



AARTI INDUSTRIES LIMITED

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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,

**Ref: Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements)
Regulations, 2015.**

Please find enclosed herewith the transcript on earning's conference call for Q4 & FY'17
Results held on 22nd May, 2017.

Kindly take note of the same.

Thanking You,

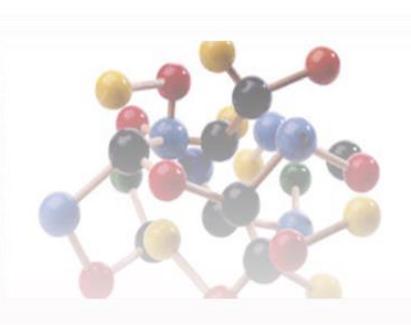
Yours faithfully,
FOR AARTI INDUSTRIES LIMITED


MONA PATEL
COMPANY SECRETARY & COMPLIANCE OFFICER
Encl.: As above.



**Q4 & FY17 Earnings
Conference Call
Transcript**

**4.30 PM IST
May 22, 2017**





Moderator

Ladies and gentlemen, good day and welcome to the Aarti Industries Q4 & FY17 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 * then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Vikram Rajput of CDR India, thank you and over to you.

Vikram Rajput

Good evening everyone and thank you for joining us on Aarti Industries Q4 & FY17 earnings conference call. We have with us Mr. Rajendra Gogri – Chairman and Managing Director, Mr. Rashesh Gogri – Vice Chairman and Managing Director and Mr. Chetan Gandhi – CFO of the company.

We will begin this call with opening remarks from the management following which we will have the forum open for a Q&A session.

Before we begin this call, I would like to point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the results presentation shared earlier. We will begin the call with opening remarks from Mr. Rajendra Gogri who will take you through the strategic imperatives and performance of the company. We will then have the forum open for Q&A session.

Now I will invite Mr. Rajendra Gogri to share his views.

Rajendra Gogri

Good evening and very warm welcome to all of you.

The transformation of AIL from an Indian company supplying to global markets to a global knowledge-driven company effecting partner of choice relationships continues to guide us in the right direction. Our product innovation, capex and SH&E initiatives fully compliment to that of our customers, making us their natural Global Partner of Choice. We continue to stay ahead of the curve as far as what customers' needs are concerned, continue to meet our financial and operational targets, increasingly strengthening the ability to drive sustained growth.

I am happy to report we have ended the year on a strong note. Gross revenues were up 11% YoY at Rs. 835 crore in Q4FY17 and up 4% YoY Rs. 3,053 crore in FY17; net revenues for Q4F17 was Rs 773 crore up by 11% YoY and FY17 at Rs 2,827 crs, up 5% YoY. Of the total revenue for the quarter, exports were at Rs. 385 crore, accounting 50% of the total net revenue. Similarly, of the total revenue for fully year, exports amounted to Rs. 1,415 crore, i.e 50% of the total net revenue. Our performance is noteworthy in what has been sluggish year for the global as well as domestic economy. The performance is a testament to our differentiated business model which seamlessly combines a de-risked product portfolio, scale, integrated operations, innovation and 'green chemistry'.

As most of you are aware, our realizations are linked to global crude oil prices, so the key parameter to track is profitability. For Q4FY17, EBITDA improved 12% YoY to Rs. 153 crore from Rs. 137 crore, translating to an EBITDA margin of 20%. For FY17, EBITDA improved 15% YoY to Rs. 608 crore from Rs. 530 crore, translating to an EBITDA margin of 22%. Depreciation has increased as new production facilities have been operationalized during the year. PAT improved by 7% YoY in Q4FY17 to Rs. 74 crore and 22% YoY increase to Rs. 307 crore in FY17.





Speciality chemicals revenue improved 16% on YoY basis at Rs 664 crore in Q4FY17 and was up 4% on YoY at Rs. 2,456 crore in FY17. During the quarter, volume expansion was about 10% YoY and for the full year volume expansion was about 8% YoY. EBIT was Rs. 123 crore in Q4FY17, and Rs. 517 crore for FY17. Our profitability continues to expand indicating the quantum of value addition from our product mix and the strength of our core competencies. As you are aware, our business is largely operated on formula based model based on variation in raw material prices plus margins, wherein the delta is fixed in absolute basis and per kg margins remain stable. Hence, the raw material price fluctuations are passed on to the customers and the absolute EBITDA is based on volumes and product mix and not the price fluctuation.

