our PAT for the same period grew to 214% and stood at Rs.1935 lakhs.

Our return on capital employed for the full financial year 2021 was around 18%, which in this first six months stood at 7.5%, without annualization. In September 2021, we paid a dividend of Rs.1.80 per share, which is 20% higher of what we declared last year. In terms of volumes, we have in the first half year, last year we had done close to 110,000 metric tons, which in the first half of 2022, we have done about 146,000 metric tons. Further, I would like to add that the demand trend continues to be regular across the infrastructure industry, which is quite exciting for us. The markets for the roads and the highways are projected to exhibit a CAGR of 36% during 2016 to 2025. India is the second largest road network in the world at about 62.16 lakhs kilometers and the Government of India has allocated Rs.11 lakh crores under the NIP for financial year 2019-2025.

Last, I would like to say that we continue to demonstrate profitable performance in the long term of relentless focus on leveraging our two decades of experience in Bitumen and logistics. I conclude my opening remarks and I would request the moderator to open the forum for questions from the participants. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Participants are requested to restrict to two questions per person in the initial round and may come back for follow up questions.

Our first question comes from Mr. Pawan Kumar from Ratnatraya Capital. Please go ahead, sir.

Pawan Kumar: Sir, what were the volumes for Bitumen that were done this particular quarter? And what has been the year-on-year volume growth?

Vipin Agarwal: Firstly, in the current financial year, in the first half, we have done close to 146,000 metric tons, which last year stood at 110,000.

Pawan Kumar: Sorry?

Vipin Agarwal: 110,000. And we expected, on the year-on-year basis, last year we had done close to 2½ lakh thousand, which we expect to increase it by 25%.

Pawan Kumar: Okay. But sir, first half if I am right, you had done some 74,000. So, that means basically in this particular quarter also you did 72,000, is it?

Vipin Agarwal: First quarter we had done close to 110,000 tons. So, whatever volumes we had done last year in the first half, this year we have done that in the first quarter itself.

Pawan Kumar: Okay. First quarter was 1,10,000. Okay, that is fine. This is more of a question on the business, in the sense, so who are your competitors in terms of manufacturing? And also, when you are saying, you are competing on the orders, is it on a fixed price order that you bid first or is it like, how does the bidding go forward?

Vipin Agarwal: I will give you the answer. In Bitumen, there is a fortnightly change of prices, which changes every fortnight. So, we don't take any order on a fixed contract. All the prices of the Bitumen is linked to the refinery prices, in the area that we are operating, nearest refinery and the discounts are being offered on the prices, which are revised every fortnight. If I am giving Rs.4000 discount today, that will continue until it is withdrawn for the next fortnight on whatever listed prices of the PSU.

Pawan Kumar: Okay. And what is the time lag between you ordering the Bitumen and it landing with you.....?

Vipin Agarwal: It is about seven to ten days. The cycle is very small here.

Pawan Kumar: Okay. And for those seven to ten days, you would be taking the inventory risk on that particular raw material, right?

Vipin Agarwal: It is a fixed turnaround. So, there is always some product in the sea that is being moved to various locations. We are keeping inventory for at least ten to fifteen days, so that we don't run dry.

Pawan Kumar: Okay. And on the competition side, the competitors would be basically procuring the raw materials, I am talking about the oil marketing companies, so they are procuring the raw material domestically or from their own.....?

Vipin Agarwal: Refineries are usually manufacturing Bitumen. So, they purchase crude and then they manufacture different petroleum products like diesel, petrol and all those products and then the last product they are producing is Bitumen. For them, there is a totally different manufacturing cycle and the raw material is not Bitumen, but the crude oil that they purchase. And competition side, what you are wanting to know is, we are the only integrated Bitumen player in India, who is having all the various modes of supplying under one roof. We have our own vessel to procure the products firstly on the port location. We are transporting through our own vessels. We have our own import locations to store that product. We have our own distribution lorries to distribute that product to the end user. And we manufacture other Bitumen products also for them. (Inaudible) important, the entire requirement of a Bitumen product.

Pawan Kumar: Okay. Did I hear it right that you rather import crude oil?

Vipin Agarwal: No, no, we do not. PSUs are importing crude oil. We import Bitumen, only imported.

