AARTI INDUSTRIES LIMITED

February 16, 2024

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

BSE CODE –524208

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

Dear Sir/Madam,

Sub.: Transcript of Q3 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 Friday, February 9, 2024 on Audited Financial Results of the Company for the quarter and nine months' ended December 31, 2023.

Kindly take the same on record.

Thanking You,

Yours faithfully,
FOR AARTI INDUSTRIES LIMITED

RAJ KUMAR SARRAF
Digitally signed by RAJ KUMAR SARRAF
Date: 2024.02.16 15:47:34 +05'30'

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

Aarti Industries Limited

Q3 FY24 Earnings Conference Call Transcript
February 09, 2024

Moderator: Ladies and gentlemen, good day and welcome to Aarti Industries Limited Q3 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 this conference call, please signal an operator by pressing "*" 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, Mr. Solanki.

Nishid Solanki: Good afternoon everyone and thank you for joining us on Aarti Industries Q3 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. Rajendra Gogri who will take us through the - Performance Overview, Progress on Growth Plans, and Outlook on the Business. Post this, we shall open the forum for question & answer where the management will be addressing the queries of the participants.

Just to share our standard disclaimer, certain statements that may be made in today's conference 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.

Mr. Rajendra Gogri: Thank you. Good afternoon and a warm welcome to everyone joining the call today. We are gathered here to delve more into the Q3 FY24 earnings of Aarti Industries, and I will guide you through the performance, provide updates on growth initiatives, and outline our strategy.

I am delighted to share that our concerted efforts have translated into robust results, reflected in about 15% sequential improvement in EBITDA in Q3FY24. This was possible despite persistent external challenges. Despite ongoing headwinds such as inventory destocking, high interest rates globally, recessionary pressure in key developed markets, and China's dumping, we effectively navigated to report a buoyant performance, thanks to the strength of our portfolio and enduring partnerships with our long-standing customers. I would like to compliment our team for promptly applying their market insights, allowing us to dynamically manage the product mix based on evolving demand.

As highlighted in the previous call, we are observing a rebound in demand for various products catering to the discretionary applications such as dyes, pigments, additives, polymers and more. While it is still early signs, we remain optimistic about a complete recovery as we progress further. The non-discretionary segment, primarily driven by agrochemicals and pharmaceuticals, still seems soft as major customers are managing lean inventory due to high carrying costs and moderated demand. That being said, we are witnessing steady demand for select products within the non-discretionary space and are actively engaged with key customers to offer best value. Even so, we anticipate a return to more widespread demand normalisation in the next 1-2 quarters. And in alignment with this, we continue our dialogue with the customers to fulfil their long-term requirements.

Now, let me cover the key performance highlights.

Our consolidated revenues increased by 18% to Rs.1,889 crore in Q3 FY24 over previous quarter Q2 FY24. Consolidated EBITDA including other income grew by 15% on Q-o-Q basis to Rs. 268 crore in Q3 FY24. The enhancement in EBITDA was driven by increased volumes, while maintaining stable pricing for products and also includes an element of operating leverage gains achieved through stabilised fixed costs. Profit after tax stood at Rs. 124 crore in Q3 FY24, higher by 36% over previous quarter Q2 FY24.

I will now cover some of the major business developments.

In December 2023, we entered into a long-term supply contract with a Global Agrochem major for a niche agrochemical intermediate with a revenue potential of over Rs. 3,000 crore over a period of 9 years. This agrochemical intermediate serves as a crucial input component for a widely used herbicide, and the global market for this Herbicide remains large and growing steadily. More importantly, it is an integral component of AIL's existing integrated product portfolio, and our current CAPEX plans are well aligned to meet this order requirement. This order will start contributing to our performance from the current fiscal and we anticipate an EBITDA margin of about 20% based on stable raw material prices. Our affiliation with this prominent customer has been robust and we aim to foster this relationship further to expand within the high-value agrochemical sector.

In another major development, we secured a 4-year supply contract worth over Rs. 6,000 crore with a multinational conglomerate for a niche speciality chemical. This product is also included in our diversified product portfolio, and we have been supplying this product to the said customer for the past few years with consistent annual increase in volume. No additional CAPEX is anticipated for this product as our existing CAPEX is structured to manage this incremental requirement. The demand for this product has been growing consistently. We anticipate doubling the volumes in CY24 vs that of CY23 with this customer. This strong demand is based on the newer application which has been evolving over the last few years. We expect that the margins in the case would be about 15-17% at constant prices.

In short, both these contracts are testament to our ability to convert short term or spot business into a medium-to-long term contract with substantial increase in volumes. It also speaks volumes about our manufacturing excellence, strong and deep customer engagement, and a robust track record of handling multiple complex chemistries. We are more than happy that this has come though in such a challenging macro environment which underscores our commitment to transforming relationships into sustainable long-term opportunities.

