February 6, 2024

Ref. No.: **AIL/SE/100/2023-24**

To,

**BSE Limited**
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400001, MH.

Scrip Code: **543534**

**National Stock Exchange of India Limited**
Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai-400051, MH.

Symbol: **AETHER**

Dear Madam / Sir,

**Subject: <u>Transcript of the Earning Conference Call</u>**

In accordance with Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, the Transcript of the Earning Conference Call scheduled on Wednesday, February 1, 2024, on the financial performance of the Company for the Third Quarter and Nine Months ended on December 31, 2023, is enclosed herewith.

We request you to kindly take the information on your records.

Thank you.

**For Aether Industries Limited**

AETHER INDUSTRIES LIMITED SURAT

**Chitrarth Rajan Parghi**
Company Secretary & Compliance Officer
Mem. No.: F12563

Encl.: As attached

CHITRARTH RAJAN PARGHI
Digitally signed by CHITRARTH RAJAN PARGHI
Date: 2024.02.06 10:07:36 +05'30'



**Aether Industries Limited**
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**Phone:** +91-261-6603000 || **Email:** info@aether.co.in || **Web:** www.aether.co.in II **CIN:** L24100GJ2013PLC073434
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“Aether Industries
Q3 FY2024 Earnings Conference Call”

February 01, 2024

**ANALYST:** **MR. NILESH GHUGE - HDFC SECURITIES LIMITED**

**MANAGEMENT:** **DR. AMAN DESAI – PROMOTER AND WHOLE TIME DIRECTOR – AETHER INDUSTRIES LIMITED**
**MR. ROHAN DESAI – PROMOTER AND WHOLE TIME DIRECTOR – AETHER INDUSTRIES LIMITED**
**MR. FAIZ NAGARIYA – CHIEF FINANCIAL OFFICER – AETHER INDUSTRIES LIMITED**
**MS. SHUBHANGI DESAI – EXECUTIVE IR – AETHER INDUSTRIES LIMITED**

**Moderator**: Ladies and gentlemen, good day, and welcome to the Aether Industries post results Conference Call hosted by HDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Nilesh Ghuge from HDFC Securities Limited. Thank you, and over to you, Sir!

**Nilesh Ghuge**: Thank you Sagar. Good afternoon all. On behalf of HDFC Securities, I welcome everyone to this Aether Industries Conference Call to discuss the results for the quarter ended December 2023. From Aether Industries, we have with us today Dr. Aman Desai - Promoter and Whole-Time Director; Mr. Rohan Desai - Promoter and Whole-Time Director; Mr. Faiz Nagariya – Chief Financial Officer and Ms. Shubhangi Desai - Executive IR. Without further ado, I will now hand over the floor to Ms. Shubhangi Desai to begin with the earning call for 3Q FY2024. Over to you, Shubhangi.

**Shubhangi Desai**: Thank you Nilesh. Good evening everyone. Today on February 01, 2024 our Board has approved the financial results for the third quarter ended on December 31, 2023 and we have released the same to the stock exchanges as well as updated the same on our website. Please note that this conference call is being recorded and a transcript of the same will be made available on the website of Aether Industries Limited and exchanges. Please also note that the audio of the conference call is the copyright material of Aether Industries Limited and cannot be copied, rebroadcasted, or attributed in press or media without specific and written consent of the company. Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements which are predictions, projections or other estimates about future events. These estimate reflect management's current expectations on future performance of the company. Please note that these estimates involves several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. Aether Industries Limited or its officials do not undertake any obligation to publicly update any forward-looking statements whether as a result of future events or otherwise, Mr. Rohan Desai will begin by sharing Aether's business outlook then Mr. Faiz Nagariya will cover the financial highlights for the period under review and Dr. Aman Desai will share the ongoing expansions and strategy of the company going forward. Now I shall hand over the call to Mr. Rohan Desai for his opening remarks. Over to you, Mr. Rohan.