We clocked production of about 16,500 MT of NCB during Q4FY17 and about 63,700 MT for FY17 as against 16,630 MT for Q3FY17 & 15,900 MT for Q4FY16.

We have identified sizeable and sustainable opportunities to take the Company to the next level of growth, and are executing a multi-pronged expansion plan across multiple processes/products in a calibrated manner. During Q4FY17, we operationalized captive co-generation power plant at Jhagadia, Kutch and Vapi. AIL now has a total of five power plants – two at Vapi and one each at Jhagadia, Kutch and Tarapur; which would help reduce power costs significantly. In Q4FY17, we also, operationalized solar plants with aggregate capacity of 697 KW across five locations. During the year, we commercialized calcium chloride facility at Jhagadia, multipurpose Ethylation unit at Dahej SEZ, Gujarat and 2nd Phase at PDA facility in Jhagadia, which will further strengthen our global presence in our target end-user applications. AIL has an established track record of executing value accretive growth investments. We are focused on a disciplined capital allocation approach, which is visible in the growing return on capital. With increased contribution from value added products the Company expects to strengthen its profitable growth momentum.

Moving on to the Pharmaceuticals segment, Q4FY17 revenue stood at Rs. 120 cr and for FY17 revenue were flat at Rs. 426 crore. During Q4FY17, we successfully closed USFDA facility inspection at Tarapur unit initiated in Q3FY17 and hence received the EIR copy. In Q4 FY17, EBIT increased to Rs. 48 crore from Rs. 39 crore, marking 23% YoY growth. In Q4FY17, EBIT was up 7% to Rs. 15 crore. We have been consistently increasing our share of operations and engagement with various customers in regulated market space. Further the API intermediate business is also expected to grow upon the capacity coming online in FY17-18. Since major fixed costs are already built-in, incremental volumes result in significant increase in segmental profits. We expect to progressively improve on our performance.

Coming to the Home and Personal Care, we are making concerted efforts to gain larger scale and drive sustained improvement in this business. AIL's Board gave in-principle approval for demerger of Home & Personal Care business. The Board has directed the Company to initiate discussions with merchant bankers and other agencies to take the process forward.

I am pleased to share working capital management remains efficient and leverage has remained stable while growing profitability which has allowed debt to be serviced comfortably. In terms of shareholder value creation, distributing value to our shareholders is a corporate philosophy. As everyone is aware we effected share buyback of 12 lakh equity shares of face value of Rs. 5 each at a price of Rs. 800 per share on Dec 07, 2106 highlighting the Company's belief in its long-term growth prospects and commitment to efficient capital allocation. Further, AIL's Board recommended a final dividend of Rs. 1 per equity share for FY17.





To conclude, our performance is in line with our stated targets and have ended the year on strong note. For the coming year we expect 10-15% volume and PAT growth. The conservative PAT expectations are keeping in mind the recent rupee appreciation against the dollar and Chinese yuan. And also due to increase in expense on account of the projects commissioned in FY17 and to be commissioned in FY18 while the volume growth would come in next two to three years.

Our belief In Aarti industries remains strong driven by a strong confidence in our R&D capabilities, process chemistries and 'Partner of Choice' customer relationships. We have created a world-class speciality chemicals organization that is poised for substantial gains from scale and operating leverage. As a Company its all about execution and profitable growth at Aarti industries. Each year, our company has been progressively getting operationally stronger, expanding profitability and generating higher cash flows. We remain committed to build on our strong performance and deliver on our value creation agenda.

On that note I conclude my opening remarks. We would be happy to give you our perspective on any questions that you may have. I would request the operator on this call to open question and answer session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Just wanted to have sense that we have guided, we have seen a muted volume growth this quarter and FY17 full year and also indicating about a muted 10% kind of a growth only going ahead. Anything that has happened in the recent past that is why possibly you are to some extent muting your growth guidance or what is the thought process behind that, sir?

Rajendra Gogri: Next year volume growth we are looking at around 12% to 15% but the profitability growth is also expected to be similar because the recent rupee appreciation against the dollar and Chinese currency. As you are aware rupee appreciated from around 67.9 to 64.5 almost 3% and as against Chinese currency they appreciated in last one year about 9% and we export about Rs. 160 crore to China in FY17. So that is one of the structural change which has happened. So that will have an impact.

