AARTI INDUSTRIES LIMITED

August 18, 2022

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

BSE CODE –524208

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

Dear Sir/Madam,

Ref: Regulation 30 of the SEBI (LODR) Regulations, 2015
Sub.: Transcript of Q1 FY23 Earnings Conference Call

Please find enclosed herewith the Transcript of Earnings Call held on Thursday, August 11, 2022 on Audited Financial Results of the Company for the quarter ended June 30, 2022.

Kindly take the same on record.

Thanking You,

Yours faithfully,
FOR AARTI INDUSTRIES LIMITED

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

Aarti Industries Limited
Q1 FY23 Earnings Conference Call Transcript
August 11, 2022

Moderator: Ladies and gentlemen, good day and welcome to Aarti Industries Limited Q1 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you, and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone and thank you for joining us on Aarti Industries Q1 FY'23 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 begin the call with opening thoughts from Mr. Rajendra Gogri, who will take us through the performance, update on growth initiatives and outlook on the business. Post this, we shall open the forum for the question and answer session where the management will be addressing your queries.

Just to share our standard disclaimer here. Some of the statements made on today's conference call could be forward-looking in nature and a disclaimer to this effect has been included in the results presentation that has been shared earlier and also uploaded on stock exchanges' websites.

I would now like to invite Mr. Rajendra Gogri to share his perspectives. Thank you, and over to you, sir.

Rajendra Gogri: Yes. Thank you. Good afternoon, everyone and welcome to our Q1 FY'23 earnings conference call. Hope everyone is keeping safe and in good health. Our results documents have been shared earlier and I trust you had the opportunity to glance through them. We have commenced the new financial year on a positive note. The performance was resilient given the backdrop of a challenging macroeconomic scenario led by continuous inflationary trend in key input costs, higher utility costs as well as disruption in global supply chains arising due to conflict between Russia and Ukraine, uncertainty arising due to global inflation and fear of various economies going into recession.

While we have navigated through some of these shocks, we witnessed demand slowdown from few end-user industries like textile and FMCG. This moderation is largely on account of prolonged cost pressure across the manufacturing value chain and global recession fear. Having said that we are actively monitoring the situation and our performance in the ensuring period will be aligned to this trend.

Now let me share the key financial trends for Q1 FY'23:

Our revenue grew by 45% Y-o-Y to INR 2,173 crore.
EBITDA stood at INR 369 crore, higher by 18% Y-o-Y.
Profit after-tax came in at INR 189 crore, an increase of 15% over last year.

Our revenue trajectory was steered by realization gains as well as the higher volume uptick for certain products. A substantial increase in the revenue was also on account of the robust pricing structure wherein the variation and improved prices are passed on to the consumer. As envisaged, we saw revenues coming in from the newer capacity added in the recent past, along with the incremental volume gain from existing capacity. This was further supported by a planned ramp-up and with respect to units from the first and second long-term contracts. We've been able to pass on the cost pressure linked to the RM prices and utilities costs to our customers, thereby protecting our absolute EBITDA.

As you would recollect in Q1 FY'22, there was a shortfall fees income of about INR 32 crore. Normalizing the Q1 FY'22 numbers for this shortfall income, the Y-o-Y EBITDA growth will be closer to 30%. During the quarter under review, we also witnessed mark-to-market impact on ECBs on account of steep depreciation of INR versus U.S. dollar, which negatively impacted our PBT performance to the tune of INR 30 crore. Excluding this impact, the performance would have been even better. Our utilization level across plants continues to improve, resulting into better profitability at the company level. We have built a strong integrated business model through well-diversified product portfolio and consistent focus on R&D capabilities. I believe this, along with our deep connect with our customers and vendors, will drive sustained growth and profitability going forward as well.

I will now move to segment-wise performance overview. In Q1 FY'23, revenue from Specialty Chemicals business stood at INR 1,766 crore, a growth of 44% over INR 1,228 crore that we reported in the same quarter of the last financial year. EBIT improved by 8% to INR 250 crore. Normalizing the impact of shortfall income during the last year in Q1 FY'22 of INR 32 crore, the absolute EBIT growth would be about 25%. In addition to favorable pass-through of elevated input and utility cost to the customer, the performance was bolstered by improved product mix with high contribution of value-added products at 74%.