**Rohan Desai**: Good evening everyone. Before I begin with the business performance, I would like to throw some light on the unfortunate event that affected us during this quarter. On November 29th 2023 a fire broke out in one of the plants of our manufacturing site two, which was brought under control. The reason for the accident at site two was 15,000 litres storage tank which leaked from the bottom value, stored solvent started flowing, which had the flashpoint of minus 17 degree centigrade led to a vapor cloud formation. There was a moment of the vapor cloud formation internally in the intermediate building plant two and nearby tanks in the same plant. Unknown ignition resulted to vapor cloud explosion with fire and impacted both plant and the tank farm areas, total 11 fatalities have been registered and 23 people were injured in the unfortunate accident who have now been discharged successfully. While the loss that we have incurred due to the fire is currently being assessed we want to assert that we are fully covered with the loss of asset, stock as well as loss of profit. The sales and the dispatch of material has remained unaffected as the orders were catered from our inventory as well as most of our customers have remained supportive towards us. Operations have resumed at our manufacturing unit two, that is site two. We have received GPCB that is Pollution Control Board partial closure revocation order for the unaffected plant and the plants have resumed normalcy with continued efforts to raise our operations to their maximum capacity. We strive to timely restart the affected plant in the highly compliant and safe manner. With respect to Aether's business model, we have seen 57% contribution of our total top line coming from large scale manufacturing business segment, 27% from contract / exclusive manufacturing as a result of renewal of the agrochemical contract that is agrochemical intermediate contract about which I had mentioned in my remarks in Q2 of FY2024 call and 14% which has coming from contract research and manufacturing services business model during the Q3 of financial year 2024. Our exports revenue stood at 40% and our domestic sales stood at 60%. Demand from our agrochemical customers is coming back on the backdrop of gradual reduction in the stocking positions at their end. We are currently seeing an increase in volume from our non agrochemical products where there is a demand from our customers. However, the intense dumping by the Chinese competition, we have witnessed price erosion. We are currently witnessing price of our products stabilizing at the current levels. Order pipeline is robust and all our customers are positive and looking forward to us coming back to normalcy in a short period of time. We are confident of showing a growing trend in the next financial year onwards. With that I would conclude and I would request our CFO Faiz Nagariya to touch upon the financial highlights for the period under review.

**Faiz Nagariya**: Thank you Rohan and good evening everybody. The total revenue of the company stood at Rs.1682 million in the Q3 of FY2024 as against Rs.1705 millions in Q3 of FY2023 resulting in EBITDA of Rs.378 million in Q3 of FY2024 as against Rs.507 million in Q3 of FY2023, a reduction of 26% in the comparing period. EBITDA margins stood at 22% in Q3 FY2024 as against 30% in Q3 of FY2023. The PAT amounted to Rs.191 million in Q3 FY2024 as against Rs.350 million in Q3 of FY2023 resulting in reduction of 46% in the comparing period. The PAT margin stood at 11% in Q3 FY2024 against 21% in Q3 FY2023. The main reason for the reduction in the revenue is attributed to the current fire accident wherein the production at our manufacturing facility 2 was stopped for a month. The reduced revenue and other exceptional expenses related to the fire accident like compensation to the families of the deceased, penalty to the GPCB, medical treatment expenses of the workers who are hospitalized and increased insurance premium of our IAR policy have resulted in the reduction in EBITDA margins eventually. One time cost is approximately Rs.70 million for the quarter. We would be having the impact of approximately Rs.30 million on account of increase in insurance claim due to the fire accident in this financial year 2024. Due to the fire accident at manufacturing facility two new production could not be done in the entire December 2023. Now I would request Dr. Aman Desai to share updates on Aether's ongoing expansion plan consecutively going forward.

**Aman Desai**: Thank you Faiz for the financial highlights. The well-being of our employees is of foremost importance to us and I do want to start with expressing my most sincere condolences, solidarity and gratitude towards the employees and the victims of our recent fire accident. We have taken significant actions to ensure the best treatment to the victims and we have extended lifelong support to the families of the injured and the deceased. Also, we have been extending complete and transparent cooperation with all the regulatory bodies. We have comprehensively undertaken the legal investigation and root cause analysis of the incident and the accident and identified numerous immediate and ongoing corrective and preventive actions which will help us to ensure that such an accident will never, ever happen again at Aether. Despite the various headwinds, the planning and execution of the project work of our Greenfield capex at the manufacturing site 3+ and 3++ is ramping up with the beginning of civil work, machinery and equipment being procured along with all the regulatory approvals in place. These sites 3+ and 3++ are expected to commence operations in Q3 or Q4 of fiscal year 2025 as per plan. Capex on our upcoming site 4 which is also on the verge of completion is expected to be commissioned by February 2024 next month. This site 4 will be initially dedicated entirely to contract / exclusive manufacturing and the initial construction and plant erection is going to align with our strategic agreement recently previously announced with the leading oil - field services company in the US.

