August 20, 2024

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

BSE CODE : 524208

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

Dear Sir/Madam,

Sub.: Transcript of Q1 FY25 Earnings Conference Call.
Ref: Regulation 30 of the SEBI (LODR) Regulations, 2015.

Please find enclosed herewith the Transcript of Earnings Conference Call held on Monday, August 12, 2024 on Audited Financial Results of the Company for the quarter ended June 30, 2024.

Kindly take the same on record.

Thanking You,

Yours faithfully,
FOR AARTI INDUSTRIES LIMITED

RAJ KUMAR SARRAF
Digitally signed by RAJ KUMAR SARRAF
Date: 2024.08.20 16:27:33 +05'30'

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

Aarti Industries Limited

Q1 FY25 Earnings Conference Call Transcript
August 12, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Aarti Industries Limited's Q1 FY25 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 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 FY25 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
- Mr. Suyog Kotecha – Executive Director and Chief Executive Officer, and
- Mr. Chetan Gandhi – Chief Financial Officer.

We will commence the call with opening thoughts from Mr. Rajendra Gogri, followed with highlights of the quarter being shared by Mr. Kotecha, post, which we shall open the forum for Q&A where the management will be addressing queries of the participants.

Just to share a standard disclaimer:

Certain statements that may be made in today's Conference Call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation which has been shared with you earlier.

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

Rajendra Gogri: Thank you. Good afternoon, everyone and welcome to our earnings call. I hope you all would have gone through the quarterly update presentation which was uploaded on exchanges earlier today. As you would have noted, we continue to deliver yet another quarter of sequential growth. This performance came despite pricing headwinds as well as supply chain pressures. Additionally, continued global challenges from overcapacity in China affected demand supply dynamics. Nonetheless, we remained focused on execution and anticipate a volume-led recovery in this year.

Recognizing the evolving market landscape, we have undertaken a strategic transformation. In addition to strengthening our senior leadership team, we have forged strategic partnerships to offer customized solutions from concept-to-commissioning stage. Our goal is to deliver sustainable growth while maximizing our potential. Today, we are a future-ready organization committed to exceptional customer value.

Now, let me share a few significant developments from the past quarter. The first one being the landmark achievement, wherein we took a promising leap by entering into a 50-50 Joint Venture with UPL. This JV is a first of its kind and path breaking development that builds on the synergies and competencies of two leading Indian chemical companies to support the manufacturing of critical chemical products in India. We have a very long-standing relationship with UPL, and this JV enables us to combine our individual strengths to create globally competitive businesses. We believe that such unique collaborations between Indian chemical players will contribute to the growth of the Indian chemical ecosystem. The JV i.e., Augene Chemical Private Limited shall engage in the supply of downstream derivatives of amines that have diverse applications in agrochemicals and paints. Both the companies are expected to invest about Rs. 150 crore each into this JV over the next two years. The commercial supplies are expected to begin by Q1 FY27, targeting peak annual revenue potential of Rs. 400-500 crore within the next 2-3 years.

Further, as our endeavor to bring in quality leadership with high engaging professionals leading the key functions of AIL, I am delighted to have Mr. Suyog Kotecha joining in as Executive Director and Chief Executive Officer of Aarti Industries Ltd. Suyog joined our team on June 17th, 2024 bringing with him extensive expertise in strategy, innovation, and business transformation. His profound understanding of the Chemicals industry through his past experiences at Reliance Industries, McKinsey, etc. and global connections make him the ideal leader to guide AIL toward a successful future. In addition to overseeing Aarti's current operations, he will be instrumental in spearheading new growth opportunities.

I warmly welcome him and would request him to share more about the business and quarterly update to you. Over to you, Suyog.

Suyog Kotecha: Thank you, Raju bhai. A warm welcome to all of you who have joined this call. I feel honored to be part of the AIL family and to be associated with you all.

Let me start with our performance for the quarter under review and then we will follow that with the evolving macro situation.

As you would have noted on most performance parameters, we were able to deliver QoQ sequential growth. Our revenues for the quarter were around Rs. 2,012 crore, 3% higher on QoQ basis, 28% higher on YoY basis. Volume growth on QoQ basis was about 6%, while on YoY basis it was over 30%.

We also witnessed our EBITDA to grow by about 10% on QoQ basis to Rs. 311 crore, registering over 55% growth in YoY terms. Higher volumes-led operating leverage with favorable product mix was a major contributor to EBITDA growth.

Depreciation and interest cost remains higher on the back of capitalization of projects and is in line with the prevailing interest rate. PAT overall was reported at Rs.137 crore higher by almost 4% on QoQ basis.

Coming to the macros, I think the global macro environment still remains challenging with the Middle East tensions linked to Red Sea disruptions. They continue to pose challenges.

We have been witnessing positive demand momentum in key end use applications like pharma, polymers, additives, dyes and pigments. Even in agrochemicals, there are small green shoots of demand recovery. However, pressure on margins remains and it is mostly driven by Chinese competition which continues to dump products in global markets due to their domestic overcapacity situation.

Further, energy as an application has become a relatively large application for us, which is bringing additional volatility to the business performance as it is linked to external factors like crude, gasoline cracks, naphtha cracks which have their own element of volatility.

At the same time, let me also state that most of our long-term contracts continue to deliver both volumes and margins within the expected range.