Pawan Kumar: Okay. And one last question, is there a substitute, for example PSU oil marketing companies, do they manufacture Bitumen or is there any substitute product, which fetches them higher value as they don't manufacture Bitumen entirely?

Vipin Agarwal: Yeah, you can just go through the Google also, the Indian PSU production capacity is about 5 million to 5.5 million tons in a year, which is going ahead is going to go down, because we have restrictions in terms of increasing the production capacity. Moreover, all the big plants of the PSUs have moved and converted to Coker. So, they are in fact manufacturing coke, which gives them the higher yield than manufacturing Bitumen. In fact, we are supplying to PSUs.

Pawan Kumar: Okay. And the coke, you mean the petcoke?

Vipin Agarwal: Yeah, petcoke.

Pawan Kumar: They are manufacturing petcoke? So, you will either manufacture Bitumen or you can get into petcoke also, is it?

Vipin Agarwal: Once you manufacture Bitumen, further you can process it into petcoke, which gives us a higher yield than Bitumen today.

Pawan Kumar: Okay, got it sir. Thank you. I will get back in the queue.

Vipin Agarwal: Thank you so much.

Moderator: Thank you sir. Our next question comes from Mr. Hitanshu Bhatia. He is an Individual Investor. Please go ahead, sir.

Hitanshu Bhatia: Thanks for the opportunity. I had two questions. One is regarding our chartering segment. There has been an overall freight charge, rise in the expense of chartering all over, I suppose. So, have we also foreseen or have we also seen any increase in our chartering revenues and freight revenues, especially from September, from the month of September?

Vipin Agarwal: Yeah, if you see the petroleum prices have been on a higher side in the last, especially the second half of this year. So, due to the rise in the fuel cost, the expenses on the shipping side have increased, compared to the revenues that should have increased. Moreover, due to the seasons, second half is usually a low demand season for this sector across various countries as well.

Hitanshu Bhatia: But then, would we be expecting higher revenues from the chartering segment as the quarter passes by, because.....?

Vipin Agarwal: It will be on the higher side in terms of revenue and in terms of bottom, it should be higher.

Hitanshu Bhatia: Okay. And sir, could you also please give me the EBITDA and profit and loss margins of our (not clear) subsidiary please?

Vipin Agarwal: For the second half, for Q2?

Hitanshu Bhatia: Yeah, for the current quarter or the second half entirely or the first half.

Vipin Agarwal: Let me give it to you please. In the current period we have, you want the second half, right?

Hitanshu Bhatia: Yeah, for the current quarter or for the first half.

Vipin Agarwal: For the first half, the total revenues are standing at about Rs.34 crores and a profit of about, after interest and tax of about Rs.50 lakhs.

Hitanshu Bhatia: Okay sir. And sir, with regards to our margins, are we going to see any good, what are the efforts from our side to increase our margin levels? Since we are the only Bitumen supplier, I think the major supplier in our country? So, do we have a major pricing power? Should we expect higher margin from here on? How do we go about it?

Vipin Agarwal: It is a commodity. In terms of percentage, if you compare Bitumen, any commodity product, I think that would not give the correct picture, because the more volume you do, the higher profitability you can get. But, in terms of margin, on the terms of percentage, it cannot remain same. Because, once you are going for an increase in volume, you have to pass on the additional discount to your current suppliers or your customers. In terms of absolute terms, yes, the figure if it is 10 crores, it can go to 15 crores, if my volume is increasing. But, in percentage terms, it may not remain same every time.

Hitanshu Bhatia: Okay sir, thank you.

Vipin Agarwal: Because some of the products we have traded. And you know trading is not same as manufacturing or other business, where the percentage of revenues all remain the same.

Hitanshu Bhatia: Okay sir. Are we also looking forward to getting into petcoke as a follow up to the previous answer....?

Vipin Agarwal: That requires a big manufacturing plant itself, which is very CAPEX oriented. And moreover, it is not our cup of tea as of now.

Hitanshu Bhatia: Okay. All the best for the coming quarters sir. Thank you.

Vipin Agarwal: Thank you so much. Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Our next question comes from Mr. S K Jain from WestBridge. Please go ahead, sir.

S K Jain: Hi, just not for WestBridge, just as a clarification that my question was, I just wanted to understand, do you do any manufacturing yourself? You mentioned you have manufacturing plant. Or, is it that you are largely importing and then supplying to the end customer? So, if you can just clarify, if manufacturing you do, what specific manufacturing do you do?