As we had guided earlier as well, further structural expansion on Site 4 will be towards the recently announced commercialization agreement with Saudi Aramco Technologies Company on the novel Converge Polyol platform in the near future. Capex plaining towards site 5 at Panoli is at full pace as well, with the vision of massive industrial estate with more than 16 production blocks, each production block being ground plus four structures with more than 500 reactors combined. As we have guided, the site 5 will incorporate global best practices towards safety, sustainability, carbon neutrality and renewable energy based resources. During the quarter under review, we have announced the execution of a strategic agreement with a major global lithium-ion battery producer thereby announcing our entry in the electrolyte additives and battery space. We have been developing products in this field since a long time now, but we had decided to make it public only once we secured a substantial commercial contract with the global major and this agreement captures that. Thereby along with this the commercialization of the sustainable converge polyols and multiple ongoing projects as well as research at Aether I can ascertain that we have established Aether as a premier India based provider of sustainable and carbon nuclear chemistry solutions across the industry spectrum. We continue to make significant investments towards R&D. Our R&D expenses for the nine months of fiscal year 2024 stood at Rs.509 million which is 10% of the total revenues for the nine month fiscal year 2024. The spread of the R&D team at the same period stood at 277. Our major expansion project of the new pilot plant at the land which is procured on long lease is in full fledge nearing completion with the installation of machineries and the final piping and commissioning going on. Needless to say, such aggressive expansion of our Indian pilot plant footprint which are the workhorses of our CRAMS business model as always firmly on the backing of numerous inquiries and additional tie ups with topical learns of global innovators across the industry spectrum and various contracts are in the pipeline for being executed. With that thank you very much for your attention and time today and back to you Shubhangi.

**Shubhangi Desai**: Thank you Dr. Aman. We shall now request the moderator to open the forum for question and answer.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

**Rohit Nagraj**: Thanks for the opportunity. So my first question is what have been the immediate actions that we have taken after the unfortunate event and any customer audits have happened after the event and what has been the general feedback from our customers? Thank you.

**Aman Desai:** So we have a comprehensive corrective and preventive action plan that has been identified which includes significant changes in the already strong preventive maintenance programme. It is a solvent leakage which is the root cause, leak detection was already in place at the various sections of the plant including inside the plant as well as the main tank, but unfortunately not at this particular position and so we have now improved our comprehensive leak detection policy and programme in place. We have changed several codes that we are working by. We were quite proud of the safety systems that we had established at Aether and this accident has shown that there is a clear gap and failure in the safety systems because accidents will happen but the safety system should prevent loss of life and this has not happened in the accident, so this has clearly showed a gap in the system that existed and so we are doing a thorough review. We have initiated a full-scale hazardous operations review of all operations across all sites and operations were restarted in every single site only after the completion of a thorough HAZOP review. You will see the announcements in the coming days to come, but we have also completed as well as initiated significant hierarchy changes in the technical departments and you will see this in the coming days and these are just a few of the numerous plans that have been planned out. As I mentioned before this call in a different meeting that a very detailed investigation analysis presentation and preventive action plan presentation also ready and so this is a just a few of top things that have come of head to answer to your first part of question, second part is audit so the leading oil field services company that is currently in tie up exclusively with us for site four they have audited site two which is the affected site two in the recent weeks and which has been partially open site two the non-affected blocks. So they have reaudited this site two successfully finished, all the compliance from the audit is successfully finished as of today as well and this was a quite a major audit that has happened. We have presented detailed investigation reports to almost all of our key customers in all the business models and these are presentations that go on for more than two hours on the very topic of the accident. All customers have showcased solidarity and support. Everybody wants to know what happened and why it happened and what we are doing to ensure this never happens again and I think we have been successful in addressing that concern quite well with the very detailed work and presentation and corrective implementation plan that we have laid out. In terms of the orders, orders have flowed in as per the regularly expected cadence. We have not seen drop of the orders and I think the commentary that Rohan addressed to a bit. So I think that addresses all your questions Rohit. Thanks.

**Rohit Nagraj**: Thanks for answering that comprehensive question with detailed answers. Second question on the EV battery related contract front. So how does it complement our chemistry skills? You said that we have been working for a while on this and is there any possibility of supplies of similar material to Indian manufacturers whenever their capacities come up and just a little bit more in terms of when the commercial supplies will be expected that overall potential from this particular product whether it is a single product or multiple product and particular application in the battery. Thank you.