Coming to the key production data, Nitro Chloro Benzene production volume stood at 19,503 MT versus 17,293 MT in Q1 FY'24 and 17,646 MT in Q4 FY'24. Nitrotoluene saw production of 7,637 MT against 9,320 MT in Q1 FY'24 and 6,675 MT in Q4 FY'24. Hydrogenation output stood at 3,428 tons per month in the current period compared to 2,868 tons in Q1 FY'24 and 3,389 tons in Q4 FY'24. For most of the products I think we saw sequential volume growth on a QoQ basis in Q4 FY24.

Coming to the project updates.

I think all major CAPEX projects remain on track. Our acid unit expansion got commissioned in the last quarter. We are on track to commission our expanded Nitrotoluene, Ethylation capacity towards the end of the current quarter. We will also commission our new pilot plant at Zone-IV within this quarter, which will support in accelerating commercialization of new products developed with our R&D and Technology. The larger CAPEX program at Zone-IV, the new Greenfield site is progressing as per plan. We are expecting phase-wise commissioning from next financial year.

From an overall capital expenditure point of view, we had projected Rs.1,500 crore to Rs. 1,800 crore in the financial year and in Q1 we have already spent Rs. 270 crore. On time completion of all of these projects, we will fortify within the global chemical value chain, and we will also support higher volume requirements from our customers going forward.

Before I conclude and we move into the Q&A, let me say that we remain focused on delivering sustainable growth over mid-term-to-long-term. Our goal as stated earlier is to deliver 20% to 25% CAGR growth in EBITDA, which if we take a five-year view, then it is almost 2.5x-3x growth in EBITDA. To deliver this, broadly, there are three themes we are focusing on:

- The first one is on time at cost execution of all of our expansion projects. We will be adding a sort of completely new series of products based on our Chlorotoluene value chain and also from multipurpose plants at Zone-IV.

This will also broaden our product portfolio by going more downstream in existing value chain.

- Second theme is around leveraging our cutting-edge R&D and technology development capabilities to make investments and build portfolios in new sunrise sectors, which have significant growth potential over the coming decade, likes of circularity, renewable, battery chemistries and technology.
- And the third maybe one of the most important themes around retaining and nurturing the existing culture of founder's mentality and value orientation of care, integrity and excellence, I think this has played very critical role in AI, delivering significant growth and also shareholder value over the last two decades. As a relatively young organization with an average of 32 years, we not only plan to retain but nurture this and operate with the same ethos which will deliver growth over mid-term-to-long-term.

That concludes our initial remarks. We will now request the Moderator to open the forum for question-and-answer session.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. The first question is from Vivek Rajamani from Morgan Stanley. Please go ahead.

Vivek Rajamani: Two questions from my side. Just with respect to the demand trends that you've seen so far and the conversations that you are having with your customers – do you feel that you can deliver the higher end of your EBITDA guidance of Rs. 17 billion that you've given for fiscal '25? And what factors do you think going forward would be critical for that? That's the first question.

Suyog Kotecha: I think when I come to performance and expectations for this year, as I've been saying, even in some of the morning calls, see we have to segregate demand and margin. I think on demand front, we are pretty confident of delivering growth in the range of 20% to 30% and this is coming with a combination of commissioning of some of the new projects as well as better capacity utilization in some of the existing product chains. That story remains very robust. But on margins, I think the story is different. I think the pressure from China is actually not sort of going away and we have seen that across broader product portfolio, not in a specific chain, but across broader product portfolio, the pressure on margin is still very intense. And that coupled with the volatility that is coming from energy applications, which is now forming decent part of our portfolio, I think makes it difficult to commit on sort of the EBITDA guidance for the year. I think we would like to watch out especially for the margin trends over the course of the next two or three months before we commit on EBITDA guidance for the full financial year.

Vivek Rajamani: Sure, sir. That's clear. And just as an extension to that, I think a few quarters back when we were in the midst of the extremely difficult demand conditions, I think you mentioned in the calls that you've had to kind of rely on maybe you are not in fact Tier-2, Tier-3 customers, basically the customers where your pricing power is obviously not as great and they were not your regular customers. I am just wondering, given that you've started to see demand green shoots come through across the board, just wanted to get a sense if you've been able to go back to your more normal customer profile or do you think you are still having to rely on such Tier-2, Tier-3 customers to kind of push volumes? Thank you.

Suyog Kotecha: Yes. So, I think the story is different value chain-by-value chain. Yes, broadly speaking, as we see demand recovery on many of the end use markets, we prioritize our sort of Tier-1 customers in those chains. There are some chains where tactically we may still have to go back to Tier-2, Tier-3 customers, sometimes including that in China. And that decision, we continue to take on month-on-month basis to optimize our inventory and production pattern. So, overall improvement and I think the share of Tier-1 customer volumes increasingly we will see going up. But I would say the problem has still not completely gone away.

Vivek Rajamani: Sure, sir. And just one last clarification. Would it be possible to give any rough sense of how much these Tier-2, Tier-3 customers would be making up of your portfolio? I know it's very dynamic, but any rough sense would be possible?

Suyog Kotecha: Frankly, difficult to comment, right. I think from product-by-product, the percentage will change, even month-on-month we see a different volatility. Maybe we can go back and do a detailed analysis, but off-hand it's difficult to give that.