Let me now turn your attention to the production details for Q3 FY24. Production of Nitrochlorobenzene stood at 19580 MT as compared to 18,199 MT in Q3 of last year and 19,014 MT in Q2 FY24. For Hydrogenation, this came at 3,644 TPM over 2,995 TPM in the same period last year, and 3,136 TPM in Q2 FY24. For Nitro-Toluene, the production for Q3 FY24 stood at 6951 MT as against 7,528 MT in Q3 of FY23, and 7,560 MT in Q2 FY24.

Moving your focus towards updates on key projects.

All the other projects including capacity increase of Ethylation & NT and introduction of Chlorotoluenes value-chain among others are progressing well and will start commissioning in a phased manner from FY25 onwards.

We entailed a CAPEX of about Rs. 860 crore in 9M FY24 to fund our expansion projects. And remain on track to collectively deploy Rs. 2500-3000 crore between FY24 and FY25 to expand our manufacturing expertise and venture into newer high-potential chemistries to accelerate our performance trajectory.

We had earlier guided for our EBITDA to be about 950-1000 crores for FY24. While we are witnessing revival of business across various discretionary applications, there is still some more pain and time for recovery to be visible in the agrochemicals and pharmaceuticals sector. Further current macro challenges across the Red Sea have resulted in a sharp increase in freight costs and container availability. Our arrangement with the customers enables us to pass on most of these impacts to the customers, with a time lag. In line with the current performance and visibility available, we expect to close this year with an annual EBITDA closer to 1,000 crore. We further expect our FY25 EBITDA to be in the range of Rs 1450 - 1700 crores.

Let me now conclude by saying that India is favourably positioned within the global chemical industry given its cost competencies, improving manufacturing and R&D infrastructure, supportive policies, and strong domestic demand. In addition, evolving geopolitical risks have prompted global companies to shift a portion of their manufacturing requirements to India. As an integrated player, we will continue to reap the benefits and remain a global partner of choice for speciality chemicals and intermediates.

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

Moderator: We will now begin the question & answer session. The first question is from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.

Vivek Rajamani: Two questions from my side. The first question was, given the demand recovery that you are witnessing, can you talk about your sales mix in terms of whether your reliance on non-regular markets is reducing? If you could give a sense of where the share of your non-regular markets was, say last year to where it is today.

Rajendra Gogri: As the demand is recovering in our regular market quarter on quarter, our share of the non-regular market is decreasing. We will not have an absolute percentage here, but in general, as the regular market is improving, the non-regular market share is decreasing.

Vivek Rajamani: And the second question I had was, in the presentation, you have mentioned that you have seen an improvement in pricing trends. Would it be possible to give a sense of how much pricing improvement you have seen relative to the first half of this year? And which segments are driving this pricing improvement?

Rajendra Gogri: Basically, as some of the products where the demand is reviving, we are also seeing potential for some increase in pricing. It will be across all the segments whether it is agro or on the discretionary side, but it becomes more of a product specific. But in general, we see that as demand recovers, some pricing improvements are also taking place.

Vivek Rajamani: Sir, just one clarification. Would it be possible to give any kind of percentage number, just for a sense in terms of this improvement?

Rajendra Gogri: It will be difficult to share on a percentage basis.

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

Rohit Nagraj: Congrats on a good set of numbers and it is heartening to see that the guidance remains intact for FY25. Sir, my first question again on the demand front. If you could just give us an understanding of which geographies the discretionary demand has been good and which geographies the non-discretionary demand has been good or languishing. Just to get a perspective how individual geographies are doing, domestic as well as the other, US or Europe or rest of the world.

Rajendra Gogri: Actually, in the geographies, the way our product mix is there and our end products, the products which we export, to say the US, Europe, or Japan, the finished products that they make, whether it's agrochemical or engineering polymers, they are exported worldwide. In that sense, even though consumption happens in a particular continent, the finished products are sold all over. But in general, the US is seeing a better recovery in volumes.

Rohit Nagraj: Any sense on the domestic market, ie., India for both the segments?

Rajendra Gogri: We have a lot of indirect exports also when we sell domestically. So purely the domestic market is very steady as such.

Rohit Nagraj: Sir, the second question is on the 2 contracts. Given that it's a 9-year contract and 4-year contract, how do we see the revenue? Will it be linear? And even from the EBITDA perspective, whether from the first year of operation, right from FY25, we will get the EBITDA of 20% and 50% respectively for both the contracts?