Moving to update on production details for Q1 FY'23. Production of nitrochlorobenzene was at 20,515 metric tons. Similarly, for hydrogenated products, stood at 3,295 metric tons per month. For Nitro Toluene, the production for Q1 FY'23 stood at 5,252 metric tons. As was the case until last quarter, this quarter also witnessed some impact on our business due to short supply of the key raw material nitric acid.

We have been working closely with the vendors to maximize our requirement. We witnessed that the situation eased in June '22. As you are aware that in the last quarter, we had informed that we have already tied up with a technology partner for setting up a unit for concentrated nitric acid from dilute nitric acid with a capacity of close to 225 to 250 TPD. Currently, we are working on a long-term comprehensive strategy to mitigate this risk.

Let me now share updates on our expansion projects.
We have started seeing volume ramp-up from the facility linked to the 1st long-term contract and expect to reach a high utilization level of 70% to 80% by next year. With respect to the 2nd long-term contract, where we commenced commercial manufacturing in the previous quarter, utilization level has been progressively increasing. This capacity will see a ramp-up as planned and is expected to reach 70-80% plus utilization level by FY'24.

Other capacities/project initiatives with respect to 3rd long-term contract at Jhagadia, the NCB expansion at Vapi, etc. are underway and expected to be commissioned in the forthcoming quarter, which will start contributing to our revenues from FY'24. Since a substantial part of the fixed cost will be built in by FY'23, we don't expect major increase in the fixed cost in FY'24.
The volume ramp-up as envisaged in FY'24 will significantly lead to an increase in EBITDA.

Now moving your attention to the Pharma business. In Q1 FY'23, we reported revenue of INR 407 crore, higher by 48% as compared to INR 276 crore in Q1 FY'22. EBIT stood at INR 76 crore, an increase of 46% Y-o-Y. Performance was driven by continued high demand for key products, leading to better volume trajectory from generic pharma companies and Xanthine business.While a major part of the elevated input and utility costs were passed on to the customers, in some cases, the same had to be absorbed.

In a significant development in month of June, the audit by USFDA was conducted at our Dombivli API unit. They raised 2 points under 483, which we are confident of addressing the same and getting an EIR soon. With that happening the Dombivli unit will become the third USFDA approved facility for us, while the other 2 i.e. the API unit at Tarapur and the intermediate unit at Vapi has been approved by USFDA since the last 10-plus years. We have commissioned the new API block at USFDA approved API facility at Tarapur in early Q2. We are witnessing a positive demand scenario in pharma intermediates, landing strong visibility to the business. Our performance going forward will be anchored by incremental gains from newly introduced products, higher capacity for the steady lineup of existing products and exciting pipeline of upcoming approvals in cardiovascular, anti-diabetic, anti-hypertensive, oncology and corticosteroid segments.

For the quarter under review, we entailed a CAPEX of over INR 200 crore, are on track for our planned expansion initiative for FY'23 and FY'24. Over the next 2 years, FY'23 and FY'24, we'll be investing close to INR 3,000 crore in capacity addition and augmentation to support our growth plans. Our emphasis on innovation and R&D-led projects where we have 40-plus products for Specialty Chemicals and 50-plus products for pharma in the pipeline will help propel our performance and achieve the stated guidance by FY'27.

Before I conclude, let me share other key important developments. With respect with the proposed demerger proposal of the Pharma business to Aarti Pharmalabs Limited. The hearings at NCLT were concluded on 1st August, '22. We expect the order to be issued soon and we'll take up the necessary action items for making the demerger effective immediately.

Overall, we are very well poised to deliver buoyant performance in the forthcoming year. Superior execution capabilities, combined with the ongoing scale-up and introduction of new chemical value chains like chlorotoluene, will define our growth trajectory. This is in addition to positive tailwinds arising from the shift in global supply chain towards India. All in all, we are excited and will focus on demonstrating sustained growth in revenues and profitability, thereby creating value for all stakeholders.

That concludes my initial thoughts. I will now request the moderator to open the floor for the Q&A session. Thank you.

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

Surya Patra: Congratulations for the good set of numbers. First of all, about the second multiyear supply contract, I just wanted to understand what is the level of ramp-up that we have witnessed? We have also mentioned that for that particular project, by FY'24, it would be at around 80% kind of utilization. That means in the first year, would it be something like 40-50% kind of utilization levels that one should consider of the annualized INR 500 crore run rate?