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

Abhijit Akella: So, from my side, just to understand this commentary about the pricing headwinds and the overcapacity from China, are there specific categories of ours where these pressures are more apparent or are it pretty much across the board, across the NCB, Nitrotoluene – just hoping to understand that a bit?

Suyog Kotecha: I think the pressure on pricing from Chinese capacity is across the board. It is much more aggravated in the Agchem chain from an application standpoint. But the pressure is there even in other segments. I think the intensity of the pressure varies, Agchem being most sort of impacted, but given their overcapacity across a broad range of sectors, I think it remains throughout the portfolio and I think it's even nothing to do specific with Aarti, the broader chemical industry is struggling with this issue and we continue to figure out how to address this challenge. But I hope that gives you a sense in terms of intensity of pricing pressure.

Abhijit Akella: On the sort of EBITDA outlook for the subsequent periods, while I understand it's hard to commit on the full year at this point. At this point, given that half of the second quarter is behind us more or less, should we expect more or less a similar kind of number? Could we expect some modest sequential improvement, is that how we should think about it for 2Q?

Suyog Kotecha: We would have loved to give you better clarity, but the situation is actually quite volatile and dynamic. I think the two aspects which we would again reemphasize that we need to start appreciating is – one, overall volume on a YoY basis we will continue to see decent amount of growth, right. Pricing pressure from China sort of will continue to remain. I think the biggest unknown factor for which we need to get better handle on is energy application, given that it is also a new application for us. And there, I said one is the linkages to the external factor, which is the gasoline naphtha cracks and the fuel pricing which historically hasn't impacted us that significantly, but going forward will impact us. And there's also a bit of seasonality expected, right? Gasoline is ultimately a seasonal business, across different geographies. So, we are just watching out and we are learning more about this particular application. And with experience, we will be in a better position to give you guidance.

Abhijit Akella: Just if I may on the energy segment itself, these gasoline naphtha cracks, do they impact sort of the demand for the products we are selling, which I presume are primarily fuel additives or is it more on the spread side, where exactly is the volatility creeping in?

Suyog Kotecha: So, there are three four different applications of this fuel additives, right. There is sort of one particular application is in sort of cargo blending, which is sort of different grades of gasoline and sort of finishing of those different gasoline grades. There's a particular application around upgrading the overall different cuts that you get from refineries, including that of naphtha and gasoline. And the third one is on the refinery optimization itself.

All three applications get impacted differently depending on how the upstream markets are moving. So, yes, even naphtha gasoline crack does impact the demand for this particular product because depending on the incentive available to upgrade certain qualities of naphtha, to make them ready for blending into gasoline will be determined by the naphtha gasoline crack at that particular point in time. So, it does impact on the demand for this particular product.

Abhijit Akella: Just in the context of the situation in Bangladesh, from your customer conversations, what's the situation like in the dyes industry, which is another important end use application for us?

Suyog Kotecha: We don't have direct exposure to Bangladesh or any significant exposure to Bangladesh. So, right now we are not seeing any risk from the particular events happening in Bangladesh. And I think the exposure is less than 1% of total business portfolio. So, no major risk seen so far.

Abhijit Akella: But on the dyes industry overall, is the environment more uncertain at this point because of this or not really?

Suyog Kotecha At this point in time, we haven't seen any indication from our customers, right? We will continue to watch out for it, and we are in conversation with our customers. I think the events have also happened very recently, but so far, we haven't got any feedback from the customers, but we continue to monitor it and see if there will be impact going forward.

Moderator: The next question is from Nitesh Dhoot from Dolat Capital. Please go ahead.

Nitesh Dhoot: So, my first question is if you could just elaborate on the sequential decline in other expenses to around Rs. 281 crore from Rs. 319 crore despite the increase in volumes that we've seen, especially on the export side. So, in the previous quarter, Q4, that is, I mean the reason for higher Opex given out was the Red Sea related freight cost increase and freight costs have only increased further in Q1. So, what explains the decline in Opex?

Chetan Gandhi: Hi, Nitesh, this is Chetan here. So, some of the annual costs which were there in Q4 related to employee benefits and other stuff would not be there in Q1. So, that is some component and in some pockets the freight has been lower. So, if you would have looked at it, we've got a bit of an increased share of business with the Middle East, Asia where the incidence of freight on an average is a bit lower as compared to other parts of the world. So, that is where you will see some changes which are happening.

Nitesh Dhoot: Secondly, sir, I mean what explains the fluctuation on the gross margin from quarter-to-quarter in the last three quarters, i.e., since we started executing the long-term contracts, so 41% going to 36%, coming back to 40% and again 38%, prior to that, if I look at the entire FY'23 and first half of FY'24, the gross margins were largely stable in the 41%, 42% range?

Suyog Kotecha: I think it's a combination of multiple factors. If you look at it from a key raw material point of view, benzene and aniline being two of the largest raw materials for us, there has been some volatility. We have seen prices going up for benzene and aniline on QoQ basis as well as on YoY basis. Even in terms of our final product mix in geography mix, as Chetan mentioned, there has been substantial churn, our geographical footprint has changed from an export point of view, our product mix has also changed quite significantly. So, I think the overall portfolio has become a bit complex and given some of the part of the portfolio is linked to volatility in the external market, I think you will see variation. But over the period as we understand this dynamic much better there will be clarity whether these are seasonal or QoQ variations. It's a combination of raw material, product mix and our geographical footprint.

