AARTI INDUSTRIES LIMITED

May 15, 2023

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

Scrip 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.

Symbol : AARTIIND

Dear Sir/Madam,

Sub.: Transcript of Q4 FY23 Earnings Conference Call
Ref: Regulation 30 of the SEBI (LODR) Regulations, 2015

Please find enclosed herewith the Transcript of Earnings Conference Call held on Tuesday, May 9, 2023 on the Audited Financial Results of the Company for the quarter and year ended March 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: 2023.05.15 16:57:40 +05'30'

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

Aarti Industries Limited

Q4 FY23 Earnings Conference Call Transcript

May 09, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Aarti Industries Limited Q4 FY '23 Earnings Conference Call. As a reminder, all participants will be in a listen-only mode. 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 evening, everyone and thank you for joining us on Aarti Industries Q4 and 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 commence the call with opening thoughts from Mr. Rajendra Gogri, who will take us through the performance overview, insights on growth plans and outlook on the business. Post this, we shall open the forum for Q&A where the management will be addressing queries of the participants.

Just to share our standard disclaimer, some statements that may be made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation that has been shared earlier and also uploaded on stock exchange websites. I would now invite Mr. Rajendra Gogri to share his perspective. Thank you, and over to you, sir.

Rajendra Gogri: Thank you, a very good evening to everyone. I welcome you all to our Q4 and FY23 earnings conference call. Hope everyone is keeping safe and healthy. We have shared our results documents and I hope that you have had an opportunity to glance through them.

As all of you are aware, the financial year 2023 has been challenging from various aspects. What started with Russia-Ukraine conflict that disrupted the global supply chains transpired into an inflationary surge in input prices and energy costs. This was in addition to slowing demand in select developed markets due to deteriorating economic scenario and very recently the banking crisis in the US that sent shock waves across the globe.

Amidst all this, we displayed resilience thereby demonstrating strong financial performance in a challenging external environment. This was possible due to our dynamic approach of building a superior business enterprise by meticulously leveraging our strengths in complex chemistries, products, and processes. We have built a strong team both technical and non-technical who have consistently supported us in our growth endeavour and helped us navigate through sector vagaries.

Our EBITDA for the year ended up very close to guidance of Rs 1,100 crs for FY23. we achieved an EBITDA of close to Rs. 1,100 crore in FY23. Our Capex investment were over Rs 1300 crs. Our exports were close to half of total revenues, while the share of value added products had increased consistently even in FY23. If we look at a long term journey, our Chemical Business' EBITDA has grown over 2x during the past five years i.e from Rs. 534 crore in FY18 to Rs. 1,091 crore in the current year. This is despite several challenges witnessed during the period like pandemic and external market-led disruptions, supply chain issues as well as inflationary headwinds. This sustained EBITDA performance is a testament to our vibrant business model and ability to steer growth even in the most challenging periods.

We also concluded the activity related to demerger of our Pharma Business into a separate entity 'Aarti PharmaLabs' during FY23. Since the demerger was effective 1st July 2021, the financials for the historic period prior to the scheme being adopted (ie in October 2022) had been re-casted the requisite financials to consider the impact of demerger.

Moving on to further developments, we collaborated for an long term assured off take of Nitric Acid which is a key raw material. This secures our supply for 20-years and significantly de-risks our business model.

On the project front, we commercialised the facility for 3rd Long Term contract, and two speciality chemical process blocks at Jhagadia in H2FY23. While our other expansion plans in existing products such as NCB expansion, Acid Revamp, NT & Ethylation expansion, etc are on track. These capex along with the ones already commercialised will support the volume growth in FY24 and beyond.

I will now move to financial performance. Initially, let me summarise the annual numbers. Our revenues increased by 17% to Rs. 7,283 crore, while EBITDA came in at Rs. 1,089 crore, higher by 19% over the normalised EBIDTA of Rs 919 crs for chemical business in FY22, excluding the termination and shortfall income. Profit after tax stood at Rs. 545 crore.

Premised on strong performance reported during the year, the Board has approved a final dividend of Rs. 1.50 per equity share of Rs. 5 each. This is in addition to interim dividend of Rs. 1.00 per share announced during the year. With this, the total dividend stands at Rs. 2.50 per equity share, i.e., 50% of the Face value.

Let me now share the financial highlights for Q4 of FY23:

- Revenues grew by 11% Y-o-Y to Rs. 1,826 crore, with exports contributing over 48% to the total revenues.

- EBITDA stood at Rs. 252 crore vs Rs 262 crs for FY22.

- Profit after tax came in at Rs. 149 crore vs Rs 145 crs for FY22.

