

August 16, 2023

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

BSE CODE –524208

Dear Sir/Madam,

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

**Sub.: Transcript of Q1 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 Wednesday, August 9, 2023 on Audited Financial Results of the Company for the quarter ended June 30, 2023.

Kindly take the same on record.

Thanking You,

Yours faithfully,
FOR AARTI INDUSTRIES LIMITED

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



Aarti Industries Limited

Q1-FY24 Earnings Conference Call Transcript

August 09, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Aarti Industries Limited Q1 FY24 Earnings Conference Call.

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

Nishid Solanki: Good afternoon everyone and thank you for joining us on Aarti Industries Q1 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 the call with opening thoughts from Mr. Gogri who will take us through the performance overview, insights, plans, and outlook on the business. Post this, we will open the forum for question & answer where the management will be addressing queries of the participants.

Just to share our standard disclaimer, certain statements that may be made in today's call may be forward looking in nature and a disclaimer to this effect has been included in the results presentation that has been shared earlier and uploaded on the stock exchange website.

I would now invite Mr. Rajendra Gogri to share his perspective. Over to you, sir.

Rajendra Gogri: Thank you, good afternoon, and a warm welcome to everyone on Aarti Industries' Q1 FY24 earnings conference call. I wish to cover initial thoughts on the performance, evolving market trends and the outlook.

While last year was marred with headwinds around inflation in inputs costs and supply chain disruption, this year commenced with a set of renewed challenges like oversupply situation in China due to weak domestic demand, global inventory destocking and slowdown in key developed markets. This has impacted the end-user demand and affected the prevalent pricing environment thereby moderating the revenue trajectory for the chemical industry including us.



Our team relentlessly worked towards augmenting the product portfolio and delivering sustained value to our customers in this difficult environment. At the same time, we channelised our deep expertise to maintain the market share, optimise business mix, etc.

Products linked to Dyes, Pigments, and other discretionary industries continued to suffer due to prolonged demand weakness as well as inventory correction, while several products within agrochemicals faced pressure due to excessive inventory in the market. Having said that, we believe that this is transitional in nature and the medium-to-long term outlook remains broadly intact. Infact, our discussion with the customers indicate the volume recovery to kick in gradually from second half of the current fiscal year.

Let me now cover the key performance highlights.

Our revenues declined by 10% to Rs. 1,571 crore, while EBITDA was down by 29% to Rs. 201 crore in-line with weak industry trends. Profit after tax stood at Rs. 70 crore. Overall performance was impacted due to reasons mentioned above. Export shipments were also affected due to prevailing weak demand.

Moving your attention to the production details for Q1 FY24. Production of Nitrochlorobenzene stood at 17,293 MT as compared to 20,515 MT in Q1 of last year. For Hydrogenation, this came at 2,868 TPM over 3,295 TPM in the same period last year. For Nitro-Toluene, the production for Q1 FY24 stood at 9,327 MT as against 5,252 MT in Q1 of FY23.

Now, let me share some update on projects. The project timelines remain broadly intact barring minor alterations, as we continue to believe in the long-term structural story of India especially the China+1 opportunity and growing consumption of chemicals.

The scaleup from expansion of NCB capacities from 75,000 TPA to 108,000 TPA has been completed recently. Our other capex initiatives in existing product portfolio such as expansion of NT and downstream ethylation products, etc. are progressing well as planned.

During the quarter under review, we undertook a CAPEX of over Rs. 260 crore and expect the capex of about Rs. 2,500-3,000 crore in the next two years to elevate our manufacturing capabilities and expansion in our value added portfolio. Our new project initiatives for Chloro-Toluenes and Multi-Purpose Plant are expected to start gradually coming on stream from FY25 and will drive growth beyond FY26.

While we expect the demand recovery to gradually occur in second half of this year, our EBITDA performance will be moderated in FY24. This is in-line with weak industry trends. We will be in a better position to access the situation as we move along.

To conclude, I would say that we firmly believe in India's ushering potential within several chemical value-chains. We will leverage our towering strengths across chosen chemistries with nuanced understanding of market complexities to deliver robust performance. The ensuing years will see introduction of many high-quality products premised on core R&D competence, which will cement our leadership position in the market and help deliver sustained value for our long-term stakeholders.

I will now request the moderator to open the forum for Q&A session. Thank you.



Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.

Vivek Rajamani: Just a couple of questions from my end. Firstly, on demand, you mentioned that it is still quite challenging. Just wanted to get a sense if in the month of July you have seen any sort of improvement and in terms of normalized levels, how much below are we with respect to key segments? That was the first question on demand. The second question is on the unit margins. Given that your volumes were broadly intact on a Q-on-Q perspective, it appears that unit margins have compressed. Could you share some thoughts in terms of your sales mix, what's the share of the non-regular customers in your mix, and how the margins are trending in those new customers?