Rajendra Gogri: Yes. First year will be around that level. Overall, the way it is structured, even the top line may be less, but at the EBITDA level, there will not be much impact linked to the capacity utilization.

Surya Patra: My understanding was that since the second contract was supposed to be a low-margin supply contract and with the ramp-up that we are seeing in the first quarter – is there any impact, i.e., the sequential 100 basis points kind of weakness in the gross margin that we are witnessing – is it because of that or is it that it has not ramped up to that level to influence the margin of the overall business?

Rajendra Gogri: No. The gross margin impact is mainly because of the increase in raw material costs; Q-o-Q, also, raw material costs have substantially increased. Benzene has also gone from INR 77 to INR 94 and sulphur from INR 27 to INR 37, so the main reason for impact on the gross margin level as because of the core raw material increases.

Surya Patra: In this quarter, suddenly we are witnessing sharp jump in the share of exports. In the previous quarter, it was below 40% and now it is 46%, this is after many quarters that we are seeing a kind of a change in the export mix. Is this because of the pricing scenario which is better in the export market due to which we have tweaked our supply situation here to be able to take the advantage or is it sustainable now? What has led to this?

Rajendra Gogri: The second contract is for 100% export which leads to the increase in the share of exports. We try to see which market has better realizations. It also depends on the product mix and the market mix. In general, we see that exports will be in the range of 40-50%.

Surya Patra: One further clarification on the second contract – would the current utilization level be around 40%; would that be a fair assumption for Q1?

Rajendra Gogri: Yes, I think.

Surya Patra: On the future projects, there are around 90-odd products which are there in the pipeline and currently under development. These are likely to bring in a margin profile of something like 25-30% beyond FY'24. I'm trying to understand whether these products are customized products, because we know that our business is, to some extent, in terms of margin, it can be volatile because of the commodity prices. But we are confident about those new product opportunities and saying that, definitely the margin profile could be beyond 25%, up to 30%. That means those products are like customized products and hence, the clarity about profitability is assured?

Rajendra Gogri: Basically, commodity prices will always impact, but in general, at similar commodities, these raw material prices, there is much more of a value-added share. Currently, we are now at 70:30 kind of a range in terms of value additions, but the chlorotoluene range will have almost 90% value-added products and maybe only about 10% of the chlorotoluene itself. Further expansion, now we are planning for our normal nitrochlorobenzene, nitrotoluene and DCB chains. It'll be all value-added products. Our baseline products' capacity we have already expanded, so going forward, all the new existing value chains will be on a value-added basis. Basically, in the entire chlorotoluene chain and all, there will be some significant portion which will be high value-added and we will be adding additional 4, 5 and 6 chemistries over the base chemistry of chlorination.

Surya Patra: But are none of the projects currently tied up with some other customer or something like that, sir?

Rajendra Gogri: No. It will be many different products for so many different end-uses as well as customers. A full basket of products with very different end-uses in Pharma as well as in agro. Hence, we will have the same import substitution as well as customer push because there is no other Indian source. We are quite well diversified in the market. It is not linked to a single product, single customer situation.

Surya Patra: On Pharma – how would that impact the long-term outlook guidance that we have given?

Rajendra Gogri: Pharma itself will also grow. As we had announced, we had taken up new land near Dahej, in Atali. We will be setting up a new greenfield site in Pharma. USFDA, we have already commissioned in this Q2 at our Tarapur plant. We see that sizable growth will continue to be in Pharma also in addition to the Chemicals where there are the products I already discussed just now. Both the segments will see substantial growth.

Surya Patra: In the last few quarters or generally, Pharma, although share-wise it is smaller, but profitability-wise it is better than Specialty in recent times is what we have observed. With the separation, do you think that there will be some pressure in the interim period, before Specialty picks up and the long-term supply contracts ramp up, to protect the profitability? Till the time there is some challenge, should we consider that?

Rajendra Gogri: No. Actually, FY'24, as I mentioned in the speech, most of the fixed cost will be covered in FY'23. So in FY'24 it will mainly be the ramp-up. The gross profit virtually will translate to EBITDA. In the Chemicals segment, we expect a substantial jump in EBITDA in FY'24 and FY'25. Then the new project will start kicking in from FY'25 onwards.