Surya Patra: Okay. And so basically this year also we have seen despite a couple of new project additions overall volume growth is around 8% and there is a kind of a single digit price pressure also that is what we are observing. So what is the trend on the pricing front that you are anticipating?

Rajendra Gogri: No, last two quarters growth has been 10% in volume. Regarding pricing some of the products which are going in our byproduct calcium chloride going in oil and gas sector, those had gone under pricing pressure. Generally overall in the product mix the margin is a combination of so many different products. But in general only one particular product has seen a sharp depreciation in the margin.

Surya Patra: Okay, so that is what you said even in the gross margin front also we are seeing a kind of sequential decline for the specialty chemical business. And even the EBIT margin also if you see for that particular segment, since last two quarters we have seen a sequential decline. One reason for that could be the higher benzene prices





but whether that is the only reason or even the depreciation is also impacting the EBIT margin for this specialty chemical business?

- Rajendra Gogri:** Yes, depreciation is also going to impact because plants get full depreciation but the volumes are going to be growing over next two to three years to reach to 80%, 90% capacity.
- Surya Patra:** What is the kind of CAPEX for this specialty chemicals division that we have done in the current financial year?
- Rajendra Gogri:** We have got around Rs. 445 crore out of that around Rs. 60 crore were more on buying land so in machinery it will be around Rs. 385 crore.
- Surya Patra:** Okay. No, I mean for the specialty chemical business what is the kind of CAPEX that you have done this year?
- Chetan Gandhi:** Yes, that is around Rs. 380-385 crore approximately is the CAPEX.
- Surya Patra:** Okay and since we are guiding for CAPEX in the range of Rs. 450 crore to Rs. 500 odd crore per annum, so we would be there in the CAPEX phase only. So if this is so, then possibly our overall margin profile would see a kind of we may not see any margin expansion kind of scenario for next two years then?
- Rajendra Gogri:** Yes, generally each expansion will take two to three years to reach to higher capacity utilization. So the newer capacity takes time, so obviously when you above a certain capacity utilization you will see a faster expansion in the margin. We have very good growth possibilities and the basic idea is to capitalize on those opportunities and expand the asset sales and the profits on a long term basis.
- Surya Patra:** Okay is it possible to share sir, what is the geographic revenue mix for FY17?
- Chetan Gandhi:** So we are working that out but I guess the geographical revenue mix would be pretty similar to FY16 numbers.
- Surya Patra:** Okay and last one more question. On this ethylation project what we have commercialized sir whether the peak potential would be something like Rs. 250 crore to Rs. 300 crore for this?
- Rajendra Gogri:** It will be, again it depends on the products and the crude oil related prices. So it will be around Rs. 180 crore to Rs. 200 crore what we are looking there.
- Surya Patra:** Okay and current price point of this derivatives are in the range of Rs. 300 per kg that is the kind of?
- Rajendra Gogri:** No, it will be more towards Rs. 200.
- Surya Patra:** Okay fine. And what is the demand outlook for this product area and how quickly that our utilization can improve?
- Rajendra Gogri:** It will take time next year maybe we will reach around 35% capacity utilization. It is on qualification and the volume will expand more than in 2018-19, 2019-20.
- Surya Patra:** Okay. And even if you can share some idea about the kind of end user industries for this product what is the kind of application?





- Rajendra Gogri:** Mainly the agrochemical and then some specialty additives they are the two major end users. A substantial portion is in agrochemicals.
- Moderator:** Thank you. We will take the next question from the line of Archit Joshi from B&K Securities. Please go ahead.
- Archit Joshi:** Just a few data points, I would like to request you to give out. Sir, I missed out when you gave out the data point for PDA and NCB volumes for the quarter and the full year. So could you just repeat that?
- Chetan Gandhi:** NCB volume was 16,500 MT for the quarter and full year was 63,700 MT.
- Archit Joshi:** Sir for PDA?
- Chetan Gandhi:** For PDA we would have an average of 325 tons a month.
- Archit Joshi:** 325 tons a month, alright and for hydrogenation the volumes will be?
- Rajendra Gogri:** Hydrogenation for Q4 is 2,100 tons and the entire year it is 1,926 tons. These are monthly numbers.
- Archit Joshi:** Alright sir and what would be the average price for benzene for the quarter?
- Rajendra Gogri:** Rs. 65 per kg.
- Moderator:** Thank you. The next question is from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.
- Saravanan V:** Sir, as regards to pharma division what kind of revenue growth do you anticipate in FY18 and what would be the EBIT margins and also like to know the total DMFs filed so far and the approval status?
- Rashesh Gogri:** Yes for the top line growth we are anticipating 20% to 25% growth in coming year and EBIT growth also would be around 12% to 14%. Now this year it was 12%. It will go to 14%, 15%.
- Saravanan V:** You are talking about the margins or absolute growth in EBIT?
- Rashesh Gogri:** Absolute growth in EBIT, Yes. Total EBIT will reach to 14%. There is 2% growth in EBIT we anticipate in this year. And number of DMFs we have filed EDMF 33, and USDMF 28.
- Saravanan V:** USDMF is 28 and European is?
- Rashesh Gogri:** 33.
- Saravanan V:** And approvals that we have received so far?
- Rashesh Gogri:** 10+ in US.
- Saravanan V:** 10+ approvals in US. So the growth for FY18 is going to be led by US or overall all the geographies?