Rajendra Gogri: Basically, demand is expected to be recovering more towards the 3rd and 4th quarters as compared to the 2nd quarter. Some of the agrochemical, in the first quarter nitrotoluene numbers were good, but the slowdown in those product lines is now being seen in Q2 of this year. The inventory destocking is taking place for different products in a different time frame in general and because of the overall slowdown even in the Chinese domestic economy and Chinese currency has also depreciated against the Indian currency by about 4%, that is also putting some margin pressure in general.

Vivek Rajamani: Just to clarify; no big change in July, you are basically expecting a bigger improvement to come from Q3 and Q4. Is that fair?

Rajendra Gogri: Yes.

Vivek Rajamani: Sir, on the question on the sales mix, if you could just share any comments on what the share of your non-regular market.

Rajendra Gogri: Non-regular market also became difficult because of the slowdown there. That's why that share has not increased much.

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

Aditya Khetan: I had a couple of questions. Sir, the first question is when you say that the demand is weak, considering a base of 100, now taking agrochemicals, pharmaceuticals, dyes & pigments, how much would the number be below 100?

Rajendra Gogri: It will be down by an overall 10% to 20%, i.e., the decline in demand depending on the product lines.

Aditya Khetan: In this quarter, we had made a 14% margin. If we can also separate it into specialty and commoditize the product-wise margins; since our specialized portfolio is around 70%, ideally even the specialty product portfolio is also facing pressure from China? Do you think that segment is still not impacted and the pain could be there in coming quarters? How do you see all of these?

Rajendra Gogri: The volume impact is there, across the board basically – whether it's a specialty chemical or value-added chemical or the base chemical. This is because the base chemical only goes into the manufacturing of value-added products. But the margin pressure is more towards the base chemicals as compared to the value-added products.



- Aditya Khetan:** So, this 70% of the segment shouldn't have been that impacted, right? If you are saying commoditized is more impacted.
- Rajendra Gogri:** Yes, relatively the impact on value-added products on the margin side is less, but on the demand side is across the board.
- Aditya Khetan:** On the quarterly run rate – we used to generally clock a profitability of around Rs. 130 crore to around Rs. 150 crore in profit. But this quarter, we had gained Rs. 70 crore in profit. You think this number can again go back to that range in the second half?
- Rajendra Gogri:** Yes, there will be a substantial jump at PBT level because once the EBITDA increases, then that EBITDA directly virtually increases on the profit level. Those kinds of numbers are possible towards the end of the second half of Q4.
- Moderator:** The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.
- Abhijit Akella:** First of all, on the EBITDA outlook for the next couple of years – we had earlier spoken about say 15% growth for this year and then sharper growth in FY25. Would you like to offer any updates on that at this point or is there just not enough visibility to do that right now?
- Rajendra Gogri:** It will be too early to give the FY25 guidelines. Our previous guideline was Rs. 1,700 crore and some, decline may take place in that. But really whether it will be in the range of 5% to 10% or maybe even a little more, that kind of further clarity will emerge in the next couple of quarters based on how the future demand visibility and the margin visibility comes in. So, it will be difficult to give any fresh guidance as of now.
- Abhijit Akella:** On the performance of the long-term projects that we have – the three of them, have those also been impacted in terms of deliveries because of the demand weakness or have those held up and it's more of the base business that has been impacted?
- Rajendra Gogri:** The first contract which got canceled was for the dicamba intermediate; which is actually severely impacted because of the demand slowdown in that product line. The second contract is more of a structural one where our EBITDA is kind of assured irrespective of the movement of the volumes. The third contract is on stabilization and overall, it has a good demand visibility; so, the second half will show a good number coming in from the third contract.
- Abhijit Akella:** The new projects that you were planning to set up, the new multipurpose plants or the specialty chemical units, are those on track for the expected ramp up? Could there be some delay in their ramp up as well given the demand scenario?
- Rajendra Gogri:** That is going to happen more towards the end of FY25 because of majorly the inventory correction; it is not that the products or ultimately the consumers are not going to consume, it is in the system that so much inventory was built up over the last couple of years. This was because, one is that containers were not available and all, so, people picked up more inventory and secondly it is because of the higher interest cost globally, which was nearly maybe only 1% or 2% - the dollar rates are now maybe 7% to 8%. Increasing inventory carrying costs has also made people reduce the inventory. I think by the end of FY25, the entire chemical industry has to come to a normal consumption level after all the destocking is done. We don't see those to continue for a very long time as such.