Moderator: Next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: First is on project number one, where you have said that you have seen a significant improvement in utilization levels. Would like to understand more in terms of if the Company is planning to sell the intermediate to Bayer in the international market and if you are still selling it in the open market? Have you been able to get into some long-term contracts with other players?

Rajendra Gogri: We already started production of intermediates and have supplied qualification material to various customers. It will not be linked to one customer. We will be supplying to both domestic as well as export customers for that product. We are in discussions for potential, long-term tie-ups also but that is just not totally finalized.

Rohan Gupta: Any ideas that you can share in terms of utilization levels of this product in the current quarter?

Rajendra Gogri: For the current quarter it is very less, actually. We will be more around 25% or so. Overall, this year, we see utilisatoin of about 30-40% and the second half may be around 50%. Next year, 70-80%. That's how we are looking at that.

Rohan Gupta: At 50% in terms of margin profile of this product, would it be in line with our Chemicals business margin or will it be much lower than that?

Rajendra Gogri: Overall, it has been a value-added product and I think the margin will also be of a similar type.

Rohan Gupta: Similar means, in line with the Company's business?

Rajendra Gogri: Yes.

Rohan Gupta: Even at 50% utilization?

Rajendra Gogri: On the gross margin, yes.

Rohan Gupta: Though we have seen the current quarter’s performance in terms of absolute EBITDA growth of ~17-18% is pretty decent given the challenging environment. Last quarter, if I remember that you were guiding for maybe a single-digit kind of growth in terms of profit or bottom-line growth given the lower utilization on the newly commissioned plants. Do you see that the guidance remains intact or is there a possibility that you would like to guide for a higher number at the bottom-line for the current year?

Rajendra Gogri: Yes. Overall, if you do the annualization of the first quarter, we had more than, 13-14% growth in EBITDA as compared to the last year. But looking at some challenges on the demand side and all, we would not like to change the guidance at this time. Maybe after Q2, we will look at the overall situation and see whether to change the guidance.

Rohan Gupta: There is weakness, which you mentioned, in the business - more importantly in local demand – you talked about textiles and FMCG. Are there any other sectors in which you are seeing any challenges? What I understand is that as far as the domestic market is concerned, more or less, these products are import replacements, while in the global market, I think the large part of agro and pharma remains intact. Just wanted to understand that though the global economy may be shaking and some countries may be impacted by the high inflation, but as far as our business is concerned and also the benefit, which we are probably enjoying from China Plus One also, do you see that this weak environment is really affecting us or is it affecting the larger economy?

Rajendra Gogri: No. as you have rightly mentioned dyestuff, our main business is in domestic. Export is more on polymers, agro and pharma side. There we are not seeing much impact on the demand side.

Rohan Gupta: Some of the building blocks which are there in the chlorobenzene business and also in toluene, we were supplying some part of this and some products to a few players based out of Europe and primarily in Germany. Do you see that this recent energy crisis in European markets has impacted our order intake or if some customers have started giving indications in terms of slowdown in orders?

Rajendra Gogri: No. The people who buy products from us are moving into further value additions where the energy input-to-value addition is significantly lesser. We have not got any feedback that there'll be an impact on demand from their side because of that.

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

Aditya Khetan: Continuing with the earlier participant's question - on the end-user segments that are textile and FMCG-based are witnessing slowdown. Would these two sectors be contributing to our end-user industries and how are you seeing the scenario today?

Rajendra Gogri: Normally, our sales to this segment will be in the range which is between 10-20% and we continuously try to re-juggle the product portfolio if a particular segment is down by going into the other segment or other market.

Aditya Khetan: In this quarter, most of the FMCG companies like HUL and Nestle have witnessed good volume growth. Where is the Company feeling that pain in FMCG now?

Rajendra Gogri: In general, on that side we are seeing, in some pigments and all which will be going into both – housing and FMCG, some slowdown in that segment.

Aditya Khetan: On Pharma intermediates – in the Dombivli unit that you have mentioned, which sort of Pharma intermediates or formulations are going to be manufactured there? Is this third, new plant, generally of similar margins as compared to our current product profile?