- Rashesh Gogri:** Yes there will be growth in caffeine and API intermediates along with API growth basically all three segments will grow.
- Saravanan V:** In terms of geography again US and Europe both would grow?
- Rashesh Gogri:** Yes basically the API is on regulated market growth only but in case of intermediates we are competing China and basically we are substituting Chinese imported advance intermediates to this Indian market and our customers are all companies like Dr. Reddy's many other companies who eventually file in US and Europe markets.
- Saravanan V:** Okay. And what is the CAPEX budget for FY18 overall?
- Chetan Gandhi:** Overall we are targeting around Rs. 400 crore to Rs. 450 crore.
- Saravanan V:** Okay and how much debt that we would have to take or internal accruals would be sufficient?
- Chetan Gandhi:** So we will have to take some debt roughly around Rs. 200 crore or Rs. 250 crore that should be the broader number. But anyway it is the function of working capital as well, because as you know it is the variation in raw material prices we will have to see that as well.
- Saravanan V:** Okay so despite we are getting upgraded to "AA-", so there would be some savings in interest cost as a percentage.
- Chetan Gandhi:** Yes.
- Saravanan V:** So that will be I mean because of the actual increase in debt so that savings will be sort of adjusted or do you see a substantial jump in interest cost in FY18?
- Chetan Gandhi:** I am expecting a muted increase in interest cost.
- Saravanan V:** Okay that is helpful. And you have also mentioned about the three co-gen plants that we have been operationalized, so what would be the savings from that you have mentioned significantly so how significant is that?
- Rajendra Gogri:** Around Rs. 20-25 crores saving we can expect in power cost coming out of this.
- Saravanan V:** So this will be for the full year, right?
- Rajendra Gogri:** Yes.
- Saravanan V:** Okay and in Q1 we are almost one and half months in Q1 so what have been the benzene prices in Q1?
- Rajendra Gogri:** Q1 the prices are around Rs.57 last month it was around Rs. 59, it has gone to Rs. 57 so those kinds of variations.
- Saravanan V:** Okay, so in Q4 did you have some inventory gains from benzene?
- Rajendra Gogri:** Yes there was an inventory gain around Rs. 8 crore to Rs. 10 crore but again because there are lot of customers, we have a quarterly lag in pricing so that is the kind of adjusted against this.