Rajendra Gogri: The second contract is very linear basically. So, it will be Rs. 1,500 crore coming in, from the calendar year 2024 itself. And whereas the first contract which was Rs. 3,000 crore over a 9-year period, we expect a ramp-up in FY24 and FY25, and FY26 should become a more of a normal year because we are expanding our plant which will be basically getting ready in the first half of FY25. Around Rs. 300 crore will come in FY25 for the first contract and then it should become Rs. 350 crore plus from FY26 onwards.

Rohit Nagraj: One last clarification from Chetan Bhai. In terms of the tax which has been negative for the first 9 months, how do we see it for FY24 and FY25, average tax rate?

Chetan Gandhi: In FY24, the tax would be negative. We got some of the assets which are getting commercialized and on account of that IT depreciation is higher than the book depreciation which is where the tax rates are going to be, I mean there is not going to be any tax liability except for the deferred tax asset that is accruing. Coming to FY25, I expect this to be in the range of around 15% to 17%.

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

Aditya Khetan: Sir, just a couple of questions. The first question is on the gross margins. This quarter we had witnessed that on a sequential basis, our top line has been robust. But despite this jump in revenue, the cost of raw materials has also gone up very high. This has led to compression in our gross margins. I believe it is the lowest of the last 8 quarters. When we look at the prices of benzene, toluene, phthalic anhydride, and aniline, on a sequential basis, there hasn't been any jump. So, what is the reason for this huge dip in margins?

Rajendra Gogri: Generally, we have been always told that gross margin or EBITDA margin is a number which is not a very appropriate number for comparing. As far as the raw material price, the benzene has seen an increase of about Rs. 10 from Rs. 70 to Rs. 80. But in general, this gross margin as a percentage will depend also on the product mix. As the product mix changes, the gross margin also will have some variability. The important thing for us always will be basically the gross profit, then the expenses, and the EBITDA on an absolute number-wise how it is moving. So, on an absolute basis, there was growth both in gross profit as well as on EBITDA.

Aditya Khetan: Sir, if the gross profit is increasing, that means the product mix is changing toward the lower side or toward the lower value chain?

Rajendra Gogri: It may not be that simple. Basically, the product mix where it is changing and how the raw material prices of those products are there, that will determine the gross profits. On gross margin we never even evaluate our business model. Basically, it is always gross profit per kg for a particular product. This is the major criteria for us.

Aditya Khetan: Sir, on the 2 large contracts which we have signed recently, my understanding is that these 2 projects will not add any revenue or EBITDA. It just increases the visibility over the longer term. Is this understanding correct, sir?

Rajendra Gogri: Yes, because this was already part of our existing CAPEX program and whatever we had guided. If you remember, in the first half, we had guided for FY25, Rs. 1,450 crore to Rs. 1,600 crore, but now we are guiding Rs. 1,450 crore to Rs. 1,700 crore because it shows a more stronger visibility with signing of the contract. So, in a way, you are right. It gives more solid visibility.

Aditya Khetan: Sir, my last question is, in our presentation, we have mentioned that we have started to see demand recovery in dyes, pigments, and polymers and the agrochemicals and pharma segments that continue to underperform. Any outlook on the agrochemical side? Because most of the agrochemical companies have reported very weak numbers for this quarter. It is also like you are supplying some of them. So, any outlook from them which are witnessing any change in outlook from the coming quarter that demand is improving or any sort of guidance?

Rajendra Gogri: Agrochemicals have become very-very molecule specific like in some products virtually we didn't see any impact at all and in some products, there was an impact and now it is on recovery and in some products a sudden impact has come because something which they buy annually in 3 months. Last year, they bought it in January to April. And when it comes to the January to April calendar year 2024, the demand goes down sharply. So, this agrochemical demand impact is becoming very molecule-specific. Some of them have no pain in the last year, because they are buying only for a few months in a year, it suddenly crops up. But in general, most of the agrochemical companies themselves have been saying that calendar year/FY 2024 or at least a couple of quarters for them as a basket will have an impact and some impact of that will be on us also.

Aditya Khetan: So, we will see this sector underperform, and can this have a bearing impact on our margins so it can remain in the similar range for a longer period of time?

Rajendra Gogri: Because we have a wide range of end-use, a part of softness in agro is covered in our guidance also.

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

Abhijit Akella: The 2 new contracts we have announced, would it be possible to just help us with the revenues we are making from those in FY24? Just so that we know how much is incremental coming in from next year onwards.

Rajendra Gogri: The second contract which was about Rs. 1,500 crore, the revenue in this FY23 will be more around Rs. 900 crore or something on a financial year basis. Calendar year, it was doubling. But financial year basis FY24 to FY25, it will be kind of a jump from around Rs. 900 crore to Rs. 1,500 crore. And the first contract, the FY24 sales will be below Rs. 200 crore – the first contract for Rs. 3,000 crore over a 9-year period.