Vipin Agarwal: Yeah, thank you so much for the question. Bitumen, if you are purchasing from any Indian refinery, there are various grades that you can purchase. Basic grade is VG10. If you have to buy from an Indian refinery, then you can buy VG10 and manufacture VG30, VG40 and other industrial grades. And that is sold to the end user. Whereas, when you are importing, you get the same products in the international market at the same price. So, whatever imports we are doing, it is actually a finished product that we can manufacture from any of our manufacturing plant, like VG30, VG40. So, that is the finished product that is actually required to make many any road, mostly it goes into the construction of the roads. VG10 will be manufactured to VG30, VG40, if you have to buy from an Indian PSU, then the cost also is higher. And when you are importing the products, the prices in the international market for VG30 or VG40 remains almost the same. And when we bring it to the import location, where we can sell it directly to the end user, instead of taking it to the plant for manufacturing and incurring the additional logistics.

S K Jain: Okay. So, I guess it looks like you have a choice to make, whether you import directly the industrial grade from outside or procure. And you decide that based on the pricing, what is the difference which is.....?

Vipin Agarwal: Pricing and the requirement of the product which location the product is required. Suppose it is required in the Eastern part, so the Eastern part, we have a location close by like Haldia, where you can import the same product. But, if I have to take it, then I would have to take it to my Hyderabad plant first. In Hyderabad also, in Telangana, there is no nearby refinery, it is only Vizag or you have to come back to Mumbai. We have to take the product from Mumbai to your plant, manufacture and then supply to Haldia, which is very highly logistics cost will be there, compared to importing the same product and supplying it.

S K Jain: That is actually helpful. And if you do take it from the Indian PSU, how long is your manufacturing process, is it.....?

Vipin Agarwal: It will be hardly twelve hours. Once it reaches the plant, it is hardly twelve hours to manufacture any industrial grade or any other viscosity grade.

S K Jain: Okay, that is helpful.

Vipin Agarwal: It is probably on the basis of logistics that is cost, very high cost impact is there that we have to bring the product to various locations.

S K Jain: Okay, I understand. And then if your customers are these mostly the road EPC guys? Are they your main customers or who are your main customers?

Vipin Agarwal: The volume of Bitumen goes into the road construction only.

S K Jain: Right. So, I am assuming it is the EPC guys, right? Whoever is doing the road will come in and get it from you guys, right?

Vipin Agarwal: Not only that. They can be the State Road Highways or the PWD or any other work it can be.

S K Jain: Okay. And so, just my question where I was leading to it was on your customer side, how much is bought by Government and how much is bought by private EPC guys?

Vipin Agarwal: Actually 100%, as on date if I can say, 100% is going to private guys only, but they are all being given contract by the Government. The Government does not buy any Bitumen directly. They only award the road work to different companies, who are purchasing Bitumen from us or maybe other players.

S K Jain: Then what are your typical payment terms, the kind of receivables cycle for you?

Vipin Agarwal: As on date if you see, it is about 61 days or about 55 days, which earlier used to be about 90 days. Because, of the seasonal demand, in the four months when we don't do any business, we have to count that cycle also in the receivables that we have. We do not offer more than 21 or 20 days credit to any of our customers.

S K Jain: Okay. That is actually super helpful. I understand. And then maybe I don't fully understand your business, I think you mentioned about the chartering business, is that thing apart from Bitumen that you are chartering or is that only Bitumen?

Vipin Agarwal: All these vessels are used to charter for Bitumen, transporting Bitumen only. We can transport other products in the same vessel, but 90%-95% of these vessels are usually used to carry Bitumen only.

S K Jain: So, if you are doing Bitumen only, then is it just that, then it is effectively, in some ways internal part of the operations. I was not understanding when you give the revenues separately, what does that mean?

Vipin Agarwal: These vessels are purely running in the subsidiary that we have in the UAE. And all these vessels are chartered, given on a charter to the third party, on a voyage charter to a third party. So, that is the reason, the revenues of the chartering business is separate in UAE and the profitability is also on a separate side in UAE.

S K Jain: But, wouldn't that become a cost to you, because I am just saying say the subsidiary is supplying?