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

Archit Joshi: Sir, my first question is on our model of the pass-through mechanism that we used to enjoy. I think we used to maintain our EBITDA per Kg or EBITDA per ton and currently given the comments that you have made earlier that we see a good volume growth visibility; the suppression in margin is something which is kind of holding us back to give a premature full year guidance on EBITDA. So, has that construct changed at all so that we are unable to maintain that absolute EBITDA on the products we are selling? That would be my first one.

Suyog Kotecha: So, I think there on benzene downstream we have decent amount of portfolio where we have a pass-through pricing mechanism, and we are able to retain that. On Aniline downstream product portfolio, I think some part of it is linked to raw material, some part of it is not directly linked to raw material where we take market exposure. And that's where I think some of the volatility comes in.

Archit Joshi: Sir, secondly, the contract that we had signed earlier, I think the one that we had with SABIC and then the other third one, the Rs. 90-100 crore annual sales exposure towards, has there been any change on those accounts, are we realizing the full potential of that if you can comment something on that please?

Suyog Kotecha: I think both these contracts continue to do very well. In fact, the contract with SABIC has ramped up quite significantly. I think indication of demand from their side, start of this calendar year versus now there has been significant improvement; I think the plant is running at full capacity now. From EBITDA point of view, it does not make much difference given the nature of the contract we have with them, but it just shows us confidence in terms of actual pickup in demand as far as polymer end application comes in. The other contract that you talked about also, I think whatever was expected from a revenue potential and a volume potential point of view, the current trajectory is we are on track in terms of revenue and volume expectation as part of that contract.

Archit Joshi: The next few projects that we are commissioning, the Nitrotoluene one, Ethylation loop, followed by an entire range of new products, Chloro Toluene and the multipurpose plant. Within all this, do we continue to expect the margins that we had envisaged earlier, be it percentage or per Kg, will that also be subject to the volatility that we are experiencing now with respect to pressure on margins?

Suyog Kotecha: So, Ethylation capacity and Nitrotoluene capacity will get commissioned as per the original timeline indicated which is towards the end of this quarter and the volumes will ramp up gradually over the course of Q3, Q4 and then subsequently in the next financial year. We are expecting somewhere in the range of targeting up to 50% capacity utilization within this financial year and then taking it all the way up to 60% to 80% capacity utilization level in the next financial year. From the volume point of view, they will continue to deliver as per the original plan. From a margin point of view, yes. If you go by today's pricing, I think there is some compression if I try and see what the China price trend is happening. So, profitability might be slightly skewed towards a bit of a downside compared to the original business plan, but again this is something that we will evaluate on a month-on-month basis and see what all we can do. Again, all of these products are targeted towards our Tier-1 customers. And in that context, we are hoping for recovery in the margin relatively near-term timeframe. On Chlorotoluene value chain, I would just say that we are a bit further from actually realizing the potential of that CAPEX today. We are in a sort of construction phase. That capacity is expected to get commissioned in a phase-wise manner only from the next financial year standpoint. So, from a timing point of view, we remain on track. I think from volumes and margins point of view, it is still some time away to have a proper commentary on the same.

Archit Joshi: While you are speaking of being unable to maintain that per Kg margin on the aniline derivative side, if I just connect the dots to what you commented earlier, we have done some sort of a B2B down trading there going from Tier-1 customers to Tier-2, Tier-3. So, is that exposure hurting the margins as of now and as we ramp up to go back to the same kind of customers who we are catering to earlier, the lumpiness that we are seeing in margins is expected to wither off. Would that be a fair assumption?

Suyog Kotecha: Partly, but I would also say look, it's a new business we are building, right. I think this application, particularly in the energy segment, was not part of our portfolio in a significant way, let's say two years back. So, it's a new business we are building, the new customers we are discovering, it's a sector where the drivers of our profitability and drivers of our client's profitability are different, right? We are linked to aniline, but our customers are linked to "Upstream refinery oil and gas market." So, we are also figuring out how to write, structure these contracts and sort of this transaction. And we are going to go through that learning journey and hopefully in a span of next couple of quarters, we land at an arrangement which is a win-win for both sides. But I would say it's more of a learning and a development journey for the new product that we are trying to scale up.

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

Aditya Khetan: My first question is in this quarter, we had witnessed good volume growth in NCB and into the Nitrotoluene business. So, this improvement in volume is largely because of the better availability of nitric acid or there is a structural improvement in demand?

Suyog Kotecha: I think it's a combination of both, but I would rather give credit to better structural demand in the end market because that's what we are seeing in our customer conversations. As I said, we see genuine volume uptick across end markets. Even Agchem which was stress for quite some time, we have started to see some green shoots, the volumes have started moving. While both elements are right, we would give more credit to actual genuine demand growth in the end use market.

Aditya Khetan: Sir, the non-discretionary segment, so which was not performing like agrochemicals and pharma, as you mentioned that you are starting to witness an uptick. Into the recovery cycle, so we are at the bottom and how much improvement can we expect from here on? In terms of margins also, can you highlight how much improvement would be the best?