**Aman Desai:** Thanks Rohit. Whenever anybody asks me about competencies is music to my ears and so I can pick up the next one hour talking about the competencies and the fit in the products that we have, so the electrolyte additives field is a very large field. Battery field is a very large field and there are many, many, many components that go into a battery. There are many components. There are more than 12 components that go into an electrolyte formulation and there are about 67 additives that are used commonly and not as commonly in that there are many salts that are also present. So we have been very clear in our approach, in all the molecules we have chosen, there has to be a competency fit and so the molecules that we have chosen are small organic molecules. They are electrolyte additives which have a good fit to our competencies some of which include ethylene oxide chemistry, the KF, the fluorination chemistry that we want to get into and of course continuous reaction technology is being applied in all every one of the electrolyte adhesive that we are doing, so yes we have been very selective and we have only a few of the electrolyte relatives which are small organic molecules and showcase could fit to our competencies whether and there are multiple, we have selected a few of them, they are small organic molecules. So we have been clear we will not go after salts, we will not go after the inorganic chemicals because they are not good competence that is number one. Number two Indian manufacturers, of course, yes, this is not an exclusive tie up, but this is a very broad field with a very, very, very promising future and aggressive market predictions of where these volumes and tonnages of these various molecules will end up. There are several big Indian players who already announced their plans. There are several global players who announced the plans in the US, Korea and rest assured we are reaching out and already talking with many of these global players as well as domestic Indian players. In terms of commercial supply and the initiation of the commercial supply of these molecules we expect initial commercial volumes and supplies to start off within this calendar year 2024 with significant volumes and production and commercial manufacturing starting in calendar year 2025. But we expect the initial commercialization trial orders, validation orders and it is not a trivial quantity to be done in 2024 itself.

**Rohit Nagraj**: Thanks a lot for answering the question. Thank you.

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

**Sanjesh Jain**: Good afternoon, Sir. First I will ask the bookkeeping question probably then go on more broader questions. This quarter our gross profit margin is at 41% was there any loss of material also which has led to a drop in the margin in this quarter that is number one. Number two on the bookkeeping is that there has been a restatement in the cost line item for the last quarter both employee costs and other expenses, can you explain what has led to the restatement of the historical number which is the Q1 number. These are two bookkeeping question and then probably I will take the rest of it.

**Faiz Nagariya:** So I will take the second question first. The regrouping what happened is in the last quarter the director's remuneration was erroneously shown in the employee cost and so we had to change it to the other expenses. That is the thing which we had done. So we have brought it down with other expenses and make it more compatible with the other quarters. For the first question, we have still not provided for any loss of stock because the assessment of loss is still going on. If you see the financials, you can see the changes in inventories has dropped significantly because as in the commentary also Rohan said that we have sold the goods from our finished goods inventories and there was no production in the site 2 which was contributing around 65% to our revenues and production also was taking place more there so the changes in inventory has gone down which has resulted into the gross margin going down. Going forward as the production increases, we will have the finished goods and semi finished goods inventories coming back this will again be back to square.

**Sanjesh Jain**: Now I got it that is why the other expense is also down because it is largely captured before the finished goods. Right Sir.

**Faiz Nagariya:** Yes.

**Sanjesh Jain**: Got it and that is very clear now. Rohan, on the competitive intensity you did touch upon in your opening remarks that there is an increased competitive intensity from the Chinese can you allude more? How is the competitive intensity in the product that we manufacture? Have we faced any rising competitive intensity from Chinese particularly in our pharma side of our business?

**Rohan Desai**: On majority of our products, we are the only source in India. Most of the competition comes out of China, 80% is coming out of China, 10% from Japan and 10% from Europe.

We are not seeing any increase sources coming from China or being added from China at this moment. However, because of the currency devaluation and the government incentives and the export benefits which the Chinese competition is getting, they had become more approximately 20-30% from the start of the correction and that is what we are facing right now. So we are at the bottom out position at the moment. I do not see a further decline happening on the prices of our products.

**Sanjesh Jain**: Got it. Second, on the agrochemical side of the business, this quarter we saw a sharp decline. This was more like pushing the inventory from the Q4 and hence the recovery for next quarter will be higher or we generally had a lower inventory so lower sales in agrochemical.

**Rohan Desai:** There are two parts of it. One was stock correction price. So you are comparing Q3 to Q3 or you are comparing Q2 to Q3.

**Sanjesh Jain**: Last year Q3 to this year Q3.

**Rohan Desai:** That is because of the price correction. We are manufacturing three intermediates out of which two intermediates have seen a drastic price correction because of the Chinese competition entering into that space and hence the volume are robust on that basis, but the prices have been corrected significantly.

**Sanjesh Jain**: Okay so the drop in the revenue is largely because of pricing. We held the volume share right.

**Rohan Desai:** Yes, volume share we have. We have not changed in that position. The change significantly is because of the price correction.

**Sanjesh Jain**: Got it. One last question from my side before I join back in the queue. We were in the process of commercializing site 3+, site 4 and site 5 we are now planning. So what is the capacity we anticipate to add from all these three sites when they are fully commissioned, say three years down the line?