Vipin Agarwal: No, when we are bringing any vessel, that cost is always there, whether we bring it on our own vessel or from through some other vessel, that cost will always be there. You cannot have any asset which is not contributing to your profitability.

S K Jain: No, what I meant was that is this, when you do consolidation, wouldn't that kind of get knocked off? Because, if it is your subsidiary which is transporting and eventually, I suppose you as the main company sells that Bitumen, isn't that an intercompany revenue, which will get knocked off?

Vipin Agarwal: It is not necessary that the vessel is coming to me, I am giving it to a third party.

S K Jain: You are giving it to third parties also, okay, I understand.

Vipin Agarwal: I am giving it to third party. Most of the time it is going to third party.

S K Jain: Okay. I fairly didn't appreciate that part. Thank you so much.

Vipin Agarwal: Thank you so much.

S K Jain: No further questions.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Our next question comes from Mr. Pritesh Chheda from Lucky Investment Managers. Please go ahead, sir.

Pritesh Chheda: Sir, I wanted to check, you mentioned that Bitumen production is 5 million tons, right?

Vipin Agarwal: About 5 million to 5.5 million tons in India of the PSU.

Pritesh Chheda: Okay. And what we did is about 3,70,000 last year, right?

Vipin Agarwal: About 3 lakhs, 2,75,000 to 3,00,000, about 2,75,000.

Pritesh Chheda: That was last year?

Vipin Agarwal: Yeah.

Pritesh Chheda: And already we have done about 220,000 in H1?

Vipin Agarwal: No, 146,000.

Pritesh Chheda: So, you did 110,000 in quarter one?

Vipin Agarwal: 110,000 was in last year first half and about 146,000-147,000 in this year first half.

Pritesh Chheda: Okay. Now, my question is, with respect to the absolute profitability, for the volume increase, the absolute profitability is completely different.

And also, the kind of the company, what I have seen in the recent quarters about seven to eight quarters back and what we see today is a significantly larger size. So, if you could help us understand, what is this change?

Vipin Agarwal: Sorry, there is some echo, I guess. Can you repeat the question for us again please?

Pritesh Chheda: Just a minute sir? Is it clear now?

Vipin Agarwal: Yeah.

Pritesh Chheda: I was just asking that in terms of the absolute profitability of the company, it is a fairly larger number versus what we have been doing in the recent past. So, is there any larger scale up of volume that we have gone through or any other reason for the change in the absolute profitability?

Vipin Agarwal: Basically, when you are increasing your volume, I think the absolute value which automatically is added. The fixed cost of the tankages that we have or any other plant that remains, even if we are doing 10,000 tons, your cost is going to remain the same. And whether you do 1 lakh tons, hardly the operating cost is increasing by say, 10% or 15%. In terms of absolute value, yes, when you are doing higher volumes, your profitability tends to increase, because your fixed costs are on the constant side.

Pritesh Chheda: Okay. So, let us say about two-three years back, were we doing half of the volumes what we are doing today?

Vipin Agarwal: Yes, yes, if you want, I have the figures with me, I will give you.

Pritesh Chheda: When I see the FY2018, your quarterly profitability used to be 8 crores-9 crores, if I go ahead of that it would be 8 crores-9 crores.

Vipin Agarwal: Last year we had done, I am so sorry, I gave you the figures for 2019-2020, about 2,82,000. Last year we had done about 3,25,000 tons. It was an increase of about 20% in the last year also.

Pritesh Chheda: Okay, yes sir. Go ahead, sorry.

Vipin Agarwal: 2019-2020, we were sitting at about 280. In the year 2020-2021, we were sitting at about 325 and this year again we are targeting, increasing that percentage by say, 20%-25%. It should be higher.

Pritesh Chheda: Okay. Sir, what is the capacity utilization that we are running, because even at this scale of operation, our ROC is very less?

Vipin Agarwal: ROC is less?

Pritesh Chheda: Yeah.

Vipin Agarwal: As on date also, all these import locations that we are having, it is almost say, you can say, if you consider the season four months that we are not working, it is about 60% of the total capacity that we are having. And if you see the months that we are working, sometimes we are over utilizing the tanks that we are having.

Pritesh Chheda: If you exclude those four months.

Vipin Agarwal: That four months cannot be excluded, because there are heavy monsoons in India. Year on year, the monsoons, the intensity of the monsoons have been increasing.