Growth in revenues was on account of higher volumes from expanded capacities for key products as well as greater contribution from value added products. EBITDA performance was marginally impacted by maintenance shutdown at Acid Unit and Kutch Unit that resulted in higher costs by ~Rs. 10 crore and also some volumes had been impacted due to lower operating days.

Products targeted at discretionary industries remained suppressed, as indicated in the previous quarter. However, it is expected to start recovering progressively during FY24. We witnessed some normalisation in energy costs, while RM prices for key inputs had increased on a Q-o-Q basis. As highlighted in the past, we have robust pricing mechanisms in place to mitigate the impact of such volatility, and the same is being passed on to the customers thereby protecting absolute profitability. Our PAT performance was in-line with the operational performance. Depreciation stood higher on account of newer capacities added during the quarter. PAT also factors in one-time impact of write back of previous periods tax provision as few matters under appeals were awarded in favour of the Company.

Moving on to the production details for Q4 FY23. Production of Nitrochlorobenzene stood at 18842 MT, while the same for Hydrogenation came in at 3315 TPM. For Nitro-Toluene, the production for Q4 FY23 stood at 6130 MT.

During the financial year 2023, we collectively entailed a CAPEX of over Rs. 1,300 crore towards growth initiatives outlined earlier. We are targeting an annual capex of around Rs. 1500 crore for FY24 and FY25. This would be deployed towards building several products and chemistries including chloro-toluene and downstreams, which is a complex chemistry being introduced in India for the first time. Here, we will benefit from both import substitution as well as export opportunities for global markets.

As guided earlier, we expect the volume growth to be robust in FY24 and beyond. In FY24, we expect the volume growth to be around 25%, however due to global economic situations, a part of this might be sold into non-regular markets and hence the EBIDTA growth in FY24 would be lower than the volume growth.

I am excited with the upcoming opportunities in the chemical value-chain and truly believe that this is a 'Golden Decade' for us. We are incessantly working towards building scale for select high-potential products and chemistries supported by our fundamental strengths and expertise. We have pioneered introduction of several leading products and chemistries in India and global markets, and our endeavour is to continue doing that. We are optimistic and confident of exhibiting robust growth thereby enhancing value for all our stakeholders. Based on current business visibility, our EBITDA growth guidance for FY24 & FY25 remains unchanged at 25% CAGR.

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

Moderator: The first question is from the line of Rohit Nagraj from Centrum Broking.

Rohit R. Nagraj: Sir, first question is, you mentioned in the presentation and in your remarks that you have commercialized two specialty chemical complexes at Jhagadia. So which industry these complexes will be catering to? Is it discretionary or nondiscretionary? And what kind of potential revenues and margins that we are expecting from this? Thank you.

Rajendra Gogri: This will be also - they intermediates going for various end useses, including both agrochemicals as well as pigments and additives. They are mostly intermediates. So directly, we will not be able to connect to top line.

Rohit R. Nagraj: So, will these be for our internal consumption?

Rajendra Gogri: Yes. Part of that will be internal consumption.

Rohit R. Nagraj: Sure. The second question is in terms of the discretionary product portfolio. So, is there any change which is witnessed from Q3 to Q4? We are one month in Q1, so how has been the progress over the last few months on the discretionary product portfolio?

Rajendra Gogri: Yes, Globally, there is a slowdown and because of the higher interest cost also, there is inventory correction. So, it has impacted the demand. From the customers, we are hearing that progressively, the demand will increase on a quarter-on-quarter basis for this product line.

Rohit R. Nagraj: Sure. Thank you. I'll come back in the queue and best of luck.

Moderator: The next question is from the line of Lokesh Mallya from SBI Funds Management.

Lokesh Mallya: My question is pertaining to the working capital and its funding. Can you please tell me what will be the total amount of Bank CC lines, non-fund-based lines and how much would be the utilization level as of March 31? That's part A.

B, what would be the total amount of debt that is maturing in each of the quarters of FY '24, both long term and short term?

Chetan Gandhi: Yes. So, the bank line, including the non-fund-based lines would be upwards of INR2,000 crore or INR2,100 crore.

Lokesh Mallya: How much of that would be CC and how much of that would be nonfund-based and what would be the utilization?

Chetan Gandhi: So, In certain cases, the lines are also fully fungible. It would not have a specific number because at certain banks, it's a fully fungible line between fund-based and non-fund-based. So, we'll have to assume that from an overall basis, it would be upwards, somewhere between, INR1,800 crore to INR2,000 crore of the CC based on the fungibility which is there; and the utilization of that would be in the range of around INR1,400 crore to INR1,500 crore.

Lokesh Mallya: INR1,400 crore to INR1,500 crore out of INR1,700 crore to INR1,800 crore, if I heard you correctly.