- Saravanan V:** Okay so it is like predominantly quarterly or do you have even monthly repricing?
- Rajendra Gogri:** No, export is more on quarterly, while in locally it gets passed on a monthly basis.
- Moderator:** Thank you. We will take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Sir, I can see that there are some imports as well so I am not actually clear on the INR appreciation element versus the US dollar. How much impact does this have on the overall profitability?
- Rajendra Gogri:** No basically our raw materials are more or less dollar denominated so it is on the value addition and where we compete with Chinese or where we have dollar based contract that is where the impact comes. So generally around 20% to 25% of the export turnover and on a gross basis around 10% to 15% on a total because we are at 50% exports. So that becomes sensitive to the currency fluctuation. So normally every year you know there is a three to four years' depreciation of rupee against that this year now we have in a situation where there is appreciation.
- Chirag Dagli:** On this 10% to 12 % of sales is what you see an impact?
- Rajendra Gogri:** Yes so at Rs. 3,000 crore around Rs. 350 crore gets impacted that comes in.
- Chirag Dagli:** And is there an element of pass on in this, does the pass on happen gradually or not at all?
- Rajendra Gogri:** No, where we compete with Indians then those more or less it gets passed on. So it depends on whom you compete with, you know say you are competing with Chinese, or where we have a dollar denominated long term contract, there you know it becomes difficult to pass on. But now we are in process of putting up a multiyear Forex policy and do multiyear forward booking looking at right now there is no clear trend on rupee that it will continue to decline which we had been doing for last five, six years.
- Chirag Dagli:** And then on this, does this also this 10% to 12% of sales does this also include the INR versus Yuan impact or that is over and above this?
- Rajendra Gogri:** No, that is just little extra, it is part of this 10% to 12%.
- Chirag Dagli:** And sir, you said if you can just broadly explain the Rs. 400 crore, Rs. 450 crore CAPEX what are the broad contours of what this Rs. 450 crore will be spent on?
- Rajendra Gogri:** This nitro toluene plant which we expect to commission at the end of first part or early second quarter, then we are also expanding on our hydrogenation capacity to feed to this nitro toluene. So that will be there. And also putting up a new chlorination greenfield expansion at Jhagadia. So these are the major volume expansion. In addition to that some of the specialty chemicals also we are expanding, putting up an acid concentration plant at Vapi, as our nitration capacity is increasing we need to put some acid concentration system in place.
- Chirag Dagli:** Sir, most of this CAPEX seems to be incremental on existing plants?
- Rajendra Gogri:** Nitro toluene will be new and chlorination also will be more or less substantial greenfield and it will be at our Jhagadia site. So the utilities will be common but it is not a debottlenecking, it will be basically a brownfield, you can say it is a brownfield expansion.





- Chirag Dagli:** Okay and sir what is your tax rate guidance?
- Chetan Gandhi:** Presently are at around 18%-19%. We expect that to fall by around a couple of percent because of this power plant and other thing. So we are expecting that to be around 16%-17%.
- Chirag Dagli:** This is for FY18? And this is because actually I am sorry I am not clear on how does the power plant give you tax benefits?
- Chetan Gandhi:** Yes, there is savings in the power cost you get some IT benefit on that plus we have that SEZ unit. So as the volumes will increase, the profits of SEZ will also be coming in which will be tax free.
- Moderator:** Thank you. We will take the next question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.
- Ritesh Gupta:** Just on volume growth rates, I am not able to understand if there is any in your base products are you witnessing some bit of a volume slowdown because I mean you are adding new volumes, new capacities, new areas of kind of new products. But still your volume growth rate pretty much is sluggish in the range of 10%, 12% and then I mean how do you expect on the agri side because I think agri side you have been saying that probably you are witnessing expecting some bit of recovery on in FY18. So how does that add up to the 12%, 13% volume growth guidance that you have for FY18?
- Rajendra Gogri:** This agrochemical growth are based on most of our range of products. In general our existing products also like nitrochlorobenzene has grown from 59,500 to 63,700 MT and our hydrogenation also current year went from 1,720 to 1,920 tons. So the present rates are also growing and we expect this to further grow and some debottlenecking of existing products is taking place. In addition to that, new range of products will be also there but new range also it is going to take time to reach to higher capacity utilization, it will take two-three years to reach to around 80% to 90%.
- Ritesh Gupta:** Okay and on the pharma side earlier there was a talk that you will divest both pharma I mean you are trying to kind of put all the three businesses separately and now I think HPC has been announced but probably pharma side I think you guys have made it very clear that you want to drive profitability improvement in this business. So how should we look about the improvement in ROCs on this business over the next two, three years and on HPC are you looking to fully divest the business and if you are looking to fully divest, what could be the timelines?
- Rajendra Gogri:** In pharma basically we expect the volume growth and our EBIT percentage should grow higher and overall we are looking at consistently increasing on both absolute EBIT as a percentage EBIT and also ROC. So it continues to be a focus area. And home and personal care once we get this report from merchant bankers and all then we will decide the exact timeframe when this process will start.
- Ritesh Gupta:** Okay and just to be clear the currency impact that you were telling is primarily on account of the products where you are exporting to China and contracts where you are USD denominated right now?
- Rajendra Gogri:** We are in the area, in a globally non-Chinese area where we compete with China. These are the factors.