Pritesh Chheda: Yeah. So, we have to take the utilization actually of the balance two quarters, which is actually quarter three and quarter four.

Vipin Agarwal: (Not clear), we are focusing on, every year when we are increasing the volume, the cost is not increasing to a great percentage. It is only the bottom that is increasing.

Pritesh Chheda: So, we would be 100% utilizing quarter three and quarter four?

Vipin Agarwal: Yes. In fact, we are using, sometimes we are using over 100% of some of our tankage that we are having.

Pritesh Chheda: Okay. And lastly sir, when we are growing at let us say, 25% and we did grow 10% in the past also. Road construction activity did not grow at that pace. So, are we taking market share from some other supplier of Bitumen?

Vipin Agarwal: Even if we are not taking anyone's shares, because I cannot tell you that whether we have taken anyone's shares, but even if we are not taking any other competitor's share, the demand of Bitumen is such that automatically when you are selling, my own customers are having a higher demand for the Bitumen. And if I sold 3 lakh tons last year, automatically 20% is going to my existing customers itself, because of the increase in infrastructure activity. Even if I do capturing the competitor's market, my market share is increasing, because of the infrastructure activities that are growing at a very good pace.

Pritesh Chheda: And other than independent Bitumen supplier like us, what would be the size?

Vipin Agarwal: So, there are small suppliers in the Indian market. But, that does not contribute anything in terms of market share or something like that. There are few players. But, second player that we have in India is doing half the volumes that what we are doing.

Pritesh Chheda: Okay. And sir, incremental CAPEX which we do in this business. What is the CAPEX that you would have to incur for certain capacity and what in your opinion is the payback period for it?

Vipin Agarwal: If you have had a look at our financials, for the last two-three years, I think every year we have been doing a CAPEX of about Rs.50 crores and that is all being funded from the internal accruals that we are having, more or less. We have acquired (not clear) it is all being funded by the company, mainly by the internal accruals of the company.

Pritesh Chheda: And sir, what kind of capacity does it add in this 50 crores....you will need vessels....?

Vipin Agarwal: As on date the capacity that we are having in the various ports. To increase the volume, I do not think we require any CAPEX in terms of adding any storage facility, but yes, what we are looking at is adding different locations to cater for a new market. Example, we would be starting in Chennai. That would be a new market to cater to.

Pritesh Chheda: But, you will need tankage on the port, you will need tankage, you will need vessels?

Vipin Agarwal: Tankages, yes. But, plant wise, we have added a storage tankage facility in Vadodara last year. And this year we have added tankage space to our Taloja plant. We have increased the volume of the plant.

Pritesh Chheda: Suppose if you have to start afresh in a location where you need a tankage plant and a vessel, then for certain capacity what is the CAPEX that you incur and what will be the payback?

Vipin Agarwal: Firstly, we can only hire tankages at different ports. And vessels, we did not purchase anything, because we have our own fleet or outside vessels which are already coming. So, vessel can move that to that location. In terms of supplier vessel, we don't have any additional costs yet. In terms of leasing the tank, we will be having the cost of leasing the tanks, which is automatically added to the cost when we are bringing the product and when we are selling the product.

Pritesh Chheda: Okay. So, in terms of fixed asset, what do you have in terms of the fixed asset, if your tankage is....?

Vipin Agarwal: In terms of fixed assets, we are adding the storage facilities, adding these storage facilities at our various plants. And we see, we have CAPEX work going on in the Guwahati plant in the current financial year.

Pritesh Chheda: Okay sir. I will come back if I have more questions. Thank you.

Vipin Agarwal: Thank you so much.

Moderator: Thank you sir. Our next question comes from Mr. Pawan Kumar from Ratnatraya Capital. Please go ahead, sir.

Pawan Kumar: Sir, do we also import Bitumen for other players through our vessels and lorries? Again, do we use our lorries or trucks to transport for others too? Or, do we only limit them to our own operations etc.?

Vipin Agarwal: Can you come again please?

Pawan Kumar: You said, we only import Bitumen through our vessels and also our trucks and lorries. What I was trying to understand was, do we do it for other guys who are supplying Bitumen also or is it limited to your operations only?