Chetan Gandhi: INR1,800 crore to INR2,000 crore.

Lokesh Mallya: Okay.

Chetan Gandhi: As regards to the repayment obligations repayment for the year it is roughly around INR350 crore. It will be evenly spread across the quarters.

Lokesh Mallya: All the four quarters equally?

Chetan Gandhi: Yes.

Lokesh Mallya: Thank you, sir. I'll re-join the queue.

Moderator: The next question is from the line of Anil Shah from Aditya Birla Mutual Fund.

Anil Shah: Okay. Now my question is related to other expenses and your employee benefits. While I understand your pricing mechanism kind of protects you from a gross profit or a pass-through mechanism. But over the last few quarters, you've been mentioning that you'll have kind of built up your employee costs, both technical and nontechnical from a next league or annex growth phase perspective.

And as the top line starts growing and output starts increasing, we should start seeing these numbers, both other expenses and employee costs as a percentage of sales to come down quite a bit, but we haven't seen that playing out yet. So, could you just throw some colour on that? That's my first question.

Second question is, is there a number that you've given for FY '24 in terms of EBITDA growth, while you are maintaining, I believe your FY '25 guidance of INR1,700 crore EBITDA? Thank you.

Rajendra Gogri: Chetan, your view on the employee costs.

Chetan Gandhi: Yes. So, on the employee cost and other expenses, so there's a bit of an increase because of the new capacities which just came in the second half. So that's one component on that. And secondly, on the employee cost, there has been an annual provision which happens because of the employee benefits such as gratuity, leaving encashment, superannuation and the like.

And there are some expenses that have increased on the other expenses i.e, certain costs related to the inland logistics on account of the volume increase, which has been there in the quarter. So that has been the reason for this. Sir, you want to address the other question.

Rajendra Gogri: Yes. Overall, we expect the manufacturing fixed cost, which is the employee as well as other costs should not increase much in FY '24 as well as FY '25. So, I think that is what we had mentioned earlier also. Regarding our EBITDA guidance for FY '24, we are looking at around 25% volume growth, but EBITDA growth will be lower because part of the volume will be going to the nonregular market. So, it will be lower than that, maybe around; we can put a number of around 15%, but there will be more clarity as we go forward on EBITDA front.

Anil Shah: Okay. Thank you.

Moderator: The next question is from the line of Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Just an extension of one of the questions that were asked earlier. Could you give a little bit more colour in terms of the demand trends that you've been seeing in April and May with respect to some of your key end markets and also with respect to your domestic and export segments?

The second question was you mentioned that you made sales to nonregular markets, given the demand condition and you also expect to do this in the next year as well. Could you just elaborate what exactly you mean by these nonregular markets? What could be the share of this in the overall mix? What is the margin differential between your regular markets?

Rashesh Gogri: Yes. The demand in domestic and export market is dependent on the segments. So, the discretionary market demand is a little bit slow still, but we have demand in the agro and the polymer market which is sustaining. As far as the nonregular markets go, they are traditionally lower margin markets, where we can put the product. So that's the market that we are capturing largely, like China or this kind of market where we are trying to push the product. In case the demand is less from our regular market, which can be Western market.

Vivek Rajamani: Just two clarifications. So, when you say nonregular markets, you mean more from a geographical perspective and less so from a segment perspective, would that be fair?

Rajendra Gogri: Yes. That will be more on geography

Vivek Rajamani: Got it, sir. Any colour on the margin differential between these nonregular markets and regular markets?

Rajendra Gogri: It can be around 10%, 15% margin difference.

Vivek Rajamani: Sure, sir. Thanks so much. I'll re-join the queue and all the very best.

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

Rohan Gupta: Sir, my question is on basically on our agrochemical portfolio. If you can quantify that how much of our portfolio is catering to the products where the final products are generics? How much would be under the patented products?

This question has also come in many generic agrochemical players globally have given a warning about the huge inventory-led losses and increasing competition from China that is impacting the global market. So, are we catering to any customers who are in the patented products or in generics; and what is the portfolio split? Are you also witnessing this kind of pressure in your agrochemical basket?

Rajendra Gogri: Yes. We'll not have exact bifurcation between the patented and generics as we have both, but still, I think overall, generic will be a majority in the value from an overall agrochemical basket. As I mentioned even in the last call, the agrochemical demand slowdown has been mainly because of inventory correction because of high finance costs, more product specific and also in some of the products we are seeing that kind of demand slowdown, but it is not across the board for all the products.

Rohan Gupta: So even in our portfolio, also some of the agrochemical intermediates, the demand we see that is getting impacted.

Rajendra Gogri: Yes.