**Rohan Desai:** Say four, five years down the line there could be tremendous capacity. We are talking about thousands of tonnes of capacity.

**Sanjesh Jain**: Just from the gross block perspective, if you can help us understand what is the gross block for each of these three sites?

**Aman Desai:** We share the excitement, depending on the product that you choose. For example if its electrolyte additive pans out the way the people all over the world claim it would pan out we are talking individual electrolyte additive would be literally thousands of tonnes of requirements. So if you could go on the converge polyols and pan out the way we think it would also be a very significant volume and tonnage. And so it depends on the products, it depends on the number of steps within the product and it depends upon the complexity of the product. In terms of the gross block I think Faiz can answer that.

**Faiz Nagariya**: So the gross block for site 3++ would be around 200 Crores. Currently site five first phase which we are doing the gross block would be around 75 to 85 Crores and site five the first phase is around 500 Crores and fully operational after five to six years down the line it should be around 2200 Crores approximately on Panoli site.

**Sanjesh Jain**: Fair enough. That is quite clear and thanks for answering all my questions and best of luck for the coming quarters.

**Moderator:** Thank you. The next question is from the line of Prolin who is an individual investor. Please go ahead.

**Prolin**: Hi team. Thank you for taking my question and sincere solidarity on the loss of life and people at your company. I have two questions. The first one is that in contract manufacturing in the past you have alluded to the fact that the margins in those businesses or in that segment is similar to our large scale manufacturing. So I just wanted to understand from the working capital side of it how is the working capital in the contract manufacturing business different from our large scale manufacturing? And a related question would be will this margin profile be any different in case we are able to get a pharma contract there right because right now if I am not wrong we do not have a pharma contract under the contract manufacturing. So will the margin profile be different and just to understand how should one look at the working capital intensity of contract manufacturing business?

**Rohan Desai:** So let me just differentiate in a way where we are saying that we are only making generic intermediate right now. We are not making a patentable product intermediate at this moment in contract / exclusive manufacturing. When we do enter into that which we will be there in short period of time the margins will improve drastically on contract / exclusive manufacturing. However at this moment contract / exclusive manufacturing and our large scale manufacturing margins are almost in the similar line and only differentiated by 100 basis points.

**Prolin:** Sure on the working capital side of it?

**Faiz Nagariya:** The working capital cycle for the contract manufacturing is currently similar because these products are generic products and we are supplying to current customers and we are billing on the same credit terms which are there to the customers so the payment is similar for them and as we do move ahead and have more specific or better products in these things, we will be able to use the cycle in this contract manufacturing.

**Prolin:** Okay so what I understand it correctly both margins and working capital cycle will improve as we move from generic to slightly more specialized intermediary, is that a fair summarization of the answer?

**Faiz Nagariya:** Yes.

**Prolin:** Okay thank you for that? The second question would be on this polyol contract, right? Can you help us understand where does this contract lie in your 8 by 8 matrix, right, in terms of chemistry and technology and now that we have been successful in getting that contract how will it benefit in terms of expanding our 8 by 8 matrix or fortifying or strengthening some of the components of our 8 by 8 matrix if you can talk about competencies, especially for this polyol contract, that would be very helpful?

**Aman Desai:** Yes, great question again so originally the project started off with Saudi Aramco Technology company some years ago on proving a key piece of operation in the overall process to make this converge polyols and that was based upon continuous reaction technology which is number one in the 8 by 8 matrix on the technology side of our competency and so continuous reaction technology is featured in the manufacturing of the converge polyols and in the chemistry side it is catalysis and high pressure chemistry and these are the originals which are still present in the manufacturing of polyol and we have a very good client existing and very good matrix that we build 10 years ago. What I will add to in terms of additional competencies in the future will be a solid comprehensive understanding and expertise in the manufacturing of polyols, so that gives us entry into the field of polymers which is very exciting if you think about all the potential that exists in the specialty polymers world, it is very exciting and this kind of gives us a hand holding segue into understanding this world and getting experience in the manufacturing of polymers and so polymerization will be a new competency that we can add as a result of these polyols.

**Prolin:** Great. Just one last question if I may? Can you give us some revenue visibility of this contract because in the press release which we had released back in June of 2023, we had mentioned that each product has a potential of around 1300 odd metric tonnes per month so what should be the starting revenue and when should it start hitting and what could be the peak revenues from this contract?