Vipin Agarwal: Thank you for the question. Yeah, we are giving our vessels to third party only. So, they can take the product to any location. And logistics side, we are supplying the LPG fleets that we are having, they are totally compliant and giving their services only to the PSU. It is being loaded from LPG storage of a PSU to their bottling plant. And Bitumen we are giving to our own customers mostly, apart from the fleet that is running for the PSU. There are a few tankers which are deployed for the transportation of refinery products as well.

Pawan Kumar: Okay. So, is my understanding right, when I am saying, vessels are mostly 90%-95% for our own use? And on the tanker side, we use some tankers for LPG distribution?

Vipin Agarwal: LPG is 100% with the PSUs. They are loading from their own supply location to bottling plant. LPGs, all the fleets of LPG are 100% deployed with the refineries only, all the three PSUs. And vessels, it is not 90% coming to us. I am giving all my vessels on charter to a third party in UAE. He can supply to me also and he can also supply to other suppliers in India as well.

Pawan Kumar: Okay. So, we won't know the proportion?

Vipin Agarwal: I have given my vessels on a void basis to a third party.

Pawan Kumar: Okay. I got that.

Vipin Agarwal: Thank you so much.

Pawan Kumar: One second sir. So, on the working capital side, what is our expectation going forward, since we have seen a sharp decline in the working capital cycle in the last two-three years, where do we expect it to be over the next two to three years? Because, that has significantly improved your ROC.

Vipin Agarwal: Thank you so much for appreciating the same. As far as the facilities of the company is involved, as of now we are not looking to add anything on the working capital of the company. We have been having the same facility for the last three years. And we have been trying to do with the same limits that we are having.

Pawan Kumar: Okay. So, you don't expect the working capital days credit or on the inventory side to go up?

Vipin Agarwal: Maybe on the CAPEX side we may plan to take some term loan on purchasing some of maybe vessel or any other plans that the company is having, which can improve, where we don't require the working capital as such.

Pawan Kumar: Okay, fine. And lastly, can you share with us volumes of Q1 or Q2 last year, because just for the comparison because.....

Vipin Agarwal: I gave, Q1 last year we had done about 75000 tons. And in the same year, Q1 we have done about 110,000 tons.

Pawan Kumar: Okay, I got that. And in your starting comment sir, you had mentioned something about some figure of 36% on roads, what was that exactly, I was not able to get that?

Vipin Agarwal: In the Indian infrastructure activities that are going on in India, that is the percentage of growth that is expected over the next four-five years.

Pawan Kumar: Okay. What activities sir, sorry?

Vipin Agarwal: It is the CAGR of 36% that would be happening, that is being predicted from the year 2016 to 2025.

Pawan Kumar: Okay, for what activities is this CAGR?

Vipin Agarwal: Infrastructure activities, roads and highways. The more the activity is going on in the roads and highways, the more demand of our products will be happening. The CAGR is about 36% and where we are at only 20%-25%. So, we need to catch up about 10% to match the CAGR of the highways.

Pawan Kumar: Okay. And is there any way to actually contact you sir, for further understanding of your business?

Vipin Agarwal: Yeah, you can. We have our website, where you can get into contact RO or even through the email at contact@aicltd.in. You can visit our website if you have any queries or if you need any information.

Pawan Kumar: Okay, fine sir. I will try and get in touch. I had written to you once.

Vipin Agarwal: Whatever we get, I think we have been replying.

Pawan Kumar: Okay, fine sir. I will write to you. Thanks.

Vipin Agarwal: Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Our next question comes from Mr. Abhishek Saradha. He is an Individual Investor. Please go ahead, sir.

Abhishek Saradha: Hello sir. Sir, I want to understand what is the size of basically Bitumen industry in India.

Vipin Agarwal: Bitumen size, the Indian Bitumen market would reach about...

Abhishek Saradha: What I am trying to understand is, you had mentioned that PSUs capacity is around 5 million to 5.5 million tons, right?

Vipin Agarwal: Yeah.

Abhishek Saradha: So, I want to understand how much is captured by PSU of Bitumen industry and how much is captured by us?