Rohan Gupta Okay. So, sir, if we impose this challenge in FY '24, we are still struggling from the recovery in the consumption-led sectors like textiles, dyes and pigments, etc. Agrochemical may pose some challenges in the current scenario. Do we see that FY '24? What will be the driving this growth in all these sectors that are facing the headwinds right now?

Rajendra Gogri: Now, we'll be able to increase our overall volumes, so volumes will drive the growth.

Rohan Gupta: But sir, end user industry demand across our end user segment still remains weak, so...?

Rajendra Gogri: We should be able to pick up the market share. So, where there are some import substitutions or where customers want to diversify some extra market share will be picked up.

Rohan Gupta: Is this a demand where we are confident that even from the market share gain, we will be able to grow in FY '24 as well as in '25?

Rajendra Gogri: Yes.

Rohan Gupta: Sir, second question is on the raw material prices that have started falling, including energy costs globally and also in oil-based derivatives. We have seen that in the last couple of years, the energy price is going up continuously in Europe. There were many customers in Europe also were looking for an alternative for the domestic manufacturers.

Do we see that the trend is reversing now with Europe witnessing the energy cost normalization, also across the raw material prices have started softening? So, do you see that any trend reversal has started happening? Or do we still see that even the competitive cost structure, which Europe had earlier because of low gas, is over now and that the opportunities are there for the country like India?

Rajendra Gogri: Basically, what will happen is that in the future, the energy-intensive products, there will be less increase in manufacturing in Europe. Because in general, there will be a fear of higher energy cost in Europe. As far as the existing manufacturing facility in Europe is concerened, I think, definitely because of the decrease in energy prices in Europe, it will benefit them. But on a long-term basis, the energy intense products' growth in Europe will be curtailed.

Moderator: The next question is from the line of Aditya Khetan from SMIFS Institution.

Aditya Khetan: First question was on the capex side, sir, we have given a guidance of INR1,500 crore. During the last quarter and even in the plant visit, we were given a guidance of around INR1,200 crore capex. So, there's an upward revision of cost capex, which we have done now?

Rajendra Gogri: No, we will be also doing this in our zone, so combined guidance we have been having for FY '24 and FY '25, about INR3,000 crore.

Aditya Khetan: Okay. Because earlier, we were giving a guidance of around INR2,500 crore capex for the next two years. Now we have given a guidance of INR3,000 crore?

Rajendra Gogri: No, even last concall also we had given INR3,000 crore.

Aditya Khetan: Okay. Sir, any of the basket of Aarti industries on the portfolio side, are we witnessing any sort of increased competition from China; because there has been huge dumping which is happening from China right now in many baskets of commodity and specialty chemicals. So, are we witnessing pain in any of the portfolio in any of the product side and there has been like increased competition and we had lost any sort of market there?

Rajendra Gogri: No. I think because of the general slowdown that impact was there, but we are not seeing any increase in that currently.

Aditya Khetan: Okay. So, we have maintained our market share, despite whether there is an increase?

Rajendra Gogri: Yes.

Aditya Khetan: Okay. Sir, just one more question on the nonregulated market. As you have said that these markets generally have lower margins. So how much share or you can say how much percentage would this be contributing to our overall basket?

Rajendra Gogri: Generally, whenever we are not able to put it in the regular market, we try to go into a nonregular market. So, percentage we will not be able to provide; it will be more on a product-to-product and also over a time-to-time. So, it will be maybe around 5%, 10%?

Aditya Khetan: So, 5%, 10% of your total, is what you're talking about?

Rajendra Gogri: Yes.

Aditya Khetan: Okay. One last question, sir. On the NCB side, so when will this expansion get commercialized?

Rajendra Gogri: It will get commercialized in Q1 of FY '24.

Aditya Khetan: Okay. So, volumes will start from Q2?

Rajendra Gogri: Yes.

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

Abhijit Akella: Just a few clarifications. One is with regard to the specialty chemical blocks, the two of them that have been commissioned. So is this part of the INR607 crore of capex in the downstream and specialty chemicals that we had disclosed in our presentation at the plant visit. I was under the impression that these will be revenue generating. So, is that not the case? And if you could please just help us with how much capex has been invested in these two blocks? And how will those contribute in terms of either revenues or margin expansion for us.

Rajendra Gogri: Yes. That will be around INR300 crore out of that. So partly, it will be for captive and partly, it will be for outside sales. The exact number on the sales, I will not have, on that.

Abhijit Akella: But, I mean, in terms of, say, EBITDA or EBIT or rather the payback period on this capex, would that be a rough number you could share with us?

Rajendra Gogri: Yes. This has been around 25% to 30% EBITDA range.