Rashesh Gogri: Yes. The Dombivli plant is actually manufacturing Pharma intermediates as regulatory starting materials required for APIs. We are supporting generic players in India and abroad from that site. The audit was figured based on our secondary DMF that we had filed for particular intermediates. There are a host of intermediates that we manufacture in that site, which are going as regulatory starting materials for different APIs. Overall, the Pharma intermediates capacity on this site is limited because this site is actually attached to our R&D and a lot of low-volume, high-value products are being manufactured there.

Aditya Khetan: Would this be of a similar margin profile as compared to our current product profile in Pharma?

Rashesh Gogri: Yes, margin profile will be better actually because these are low-volume and high-value products that are being manufactured here. The value as such is smaller. So it may not have a significant impact on the overall EBITDA percentage.

Aditya Khetan: On the volume ramp-up, in this quarter, that has been primarily led by the first and second contract. Apart from this, our own business growth would be flattish right and still we are operating at peak utilization levels?

Rajendra Gogri: Yes, nitrotoluene volumes have been better, but the PDA volume is down. Some the impact on the product mix continuously happens because of nitric acid.

Aditya Khetan: PDA volumes for the quarter have not been mentioned in your initial commentary.

Chetan Gandhi: The PDA volumes were roughly around 370 tons per month.

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

Abhijit Akella: Is it possible to provide a break-up on the volume growth in Q1 of the total revenue growth?

Rajendra Gogri: Basically, 25% plus has come from the raw materials price increase side so maybe around 15-20% income from the volume growth.

Abhijit Akella: On the capacity of the first long-term contract, for the 2,5-dichlorophenol, if you could just tell us how much capacity we have set up right now?

Rajendra Gogri: Capacity was set up for about 9,600 tons.

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

Pujan Shah: In the growth estimates, you are estimating a turnover of say, 2.5x of FY'21 and a PAT of 3x. After all the CAPEX has been done in FY'24, the revenue starts generating and utilization from the CAPEX – why are we not getting an operating leverage? It's a similar line of EBITDA and PAT also the growth has been similar on turnover and taxes. Could we just touch upon that?

Rajendra Gogri: Yes. This leverage will come in the FY'24 numbers based on the ramp-up of our current plants for which the projects have been commissioned or will be commissioned in this year. There's a new site for chlorotoluene and all, where there will be a totally new greenfield site on that. That will have a totally separate impact of leverage as the volumes get ramped up, because they're totally new greenfield sites.

Pujan Shah: For the new CAPEX, which we are incurring, what can be the asset turns that we are expecting in that term?

Rajendra Gogri: That asset turn will be lower, maybe more towards between 1-1.5 because they are more value-added products.

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

Rohit Nagraj: Congratulations on a good set of numbers. In terms of the potential revenues from the new contracts in FY'24 – based on the commentary of, say, 80% plus utilization for the first 2 contracts, and then the third contract will also start sometime during this quarter, in FY'24, can we expect close to about, say, INR 800 crore to INR 1,000 crore of incremental revenues put together from all these 3 contracts?

Rajendra Gogri: Yes. Those kind of numbers we have got.

Rohit Nagraj: Apart from this, there will be organic growth for the other projects, which are there and we are continuously investing based on the requirement and demand for capacity expansions? Correct?

Rajendra Gogri: Correct. Yes.

Rohit Nagraj: On the concentrated nitric acid project, where are we currently? When do we expect that this project will probably come to fruition given that we have faced this challenge from the past maybe 3 or 4 quarters?

Rajendra Gogri: We have already placed the order with the technology supplier. Right now, it is in a detail engineering phase and construction will start shortly. We are planning to commission it in FY'24 i.e., by around Q4 FY'24.

Rohit Nagraj: After these three long-term contracts, we have not seen any similar long-term contracts. Is there any kind of apprehension from the global players due to the volatility in the market? Or would it be that probably we are awaiting that the CAPEX comes to commissioning and then we will go in for some long-term arrangements?

Rajendra Gogri: No. We have been having contracts around 4-7 years earlier also with certain contracts getting rolled over 4x and 5x. These are the larger ones, which are getting into the public domain. We see the potential of such larger ones also going forward which would be for the longer tenure.

Moderator: The next question is from the line of Trilok Agarwal from Dymon Asia. Please go ahead.