- Moderator:** Thank you. The next question is from Bobby Jayaraman from Falcon Investments. Please go ahead.
- Bobby Jayaraman:** The 12% to 15% volume guidance that you are giving for FY18, is that just from your existing products?
- Rajendra Gogri:** No, there are some new products which will also come in so this volume growth can also still grow higher depending on how much we are able to ramp up the new products of nitro toluene range.
- Bobby Jayaraman:** So what is the organic growth just from your existing products?
- Rajendra Gogri:** Existing products should give at least 10% plus growth.
- Bobby Jayaraman:** Right and what is the capacity utilization right now for existing products?
- Rajendra Gogri:** Existing products like nitrochlorobenzene we expect to reach almost 90% plus this year. And but PDA we have just expanded last year so next year will be more around 50% utilization then it will be progressively increasing. Chlorobenzene we will be reaching a 90% plus this year, so we are putting up an expansion program which we expect to commission early FY19 because we will be almost operating at a full capacity this year. So nitrochlorobenzene and chlorobenzene we will be reaching around 90% plus.
- Bobby Jayaraman:** While in the new capacities that you are putting up, do you have any contracts with those capacities?
- Rajendra Gogri:** Yes, we have good visibility, potential growth globally in certain demand range on polymer as well as some herbicides.
- Bobby Jayaraman:** But you have not actually signed any contracts beforehand as yet?
- Rajendra Gogri:** Yes not yet.
- Bobby Jayaraman:** You do not see problems filling it up?
- Rajendra Gogri:** No.
- Bobby Jayaraman:** And on the agrochemicals could you throw a bit more color how the in your last call you said there were still inventory problems so have they been resolved or?
- Rajendra Gogri:** Yes now we expect volume growth in agrochemicals, most of the agrochemical companies views that worst may be was FY16. In FY17 it should start turning around. That is the general indication right now. And some of the products we are seeing that demand growth also at present.
- Moderator:** Thank you. We will take the next question the line from Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Sir, this profit growth that you were alluding to, is this EBITDA or is this PAT?
- Rajendra Gogri:** On PAT basis.
- Chirag Dagli:** Sir but depreciation has increased meaningfully this year yes it will increase some bit. You were saying interest cost will not be increasing as much. So then is there a





margin decline that you are sort of breaking in EBITDA margin decline that you are breaking in in this?

Rajendra Gogri: As I mentioned one of the product was calcium chloride where there is a substantial decline. Somewhere you know in import, in domestic market also this currency appreciation indirectly hits where for a few products we have a competition of China in the Indian market also. So some pressure on some of the product because of the Chinese imports into India, so that pressure will be there on that.

Chirag Dagli: Right, and then on the pharma business, so this inspection that has happened, is this product specific, is this a CGMP inspection?

Rashesh Gogri: Yes, the pharma inspection was a CGMP inspection from the USFDA which happens every two years and in December 2016 the inspection was done and we received the EIR in the month of May.

Chirag Dagli: Okay sir, in the past we have indicated that some of our customers have or formulation customers have seen delayed approvals and hence there has been some delay in pick up in APIs for us. Are we seeing that change now?

Rashesh Gogri: We got two or three newer approvals coming in so that has changed. And of course there have been some issues at the end user level also, that is also clearing up slowly. So we expect newer approvals to be a bit faster now with our plant being absolutely clear of the Form 483 and everything.

Chirag Dagli: And sir you talked about the import substitution at the intermediates in the pharma base. Can you sort of throw some light on what is the kind of opportunity for Aarti within this, sir? I am sure this is product specific so more bottom up kind of an exercise but if you can share any thoughts on what you are trying to do within this?

Rashesh Gogri: So Aarti has developed a portfolio of close to 200 intermediates which were developed in last several years in our R&D and these were initially developed the innovator then now the expiries of come and generic market is able to take these intermediates for the products validation and stuff. So we are in a good position because since we had a head start against the others where now starting to develop the intermediaries for the generic market. And the advantage that we have is that we provide the fully regulated CGMP complied product and we are seeing of late the Chinese have had issues on pollution and stuff like that so and as an Indian supplier mostly Indian manufacturers which roughly constitutes to be more than 50% of the API which goes in the regulated market it takes for us.

So out of this portfolio of 200 products we have seen 20, 30 matured. And this is how we have been able to expand our sales in this and we continue to add ten to twelve products in this portfolio every year, twelve to fifteen products every year in this portfolio of intermediates that we have done the research for.

Chirag Dagli: Sir, any quantification of how big was the level of sales of the intermediate business in FY17?

Rashesh Gogri: FY17 quantification we can give you later but for FY18 now our target is around Rs. 80 crore to Rs. 100 crore.

Chirag Dagli: FY18?