Abhijit R. Akella And these are backward integration for our existing intermediates, is it? Because I don't believe we make active ingredients at this point, right?

Rajendra Gogri: Actually, this will be one of the products on this our chlorobenzene chain, the 25 Di-Chloro Nitro Benzene (25 DCNB). It will increase the capacity, and it will open up/free up our current nitration capacities in other locations. We will be then used for other products. So that is what is one of the process blocks. So, there will be a shift. We'll be able to add new products in the other line and this 25 DCNB capacity will get expanded in this line.

Abhijit Akella: Okay. Okay. Second one, just on the non-traditional markets where you mentioned that these are at 10%, 15% lower margins. So just wanted to understand it clearly that suppose in our traditional markets, you're making, say, 15%, 18% EBITDA margins. In the non-traditional, are we sort of indicating that it will be 10 points lower, like, say, 5% to 8%, is that the range? Or am I getting it wrong?

Rajendra Gogri: So, if you need to see on the gross margin, the prices are a little lower in that range.

Abhijit Akella: Okay. So, it's 10, 15% points. On the employee cost and the other expense numbers for the quarter, adjusting for this maintenance shutdown, is this a reasonable run rate to sort of trend off for the rest of FY '24 now?

Rajendra Gogri: Yes, I think that should be the run rate, maybe a little lower than that.

Abhijit Akella: Okay. Lastly, for Chetan Bhai just the tax rate guidance for next year, would there be any change given the low tax rate we have had in the past year?

Chetan Gandhi: So, I would assume the tax rates to be around 15% to 17% kind of thing for next year as well.

Abhijit Akella: Fine. So sorry, just one other last thing. I missed the volume numbers that was shared on the call earlier, you would be so kind as to share them one more time. Thank you so much.

Chetan Gandhi: Yes. So, Nitro chlorobenzene was 18,842 MT, Hydrogenation for the quarter was 3,315 TPM, and Nitro Toluene for the quarter was 6,130 MT.

Abhijit Akella: Thank you so much. All the best.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities.

Rohit Sinha: One thing, just wanted to know your thoughts on how the inventory situation right now is shaping up? What you are hearing from your customers and overall, what the outlook would be for Q1 and Q2 as we are hearing two different views from other companies that for some situation getting normalized, they are still saying that it will take another maybe one quarter. So how you are seeing this situation?

Rajendra Gogri: Yes. Currently, at least Q1, definitely, there is pressure because of the inventories. And as we mentioned, it will be progressively that I think the situation will improve, i.e., quarter-on-quarter.

Rohit Sinha: Okay. And it is across your agro and polymer sides? are there any scenes there?

Rajendra Gogri: Yes, both sides basically.

Rohit Sinha: Okay. Secondly, on the raw material side, as we are talking about that crude has corrected in the recent time, but if we look at building prices, it has been slightly on the higher side as compared to crude. And I believe the increased demand and a bit of a demand supply shortage, would likely keep the benzene prices on the higher side going forward as well. So how we should see this for us going forward?

Rajendra Gogri: No, we have normally the raw material pass-through. So, this benzene price variation generally will not have any impact as such.

Rohit Sinha: Okay. That's it from my side. I'll come back to the queue.

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

Chetan Thacker: Sir, first, just a clarification to Abhijit's question, you mentioned that the quarterly OP run rate will be similar to what we witnessed in Q4. But before that, you highlighted that there will still be 15% OP growth. How do both of these tie up?

Rajendra Gogri: 15%?

Chetan Thacker: For FY '24, you mentioned volume growth can be 25%, while would be lower, but still a 15% OP growth number for '24. What is roughly.

Rajendra Gogri: No, I think you mentioned the expense is not the profit, right?

Chetan Thacker: The profit, sir. So, our exit operating profit is lower.

Rajendra Gogri: Okay. No, no. What Abhijit asked was more on the expenses side as a run rate.

Chetan Thacker: Okay. Got it.

Chetan Thacker: Sir, second is more on the cash flow side. So, if you look at the capex that you're doing and the cash that can be generated, so is it fair to assume you'll still be adding on to debt over the next 2 years?

Rajendra Gogri: Yes. I think there will be additional debt. So, this capex will be partially funded by internal accruals and partially by debt.

Chetan Thacker: Okay, sir. That's about it. All the best.

Moderator: The next question is from the line of Siddharth Gadekar from Equirus.

Siddharth Gadekar: Sir, we have mentioned that we are looking at 15% EBITDA growth for FY '24, which broadly relays that we are looking at roughly 40% kind of EBITDA growth for FY '25. So, can you just give a brief colour on what will drive this EBITDA growth in FY '25 and what kind of volume growth are we looking in FY '25 for this kind of EBITDA growth?