Abhijit Akella: And you said that the agrochemical contract will ramp up gradually, right? If you could please just share that number again. How much should we expect in FY25 and then FY26?

Rajendra Gogri: In FY25, near Rs. 300 crore, then in FY26 onwards, it will be Rs. 350 crore at the full ramp-up phase.

Abhijit Akella: This EBITDA guidance that we have now, Rs. 1,450 crore to Rs. 1,700 crore for next year, how much has already been tied up after all this based on the contracts we have in hand and how much is still left to be tied up over the remainder of the year?

Rajendra Gogri: Overall if you see, our contractual business with these 2 contracts will be more about maybe 30% to 40% and the rest will be like semi contractual where the customers have been buying for years and there is a good visibility in general for those also. Some of them are buying on a quarter-on-quarter basis, quarterly pricing and all that. We are in touch with those also and the kind of visibility on volumes, the range what we are getting from them, that will be helping us in looking at what the kind of volumes we will see in FY25.

Abhijit Akella: Just 2 last things from me. One is for the Ethylation and Nitrotoluene capacities that are coming up, would the primary end-use industry be agrochemicals itself or does it go into other end-users as well?

Rajendra Gogri: Ethylation is basically agrochemical driven mostly. Whereas Nitrotoluene, a part of that will go into this Ethylation and other components in Nitrotoluene is para-Nitrotoluene which has a wider end-use profile.

Abhijit Akella: The final thing is on the chlorotoluene project. Any sense of the timeline for commissioning? Following which, how long will it take to get customer approvals, especially depending on how much we are targeting to sell in the export markets, and therefore, how much revenue can we expect from Chlorotoluenes in FY26 once the capacity is ramped up?

Rajendra Gogri: The commissioning will happen in FY26. That will be the commissioning year. A lot of this product will be importing substitutes within India. And also, for export, they are not very near to the end where we will take a lot of time for qualification. Overall, on a product mix basis, there is not much delay on qualification. So, FY26, because it being a commissioning year, will be difficult to really quantify, but FY27 onwards, we will see a sizable EBITDA coming from this chlorotoluene range.

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

Rohan Gupta: Sir, the first question is on the clarification on our contract 2. You mentioned that definitely we don't need to incur further CAPEX, and the revenue we can extract is roughly Rs. 1,500 crore. So, that should directly add to the bottom line with the incremental EBITDA. The question is, that 15% kind of margin we are guiding in this product, with your EBITDA guidance of roughly even at the higher end of Rs. 1,700 crore for full-year FY25, sir, if you just do some back of the envelope calculations, on X of this product, we are looking at an EBITDA margin of close to 20%, significant improvement from the current year. Is that something we are looking for that kind of margins in FY25 to achieve the guidance which we are talking about at the higher end of Rs. 1,700 crore?

Rajendra Gogri: Yes, that's what we have been highlighting for a year or so because the operating leverage will kick in and conversion of gross profit to EBITDA will be high and that with the constant raw material prices, our EBITDA as a percentage also progressively should go up. So, it will move towards 18% to 20% range when we hit Rs. 1,700 crore.

Rohan Gupta: So, you are assuming that even with the constant price of raw material, we can hit 19% to 20% kind of EBITDA margins. However, in the current quarter itself, your EBITDA margins were quite muted at 15%.

Rajendra Gogri: Yes, whatever the gross profit which we expect to be added next year is going to be virtually translating into EBITDA.

Rohan Gupta: Sir, the second question is on some volume clarification. We have seen a strong sequential recovery in the current quarter. However, the volume number which you share, except that probably in hydrogenation, NCB and Nitrotoluene volume doesn't seem to show any such sharp improvement on a sequential basis QoQ. So, is it that the sequential growth is more driven by the pricing scenario?

Rajendra Gogri: We have got a lot from other specialty products also. The volumes have been growing in other products which are more of a value added kind.

Rohan Gupta: Sir, just one more question. Once again coming back on the contract 2, particularly the reason for compromising on margins at EBITDA at 15% to 17% when we converted this contract into long term, is there any pressure from the customers to get in these kind of margins and compromise on the profitability to have the continuous supply or was it our decision only that we wanted to have some long-term visibility and that's why we have compromised on margins?

Rajendra Gogri: No, there is no compromise on margins. I think there is some confusion on that.

Rohan Gupta: Sir, 15% to 17% versus the rest of the business you are looking at 19% to 20%. It means that on this product, we are making a lower margin than the other part of the business or other products.

Rajendra Gogri: When we moved to Rs. 1,700 crore at that time, and as a composite, it will hit that. Basically, if you are hitting around say Rs. 9,000 crore turnover, you will be hitting 18% to 20% EBITDA margins.