Vipin Agarwal: Whatever PSUs have been manufacturing, we can sell the entire quantity. But, there is a big demand and supply gap, because of the increasing infrastructure activities in the country. So, whereas the PSU production is only about 5 million to 5.5 million, the demand as on date, it is about 8 million to 9 million tons. And PSUs have a limitation to produce only to that limit. And moreover, in that production limit that they have, they are producing coke sometimes, in a particular month, wherever they think they can get a higher revenues or higher yield by selling Bitumen or petcoke. In that particular they will manufacture Bitumen less. So, this demand and supply gap is being (audio break). We are there to bridge this gap between the two.

Abhishek Saradha: Yes sir. So, basically there is a gap of around, what I can understand there is a gap of around 2.5 million to 3 million tons, in the supply and demand?

Vipin Agarwal: 3 million is, very comfortable to say, yes, 3 million definitely will be there. It will be higher than 3 million also.

Abhishek Saradha: And at present, how much of this gap is covered by the private players?

Vipin Agarwal: Last year, the import was about 2.5 million tons.

Abhishek Saradha: Okay, fine. And we are around 18%, as you mentioned in the last....18% to 20%?

Vipin Agarwal: Yeah.

Abhishek Saradha: Okay sir. And the next player is around half of this?

Vipin Agarwal: The next player that is there in this industry is almost, not half, you can say 60% easily. I think these data are there in the Google, I guess. If you can go and just search in the Google, I believe you can get the figures also.

Abhishek Saradha: Okay sir, I will search that. And another thing that I want to understand, now sir, since two quarters have passed and I think this is seasonally the weakest quarter of yours, Q2 FY22, like the quarter two. And now, next two quarters, so what are your expectations? And if you can quantify some guidance, revenue and margin guidance?

Vipin Agarwal: These two quarters are actually they contribute to a great extent in terms of volume and turnover if you see. Q4 has been a quarter which contributes highest even in the terms of volume and on the bottom side, if you have seen the past record of the company. And Q3 has been fairly good in the last two years. Q3, last year we had done about, 2019 we had done about 20,000 tons, wherein last year, no Q3 of 2019 we had done about 57,000 tons and 2020 we had done 76,000 tons, which is expected to grow by 20% this year.

Abhishek Saradha: Okay sir, 20% by this year. So, we can estimate around 90?

Vipin Agarwal: 90, yes. Easily we should reach 90,000, easily.

Abhishek Saradha: Again, for Q4 any estimate?

Vipin Agarwal: Q4, I think the balance target we have to do in the Q4 that we have.

Abhishek Saradha: Your target is around 25% greater than last year, as you mentioned.

Vipin Agarwal: 400,000 tons and if we doing 200,000-250,000 in the first three quarters, so balance 1.5 or 1 or 2 lakhs tons, we have to complete in Q4, which is very much possible, because all the road work are at peak in those Q4 cycle.

Abhishek Saradha: Right. And sir, like our operating margins have shrunk in this quarter.

Vipin Agarwal: In terms of percentage if you see, maybe yes. But, in terms of absolute value, I will not say that it has shrunk, because even in the low season, Q2, which is really weak, we have had good numbers this year.

Abhishek Saradha: It has shrunk by around, I think 150 basis points in this quarter.

Vipin Agarwal: 1%. 1%.

Abhishek Saradha: 1%. So, basically majorly due to the higher freight cost?

Vipin Agarwal: No, because in the cyclic seasons, the cost remains the same. The volume, we are not able to do that volume, your margins tend to shrink. And moreover, on the other side, petroleum costs have gone up.

Abhishek Saradha: Understand sir. Understand.

Vipin Agarwal: If you consider, where we were doing logistics, say, at Rs.80 per liter for the diesel, we have been doing at Rs.100. So, that small increase in the fuel rate or maybe the other petroleum products, this is where the slight decrease has happened in terms of operating profits.

Abhishek Saradha: So, basically once we see an uptick in terms of volumes, operating margins will be improved automatically, right?