Trilok Agarwal: In the initial remarks you said that the revenue growth realization must be 40-45%. So the understanding of volume growth could be in the low mid-single-digit or high-single-digit, is that correct or maybe I'm missing something?

Rajendra Gogri: 50% of the revenue growth, ie about 25% yoy is contributed because of the raw materials' price increase. So volume growth will be in the range of 15-20%.

Trilok Agarwal: When you said with respect to slowdown witnessed in 2-3 sectors in the domestic market, are you not seeing similar trends in the export markets or do you think that's still holding up well so far?

Rajendra Gogri: The export market is generally not that much impacted.

Trilok Agarwal: The slowdown is similar as seen in the last 3-4 cycles or is it quite different this time around?

Rajendra Gogri: No. In the Dyestuff sector – you might have seen in the news also, that there is a significant slowdown in the Indian dyestuff market and it is very, very severe. Hopefully, things should start getting better in the next few months.

Trilok Agarwal: The next few months, right?

Rajendra Gogri: Yes, because the cotton prices were also very high some time ago.

Trilok Agarwal: That was a single-digit, for you, as contribution in revenue terms?

Rajendra Gogri: Yes.

Moderator: The next question is from the line of Akul Broachwala from IIFL Securities. Please go ahead.

Akul Broachwala: Are you sticking to your original EBITDA guidance of single-digit growth this year or would it be much better as compared to earlier guidance?

Rajendra Gogri: As of now, we are not revising the guidance; in Q2, we will see.

Akul Broachwala: How are we seeing the gross debt trend going forward? What would be the peak debt-to-equity ratio that you would be looking at?

Rajendra Gogri: Debt-to-equity ratio, we will have to see as to how the entire nitric acid scenario pans out. If you have to go for a substantial investment in the nitric acid plant, then the debt will move higher because we will continue with our other ongoing expansion. So it will depend on that. In general, our target will be between around 0.7-0.9, on a higher side.

Akul Broachwala: For the nitric acid plant how much CAPEX do we envisage at the moment?

Rajendra Gogri: Currently, it is around 150-200 tons per concentration plant. However, if you go for weak nitric acid plant, we are just evaluating the project cost for that can be additionally maybe INR 500 crore plus.

Akul Broachwala: The way I understand it is, earlier, you were alluding to the fact that you will import WNA and then process it into CNA. So probably, we are also evaluating to set up WNA as a part of sourcing?

Rajendra Gogri: Yes, that is also under evaluation. That is what we had mentioned in the last call also that we are now evaluating a comprehensive nitric acid facility and whether to go for our own WNA plant or not. If you decide to do that, an additional PAT plus the CAPEX will roll in.

Moderator: Next question is from the line of Gaurav Shah from Harshad Gandhi Securities. Please go ahead.

Gaurav Shah: On the growth estimates you have shared on Slide 23 of your presentation. In the current presentation, you have mentioned the growth estimate in terms of EBITDA multiple, while in the last quarter's presentation, it was mentioned in EBIT terms. Any particular reason for such change?

Rajendra Gogri: What we have seen is that most of the analysts and investors, talk more on EBITDA than EBIT. This is the reason that it was changed.

Gaurav Shah: But you have mentioned the absolute amount and like 1.7x-2x, if you talk about FY'24. You kept the number same. It will change the valuation, so that way.

Rajendra Gogri: No. The benchmark number goes on changing. The original EBITDA and EBIT numbers for FY'21 also will be different. The multiple that we are maintaining is a similar number.

Gaurav Shah: Are you sure, because earlier, you mentioned an EBITDA multiple of 1.7x - 2x, for example for FY'24. Now you are mentioning in terms of EBITDA. So valuation will change accordingly.

Rajendra Gogri: Again, the baseline also will be EBITDA, not EBIT.

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

Meet Vora: What are the issues that you are facing on the nitric side? Is it the availability issue or a pricing issue or that the supplier is not able to ramp up their capacity? We are saying that we will commission our capacity by FY'24, is it that for the next 2 years, we will still be facing this issue of nitric acid?

Rajendra Gogri: Nitric acid's overall capacity in India is a little bit short currently while the demand is going to grow. That's why, for our long-term strategy, we are putting up that plant which we have already announced. On a medium-term basis, in the second half, we see that some capacity in India will come up for nitric acid. So in FY'24, we don't see any significant shortages of nitric acid.