**Aman Desai:** So there was some confusion there. I think there is 1300 tonnes per month that we mentioned was the LOI done with the oil fields services company and that is a different contract and agreement and announcement as compared to the one with Saudi Aramco Technologies Company. I do not believe we have publicly speculated on the tonnage for the Saudi Aramco Technologies Company converge polyols platform and so there are two different things. So to address the visibility on the revenues, I am afraid that this is not a platform and we will not be able to provide any visibility towards the revenues or the tonnage in the future. Sorry.

**Prolin:** And not also on timeline in terms of when should this revenue start hitting us in terms of P&L?

**Aman Desai:** So if you think about, the oil field services 1300 tonnes per month that you mentioned, we fully expect full and almost full contribution of that in the FY2025, i.e., the quarter starting from April 2024 in three months from now. We expect to be getting contributions from site four, which is being designed for the commercialization of the contract with the oil field services company which is the LOI mentioning the 1300 tonnes per month and so with that the visibility is for sure the next fiscal year, the next quarter and for the Saudi Aramco Technologies company, the commercialization has already started in this quarter. It is smaller. It is not significant more of the middle yet, but commercialization and manufacturing has already started and we hope it will pick up soon.

**Prolin:** Great. Thank you and all the best.

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

**Priyank Chheda:** Thanks for the opportunity. Sir my question is on the site three so if you can help me what is the utilization that we are running today? I reckon that we had spent around Rs.200 Crores and we had reached around 30% in the first half so what is the utilization over there? That is the question number one and follow up on that site three plus we did plan to start the commercialization so if you can help me by when is that project coming up?

**Rohan Desai:** So we are currently at 42% capacity utilization of site 3 and site 3+ and site 3++ both combined together, I mean the remaining part of the site will be commercialized by September 2024.

**Priyank Chheda:** By September 2024 and over there also?

**Rohan Desai:** September 2024 we will start commercialization and it will take three months to stabilize the plant.

**Priyank Chheda:** Got it and capacities is roughly around 3500 tonnes probably we have spent Rs.200 Crores and I correct?

**Rohan Desai:** Yes.

**Priyank Chheda:** Got it. Sir so the second question is on the site two, while we did have a very unfortunate incident? Can you help me which product got impacted in this site? I reckon that we had two products that we were manufacturing for Otsuka, Japan? Has that been shifted to some other sites on the site one or somewhere because that is not reflecting on the loss of sales? You have been maintaining the quarter on quarter trajectory of sales so has there been any loss of sales from site two which product were impacted and about the two products that we were manufacturing?

**Rohan Desai:** So I would not bifurcate the products over here because these transcripts are publicly available and our Chinese competition can get this information very easily. So I am sorry to not give you that information on the particular product but talking about Otsuka, there are two products which we were existingly manufacturing it in our large scale manufacturing platform and so we have joined and have association with Otsuka on the existing products which are manufactured in site two and as we had good amount of stock lying with us this was not affected and secondly, we have got a partial revocation of site two already, so this product which we are talking about, which is with regards to Otsuka, is already back online.

**Priyank Chheda:** Got it, so to the key take away is that there was no loss of sales per se from the site two, right? That is the key message that we should take it?

**Rohan Desai:** No, no, obviously there was a loss of sales because the two products were almost at very nominal stock level, so which we could not produce for approximately two months. That was a loss of sales which was there and second was that we were not producing for a period of the closure which we had received and hence we are selling out of the stock basically that material. So if you see the stock position you will see that our stock positions have reduced drastically and hence it is not impacting much on the top line. However, it has impacted on gross margins.

**Priyank Chheda:** No, I understand. So would it be possible to quantify what quantum of sales did we lose which would get recompensated because we have got a partial revocation in the current quarter the production should start and as and when the rectifications are done so anything that you would like to quantify on loss of sales for the two?

**Rohan Desai:** We have the internal targets, but we would not like to lead you at what were the projected sales of Q3. We had internal targets which we cannot lead you to it, but we lost considerable amount of sales, let me tell you that.

**Priyank Chheda:** Got it. If you can help me with the realization per kilo for Q3 or for nine months, it would be great?

**Rohan Desai:** 1514, that is 1514 is the Q3 average realization per kilo.

**Priyank Chheda:** And for nine months this translates into?

**Rohan Desai:** 1570.

**Priyank Chheda:** Got it. Just a last question on site four, where the oil field contract lies? The commencement of the construction has started in July 2023 by when would this get commissioned?

**Aman Desai:** We will start commissioning next month in February and so we are going quite aggressive on that site and we are going to start commissioning in February with the expectations of full contributions in the next fiscal year.

**Priyank Chheda:** And Sir just to verify the realizations for this product where at around $3 to $4 per kilo and that has remained stable right even in the right current market scenario?