Rohan Gupta: But, sir, I am sure that 15% to 17% is not the range on which we want to do the business, right? We have always been highlighting that your long-term margins will be 20% upwards. So, definitely on this such a large product of Rs. 1,500 crore contributing roughly 15% to 18% of our revenues, we have compromised on the margins, isn't it?

Rajendra Gogri: No, this margin can become 22% also and can become 12% also if the raw material prices increase. The margin emphasis is not in our criteria in general. It is basically per kg of current raw material levels; these are the numbers basically we have. If the raw material goes down, this will show 20% plus, the same product.

Rohan Gupta: Sir, with Rs. 1,500 crore turnover, the asset which we will be using for this plant, if you could provide a very ballpark number so we can get some asset turnover idea on this product?

Rajendra Gogri: Those numbers will not be immediately available.

Moderator: The next question is from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.

Chetan Thacker: Sir, just one question is on how do you see debt playing out over the next year in terms of where do you see gross debt ending at the end of FY25?

Chetan Gandhi: Assuming that the raw material prices remain at the current levels, I believe the FY25 debt to be in the range of Rs. 3,500 crore to Rs. 3,700 crore or Rs. 3,800 crore.

Chetan Thacker: So, you are expecting some relief from working capital there?

Chetan Gandhi: That should be happening, but let's wait and see what happens on the raw metal prices.

Chetan Thacker: Sir, just to get the CAPEX guidance right, FY25, we are talking about Rs. 2,500 crore to Rs. 3,000 crore?

Chetan Gandhi: No, it is for '24 and '25, two years put together. This year, we will be somewhere between Rs. 1,200 crore to Rs. 1,300 crore and the balance of that will be for FY25.

Moderator: The next question is from the line of Priyank Chheda from Vallum Capital Advisors. Please go ahead.

Priyank Chheda: Sir, my question is on assets. What is the asset turnover at the current prices for the chlorotoluene project that you are putting and the total capacity of 42,000 is equally divided among nitro and para-toluene or are there any other products within the chlorotoluene basket that we are going to manufacture?

Rajendra Gogri: The 40,000 is a base chemical, ortho and para-chlorotoluene. Overall as a chlorotoluene combine, around 1.2x will be the asset turn for chlorotoluene range of products.

Priyank Chheda: How much of that would be getting imported within the value-added products that you are making and since it's an import substitution, what would be the size that is getting imported in India, which we are looking to replace.

Rajendra Gogri: The import of those products is around Rs. 1,500 crore range,which is taking place in India.

Priyank Chheda: You mean that Rs. 1,500 crore worth of base Chlorotoluenes are getting imported?

Rajendra Gogri: Not chlorotoluene base, the entire value-added products. There are a lot of intermediates for statins and there are a lot of other products.

Priyank Chheda: And what would be the ASP? Would it be around Rs. 250 per kilo?

Rajendra Gogri: No, it would be difficult to get that number.

Priyank Chheda: What would be the realization that we would be looking towards the whole basket?

Rajendra Gogri: No, specific overall per kg we have not done any on a weighted basis any specific number.

Priyank Chheda: And it's Rs. 1,500 crore of CAPEX that we are dedicating towards this 42,000 tonnes?

Rajendra Gogri: The entire range, yes.

Moderator: The next question is from the line of Surya Narayan Patra from PhillipCapital. Please go ahead.

Surya Narayan Patra: The first question is on the sequential improvement on the revenues that we have seen and simultaneously the kind of sequential pressure that we have witnessed on the gross margin front. Is it fair to believe or is it indicating that the pricing pressure scenario is very active at this juncture and that's why even though we would have seen some kind of volume growth sequentially consistently over the last couple of quarters, but the pricing pressure is playing a role and that's why the kind of impact on the gross margin front that we have seen?

Rajendra Gogri: No, I already answered this in an earlier question. The gross margin will also depend on the product mix in the overall sales and the raw material prices – like benzene had increased from Rs. 70 to Rs. 80 in this quarter. Overall, we are not seeing any significant increase in pricing pressure.

Surya Narayan Patra: Generally, there is a kind of understanding that whether it would be China-related oversupply situation or it is a subdued demand situation which ultimately has created a kind of suppressed pricing situation and is expected to remain so for relatively in the short term to medium term kind of period. Do you believe so?

Rajendra Gogri: Yes, as the overall demand improvement takes place globally, I think this pricing pressure should ease out. I think as the specific product-to-product demand starts recovering, then we expect the pricing also and margin improvement also taking place.

Surya Narayan Patra: Simultaneously, sir, it's just an extended view on this only. This quarter we have seen sequential as well as YoY, the export growth is really robust and if I relate that with the margin performance the gross margin even in the export market, the pricing is really soft.

Rajendra Gogri: No, It will be the same answer. It's a product to product. So, margin as a percentage will not be a good indicator for linking the overall or to any specific market.