Meet Vora: So for the next 2 years, nitric acid still remains to be an issue for us, right?

Rajendra Gogri: In FY'23, the second half can still be an issue, but once the new capacity comes in into second half of FY'23 in India, by other manufacturers, we don't see much impact coming in FY'24. By that time, we will have our own concentration plant also. So beyond FY'24, I think will not be an issue also.

Meet Vora: What percentage of our total spec-chem revenue will be the nitrotoluene chain?

Rajendra Gogri: Nitrotoluene chain is what you are saying?

Meet Vora: Yes.

Chetan Gandhi: We will have to pull out that number. It won't be readily available, but we'll pull it out and send it across.

Moderator: Next question is from the line of Nitin Agarwal from DAM Capital Advisors. Please go ahead.

Nitin Agarwal: On the weak nitric acid plant, what are the factors that will make you go for it versus not just staying with a concentration plant?

Rajendra Gogri: Yes. We'll see how the overall economics is working out on that. So long-term availability of WNA, and what kind of pricing and whether or not to start from ammonia to WNA itself will make more sense. So that we are trying to weigh between the two. Because WNA to CNA will definitely ensure the supply security. But the cost-wise, once you have the ammonia base, then you are on par with everybody on the ammonia base. We are just trying to see what will be the best long-term strategy.

Nitin Agarwal: For the WNA you'll have to backward integrate to ammonia also or ammonia is what you'll source and then put up a WNA?

Rajendra Gogri: Ammonia is globally traded and that is the advantage. If you are ammonia-based, then it is a global price. Whereas WNA is an intermediate, which can go short or long and have a more volatile pricing. If you're backward integrated then you are in-line with everybody because everybody has to source ammonia at global prices.

Nitin Agarwal: At this plant, assuming you go ahead with it, would it be entirely for captive consumption or do you look to do third-party supplies of WNA also?

Rajendra Gogri: No. It's basically that an economic size of the plant is needed. We'll be putting up about 500 TPD plant, out of that 75-80% will be active consumption initially. Then going forward, maybe as our demand goes up, it will become 100% captive. It'll not be much for merchants.

Nitin Agarwal: On the first long-term contract, you have talked about in the presentation that the first and the second both will be about 70% utilization, rather 70% of the peak price FY'24 end. So specifically in that, how is contract-1 shaping up in terms of supplies? Whom are you supplying to and what kind of visibility is there on it?

Rajendra Gogri: Yes. We are supplying to various domestic as well as export customers. But the qualification quantities have been given in Q1 and we'll see a ramp up in the second half of those quantities.

Nitin Agarwal: The plant continues to be dedicated for the same older intermediate only?

Rajendra Gogri: Yes.

Moderator: Next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: On your growth projects, which you have already mentioned about anywhere about INR 3,000 crore to INR 3,500 crore between Chemicals and Pharma and considering the current year CAPEX of INR 1,500 crore, I wanted to understand broadly how many projects have you firmed up and where construction is likely to start in the next 6 months?

How many projects will take some more time to take a final firm decision in terms of CAPEX, let's say, in FY'24? If you could just give a broad guidance of the CAPEX and how much has been firmed up and how much do you still need to take a call on?

Rajendra Gogri: Yes. We'll start construction of a few process blocks in FY'24 itself like - multipurpose plant and some of the other process blocks. If you say basically from October to next June, these 9 months, virtually, most of the expansion plans will go under construction. That is a typical construction cycle, you start from October to June because July, August and September has heavy rains in general. Going forward from October onwards, we will have construction of various process blocks, which are at a different level of detailed engineering and basic engineering.

Vishnu Kumar: So, the entire INR 2,500-3,000 crore worth of projects for Chemicals, will be somewhere between October to June when you will have most of these projects. At least some work will be done and the restarting of construction will happen. Is that the right understanding?

Rajendra Gogri: Yes.

Vishnu Kumar: This year will be INR 1,500 crore CAPEX and the next year, can we take it that it will be another INR 1,500 crore of CAPEX?

Rajendra Gogri: Yes. Those two, we have combined, we have put INR 3,000 crore this year which may be going a little bit up or down, depending on how much has happened. But over the combined two years, we are looking at INR 3,000 crore.