- Abhijit Akella:** Just one last thing from my end; maybe more for Chetan bhai. The finance cost and depreciation expense related to the newer project, etc., have they already hit the books in the June quarter or will there be some more impact in the upcoming quarters? Also, the tax rate is very low this quarter. If you could please just update your guidance for this year and next year.
- Chetan Gandhi:** The finance cost and depreciation to the extent of the ones which are getting operationalized towards the end of the last quarter and this quarter have already hit the books. On the tax, we have a couple of tax exemptions by way of SEZ and some cogen power facilities and also the depreciation rate as per income tax is higher than what is there in the books. There is a lot of tax offset and credits available. This is where the tax rate would be lower. We will have MAT credit in this year substantially.
- Abhijit Akella:** So, should we expect a sub 10% tax rate for this year?
- Chetan Gandhi:** Likely sub 10% this year.
- Moderator:** The next question is from the line of Rohan Gupta from Nuvama. Please go ahead.
- Rohan Gupta:** Sir, the first question is on our specialty chemicals. We claim roughly 85% of our overall basket is of specialty nature where we have always understood that the pricing is contracted and the margins are also broadly the same. In that business environment, you are seeing that customers have defaulted or deferred their volume of takeoff-takes and that has led to lower volume or some price impact is also there and that has led to margin erosion and profitability impact.
- Rajendra Gogri:** That has value-added products also, but typically we expect the per kg margin to be steady and a lot of products it remains steady, but some products there will be some sort of up and down also happening, with an increase or decrease of margins. That is the phenomenon which is playing out. It's not like customers are defaulting or something as such.
- Rohan Gupta:** No sir, not defaulting. I am saying customers deferring the volumes. If you are 85% of volume in specialty and then we see there is roughly 40% erosion EBITDA where the EBITDA per kg margin is likely stable, that is only possible if there is a significant deferment in volume. The volume off-take would not have happened until and unless we had some huge inventory-led losses or our 15% or 20% business, which is non-contractual, that has seen significant losses. If you can explain more on that front.
- Rajendra Gogri:** This 85% is not like also 100% contractual. And as I earlier mentioned, the demand slowdown is in both, value-added products as well as on base products.
- Rohan Gupta:** What we see right now is you have a strong growth visibility in H2. Though avoiding giving any guidance, do you expect that growth to recover in H2 significantly? And you have mentioned that probably for FY25, maybe just 5% to 10% kind of deviation to the EBITDA number. Is it something coming from the customers that you see that a strong recovery in H2 that will compensate the volume decline which we have seen in H1? Or do you see that it is just an expectation that the inventory in the system will be corrected and then we will see restocking? What is the basis from where we are making a strong opinion that H2 will see a significant improvement?
- Rajendra Gogri:** A lot of customers have given guidance and an indication on the kind of material they will need from October to March. We have received this for a lot of customers who were not buying. Some of them were not buying for 3 months also. Basically, a

lot of inventory correction what is happening seems to be getting over, maybe in Q3 and Q4 of this year.

Rohan Gupta: Sir, you also highlighted the Chinese currency depreciation is helping the global markets and China to push the material in the system. Sir, in that business also, do we see that our 85% once again the business which is contracted in nature, these contracts have to be renegotiated with the customers with a lower margin we have to settle or the currency depreciation shouldn't impact us at all?

Rajendra Gogri: For our contractual business, what happens between Chinese and Indian currency generally is not.... Actually, they are currency neutral. Generally, they will be US dollar terms and all of the exchange risk will always be with us. There is no change in the contract terms because of any change in the US dollar to Indian rupee or US dollar to Chinese currency.

Rohan Gupta: Sir, in a sense that the Chinese currency and the China dumping shouldn't be impacting our large part of the business which is 80% to 85%. But amidst that, we have a huge uncertainty and a very weak number. Is there something which we are missing that what actually would have led to such a sharp kind of decline? You said that just because of the volume and the inventory destocking, that is impacting the profitability. That's what you are trying to say?

Rajendra Gogri: Yes. Some of the products are in India also. Basically the competition comes from China because some of the products are imported into India from China. For those kinds of products which we sell in the domestic market, there we are seeing the impacts. There, the currency impact also will kick in.

Rohan Gupta: Sir, on the first project of dicamba intermediate, any sense there? Because, right now, anyhow we are going through the agrochemical global weakness and there is no contractual arrangement still being made for the intermediate. So what kind of utilization level do you see? Have we formulated any strategy given that the global weakness in the agrochemicals market continues? Have we decided anything on this first long term contract for the dicamba intermediate?

Rajendra Gogri: As we mentioned, it's a very specialized plant; it's a continuous plant and difficult to use for other products. But we will take a call on that, maybe in the next 1 or 2 quarters, on whether we can really make a substantial modification in that facility and introduce new products because we have 2 different lines there; maybe 1 line we can repurpose or so. We will take that decision maybe in the next couple of quarters.