Surya Narayan Patra: Sir, just one number clarity. The PDA volume number, whether you have said, sir?

Rajendra Gogri: We will just take out the number.

Surya Narayan Patra: In the meanwhile, I will just ask a couple more things. Sir, this freight cost scenario which we have discussed because of the Red Sea situation, is it delaying and is it creating a kind of extended working capital situation also along with kind of cost inflation? Is it impacting us in any manner either in terms of gross margins or cost or in terms of revenue realization?

Rashesh Gogri: Yes, the Red Sea scenario is creating some issue with the supplies to Europe and the US. The pricing of the containers has definitely moved up, and we will have a quarter lag or in some cases a month lag to push these prices up with the customers. But I think customers are considerate and they understand the situation. They have cooperated with us. But one thing that you asked about, the overall shipping time is definitely increasing, and it will have some impact. But in our overall revenue mix, 30% would be what is going to these markets; 25% to 30% of the export. So, it may not have much impact on the working capital as such. And generally, the credits are from the BL date. So, anyway, we will get the BL date in time. So, yes, it may not have as much impact.

Surya Narayan Patra: And just one more question on the first contract, this 4-year contract. Sir, you have indicated that in the FY23, it was Rs. 750 crore kind of supply that we have been doing and potentially reach Rs. 900 odd crore. Is it fair to believe, sir, this is the largest customer in terms of concentration?

Rajendra Gogri: Yes, it will become the largest customer.

Surya Narayan Patra: Is it related to any downstream of MMA or something like that?

Rajendra Gogri: That we will not be able to specify as of now. You wanted the PDA volume, right? The Q3 PDA volume was 481 tonnes per month.

Surya Narayan Patra: Lastly, on this first contract, although you have been advocating that the margin is not a criteria, but my view is that the current situation would be such where possibly our margin is somewhere in the range of 15% to 17% for the company as a whole, but if situation improves and subsequently the pricing scenario improves and costing situation kind of stabilizes, then generally the margin profile of the business as a whole for the company itself is likely to see an improvement. So, is it not fair to believe that the same situation that we will see even for this contract?

Rajendra Gogri: Basically, this contract we have already structured, so that kind of gets fixed. But, in general, I think if the pricing improves, the gross margin as well as the EBITDA margin both will have a positive impact.

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

Archit Joshi: Sir, I was just going through the volume numbers that you have shared for this quarter and for the last, maybe, 8 to 12 quarters. Especially in NCB, I can see that, if I have got the numbers right, our volumes have ranged between close to 18,000 tonnes to 19,000 tonnes in a ballpark range for a meaningfully higher amount of time, even after adding the chlorination complex of late. Does that mean that our base business, which is predominantly the Chlorobenzene and the NCB chain, has been grossly underutilized till now and does that also mean that the base business has a far better potential to grow even beyond FY25 or FY26?

Rajendra Gogri: We are increasing the capacity from 75,000 to 108,000. That is getting ramped up. Currently, we are nearly 80,000, and some of the volume pressures are also coming on these products also. As the volume pressure eases and we are also going to add some more downstream products also in this range, we will see a better utilization coming in this. So, in a way, you are right that some of the volume growth will come in these products.

Archit Joshi: Sir, just delving into the same Nitrochlorobenzene capacity, I think a large part of our chlorination complex was also dedicated towards 2,5-DCP which was a dicamba intermediate, and now that it is not being used to the best of its capacity, would that mean that there will be divergence of this capacity towards the existing product portfolio that we have, which can potentially trigger growth, maybe in FY25 and FY26?

Rajendra Gogri: Dichlorobenzene portfolio, this dicamba related outlet was not a very huge outlet because it goes in a lot of other PPS polymers and air fresheners and some other products also. So, we should be able to utilize that. That should not be an issue as far as the dichlorobenzene itself is concerned.

Archit Joshi: Sir, would my assumption be right towards the Chlorobenzene and the Nitrochlorobenzene having more salience towards dyes & pigments as an application area which has not been doing well, as evident as it is in the last maybe 2 or 3 years, and which is the reason why our utilization and production numbers have been quite stagnated; and once we see a pickup on that front, we will see volume growth coming in from the base business as well?

Rajendra Gogri: Again, it's a mix , for Nitrochloro one of the big products is paracetamol which is a classical big pharma also. Nitrochloro has a less agro exposure, but has it in the pharmaceutical-paracetamol exposure rather than dyes and pigments. Same way in dichlorobenzene, we have discretionary segment products like air fresheners and polymers and then agro on diuron, propanil, or those kinds of products. It's a mix of dichlorobenzene. Most of these are base products. We will have an end-user profile in all the sectors, as say discretionary in someplace, it may be 30 or 40 and other places, it might be 50 or 60, but it will be always a spread of all the 3 Nitrochloro, Dichloro, Nitrotoluene. It is more widespread whereas chlorotoluene is more on agro and pharma with new products which will come in.