Rajendra Gogri: We expect some volume, which will go to a nonregular market in FY '24, so that should get corrected by FY '25. So that will be one driver, which will be for additional EBITDA coming out of that. Over and above this, another 15%, 20% volume growth, is what we'll be looking at an in FY '25.

Siddharth Gadekar: Okay. Sir, secondly, in terms of now given that we are speaking in terms of volumes, can you give it a broad colour on how has been the volume growth for FY '23?

Rajendra Gogri: FY '23 number, Chetan, you have?

Chetan Gandhi: Yes. So, FY '23, the volume growth is upwards of 15%.

Siddharth Gadekar So even this year, we have switched something to the nonregulated market looking at our EBITDA numbers for the last two quarters?

Rajendra Gogri: Yes, especially the Q4, part of the material was sold to nonregular market.

Moderator: The next question is from the line of Nitin Tiwari from YES Securities.

Nitin Tiwari: My question was in respect to the volume growth that we spoke about in FY '24 and '25. So, if you could please be kind enough to highlight the capacity, which would be adding to the growth in volumes, which we have recently commissioned over '23 and perhaps commissioning about '24. So, if you can just enlist those capacities, which will be coming up or have already come and would be contributing to the volume growth.

Rajendra Gogri: Yes. The FY ‘24, we have our Nitro chlorobenzene plant expansion that will be completed and some other specialty chemical blocks. In end of FY '24 and early FY '25, our Acid division capacity will be expanded by around 22%. ,ethylation plant tripling of capacity will happen in FY '25 and Nitro Toluene debottlenecking also will happen in FY '25. So, these are the expansions, which will come up in FY '24 and FY '25. What has been commissioned in this FY '22 and FY '23, that further ramp up in those facilities, which will drive the growth for FY '24 and '25.

Nitin Tiwari: Understood. Lastly, just confirming that our guidance of INR1,700 crore for FY '25 at operating guidance is maintained and there's no change in that, right?

Rajendra Gogri: Yes.

Nitin Tiwari: That's all from me.

Moderator: The next question is from the line of Ritesh Gupta from Morgan Stanley.

Ritesh Gupta: This is Ritesh from Morgan Stanley Investment Management. Sir, I was just looking at the numbers that you guided for and then was trying to back calculate. So, when you say 25% volume growth and you say that let's say, the incremental volumes all go into a business, which probably is at a 10% lower gross margin, and let's say 40% is your blended gross margin, let's say INR25 for volume effectively goes at 30%, so it implies INR8 fall through to EBITDA and your EBITDA margins are hardly, let's say, 18%, 19%. So, the extra on INR18 EBITDA margin play, which still implies assuming your employee costs and the expenses are flat, still implies a 50% growth EBITDA.

I'm just trying to see what I am missing in terms of your guidance on volume and then the EBITDA growth delta? Because you also said that opex will be flat. So, either opex will not be flat or either your volume growth rate has to translate into similar EBITDA on that.

Rajendra Gogri: I think on opex, I would not have a direct Q4 number on exactly how much it was. But overall, we are not looking much of an increase in opex in FY '24 and '25 on an annualized basis. Another thing is the entire 25% is not going to go in a nonregular market.

Ritesh Gupta: No, sir, I'm saying even if I assume your exported to nonregular market, it still implies, let's say, it's still INR100 of volume you're doing, if you're doing INR125 of volume next year and with a 30% gross margin business, you still make INR8 extra gross margin. You had about INR18 of EBITDA. It's a INR8 completely fall into an EBITDA of INR18, which still implies more than 40% growth. So, I'm just trying to understand where the math is failing.

Rajendra Gogri: I think that you have to connect separately on that. I think that will be a better idea.

Ritesh Gupta: Yes. Okay.

Moderator: The next question is from the line of Surya Patra from PhillipCapital.

Surya Patra: I missed the opening portion of the call, so there could be a repetition. I wanted to know, let's say, considering the multiyear supply pact. So, what is the cumulative revenue that we would have booked in FY '23?

Chetan Gandhi: For the multiyear contract or the long-term contract?

Surya Patra: Yes, yes. All three long-term contracts put together. So, you are not seeing individually, but it is all three put together.

Chetan Gandhi: I would not have that number readily with me. I will separately share it out.

Surya Patra: Okay. So the basic reason for that question was that I was trying to understand, when you are saying, sir, 25% kind of a volume growth for FY '24, then what portion of that growth is coming from the ramp-up in these three contracts? And excluding this, what is the kind of volume growth that we are building for our base business?