Suyog Kotecha: On margin front, we still have a long way to go when it comes to non-discretionary segments. As I mentioned earlier, the pressure on pricing and hence on margins is significantly high, especially on the agrochemical side from the Chinese competition. We are nowhere close to our cycle average margins. If you ask us at this point in time, we don't see within one or two quarters the margins going back to normal, we see this is a sort of long road ahead, we continue to watch out for it and build our strategies to optimize cost and figure out how within the existing product portfolio we can optimize margins better. But there is still significant scope for margin recovery. Whether it's visible immediately in the next quarter or next two quarters, we don't think so. I think we think it's going to be long-haul.

Aditya Khetan: Sir, onto the aniline downstream, you mentioned there has been some moderation in spread. So, as a percentage of EBITDA, how much will this segment contribute?

Suyog Kotecha: At this point in time, frankly, it is a bit difficult to comment. We have multiple products downstream of aniline right, it's not one product; it's a complicated product portfolio with also lot of linkages as we go more and more downstream. So, at this stage, difficult for me to give an exact percentage of EBITDA coming from aniline downstream derivatives.

Aditya Khetan: Sir, on to the CAPEX part, now we are close to completion of the Nitrotoluene and the Ethylation facilities. So, is it possible to share the breakup of the Rs. 1,500 crore CAPEX which we would be incurring in FY25?

Suyog Kotecha: I can give you at a higher level, I don't have exact project-by-project CAPEX number at this stage, but out of Rs.1,500 crore to Rs. 1,800 crore whatever we have spent in Q1 has practically gone into blocks which are getting commissioned like of Ethylation, NCB and then a pilot plant in Zone-IV. I think the remaining part of Rs.1,200-odd crore is slightly more than that will bulkly go into Zone-IV. That's the significant chunk of our CAPEX now, which is going into the Chlorotoluene value chain. Exact project-by-project CAPEX, at this point in time, not in a position to share, but broad split is that. Bulk of the CAPEX in the remaining financial year will be spent on Zone-IV for Chloro Toluene project.

Aditya Khetan: Sir, because of this moderation in spreads, which we are witnessing in aniline, is this one of the reasons why we have dropped the EBITDA guidance? Like last quarter so we were maintaining the guidance of Rs. 14.5 to 17 billion EBITDA. Any particular reason sir we have dropped this guidance?

Suyog Kotecha: I think it's volatility that we are observing in the business. As I said, it's a new business application for us. So, we are learning. And because of the volatility, we just think we need to get a better handle and better understanding of this market before committing on our guidance.

Moderator: The next question is from Niteen Dharmawat from Aurum Capital. Please go ahead.

Niteen Dharmawat: Sir, regarding this UPL joint venture, is there any overlap with our existing business with the joint venture revenue that we will be having?

Rajendra Gogri: The products what will be manufactured from that joint venture, there is no overlap. Actually, our current aniline will be consumed in that joint venture.

Niteen Dharmawat: What is the debt level we will be having now with the new CAPEX that we are planning?

Chetan Gandhi: The debt level will be roughly around Rs. 3,300 crore at this point of time.

Niteen Dharmawat: And it is likely to increase, right?

Chetan Gandhi: Yes, because we have substantial CAPEX coming up in this year also. It will increase in this year.

Niteen Dharmawat: So, what is the peak debt level that you are talking currently?

Chetan Gandhi: So, as regards this year, I expect it to be anywhere between Rs. 3,500 to 3,800 crore. It depends on how the raw material prices and the working capital play, around that.

Niteen Dharmawat: What is the trend in the raw material prices? That also I had a question.

Suyog Kotecha: So, if you look at the last three, four quarters, at least the two key raw materials, benzene, and aniline, I am sure you guys also track this information. But on benzene, we have seen sort of a sequential increase in prices going up to Q1 FY25 level. But in the current quarter, we have started to see some softening in the benzene prices. I think aniline has remained quite volatile; if you compare it on a QoQ basis, there is an increase in the prices, but again we see some softening on the raw material pricing in this quarter.

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

Ankur Periwal: First question is on the margin outlook here. You did allude towards the volatility expected given the macro that we are in. Just trying to break this up into two parts; one is the end use mix wherein energy is a bigger contributor now. Going ahead, do you expect energy to be as high a contributor or probably given maybe dye segments, agro, other segments pickup, this segment share will come down a bit?

Suyog Kotecha: So, I think let me answer that question in two parts. In the near-term, I think energy will remain a significant part of our application mix. But even within that, you will see volatility, right? As I said, given the nature of the business and also some aspect of seasonality involved in that market, I think you will see this number going up and down for the next few quarters, but it will remain if not the largest end application for us at least for next few quarters. Over a longer term, we expect as the remaining part of the product portfolio sort of comes back, especially from a margin standpoint and as we are seeing broader demand recovery across end segments including the non-discretionary segments of agrochemicals and pharma, the energy segment share might get bit moderated, but that is sort of one, two year down the line kind of story.

Ankur Periwal: So, the volatility probably can continue for let's say one, two years, let's say '25 and '26 and beyond that maybe things will pick up? So, just moving to the next one, so on the CAPEX guidance that we had, there's Rs.15 to 18 billion CAPEX is for FY'25 only or is it an annual run rate that we should presume now?