Archit Joshi: Nothing to do with dyes and pigments underperforming which has resulted in a lower volume, right? It's just a widespread effect?

Rajendra Gogri: That is there also, the dyes and pigments component also in Nitrochlorobenzene as well as in some small portions dichlorobenzene also. That impact obviously comes in.

Moderator: The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv. Please go ahead.

Sabyasachi Mukerji: Sir, my question is on the gross margin rather than the gross profit per kg that you mentioned, better to not look at the margins per se but the absolute gross profit number and the gross profit per kg. Now, if I look at the volume numbers that you have told us and do a small math that shows gross profit per kg, quarter on quarter sequentially, it has remained flat. Essentially what it boils down to is that our volumes have increased by 5% quarter on quarter from Q2 to Q3 while the absolute gross profit has also grown by 5%, which means the gross profit per kg has remained flat. Is my understanding correct, sir?

Rajendra Gogri: Yes, typically that's what we have been saying that gross profit per kg is a much better indicator and that tends to show more stability.

Sabyasachi Mukerji: A followup to this is that if I look at historical levels, our gross profit per kg whatever we are doing right now is almost 20% to 25% lower than what we used to do historically. Going ahead, should we see improvement in this number as well?

Rajendra Gogri: But per kg on a composite basis, I don't know from where the number is coming in because we have got so many products like sulfuric acid which is less than Rs. 5, some agro intermediates which are significantly high priced. .

Sabyasachi Mukerji: Sir, I am doing a basic math of what the volume numbers you have said across Nitrochlorobenzene, hydrogenation and dividing that metric ton number with the gross profit that we have done.

Rajendra Gogri: Yes, I understand that. But it's not that simplistic scenario because we have got a lot of value-added products. A lot of these Nitrochlorobenzene are captively consumed and Nitrotoluene are captivity consumed into value-added products. So, that simple math will not work to really gain any insights.

Sabyasachi Mukerji: Then, a better way to understand probably the realization is going up. My question is, basically, if I look at the revenue numbers, it has grown 19% quarter on quarter. But somehow the product mix is such that probably the gross profit has not grown at a similar pace. My question is that if going ahead, do we see improvement in the gross profit number as well so that it flows down to the EBITDA number, as the other OpEx remains very similar in the next year?

Rajendra Gogri: Yes, that's what I have been telling you. The absolute gross profit will increase and a substantial translation to EBITDA, which has been happening in these quarters and also will happen in FY25.

Sabyasachi Mukerji: Sir, last clarification here. Will the absolute gross profit increase because of volumes increasing or at kg level also it will improve? How do you look at it?

Rajendra Gogri: Both. We expect a substantial volume increase also in a lot of products and also as mentioned earlier in some of the questions, as the volume pressure eases, the pricing pressure also will ease. In some of the products, we are expecting that per kg also improvement will take place. This will be a mix of both. Somewhere where the Chinese issues and all those volume pressures which are hitting the margins, the gross profit per kg, we will see some improvement there also. But substantial improvement or growth for our absolute gross profit will be more driven by volumes.

Sabyasachi Mukerji: What kind of volume growth are we targeting for FY25 over FY24?

Rajendra Gogri: On a composite basis, around 20% to 25% range we can say.

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

Ankur Periwal: Congratulations for the sequential improvement here. My first question is on the volume side. I am looking more on a 9-monthly basis rather than this specific quarter. On a composite basis, what sort of growth we would have seen across the portfolio?

Rajendra Gogri: I do not understand the entire 9 months compared to what? Last year or future?

Ankur Periwal: I am not looking at Q3 versus last Q3. Let's say YTD this year, financial year 2024 nine months versus 9 months last year.

Rajendra Gogri: Overall, I think volume growth is there. But again, some of the products have grown and some of the products have seen some volume pressures.

Ankur Periwal: But on an overall basis?

Rajendra Gogri: On composite, there is a growth, I would say, on the volume.

Ankur Periwal: From a product mix perspective, any feedback or any traction that you can share on, let's say, Nitrotoluene as a product chain or other value-added products? Or the rebound is largely more on the lower-margin products what we are seeing?

Rajendra Gogri: Rebound, wherever there is an impact, those products will go on. Nitrotoluene has been slower in the last couple of quarters because that's more dominated on agro. That's where we have seen some pressure on the Nitrotoluene volume. It is all specific end-use-wise recovery on the volumes and corresponding margin will happen.

Ankur Periwal: I appreciate it because as you rightly mentioned, discretionary has seen some rebound versus agro and pharma has not. I was just curious whether the value-added portions over there have got some sales to do or it is the basic or the relatively lower margin products which have seen more sharper rebound within those end-user applications.