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

Rohit Nagraj: Sir, the first question is on the domestic market. We have been talking about global inventory destocking and ingress of China material. How has been the performance in the domestic market? Which segments are showing growth or in the domestic market also there is an overhang of inventory destocking? Your thoughts on this?

Rajendra Gogri: As we have mentioned earlier also, our direct export is now around 45% to 50% and there is indirect export of around 20% to 25% where our customers make the product and the downstreams are exported. So, effectively, 70% of our business is linked to international market. Within the 30% products which are going in pharmaceutical applications and all, we are seeing that there is no change in the demand. However, there we see that in Pharma sector, China has been very



- aggressive when they are exporting to India. So, they are finding some pressure in their product line. However, the demand is intact on those products.
- Rohit Nagraj:** For the 30% domestic market, we are still growing; there is no real issue of inventory destocking as far as the domestic demand is concerned?
- Rajendra Gogri:** Not significantly.
- Rohit Nagraj:** The second question is in terms of China. There is a good amount of material which is coming from China and you also alluded to that. Has there been any change in terms of newer capacity additions which have come up in recent times and that is also posing some kind of a threat with newer material coming into the system?
- Rajendra Gogri:** No, there is no change about the Chinese material coming into India. Our new PNCB capacity has just come up this month, then we will have more availability of the material, which will help in reducing the imports from China.
- Rohit Nagraj:** Generally, in the base benzene chemistry, are there any new capacities which have come in China, as per your understanding?
- Rajendra Gogri:** One particular plant which was closed down, that has restarted last year.
- Rohit Nagraj:** Just one last clarification from Chetan bhai. In terms of given that this year our absolute EBITDA will get impacted because of the external factors, how are we covered in terms of our debt repayment? Given that our CAPEX program will continue at Rs. 2,500 crore to Rs. 3,000 crore for this year and next year, what is the peak debt that we are looking at?
- Chetan Gandhi:** Our annual debt repayment is roughly around Rs. 350 odd crore. Relatively, that number can be easily managed from the current situation where we are prevailing in. As regards to the CAPEX program which we have, we have secured a long-tenure money from IFC of around \$130 million which will be available for us to utilize for the new CAPEX initiatives. Plus, the contraction in the demand and the revenues and business will also result into releasing working capital requirements. So, there will be some cash flow reduction on working capital which will also benefit in terms of managing the cash flow requirements.
- Moderator:** The next question is from the line of Surya Narayan Patra from PhillipCapital India. Please go ahead.
- Surya Narayan Patra:** Sir, the first question is on the export decline QoQ what we are witnessing of 27%. Can you split that decline in terms of volume as well in value or in terms of price?
- Rajendra Gogri:** As we have mentioned, a lot of our products' prices are linked to raw material. YoY, the benzene price was lower. The impact of that also has come in at the top line level and both volume also. It will be difficult to bifurcate.
- Surya Narayan Patra:** Is it fair to believe the number what you have mentioned, the volume decline would be in the range of 10% to 20%? That would be the range for export business?
- Rajendra Gogri:** No, it will be more towards around 10% to 12%, not 20%.
- Surya Narayan Patra:** Because, here if I see the domestic performance also, QoQ it is a flat performance. That means if we are believing that the volume scenario is that way maintaining, no more slowdown that we have witnessed in the domestic market, then is it fair to believe that the price pressure what we have witnessed because of the Chinese

dumping, that has not been reflected practically in the first quarter, and hence, second quarter could be the key period during which we will see the full impact of this Chinese dumping as well as even to the domestic business?

Rajendra Gogri: Some impact is already seen in the Q1 also of that. Additional impact may be not that significant.

Surya Narayan Patra: Since we are seeing that there is some impact in volumes and some impact that has already been seen in terms of pricing, but domestic sales QoQ is flat despite of all these challenges. That is why I was....

Rajendra Gogri: Yes, the sales value-wise is flat but some impact on the margin has come in there.

Surya Narayan Patra: My next point was that – in fact, the gross margin if you see, that is the weakest gross margin that we are witnessing this quarter, actually it is weakest ever possibly, 35% kind of gross margin. Is it because of the kind of impact on the product prices or it is the cost still that is impacting you?

Rajendra Gogri: As a percentage, it becomes difficult. As we mentioned earlier, the benzene price has gone down YoY. That is going to have always an impact of that. As a percentage becomes difficult, the absolute gross profit and absolute EBITDA becomes better number.

Surya Narayan Patra: Practically, this quarter's performance industry-wide if you see, it is a challenge of the volume only or demand situation that is a key challenge for the quarter. On top of that, this dumping in the meanwhile by China, that is the second problem creating a pressure on the prices. Could you give some sense after interacting with your customers, what is the level of inventory they generally used to maintain pre-COVID? Currently what is the level of inventory they are maintaining? With regards to the Chinese dumping scenario, how long do you think that this dumping pressure could be seen in the external non-US market or in the international global market?