Suyog Kotecha: No, I think it's only for this FY'25. In fact, I think from a annual CAPEX point of view, we will peak in this financial year. I think our CAPEX for the next financial year is expected to be significantly lower compared to current levels.

Ankur Periwal: And lastly, on the volumetric growth that you mentioned around 20%, 25% for this quarter, this number I presume is year-on-year, am I right on that?

Suyog Kotecha: Yes, on a quarter-on-quarter it's a 6% volume growth, on a year-on-year basis, it's in high two digits as we mentioned.

Ankur Periwal: So, from a demand uptick perspective if I look at absolute revenue, domestic is still weak or is it just because of the realization that the reported numbers look weak and maybe it is 20%, 25% growth across both domestic and exports?

Suyog Kotecha: I think again it's a combination of a product mix. I think energy application which has now become significant part, their larger share comes from export and that's why you will see compared to last year average where I think our overall share of export was, I think roughly 52%-odd has gone up to 60% now in the Q1 FY25. As I said, this will keep varying depending on our sort of application mix and product mix.

Ankur Periwal: Just lastly, given that the China-led capacity expansion and lower realizations are here to stay probably for a while, what is your thought on the overall ROCE profile for the CAPEX that we are putting in, any change in thought there versus the numbers that we were thinking of earlier or broadly we are in that same range and what will that be?

Suyog Kotecha: I think it's our endeavor to improve our ROCE performance and we remain much focused on that. All of our CAPEX decisions, it becomes one of the important factors as we consider putting together sort of new projects for expansion point of view. I think large chunk of CAPEX expansion that has happened over the last three, four years had also gone into upgradation of existing assets, improving reliability and not necessarily purely growth-oriented CAPEX versus the CAPEX that you see towards the end of last year, current year and the next year going forward, it's predominantly growth-led CAPEX programs, right. So, with all of that, we expect improvement in our ROCE performance. And as I said, we will peak in terms of CAPEX in the current financial year, next year onwards our CAPEX numbers will go down significantly and that's where we should also start seeing a decent uptick on our ROCE number.

Moderator: The next question is from Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: First question is about the production number for NCD and if you can also share the PDA?

Surya Patra: Can you repeat the NCB number and also share the PDA production number for the quarter?

Suyog Kotecha: So, NCB number for the Q1 FY'25 was 19,503 tons against last year same quarter number of 17,293 tons, and the PDA number is roughly around 206 tons per month for the current quarter against last year same quarter this number was 135 tons per month.

Surya Patra: My first question is about the trends and the performance is that ,excluding MMA, what is the kind of volume growth that we would have seen for this quarter, sir?

Suyog Kotecha: So, if you are talking about QoQ volume growth, then actually the volume growth is quite consistent even in non-MMA portfolio; it still remains in the range of 5% to 6%. So, volume growth has actually been broader across the portfolio, not specifically linked to one particular product.

Surya Patra: Even on a YoY basis, the base business excluding the MMA would have seen the similar 30% kind of growth. Is that fair to -?

Suyog Kotecha: We talked about QoQ numbers. I think on a YoY basis there will be significant difference because on YoY basis our energy application has scaled up quite significantly where MMA would take significant chunk of the YoY.

Surya Patra: My second point was this, in fact, we have seen obviously the volume recovery that is clearly visible from the NCB and all those hydrogenation numbers, PDA numbers and all the Nitrotoluene over the last couple of quarters or three quarters. When do you see the scope of price recovery happening generally for our portfolio or you see really a significant challenge given the kind of regulation of the Chinese? Because long back, if I remember, because of our cost leadership and all that in our product basket or because of the end-to-end integration model that we have been having, we still have been there as a kind of exporter of a product to the China despite the kind of pricing situation there and the competition and all that. But now what is the difference and what is the case that we are finding? Hence, any scope of price recovery that you think that can come up given the kind of backward integration and forward integration that you are talking about?

Suyog Kotecha: So frankly difficult to comment, right. As I said, our expectation was we should start seeing the recovery in margins and prices in this financial year. So far it has not been visible, and it looks difficult for the next few quarters. But I also want to answer sort of a broader question here. The through-and-through valuation integration that we have is actually genuinely giving us a competitive advantage and that is one of the reasons despite so much pressure from China, we are still able to deliver volume growth, and we are still able to maintain sort of our current level of EBITDA margins. That shows that we are able to compete. But at the same time, no doubt that we get pulled down on prices and margins because of China's competition. So, the margin that we enjoyed, let's say two, three years back or even before that, today, we are not able to enjoy those margins because of this competitive intensity and the pressure. And whether it takes two quarters, three quarters or five, six quarters, difficult to judge and difficult to comment on at this point in time. We are closely watching Chinese capacity utilization on many of these products and see sort of how it is ramping up, ramping down versus sort of what is the outlook on that front and that's the only indication that we continue to monitor to see potentially leading indication in terms of where the pricing recovery will happen.

Surya Patra: My next point was about the business mix. So, what is the current non-benzene, non-toluene balancing in terms of sales mix and what is that likely to be let's say over the next two-year period or three-year period?

Suyog Kotecha: No, we don't have these numbers off hand right now, so I am afraid we may not be able to give you those exact sort of numbers.