Rajendra Gogri: It will become the same. Where we are selling value added, then there the value-added impact will come because the people are not changing the products. If they are buying value-added products, then they continue to buy the value-added products. If they are buying base products, they continue to buy base products. When there is a slowdown, it impacts both.

Ankur Periwal: Secondly, from a new product approval or let's say new client addition or a geography addition, any comments there about what we would have seen this quarter or slightly even earlier quarters as well?

Rajendra Gogri: Overall, the new product additions are not that many in that sense. It is not like new geography or new customer addition in general. These are the existing customers and geographies. And a lot of new products which we are adding are also mainly for those customers in that sense.

Ankur Periwal: Sir, we do have the earlier portion of the long-term contracts there. Your comments, anything, whether they are also seeing a similar pressure that we saw in the other businesses or there the pressure is relatively better, and the revenue ramp up is better?

Rajendra Gogri: That 4-year contract you are asking?

Ankur Periwal: Yes.

Rajendra Gogri: That particular product end use, we are not seeing any such volume pressures.

Ankur Periwal: You did allude towards the discretionary growing and non-discretionary being slower. How will that mix be right now among the key, let's say end-user applications, if you can share?

Rajendra Gogri: It is more towards discretionary, currently around 60% and non-discretionary around 40%.

Ankur Periwal: And how will this number be, let's say last quarter or last year?

Rajendra Gogri: More towards 50:50.

Ankur Periwal: Lastly, you did mention that the CAPEX plan remains intact, Rs. 2,500 crore to Rs. 3,000 crore over the next 2-year window. And this year also, we are doing around Rs. 1,200 crore to Rs. 1,300 crore. How much of this will be revenue generating or there is some bit of backward integration? Because your comments are also there in terms of site development in Jhagadia. Just trying to see how much of this is going into backward integration or let's say infra development versus pure revenue generating one.

Rajendra Gogri: Jhagadia where you visited, there an entire new greenfield site is going to come up. And other sites of our major current Jhagadia site and Dahej site and all will be completing our expansion virtually in the calendar year 2024, most of the projects.

Ankur Periwal: If I got you right, the expansion across all the projects will be completed in CY24 itself?

Rajendra Gogri: In the calendar year 2024, all our existing sites – zone 1, 2, and 3 that we have been saying like Vapi, current Jhagadia site, Dahej and all, that we expect to be completed, and then from calendar year 2025 onwards or FY26 onwards, the commissioning will be mainly coming in that new Jhagadia site.

Ankur Periwal: Sir, last question, if I may. Given the 2 projects, and you mentioned we do not need to spend incremental capacity additions or CAPEX for these, how much more can the current existing capacity absorb? I am excluding the newer sites. Or let's say, in other terms, what is the current capacity utilization at the existing sites?

Rajendra Gogri: As we mentioned, around 20% to 25% volume growth next year we are expecting FY25. And then further , there will still be headroom for another 10% to 15% volume growth in this zone 1, 2, and 3 assets.

Moderator: The next question is from the line of Meet Vora from Emkay Global. Please go ahead.

Meet Vora: Sir, we have guided for Rs. 1,000 crore EBITDA for FY24. That means again we will see sequential improvement in EBITDA to the tune of around Rs. 280 crore to Rs. 300 crore in Q4. This will again be a result of the recovery in discretionary spends that we have been highlighting. So, my question was, do we further see improvement in Q1 and Q2 of FY25 as well in discretionary spends before we start seeing improvement in agro and pharma demand?

Rajendra Gogri: Yes, discretionary will further improve. And I think the agro also should start improving quarter on quarter. Even in FY25 also, progressively from Q4 of FY24, the Q1 of FY25 should be better, and then Q2 should be better than that.

Meet Vora: Secondly, on Chlorotoluenes, we have highlighted that we are seeing a Rs. 1,500 crore of import substitution opportunity. Can we just guide on our revenue target that at least we are targeting, and EBITDA margin expectations and total CAPEX spend on this chain?

Rajendra Gogri: This will be more value added, so EBITDA will be more towards 25% to 30% in that product range.

Meet Vora: Any rough target of revenue that we have decided internally, or we are targeting for CAPEX spend that you had?

Rajendra Gogri: About Rs. 2,000 crore plus, should be the revenue.

Meet Vora: So, we are also looking at export opportunities in this chain, broadly.

Rajendra Gogri: Yes.

Moderator: As there are no further questions, I will now hand the conference over to the management for closing comments.

Rajendra Gogri: Thank you everyone for taking the time out to join us on our Q3 FY24 Earnings Conference Call. Hope we have addressed your queries. If you have any further queries, 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.