Rajendra Gogri: Yes. So, the base business also on this Contract 3 was just commissioned in Q3 of this year. So virtually not any significant volume coming from Contract 3 so that everything will go into a growth path. Contract 2 is more of a flattish, whereas Contract 1, we are around 20% utilization. So that may go to maybe 30% to 50% utilization. Our other volume growth will come both in nitro chlorobenzene, nitro toluene and on chloro benzene which are not connected to the contracts, all of that and the downstream will see volume growth.

Surya Patra: But when we are saying, sir, nitro toluene, so large part of the nitro toluene-led growth is expected to come in 2024, FY '25, right?

Rajendra Gogri: That is for the expansion, but the current year, our annual production in nitro toluene on an annualized basis was lower, We expect that on an annualized number to be higher next year.

Surya Patra: Okay. May I know, let's say, the cumulative revenue potential of all these three long-term contracts is kind of INR1,000 crore per annum. So, by FY '25, what is the kind of utilization level that we are anticipating out of this INR1,000 crore, sir?

Rajendra Gogri: As we mentioned, the Contract 1 is basically that is where originally, we are thinking will move towards 70% or so that is still more on a lower side. The third contract, we should be reaching about 60% to 70% of that utilization in FY '25. The second contract is more of a flattish kind of a thing.

Surya Patra: Okay. So that means for second contract, are we saying, sir, it will still be having a kind of 50%, 60% kind of utilization only till FY '25?

Rajendra Gogri: So our returns are not much linked to the actual utilization.

Surya Patra: Okay. Yes. Okay. Fine. Sir, and second question is on, let's say, on the margin expectation for '24. Sir, I'm just trying to see that the quarterly performance also, let's say. Sir, the gross margin front, there is no issue that we are finding. But it is the elevated cost. So that is what is dragging down the margin performance. So going ahead, let's say, if we see some moderation in the cost, overall cost. And that way, even the revenues are also likely to come down accordingly. So, then percentage wise the opex that is likely to remain elevated only.

So given that understanding and there is no greater change that we should see in the gross margin. So, then the margins are likely to remain suppressed only even for FY '24. Is the understanding right, sir?

Rajendra Gogri: So basically, there will be a volume growth and as the volume growth, but part of that, that is what we are saying that it will not go regulated only but will go to nonregulated also. So, the entire benefit of volume growth will not come. That's why the EBITDA growth will be lower. That is a broad thing. On an opex basis, exactly, I think we'll have to see.

Surya Patra: Okay. The last one, sir, this the shutdown of what we have taken in the fourth quarter, it is the specific period – is it an annual shutdown and that happens in the fourth quarter always or how is it, sir - for both the divisions?

Rajendra Gogri: Our Acid division is a plant shutdown and our Kutch division was more of an opportunistic, it's not an annual shutdown. But we had to do a lot of asset maintenance and revamp so for that, we had taken.

Surya Patra: Okay. Just last one, sir. MEA expansion – the Ethylation one – we are multiplying the capacity. Of the current capacity, we have already utilized majority of it, so, when we are talking about the full utilization of the expanded unit. So why are we saying FY '25 is a period when the money or business will be really realized out of that expansion because the entire 1 year is there, and we have been seeing a kind of good progress on the MEA side. So, is it that you were finding any difficulty in ramping it up?

Rajendra Gogri: It will be commissioned in FY '25. The expansion is going to get commissioned in FY '25. That's why there will not by any increase in volume in FY '24 coming out of that plant that expansion.

Surya Patra: Sure. Okay. These were the questions. Thank you.

Moderator: The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund.

Dhruv Muchhal: You commented earlier that you see excess inventory in the system. So, I'm just trying to clarify, is it the products that you manufacture or the final products where your products go; where do you see excess inventory or is it there at both ends?

Rajendra Gogri: No, Actually, it goes from the ultimate customer and that back-end entire supply chain because of this high interest cost and all, and people are trying to reduce the inventory in the supply chain. That is coming more from the customer's side's back end.

Dhruv Muchhal: Okay. So, the products are facing excess inventory, which is causing an impact for your products demand?

Rajendra Gogri: Correct.

Dhruv Muchhal: So, it's not -- so I'm just trying to understand, it's not at both ends. I mean not -- it's not -- that your products are also facing excess inventory and the final products are also facing excess inventory?

Rajendra Gogri: Both are actually connected in it because at their side, the inventory is built up. So, there they want to postpone for a few depending on customer for different weeks or months, they want to postpone the purchase, that's how they were trying to reduce their inventory.

Dhruv Muchhal: Okay. And sir, when you're guiding for this 15% upwards of approximately 15%, as you mentioned, on 25% volume growth, are you also building in the benefit that you will get because the opex is likely to reduce? Last year, we had higher coal costs, higher freight cost, everything, which has normalized significantly. So does your guidance and 50% of business is exported, I believe you would have got impacted there. So, does your guidance factor in that benefit that you will get because of the reduction in cost?