- Rashesh Gogri:** Yes Rs. 80 crore to Rs. 100 crore depending on how the expiries have come and how is the commercialized position but exact FY17 number Chetan will get back to you.
- Chirag Dagli:** Will this be like less than Rs. 50 crore, Rs. 60 crore in FY17 or it will be?
- Rashesh Gogri:** Yes, less than that, Rs. 50 crore, Rs. 55 crore, Yes.
- Moderator:** Thank you. We will take the next question from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani:** Sir, recently we started a new R&D center in Jhagadia. If you can just kind of tell us what is the idea first because it is we are doubling our R&D capacity. So what is the status there how are we ramping up, have we recruited all the scientists and is it up and running and what are the areas and how does it change our R&D cost as a percentage of revenue and by when if at all you can just tell us is it a medium-term growth driver or it is a long-term growth?
- Rajendra Gogri:** We had only announced the sanction of investments so we will start now the construction and we expect it to be ready in second half of FY19. We are looking at good opportunities in more downstream value added chemistries because more and more Western countries and Western innovator multi nationals they want to outsource from India. And looking at that opportunity it is more of in next five, seven, ten years visible we that India will continue to be a big sourcing hub for these companies and we would like to participate in that.
- Amish Kanani:** Sure. So when we say we double our capacity is it in terms of manpower and or so how do we?
- Rajendra Gogri:** Yes, in terms of manpower.
- Amish Kanani:** Manpower okay so how many R&D scientists are right now with us, how do we ramp up in terms of recruitment?
- Rajendra Gogri:** Yes, it will be reaching and crossing 100 from current around 50.
- Amish Kanani:** Okay so we have 50 R&D professionals and we might double it that is what you are saying?
- Rajendra Gogri:** Yes in chemical segment.
- Moderator:** Thank you. The next question is from Rohan Gupta from Edelweiss. Please go ahead.
- Rohan Gupta:** This is Rohan here. Sir, can you just quantify that during the year how much revenue contribution has come from the newly commissioned plants like calcium chloride, acylation and PDA?
- Rajendra Gogri:** PDA was an expansion basically whereas calcium chloride we already had one plant in Kutch this was the second plant in Jhagadia.
- Rohan Gupta:** Yes, so in terms of revenue a ballpark number?
- Rajendra Gogri:** Actually calcium chloride there was a fall in volume as I mentioned you know there is a sluggishness in this product in oil and gas sector. But now we have started





exploring other markets which is deicing market in North America and Europe and also in Japan. So we are targeting to broad base our calcium chloride market in different geographies and different sectors. Whereas Dahej it was a first-year trial production for approval we had done last year.

Rohan Gupta: So if I just look at growth especially in volume term growth which you quantify almost 8% in FY17 if I just want to divide between two that newly commissioned CAPEX in FY17 and before that wherever the higher utilization led growth was possible. So how this 8% would have been divided? A large growth has only come from the new commissioned plant or more utilization will be?

Rajendra Gogri: No, there will be 7% may be in the old one. The new projects still not adding significantly because in Dahej we have done only qualification quantities.

Rohan Gupta: Okay and so it means that all the growth which has come in has come from the old plant and the old product itself and the revenue potential of the capacities commissioned in the current year is not yet harvested so yet not been there, right?

Rajendra Gogri: Yes.

Rohan Gupta: And I believe that we have gone to almost Rs. 300 crore CAPEX in last year. So even if I mean almost 70%, 80% utilization happens in the current year in FY18 of the new commissioned facilities, we are talking about at least some 8%, 10% growth from that business itself.

So when you are guiding for just 12% to 15% growth in terms of FY18 so are we seeing that there will be further price drop of some more volume dent can happen in some of our existing categories or just some global weakness which you are sensing?

Rajendra Gogri: No, this newer capacity will take time to reach to 80%-90%, it will take another two to three years.

Rohan Gupta: So this year how much will it be 60% or something from the newer capacity utilization?

Rajendra Gogri: No, PDA we had around 330 tons so that we expect to go to 500, 700, 800 tons in next over a three year period. So Dahej was less than 10%. So those will take time to reach to this 80%, 90%, it will take over two to three years further.

Rohan Gupta: Okay. And sir, second question. We always have believed that ours is the business where we have a strong pricing power and we can pass on any sort of currency impact. But you sounded it off no, it is not unlikely because of the currency appreciation in the current scenario there likely to have some impact on your profitability also. So is there any emerging trend you are seeing and that is why we are losing some sort of pricing power and we will be more depended on the currency volatility going forward also?