Rajendra Gogri: Basically, this dumping also relates to the original overall demand. If the overall demand increases globally, then dumping is going to go down. The second thing is now the inventory carrying cost is high. The dollar interest rates are high. So, typically if any company is keeping inventory of, say 3 months, they will say now you have to keep it 2 months. Inherently, it is because the cost of money and availability of money, that is really each and every businesses have to relook at what kind of inventory they should keep. Previously, availability was the issue; because the shipping was a big problem. At that time, maybe somebody who is keeping normally a 3 month inventory will make it 4 months. For the high inventory carrying cost now they will think they will make it 2 months. That is what is really moving from a high inventory to a lower inventory than normal. That's why this inventory correction has come about. They were saying that the agrochemical is a \$75 billion market and had a \$65 billion inventory in that entire value chain. That's a huge inventory.

Surya Narayan Patra: That means 8-9 months of inventory you mean to say, sir?

Rajendra Gogri: Yes, in the entire value chain from the intermediate to active ingredient to the farmers, dealers and everything – it's a very high level of inventory. Now with the cost of money and availability of money, that is getting corrected so a new normal will come. At this kind of interest level, now interest also is picking up. I think the US interest rate also virtually now gets stabilized. So, a new normal of inventory, I think, will come in maybe by the end of this calendar year.

Surya Narayan Patra: Sir, just last one about the debt. What is the gross debt currently, sir? I think after the recent addition, what is the gross debt that we are currently having?

Chetan Gandhi: The net debt would be close to around Rs. 2,650 crore or so. The gross debt because we have taken the term loan drawdown towards the last week of June and we have not fully utilized it, I have got something like close to gross debt of almost Rs. 3,000 crore and cash surplus/liquid money of Rs. 400 crore.

Moderator: The next question is from the line of Akul Broachwala from Ocean Dial Asset Management. Please go ahead.

Akul Broachwala: Sir, I wanted to get your thoughts on chlorotoluene's initial phasing that you are planning to do in FY25. Can you share some details as to what would be the initial capacity? I believe this is an import substitution strategy product. What are the current imports and basically what is your thought behind fast tracking this entire project?

Rajendra Gogri: The project will get commissioned in FY26 and chlorotoluene capacity we have taken about 42,000 tonnes as a base capacity, but it will be with the entire value chain because the current import of chlorotoluene is not that significant as it is, but a lot of downstream products based on chlorotoluenes are currently imported into India.

Akul Broachwala: What is the CAPEX entailed for this first phase of chlorotoluenes?

Rajendra Gogri: The first phase will be more of around Rs. 1,500 crore or and then further some multipurpose plant and other additions will take place.

Akul Broachwala: Eventually we also plan to introduce downstreams and would cater it through a multipurpose plant?

Rajendra Gogri: Yes, in the beginning itself we will have downstreams. We will have a few downstreams along with the chlorotoluene itself. Otherwise, you cannot consume that much because there is not that much of demand in India for the base chlorotoluene. So, a few downstream chemistries along with the chlorotoluene will be commissioned in the first phase. It will be more or less continuously, that various plants will get commissioned in FY26. Some may go in FY27, but most of the commissioning will happen in FY26.

Akul Broachwala: Given the kind of situation that is there, do you sense that there would be some realignment that would be required eventually if things do not improve or you will still go ahead with the kind of CAPEX program that you have built in?

Rajendra Gogri: We see this as more of a transition because of the inventory correction, as I mentioned earlier. Structurally, the chemicals are required by the end user, whether it is pharma, agro, or for paint or car or all the end users, there is no change. There are no new chemicals which have come in. So, structurally, the demand is there. The second thing is that the demand appetite from India also is remaining. Anything of a long term which is going to come up in FY25 and FY26 because by that time, I think all the stabilization will be taking place. So, there is no question of changing anything on that.

Akul Broachwala: Secondly, whatever legacy issues that we face with availability of nitric acid, can we assume that most of those issues are behind us now? Considering your contract with Deepak Fertilizers as well, maybe considering this down cycle, even if the