**Aman Desai:** Yes. That has remained stable. The current market scenario is going to not affect this contract.

**Priyank Chheda:** Got it. Thank you.

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

**Siddharth Gadekar:** Sir I just wanted to understand that fundamentally anything has changed in the overall chemical or the specialty chemical business like where we were sitting in 2022 when we were evaluating projects and where we are today? Has anything changed or it is just the destocking?

**Aman Desai:** Nothing has changed. In the macro part of the world if you take a step back when we were in the midst of COVID, we thought the world would end but then if we took a step back and we realized that life goes on. So jokes apart, nothing has really changed if you step back and look at the global perspective. I have always maintained that this is a golden decade for the Indian Spec - Chem industry. I still believe this is a golden decade for the Indian Spec - Chem industry and will remain so but if you like go into the micro at this, in this current day and month, China is extremely aggressive in their pricing strategy. Destocking is happening and inventory levels look very high because of the COVID time closures and the inflation that took place subsequently and the stocking that happened all over the world as the result of which inventories build up even further that is currently being aggressively destocked by China and they are truly dumping in a very aggressive fashion. So that is current state of affairs. But if you take a step back and look at from a yearly perspective, I do not see any problems in all the tailwinds that were there. They should come back I believe in 2024 to an extent in 2025.

**Siddharth Gadekar:** So initially like if we were estimating ROC of 20% or 25% for the project even beyond the destocking we should get there? That is a fair understanding or they could it could end up somewhere lower now in this cycle?

**Faiz Nagariya:** Currently for the ROC levels in the mode where we are doing lots of capex which is coming up and things happening.

**Siddharth Gadekar:** I am asking on a project basis like when you are evaluating a project on a certain ROC and even beyond the destocking, should we get to that those levels or might be lower than what we were thinking?

**Faiz Nagariya:** We should get to those levels.

**Siddharth Gadekar:** Sir secondly in terms of China, we are hearing that even now China has been aggressively investing in the downstream and in the specialty or complex products? How true is that and how should we look at them as a competition even in the complex chemistries and products?

**Rohan Desai:** They are formidable force and they are the best in what they do in the spec - chem space or the commodity space or the API or AI space. So we should not discount China in any way possible and we should consider this threat very seriously and take proper care that when we select the product which falls into core competency, we should do our techno commercial studies very, very properly and seriously and that is what we do.

**Siddharth Gadekar:** So in our product basket, if we want to understand like across the products that we are manufacturing, is it fair to assume that we would be one of the lowest cost producers in the world that is why we are competitive even at these prices?

**Rohan Desai:** We might be lowest cost producers in the world, but in most of the products, we are the only manufacturer of this particular product in India and that gives us a good advantage as compared to our competition in China where you have a source which is reliable. Indian source which is reliable, auditable and holds up to the values of the business basically.

**Siddharth Gadekar:** Okay Sir got it. So basically I think the key take away that beyond the destocking maybe like one to two quarters down the line, we should see some gradual normalization and CY2025 is where we should be back to the normal levels is that a fair assumption?

**Rohan Desai:** Yes.

**Siddharth Gadekar:** Okay Sir. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

**Rohit Ohri:** One or two questions, which is related to Novoloop and the circular plastics? If you can take us through what is the role that Aether will play over here and what sort of an arrangement is done over there?

**Aman Desai:** Thanks for that. It is a very interesting project that we have started in exclusive relationship with Novoloop, California. They have a very interesting and novel technology of degrading polymers waste into the crude basic monomers and then upcycling and useful polymers and this kind of a circular economy, but even an upcycling economy. So the current arrangement is that if there is, we have a process in place which is basic and elementary and in their labs and if there is the exclusive partner with which they are validating the process. One is scaling up the process. Two is in the pilot plant is the current phase and the current press release was about and three then in the future potentially partnering towards further scaling up and commercialization as well and the partnership is sound. We are aligned on the interests and the competencies and it was a very interesting field but again a new field for Aether. It is adding significantly to the basket of sustainable processes and products and areas of rejecting into diversifying away from the AG and the Pharma core of our business, which is a strong focus for ourselves and so it is that way, it is very interesting. So the current press release was more on the side of Novoloop and so we kind of made the best release that backing up on that. But they were in fact they were presenting in the World Economic Forum in Davos this particular case study and their technology and they wanted to give press release before that and so we kind of helped them out in that and it is very interesting when this will end up, but potentially go all the way towards commercialization.