Surya Patra: My basic point here I was trying to understand sir, since we are now obviously talking about the new product development, the collaborative development with partners, new downstream value chains, Zone-IV now getting commissioned and potentially this would be contributing incrementally beyond the existing product chain. So, hence I was trying to understand that let's say, excluding the base business or beyond the base business, what is the new business segment that is likely to contribute and how significant it could be in the business mix over next three year period?

Suyog Kotecha: I think maybe in the next conference call, we will have better information regarding the same. But broadly speaking, look, we remain benzene, aniline and toluene downstream value chain-focused company and there we have multiple chemistries downstream of those three basic building materials. But given the different nature of the chemistries we operated even within these three valuations, there's a lot of interplay of products, right? So, sometimes it becomes difficult to segregate the impact of one particular value chain over the other. And as we are getting into some of these partnerships that we are doing with global majors or some specific capacity expansions that we are doing for few specialty chemicals, I think the share of these value chains will decrease as you had indicated, but still today these three value chains and maybe not that much toluene today, but today is dominated by benzene and aniline downstream. Once our Zone-IV commissions, I think toluene downstream will also become significant part of the business.

Surya Patra: Just last one small pointer. In fact, do you find the challenge to the ramp up of this new project Ethylation one and Nitrotoluene one, given the market situation or demand situation, because my understanding was that tor Ethylation project, there has already been kind of a contract available for off take and all. So, hence I am asking that, do you find any challenge to the ramp up or scale up of these two units which is going to be commissioning soon?

Suyog Kotecha: So, it is the same story as the broader business. I think from a volume point of view, we will still meet our target. I think our target of reaching 40% to 50% capacity utilization within this financial year itself, I think we feel confident that we will be able to achieve that. We may not achieve our targeted margin in terms of rupees per Kg that we have targeted for this particular product, and it will take some time to reach that level. But our focus remains on full utilization of that capacity as soon as possible. We do have a contract with two large customers and then we continue to engage the other customers for this product to ensure that we start getting good market share from at least all the major Tier-1 customers.

Moderator: The next question is from Siddharth Gadekar from Equirus. Please go ahead.

Siddharth Gadekar: Just wanted a clarity on your previous comment where you mentioned that the energy is a part of the revenue is very dynamic in nature. So, our understanding was that the long-term contract that we signed in December was mainly pertaining to the energy contract. So, how should we look at that volumes and the ramp up in that contract?

Suyog Kotecha: There's just one contract in that end application. It doesn't mean that we are relying only on one customer for that particular application. I think we are developing a broader footprint of customers for applications in the energy segment and that's where you see variability. So, one customer as per contract might be going a bit smoothly and maintaining their commitment in terms of volumes. But given we are trying to develop a wider basket of customers, that's where we see volatility.

Siddharth Gadekar: So, broadly, the contracts that we announced in December and Jan, they should be on track to deliver the announcements that we had made, right, like Rs. 1,500 crore for the December contract?

Suyog Kotecha: Yes.

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

Rohit Nagraj: The first question is how much of our product basket has a direct competition from China?

Suyog Kotecha: Well, I would say anywhere in the range of 70% to 80% is where we would expect that all of these products will also have competition from China.

Rohit Nagraj: And just an allied question, given that there have been new capacities which have come up in China, so structurally the EBITDA per Kg which was there pre-COVID and now has come down, I mean what is your understanding of the same given that the demand/supply side is now more tilted to supply, so probably the EBITDA per Kg or EBITDA per ton will slightly moderate than the previous period, your thoughts on this?

Suyog Kotecha: I think again the story will change product-by-product, but there are many products in which our EBITDA in terms of rupees per Kg has come down compared to let's say pre-COVID levels. But I think our endeavor has always been to find new applications, new products, and new set of customers where we have certain differentiating advantage over China and that's a continuous exercise, right? Something where we had this advantage two years back if the capacity gets built in China at some point in time, they get closer to commoditization. So, that situation also evolves every two years. So, we have to be continuously on the front foot in terms of building differentiated offerings for our customers where we enjoy that premium at least for a certain point in time before it gets copied. On a broader level, yes, EBITDA at a rupees per Kg level for many of the products is not equivalent to where it was three, four years back and that's also reflected in our EBITDA margin percentages.

Rohit Nagraj: Second question is again on the similar line. In terms of the newer products and technology, so Ethylation, Chlorotoluene, whether we have seen new capacity coming up in China and will again that have some bearing at least in the initial period till we get to a reasonable operating level?

Suyog Kotecha: No, not at this stage. We haven't seen any new capacity coming in China in the recent times. But what we need to understand is ultimately it's a value chain, right? I think we are a supplier to an agrochemical formulator, and they have to also understand the dynamic of their products in different global markets where there is a substitutability in terms of what final formulations they're making. So, I wish it was that simple. But even if there is no Ethylation capacity that has come up in China, if there are few products which are ultimately going into downstream Agchem formulation, and if there's a competition from different substitutes for those products, it does impact our Ethylation capacity. I am not saying that's the case, but I am just sort of making a point that point-to-point comparison in terms of Ethylation capacity is fair and we don't see any recent capacity on that front. But we also have to look at the broader valuation angle to understand where there might be competitive intensity and accordingly pressure on pricing and margins.