- Vipin Agarwal:** You would be able to see that in Q3 and Q4.
- Abhishek Saradha:** Okay, nice sir. Thank you. And sir, one more thing that I want to understand, you mentioned that most of your product is, like most of your clients are private players, right?
- Vipin Agarwal:** Yeah, private players, yes.
- Abhishek Saradha:** And you get these orders by Government?
- Vipin Agarwal:** No, we don't get the orders by the Government. The private players or any other road contractors, they are getting work orders from the Government to make any road, maybe private and national highways or PWD or anything. We supply to these people.
- Abhishek Saradha:** You supply to these people. So, can you mention what is your client concentration? How much of your revenue comes from your top one client and top five clients, if you can give?
- Vipin Agarwal:** My top client percentage, in terms of percentage would be about say, 3%-4%. We have equally distributed our.....
- Abhishek Saradha:** That is very much diversified, right?
- Vipin Agarwal:** Yeah, we are not dependent on a single customer at all.
- Abhishek Saradha:** That is what I want to understand. And about five clients, it would be about 15% to 20%, if it is.....?
- Vipin Agarwal:** It is, because every year maybe one of your clients may have less work, other customers may have higher work. So, it depends year on year also. The same customer may not be at 3% in the current year and say, coming next year, we may have a good order book, so that should increase from 3% to 5% also.
- Abhishek Saradha:** So basically, we are not dependent on some top one or top five clients, we are like very much diversified.
- Vipin Agarwal:** No, no, we are not dependent on any of our customers for any of the volumes.
- Abhishek Saradha:** That is nice. Thank you, sir. Thank you very much.
- Vipin Agarwal:** Thank you so much.
- Moderator:** Thank you sir. Our next question comes from Mr. Pawan Kumar from Ratnatraya Capital. Please go ahead, sir.
- Pawan Kumar:** Sir, of the vessels that you have chartered to the other operations, the players, at what time were the majority of the vessels chartered?

- Vipin Agarwal:** What? I am so sorry. I didn't get your question.
- Pawan Kumar:** I was asking about when were these vessels that are operating charter to the third party?
- Vipin Agarwal:** We charter on a voyage-to-voyage basis, we are not chartering on a fixed basis for a time charter. I am giving all my vessels on a voyage basis charter and not on a time charter. Once the voyage is complete, I am giving it again for the next voyage. So, that we are not bound by any of the contract of this shipping business.
- Pawan Kumar:** Okay. And are we buying any new vessels?
- Vipin Agarwal:** Maybe we have plans to add some vessels in the coming year. But, that all depends upon opportunity at what rate that we can get vessels.
- Pawan Kumar:** Okay, fine sir.
- Vipin Agarwal:** There are plans to add more vessels for the company.
- Pawan Kumar:** Okay.
- Moderator:** Thank you sir. Our next question comes from Mr. Milan Shah from Urmil Research Consultancy. Please go ahead, sir.
- Milan Shah:** Hello, can you hear me sir?
- Vipin Agarwal:** Yeah, good afternoon.
- Milan Shah:** Good afternoon and good set of numbers sir. I want to understand what is the debt on our balance sheet?
- Vipin Agarwal:** Sorry?
- Milan Shah:** What is the debt? What is our debt, borrowings?
- Vipin Agarwal:** The total debt in our balance sheet is about 117 crores. And which is totally utilized for working capital, about 96.5 is used for the working capital of the company.
- Milan Shah:** And sir, we are importing raw material from overseas. It is getting hedged for currency?
- Vipin Agarwal:** No. Can you come back with the question again please?
- Milan Shah:** We are importing raw material from overseas. So, have you hedged currencies?
- Vipin Agarwal:** We do not hedge any currencies, because we are purchasing on import basis and the costing is based on when the vessel is landing into India. The product, when it is being discharged at the port, the costing is done when the

product is landing at the port. And the product is sold after the pricing and the exchanges are considered.

Milan Shah: Okay. So, we have to not worry about currency....?

Vipin Agarwal: Because, even if we do not hedge, the pricing of Bitumen changes according to fortnight on the basis the dollar is moving.

Milan Shah: Okay, thank you sir. And wish you best luck for the next quarter and growth.

Vipin Agarwal: Thank you so much sir. Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen, that was the last question. I would now like to hand over the floor to Mr. Lalit Agarwal – MD for Agarwal Industrial Corporation Limited for closing comments.

Lalit Agarwal: Thank you. Thank you so much to all the participants for joining in the call. I hope we have been able to satisfactorily respond to your questions. It was a pleasure to interact with you and get your queries addressed to your satisfaction. If you have any more questions, please feel free to contact us. Thank you once again and we look forward to connecting with you in the next quarter. Thank you very much once again. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes conference call. Thank you for joining. You may all disconnect your lines now. Thank you and have a good evening, everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.