**Rohit Ohri:** This pilot plant is at which site from Aether's end?

**Aman Desai:** Site one, the new pilot plant that we are building. We are building an entire state-of-the-art fully automated manufacturing skill. Again going back to the various questions on this call, core competencies and so it is continuous reaction technology and polymerization which is very, very, very unique and very interesting technology that they have kind of innovated on and we are going to bring to commercial realization.

**Rohit Ohri:** Dr. Aman if you can just take us through that, what sort of revenue potential do you see or what sort of investments do you feel because it is a promising business and promising chemistry going forward? What sort of competition is there or something on the market size or the margins profile, if you all can share that?

**Aman Desai:** The market size, you could imagine the PET waste that happens in the world is hundreds of thousands of tonnes and there are select few companies. In fact we are working with a, I cannot name them. We are working with some other company as well in the US based on very similar field of upcycling and circular economy of polymers and so it is newly developing field and we are firmly in partnership with the front runners of this field and the market potential is tremendous. Every single plastic that you touch currently is going to waste and you throw in plastic polymers in the recycle bin at the airport but actually it is actually only about 10% to 15% of that what is thrown into the recycle bin is actually recycled or upcycled. The rest of it is actually goes to waste and so I am just looking at some Google number here and upper Google search which shows plastic waste management market in the world and it is claiming to be $35 billion in 2021 and so $45 billion in 2029 and so that it is too early to say anything but it is a very interesting field. We are working with all the major players right now Novoloop is one of them that we have publically announced and I think we are going to focus on this as well in the coming future and the potential is tremendous. We are taking about thousands of tonnes and as far as we know, we are the only people in India doing this, but in partnership with such companies.

**Rohit Ohri:** Do you think that these kind of businesses will kind of put a little bit of dent on the margin profile which was earlier 28% or we were scaling up to 32% to 33%?

**Aman Desai:** The realization will be small but the margins and EBITDA we will be gradual and going up and so we will not compromise as a business policy and from the fundamental philosophy of the company and the family we will not compromise on the margin levels and the EBITDA levels as it is possible in the forex going forwards. The realizations may be small so for example we had a speaker that mentioned previously about $3 to $4 of realization as compared to Rs.1600 or almost $18 of the current average realization that we have today so we will compromise on the realization because that depends on the field that we get in but we will possibly try not to compromise on the margins and the EBITDA.

**Rohit Ohri:** Okay that is it from my side. Thank you Dr. Aman. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Indrajeet Bhatia from HDFC Securities. Please go ahead.

**Indrajeet Bhatia:** Just a couple of questions. One is on this if you could just explain this margin? I think there was a comment by Rohan I think that gross margins got impacted if you could just explain the mechanics as to how exactly this played out and second is do we expect to kind of go back to our usual 20% net profit margins back say from Q4 or next year onwards?

**Faiz Nagariya:** Yes Indrajeet Faiz here. As Rohan said in his commentary that we were able to achieve the sales in the Q3 mainly because of the finished goods inventory which we had for the materials which were required by the customers and finished goods inventory where were all sold off and if you see the change in inventories due to the finished goods has gone down drastically and that has impacted the margins because there is no production which has happened. Only the sales has happened, inventories which was Rs.25 Crores in the last quarter has come down to Rs.3 Crores which has impacted the margin Rs.55 Crores which could have been better number if the site was working properly in December month also so that could have changed the numbers drastically. The main reason that it is because of the finished goods which have been sold off and the change in inventory has gone down a lot and the reduced number in the sales and regarding the profit margins we definitely were banking on the 20% was our bench mark but still is the bench mark to grow from there gradually. We would definitely be willing to bring this back in Q4 from next year of course we should. That is the target again for us.

**Indrajeet Bhatia:** Was there any among the other cost is there any kind of inventory related cost or damages to inventory, damages to finished goods is any of that kind of cost also booked into the P&L this time around?

**Faiz Nagariya:** No. Currently if you see the foot notes I have mentioned clearly that loss assessment is going on and currently we have not taken any impact of sites or stocks or profit loss in this current quarter. Once the assessment is over and we are submitting the final claim to the insurance company we will take you through the number then only we will be taking the impact in books of accounts.

**Indrajeet Bhatia:** Sure and typically the turnaround time by insurance company to kind of pay us damages would be six months?

**Faiz Nagariya:** Yes it is six months but we have been providing the required information and data to them so we should try that we are able to close this thing within three to four months.

**Indrajeet Bhatia:** Got it. Thank you. Best of luck.

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

**Shubhangi Desai:** Thank you everyone for participating in the call. We hope that we have addressed majority of your questions. If you still have any further unanswered questions, then please feel free to reach out to us. Have a great day ahead. Thank you very much.

**Moderator:** Thank you. On behalf of HDFC Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.