- demand might remain volatile, but otherwise in terms of production there aren't any such challenges for us.
- Rajendra Gogri:** Yes, because we set up this 20-year contract with Deepak Fertilizers so nitric acid availability has not been an issue at all.
- Akul Broachwala:** Lastly, on other expenses, the run rate of 1Q do you expect for that to gradually increase to the earlier levels or will it be pertaining to the production levels that will depend on the market situation?
- Rajendra Gogri:** The other expenses have a substantial ocean freight. There is the ocean freight correction which has really changed in this because even though it is a direct variable expense, it comes in the other expenses and which has really seen huge volatility in the last couple of years.
- Moderator:** The next question is from the line of Anubhav Sahu from McPro Research. Please go ahead.
- Anubhav Sahu:** Given the headwinds we are seeing from China, which were quite unexpected, as far as the aggressiveness on the dumping is concerned, any estimate for the volume growth for the rest of the year, particularly when we also have a strategy of being aggressive in non-regular markets?
- Rajendra Gogri:** It is difficult to give any volume because China itself, where we are supplying to also, it is becoming difficult as a non-regular market. To give any specific volume guidance at present will be difficult.
- Anubhav Sahu:** But coming from an expectation of 25%, would you have any broad range to talk about even for the remaining 9 months?
- Rajendra Gogri:** Instead of 25%, it may be overall maybe around 10% growth or something; those kind of numbers.
- Anubhav Sahu:** On the domestic market, could you provide any qualitative guidance for the near term given that on the volume terms it looks stable if we just look at Q-on-Q basis? Relatively margins were better for us so there is a bit of an impact on the margins. Particularly on 30% of the business, if you can provide some guidance for the near term.
- Rajendra Gogri:** The 30% business which is going for domestic consumption, I think we are seeing a fairly stable demand and that will continue like that.
- Anubhav Sahu:** Currently, our net debt to equity is about 0.56. Could you provide what could be the peak metric for this as far as this current CAPEX cycle is concerned for the next 2 years?
- Chetan Gandhi:** Debt to equity is also going to be a function of how the working capital and the input prices prevail. If we assume the constant prices, I believe this should be between 0.6 or 0.7 max. It won't go beyond that number. But yes, working capital is going to be a major play in looking at the debt numbers as we move forward.
- Anubhav Sahu:** Given the status quo, 0.7 is what we are looking at debt to equity?
- Chetan Gandhi:** 0.7 on a worst case outer limit. I guess 0.56 or 0.6 is the number which we are currently targeting.

- Moderator:** The next question is from the line of Archit Joshi from B&K Securities. Please go ahead.
- Archit Joshi:** Sir, if I heard you right in the opening remarks, our nitrotoluene production volumes have gone up quite a bit year on year. Sir, is it that there is decent enough demand in the base toluidines or the end users of this eventually go into agri - MEA and DMA? Is that what is driving growth or is there something else that you would like to highlight?
- Rajendra Gogri:** The agrochemicals in that product line were doing well in Q1. That's why we got a good number of nitrotoluene. As I mentioned earlier also that inventory impact has started coming in now in Q2. So, in Q2 and Q3, we may have some subdued numbers there, in our ethylation range, but we will try to sell the product to other markets and try to keep the volumes. But nitrotoluene volumes will be impacted in Q2, for sure.
- Archit Joshi:** Sir, another clarification that I wanted from the previous calls about the arrangement in the second long-term contract. Just wanted your thoughts. What exactly is the arrangement there? Are we working on a fixed EBITDA basis? Because, given the size of the contract, a simple division of the total size of the contract over the tenure that we have planned, Rs. 500 crore annual turnover and the EBITDA range that we had given earlier in terms of margins, would that be achievable from this year onwards or is there any delay on that end also?
- Rajendra Gogri:** No, that has kicked in. We are getting that. That's what I mentioned earlier also. The second contract, the EBITDA is not connected much to the volume.
- Archit Joshi:** So, basically, the EBITDA or the per tonne or the absolute margin that we are envisaging to make here, we will make it any which way in this year and going forward also the same number?
- Rajendra Gogri:** It's not related to the volume. So, the absolute EBITDA virtually is not going to change much.
- Archit Joshi:** So, the absolute EBITDA run rate will be constant from this financial year FY24 and going ahead?
- Rajendra Gogri:** Yes.
- Archit Joshi:** Sir, just one followup on the first question. The incremental nitrotoluene capacity and the ethylation loop, when would you assume it to come online in terms of timeline?
- Rajendra Gogri:** We are targeting it in the Q1 of FY25 that both nitrotoluene and ethylation block should go into commissioning.
- Moderator:** The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** The first question on the decline in RM prices that we are seeing. Will it be fair to say that all the RM deflation has been passed through across our value-added as well as basic products? If not, then what is the proportion of the contractual pricing that we have?
- Rajendra Gogri:** Generally, in the domestic market, it gets passed on on a month-to-month basis and export it is generally with a quarterly lag; that is the typical structure. Now, again the