Vishnu Kumar: Wanted to understand the impact of prices, crude has also come down from $115/120 to $95/barrel. In the previous quarter, it went up sharply. Just wanted to understand, because you have almost 2.5 month of inventory days, that what would have been the inventory gain, if any? On the reversal also, should we expect anything in Q2? Broadly, if you could touch upon this.

Rajendra Gogri: Part of this inventory gain or loss gets negated by some of these contracts or businesses that are lagging in pricing. So prices get passed into the next quarter to the customer. So that's what kind of balances each other out in general.

Vishnu Kumar: But the contractual volumes, according to my understanding, were not very high?

Rajendra Gogri: No. We have a lot of other businesses, which are linked to the raw material rollover and mainly international. But within India also something like 2 to 3 months.

Vishnu Kumar: The average pricing that you are saying is the same as the average pricing will be based on an average of 1 to 2 months which you will charge to the customers.

Rajendra Gogri: For exports, a lot of these businesses are like that. Exports generally have 2 to 3 months lag taking place. Domestic generally is on a month-to-month basis, sometimes let's say 1 to 2 months.

Vishnu Kumar: On the CAPEX, how much have we spent until now out of this INR 1,500 crore?

Rajendra Gogri: This year, just for Q1, was about INR 200 crore.

Moderator: The next question is from the line of Ranjit Cirumalla from IIFL Securities. Please go ahead.

Ranjit Cirumalla: A bit of clarification on the presentation – you have mentioned a INR 30 crore impact on the PBT due to FOREX. If you can provide a bit more details on that. Was it largely on foreign debt or was it also a part of EBITDA part?

Chetan Gandhi: Just majorly on the foreign currency debt. That's where it is.

Ranjit Cirumalla: Which is largely the finance cost.

Chetan Gandhi: Yes, it's added to the finance cost.

Ranjit Cirumalla: Coming to nitric acid – are you also finding it a bit more difficult to source the weak nitric acid globally. How are the demand-supply dynamics on nitric acid globally? In India you have said that the demand has been rising and capacities are not coming up. How is the situation globally and also on the back of the energy prices?

Rajendra Gogri: Globally and generally, we see that on the kind of volumes that we will need, the availability will not be an issue. At a global level, the requirement of around 225-250 TPD can be managed because some volumes can be sourced domestically also. We don't see the availability of the weak nitric acid to be a challenge overall.

Ranjit Cirumalla: How much would we require in CAPEX to set up a 500 TPD plant for nitric acid?

Rajendra Gogri: That will be INR 500 crore plus CAPEX for weak nitric acid plant from ammonia. That is the current estimate. Everything is getting now fine-tuned on that and we are evaluating whether to go ahead with that.

Ranjit Cirumalla: So it's INR 500 crore?

Rajendra Gogri: Yes.

Moderator: Next question is from the line of Pankaj Singh from Trustline. Please go ahead.

Pankaj Singh: Sir, congratulations for the decent numbers that you have posted. I just want to understand that in the Q1 FY'23, we have paid GST of around INR 200-odd crore, and that last quarter we have paid GST of around INR 262.18 crore. Even though the gross revenue has increased, would we paid more GST, on the same.

Chetan Gandhi: I guess I understood your question. The point was that we do have export transactions and in export there are two ways of dispatches when the factory movements are happening. So one is with payment of GST and another is without payment of GST under bond. So we had some shipments which has happened under bond in this quarter, and that is where that GST component was lower. It's more like in terms of balancing the GST balances, which has accrued and try and optimize the same.

Pankaj Singh: There is an expected capacity utilization level for the full year and then for FY'24 also?

Rajendra Gogri: Yes. The capacity utilization for different plants will be different; like nitrochlorobenzene, virtually, we are running at almost 100% capacity. Nitrotoluene, we are at 70% plus. So it would be all individual plants based, and there are new projects on a ramp-up, which we already discussed.

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

Rajendra Gogri: Thank you, everyone, for taking out the time to join us on our Q1 FY'23 earnings conference call. Hope we have addressed all your questions. If you have any further questions, please feel free to contact our Investor Relations team, and we will address them. Stay safe, and we look forward to connecting with all of you again in the next quarter. Thank you once again.

Moderator: Thank you very much. On behalf of Aarti Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.