Rajendra Gogri: No, in currency volatility basically there are two, three factors. Where you compete with the Indians it does not affect much but where you compete with the Chinese the currency factors will come into the picture. And some of the contracts once they are fixed in dollar terms then the currency forward and everything becomes our responsibility. As and when in some of the future contracts we are trying to fix up the currency clauses also, so that currency variation can be passed on to the customer.





- Rohan Gupta:** And sir, next year we are still sticking with the CAPEX of close to Rs. 350 crore?
- Rajendra Gogri:** Around Rs. 400 crore is something which we have.
- Rohan Gupta:** FY18 you are talking roughly Rs. 400 crore, right?
- Rajendra Gogri:** Yes.
- Rohan Gupta:** And sir, year gone by we have invested close to Rs. 300 crore commercialized?
- Chetan Gandhi:** We commercialized close to Rs. 380 crore for chemicals.
- Rohan Gupta:** So if I look just two years put together I mean this year almost Rs. 380 crore, next time Rs. 400 crore so almost Rs. 800 crore CAPEX in FY17-18 put together and even if we go up almost over three years for a full utilization of this we are talking about almost Rs. 1,200 crore, Rs. 1,300 crore revenue potential which is still there in the company and not in the number and that is what probably dragging your depreciation in the interest cost, is it something like that?
- Rajendra Gogri:** Part of that is also is our normal replacement CAPEX. So that will be around in the range of yearly Rs. 70 crore to Rs. 100 crore. So that has to be taken out.
- Rohan Gupta:** Okay, so out of Rs. 800 crore say Rs. 200 crore is normal routine CAPEX but still Rs. 600 crore CAPEX has a revenue potential of 1.5x to 1.8x would be a fair number?
- Rajendra Gogri:** Yes.
- Rohan Gupta:** So Rs. 1,000 crore revenue potential which is there as not being utilized right now but is sitting definitely on interest and depreciation?
- Rajendra Gogri:** Yes, fixed costs, interest and depreciation not working capital.
- Moderator:** Thank you. We will take the next question from the line of Surya Patra from Phillip Capital. Please go ahead.
- Surya Patra:** Sir, this toluene project always it is a project of import substitution and we are supposed to commission the project in mid of FY17 itself. It is already been delayed and now we are talking about second quarter of FY18 commissioning and also we are indicating a staggered kind of utilization for that. So whether there is some issue or it is the validation time is that long or what is the any problem that we are finding in executing the project, sir? Why because here it is almost we are leveraging the strength that we are having in the benzene chain?
- Rajendra Gogri:** Yes, some prioritization between various projects was done so that has kind of delayed this project commissioning. May be towards the end of this quarter or early second quarter we should be able to commission. But then this also again is a new range of product so it will not lead to a huge qualification but it will take time to build the volumes in the first year and then second year we will see substantial jump from the first year, in the per month volume in nitro toluene.
- Surya Patra:** Okay like what is the see sir, since it is the import substitution project so in the first year itself we can possibly achieve where kind of decent utilization level. So what is your thought process and what is your expectation over the utilization in FY18, sir?





- Rajendra Gogri:** So once we commission quarter-to-quarter it will go on increasing. So second half we should be targeting more than 50% utilization and next year may be reach 70% or those kinds of numbers.
- Surya Patra:** So despite that we are factoring around 10% kind of overall volume growth, right sir?
- Rajendra Gogri:** Yes.
- Surya Patra:** And one more thing. Possibly Chetan sir has indicated about tax incidents of 16%, 17% whereas this year it is the annual tax incidence is something like 21%. So then that will also lead to a kind of a better growth?
- Chetan Gandhi:** I believe this year incidence will be around 18%, 19% so there will be around 1% or 2% reduction on that.
- Surya Patra:** Console tax incidents if you see it is?
- Chetan Gandhi:** No, I was actually referring to standalone so console may probably will be higher because the other subsidiaries do not have those tax savings.
- Surya Patra:** So basically you mean to say there would be reduction of around 2% kind of reduction in the tax incidence, that is correct sir?
- Chetan Gandhi:** I would look at around 1%.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.
- Rajendra Gogri:** It has been a pleasure interacting with you over the call. We thank you for taking time out and engaging with us today. We valued your continued interest and support. If you have any further questions or would like to know more about the company, kindly reach our investor relations desk. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Aarti Industries Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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