- RM has started going up. If you see, the downward more was towards in June-July and now the price has started going up.
- Ankur Periwal:** In that case, probably in the near term, there could be some flux in terms of margins because of pass-through delays or given the volatility of the RM prices.
- Rajendra Gogri:** Yes, but it has not seen a very huge variation. It is not like Rs. 60 becoming Rs. 90 or Rs. 60 becoming Rs. 30. The changes are not very huge to have a really substantial impact.
- Ankur Periwal:** Secondly, on the value-added products. We say that our revenue share from them is around 75 to 80 odd percent. How much of this will be contractual? Another question there is, is, how do you define value added? Is it number of steps required or is the margin that we earn?
- Rajendra Gogri:** It's on the number of steps basically. The nitrochlorobenzene, nitrotoluene, sulphuric acid are considered base products. Then as you add more chemistries, that become more value-added products. In terms of the value-added products, typically we have a long-term structured contract and also other places where we don't have structured contracts, but generally typical delta when we discuss with the customers, the pricings are generally typically done based on the base raw material plus delta. That's how the pricing is done even if it is not contractual. But generally, the pricing structure remains of that line.
- Ankur Periwal:** This delta will be, broadly speaking, in what percentage terms higher than the basic one? Let's say the basic margin is maybe Rs. 100 a kg. Then, what is the delta here for value added? I know it will be a range, but broadly?
- Rajendra Gogri:** It will be depending on the number of chemistries. We have a product which we sell at Rs. 2,000 also. We have a product which we sell at Rs. 1,000 also, Rs. 500 also. So, Rs. 2000, the raw material cost may be only Rs. 500 because so many chemistries are added. It's all product to product, in that sense. Depending on every step, the delta gets added and gross profit to sales number goes on increasing.
- Ankur Periwal:** In our annual report, we again talk about the value-added products and the high-potential products margin accretive being there will be ramp up there given our CAPEX plans as well. The margins that we will be earning on these value-added products, how should one look at them? Maybe in terms of number of steps you can suggest or in terms of absolute margin, how should one look at them?
- Rajendra Gogri:** Like chlorotoluene, most of the products will have at least typically 3 steps, an entire range. Virtually everything will be 90% of a value added kind of a product there. Therefore, the EBITDA margin will be higher.
- Moderator:** The next question is from the line of Bhavya Gandhi from Avendus Wealth. Please go ahead.
- Bhavya Gandhi:** Sir, just one question. Have we seen historically this kind of situation of destocking and what is the time period for this kind of situation? What was the time period which was taken for destocking in the past? If you can throw some light on this. Maybe in the last 10-15 years, have we seen or is it a one-off situation this time?
- Rajendra Gogri:** This is similar to what had happened in 2008. In 2008 if you see, after the Lehman shock, across the world, a lot of plants had closed down in a very sharp manner. That was more of a financial crisis. The availability of finance was a problem. But the interest rates were low. At that time, the interest rates were going down. But this

time what has happened is that the interest rates have also increased. In 2008, there was no impact on agrochemicals because the inventory carrying cost was zero. Now what has happened, this time, is that the interest cost also has become a big factor. This time, the impact has come both on discretionary as well as on agrochemicals.

- Bhavya Gandhi:** In 2008, what was the time period for which the cycle lasted, the destocking thing?
- Rajendra Gogri:** Two quarters. On the 15th September was the Lehman shock. So, October to March, those 6 months, there was; and that time, it was much sharper. This time, it is more of a slower and more prolonged compared to the earlier. At that time, it was very very sharp like BSF had announced these many plants closed across the world and all that. The Lehman shock was much really shocking with a very shocking impact at that time.
- Bhavya Gandhi:** How do we assess that it's only the channel inventory issue and not the demand issue? Do we have any ground-level reading saying that the demand is not impacted? How do we assess that? Because, everybody is talking about 2 quarter thing. What gives a certainty when it comes to demand on ground level?
- Rajendra Gogri:** Basically, all these products are required mainly for auto, construction, textile, electronics, or consumer products. Overall, I think there is no replacement for these chemicals that are used there. We don't see any structural change in the consumption pattern. All these EV and all, they need more specialty polymers than regular vehicles.
- Bhavya Gandhi:** But is it like China is trying to squeeze our margins or on a longer-term basis, are they going to come back and affect demand?
- Rajendra Gogri:** The demand from India will remain. Because of the China-plus-one story and demand, we don't have to worry much about the volumes. Specific product to product, some margin pressure will come. But once the demand becomes normal; the appetite to buy from India is there and that will continue too. Personally, I don't see that the volumes will be impacted. Once things normalize, the Indian companies should be able to get those volumes in the international market.
- Moderator:** The next question is from the line of Siddharth Gadekar from Equirus. Please go ahead.
- Siddharth Gadekar:** Sir, first in terms of the sectors that we cater to; agrochemicals, dyes & pigments, polymers, auto, and others, in terms of the slowdown, where would you see the sharpest slowdown? In terms of recovery, are we seeing any green shoots in any of these segments, at least in July-August or all are still at the similar levels as 1Q?
- Rajendra Gogri:** Textiles is something which everybody is wondering. If you talk on the textile sector, it has been a very very prolonged one because that was the first one which started getting impacted even in FY23; it's a much longer period. On the pigments' side, some sort of green shoots may happen Q2 onwards. Agrochemicals are very very product specific, as I mentioned. In Q1, our nitrotoluene and ethylation products were really booming and suddenly in Q2 and Q3, the demand is affected whereas in dicamba, the base correction started happening in Q1. So, this has become much more product specific.
- Siddharth Gadekar:** In terms of our second quarter, should we be at a similar level in terms of our EBITDA or could we even go below the current Rs. 200 crore EBITDA that we reported in this quarter?