Rajendra Gogri: Yes. Generally, those are also direct cost, coal and frieght cost, a substantial portion of that gets passed on to the customer and part of the benefit remains. So that part benefit we are counting. But generally, even whatever the huge increase in ocean freight that took place in FY '21 or '22, we had to pass on because we cannot bear those kind of costs.

Dhruv Muchhal: Sir, lastly, when you mentioned that there is a margin difference of about 10%, 15% in the nonregular market versus the regular market. This is at the EBITDA level or the gross profit level, contribution level.

Rajendra Gogri: Gross profit level.

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

Punjan Shah: As we have presented, we are showing a growth strategy and we are saying that we are seeing something developing in battery chemicals, electronics, chemicals and new edge. So, can you just give a broad guidance, what are the types of products, how the market share is evolving and when we will been ramping up all this capacity and revenue stream - in which year specific?

Rajendra Gogri: Yes, our existing product line, all this expansion will get over in FY '24, except the ethylation and those volumes will come up. But the new one at our zone 4 for chloro toluene and multipurpose plants, that commissioning will start from FY '25 and the major volume growth from that will come from FY '26 onwards.

Punjan Shah: How is the market evolving and what are you seeing on that part? How will the demand be favourable for our company as compared to global competitors like China and XYZ?

Rajendra Gogri: Yes, the product line, what we are putting up there. Basically, they are, in general, growing globally between 3% to 7%, 8% growth rate.

Punjan Shah: So, any ballpark activation market sizing any idea like if you can give?

Rajendra Gogri: Chloro toluene plant we are putting the capacity for us will be around 20% of the global capacity.

Punjan Shah: Okay. Got it. Thank you so much.

Moderator: The next question is from the line of Arijit Malakar from Ashika Stock Broking.

Arijit Malakar: My question is what would be the asset turnover that you are expecting in FY '25 and beyond, post ramping up of the capacities.

Rajendra Gogri: Asset turnover then will depend on the benzene and toluene prices. Direct asset turnover will be more towards still, I would say, around 1.5% kind of thing, on a gross block level.

Moderator: The next question is from the line of Aditya Khetan from SMIFS Institution.

Aditya Khetan: Sir, first was on to the PDA volume - we have not shared that in our opening remarks and secondly, what would be the breakup of exports and domestic for FY '23?

Chetan Gandhi: The PDA volume for the quarter is 348 TPM and FY '23 exports was roughly around 48% and domestic is 52%

Aditya Khetan: Just a question on your working capital. So, in this FY '23, we had witnessed that the cash conversion cycle has been almost 110 days. I think this number is close to 2016, '17 level. So, working capital has drastically gone down in FY. Is there any particular reason like there has been sharp dip in the receivables and also in inventory days also. Any particular reason you foresee and what would be the rate which we can take for the next few years?

Chetan Gandhi: So, on the receivables, certain product profile, the product mix change has moved to a bit of a product where the working capital, the receivable credits are lower than what used to be historically. So that product exchange is benefiting on the receivables front. Plus, on account of demerger, historically, the Pharma business had a bit of a higher working capital, both on the inventory as well as on the receivables. Further after the demerger it got reduced from the Aarti number. So that is where you are able to see the decline on working capital as well.

Aditya Khetan Okay. Got it. And just one more question on to our first long-term contract, so terminated contract -- so currently, I believe it is operating at 20%, 25% utilization and Gogri sir has mentioned that it would be at around 70% by FY '25. So just want to know, so the intermediate, what is used to make this Dicumba 2,5 DCNB, so that currently, what is the utilization level?

Rajendra Gogri: No, that was utilized at 100% and now the new plant will come up there, the further ramp-up will happen.

Aditya Khetan: Okay. So DCNB, we are operating at around 100% level?

Rajendra Gogri: Yes. It was -- we are making it at other location and now it will be starting in Jhagadia, and other location nitrogen facility will get fed.

Aditya Khetan: Okay. And the 70% utilization. So, for the next 2 years, so this business would grow at a much faster rate for long-term?

Rajendra Gogri: Yes. This is still on next year, FY '24, it is 30-50% and then we see that how it can be further ramp.

Aditya Khetan: Okay, thank you, sir.

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

Rajendra Gogri: Thank you everyone for taking out the time to join us on our Q4 & FY23 earnings conference call. Hope we have addressed all your queries. If you have any further questions, please feel free to contact our Investor Relations team, and we will address them. Stay safe and we look forward to connecting with all of you again in the next quarter. Thank you once again.

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