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

Rohan Gupta: Sir, first question is that in your guidance you mentioned that even apart from the other discretionary industries and all, you have also started seeing pickup in agrochemicals which was seeing weakness so far. So, with this pickup, do you see that our volume growth can ramp up higher than what we were looking earlier because we are sitting with idle capacity even at the ramp up in plant-III, you see that there is an opportunity to ramp up that plant as well, just wanted your clarification and your guidance on that?

Suyog Kotecha: Look, our current target to deliver anywhere between 20% to 30% volume growth on a year-on-year basis for the full financial year, I think it's aspirational and it's challenging, but we are taking that as a target. I think beyond that frankly difficult to sort of judge at this point in time but 20% to 30% is what is seeming sort of possible and achievable at this point in time.

Rohan Gupta: The plant-I project, are there any chance of that plant seeing any ramp up because it was still going through because of global agrochemicals weakness going on. So, how we plan to ramp up that plant, and in the current environment, can we see the faster ramp up of that?

Suyog Kotecha: So, we are evaluating multiple options to ramp up utilization of that particular asset. I think that asset has different capabilities. Even in that value chain can be broken down into two or three intermediates. We have also started ramping up our sales for one or two intermediates, which ensures utilization of part of the assets. And hence from a total plant point of view, there are parts of the plants which are now utilized to a very good extent, there are still some parts of the plants which are not utilized to the full extent, but we continue to look out for options which will allow us to utilize that asset fully.

Rohan Gupta: Sir, since we are getting into Chloro Toluene as well, I think that there is some other player in Gujarat and they are also getting into the Chloro Toluene space which was earlier not touched by many Indian players. So, do we see that the competitive intensity in that segment, in Chloro Toluene is also increasing and that more players can enter into that? Can that have an impact on our growth plan because after '25, a lot of our growth was expected to come from the Chloro Toluene project?

Suyog Kotecha: There is competition, but I think the way we have structured our growth project is fundamentally slightly different. I think we are building an integrated chain. We are not stopping at the first 2 steps in the chain. We have a portfolio of 40 different products as part of that investment and we will go significantly downstream into specialty derivatives, right? We will not stop at sort of the first two levels of derivatives. In that context, we feel confident about our investment and ability to generate returns as well as sort of volumes and margins out of that investment. So, competitive intensity, yes, for sure, but I think we have a unique strategy which will allow us to fight in the market.

Rohan Gupta: So, just last bit from my side is that we also have a significant exposure in textile, dyes, paint, pigments; would this be seeing some impact from the Bangladesh issue going on right now? Though maybe early, but do you see that there is some possibility of some business in the textile can be impacted in near-term?

Suyog Kotecha: No, as I said, I think we continue to monitor that trend. So far, we haven't seen any red flag. And based on our conversations with customers so far also there are no major risks highlighted. Our direct exposure to Bangladesh is relatively limited, in fact close to negligible. And even indirect exposure wise so far, we haven't seen any risk.

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

Abhijit Akella: Just two here. One on the Nitrotoluenes and Ethylation project, if you could please just help us with the final CAPEX numbers, the capacity, and the revenue potential from the project?

Chetan Gandhi: So, the capacities which we are targeting on Nitrotoluene, currently, the capacity is around 30,000 tons and we are looking to ramp it up to around 45,000 tons. And for Ethylation, we have a capacity of around 8,000 tons to 10,000 tons and it is expected to go by around 3x maybe around 25,000 tons roughly around that magnitude.

Abhijit Akella: So, 50% expansion in Nitrotoluenes and about 3x in Ethylation?

Chetan Gandhi: Yes, it's a Ethylation capacity.

Abhijit Akella: What would the CAPEX on this have been, Chetan bhai?

Chetan Gandhi: It would be in the magnitude of around Rs. 400 crore to 500 crore.

Abhijit Akella: And full utilization you think would take like two, three years or would it be -?

Suyog Kotecha: As I said, this year the target is to ramp them up to 50% capacity utilization and next year we will take it up to 70%, 80% which is a good utilization for this kind of asset.

Abhijit Akella: Just the other one was on the energy derivatives products business over there – from a really long term perspective, if we think about say the next decade or so, in the context of this global move towards electrification of vehicles, vehicle fleets across the globe, how do you see the long-term demand outlook for the fuel additives business in that context?

Suyog Kotecha: I think we are actually very optimistic on that front. I think I understand you are hinting towards sort of overall trend towards EV versus sort of ICE engine. But we think from an absolute volume point of view still ICE engine rate capacity remains in the market. This fuel additive is actually much more sustainable compared to other options available today in the market, right. There's a general trend to replace metal-based fuel additives with more cleaner, more sustainable fuel additives and this product fits into that bucket. So, we remain pretty confident and optimistic about the demand, and good potential for this particular product.

Moderator: That was the last question I would now like to hand the conference back to the management team for closing comments.

Rajendra Gogri: Thank you everyone for taking out the time to join us on our Q1 FY25 earnings conference call. As we embark on our 40th year in Specialty Chemicals, Aarti Industries is stronger than ever with renewed vigour on excellence, innovation, passion and determination. As a global partner of choice, we will continue to serve and expand our robust client base, while ensuring sustained value creation for our shareholders by optimising our assets and venturing into newer business opportunities.

Hope we have addressed all your queries. If you have any further questions, please feel free to contact our Investor Relations team, and we will address them. We look forward to connecting with all of you again in the next quarter. Thank you once again.

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