Rajendra Gogri: It should be of a similar range. That's how it looks. At least at present, it should be of a similar range.

Siddharth Gadekar: But do we have any volume contracts or volume visibility that the third quarter will be better than the first half or it will be entirely pushed to the 4th quarter or FY25?

Rajendra Gogri: We have some volume visibility for the third and 4th quarter, but sometimes what may happen is that by the time they become nearer, then sometimes they may say that we need 1 month earlier or sometimes they may push out to the next month. But with the current indication what we are getting from the customer, definitely Q3 volumes are higher and Q4 are still further higher.

Moderator: The next question is from the line of Pujan Shah from Congruence Advisers. Please go ahead.

Pujan Shah: My first question would be on the dyes & pigments. If you look at this specific segment, how would the outlook be? What could be the parameters? Just wanted to know that view for the FY24 basis.

Rajendra Gogri: Textiles is really a surprising situation. Textiles is still not showing any significant increase. It is still struggling. Time to time, we feel that it is getting very back to normal, but still not happening. But the pigments have seemed to have bottomed out.

Pujan Shah: And what are the views on polymers and additives?

Rajendra Gogri: Polymers and additives, the corrections are started more happening now. That might get bottomed out more towards Q3-Q4.

Pujan Shah: And I just wanted to ask you about the benzene. If we look at the benzene prices - let's suppose it's Rs.100. And now currently if the price is steady at Rs. 90 or 80, it would be around 10% to 20% fall from the top what the price has been made. So, what could be the price percentage fall from the top to at the current price?

Rajendra Gogri: Benzene has not seen Rs. 100. It has seen Rs. 90 to Rs. 60 kind of a range which has happened.

Pujan Shah: Can you spell the volume split what you have provided in the initial remarks. I actually missed out that volume.

Chetan Gandhi: Nitrochlorobenzene volumes were 17,290 metric tons for the quarter as against last year YoY number of 20,515. The nitrotoluene volumes were 9,327 for this quarter versus 5,250 for last year. The hydrogenation volumes were 2,868 versus 3,295 for previous year.

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

Aditya Khetan: Sir, you had not mentioned the PDA segment volumes.

Chetan Gandhi: PDA volume for this quarter is 135 tonnes per month whereas last year it was 371 tonnes per month.

Rajendra Gogri: This is the worst affected segment.

Aditya Khetan: I believe this phenylenediamine segment, majority of the volumes is for the export market. And because of the external headwinds, this is one of the reasons why this segment is impacted the most?

Rajendra Gogri: Yes. In domestic, it goes in dyes; and in export, it goes in polymer. That's what I was mentioning that correction in this has started more recently on the polymer side. That's why we see a sharp decline in this product.

Aditya Khetan: What was the base reason of the nitrotoluene strong volumes in this quarter?

Rajendra Gogri: That is going into agrochemicals and those agrochemicals were still strong in Q1.

Aditya Khetan: Why that has been impacted in the second quarter? You mentioned that it has got weakened now.

Rajendra Gogri: Now, it is because of the inventory correction. Everybody has calculated the pipeline inventories. Big multinationals when they come back with their revised supply chain, that's where we are seeing that now, they see that they want to reduce the year-end inventories.

Aditya Khetan: Sir, I was asking onto the agrochemical inventory situation which sir has stated. I believe that 2 to 3 months back how much inventory has been rationalized?

Rajendra Gogri: That I think we will have to talk to Agro guys again that from where we get this kind of number; maybe we will be able to get some idea that how much correction already has taken place. But I think most of the correction in the next 2-3 quarters because everybody wants to keep lower inventory at the year-end because of the higher inventory's carrying cost. I think all those should settle down by Q3 of this year, i.e., the calendar year-end.

Aditya Khetan: And sir, just one more question. Now, we have again started witnessing the crude prices have started to inch up and they have crossed \$85 a barrel. Now, the base chemicals prices also would start to go up with the lag?

Rajendra Gogri: Yes.

Aditya Khetan: So, could there be a situation where we would not be able to pass on the incremental prices and we could see further going up from this level?

Rajendra Gogri: Generally, we are able to pass on. So, there is not much of an issue there.

Moderator: Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rajendra Gogri: Thank you everyone for taking out the time to join us on our Q1 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: On behalf of Aarti Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.