



“Aarti Industries Limited Q4 FY16 Results Conference Call”

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MANAGEMENT: **MR. RAJENDRA GOGRI – CHAIRMAN AND MANAGING DIRECTOR, AARTI INDUSTRIES LIMITED**
MR. RASHESH GOGRI - VICE CHAIRMAN AND MANAGING DIRECTOR, AARTI INDUSTRIES LIMITED
MR. CHETAN GANDHI - CHIEF FINANCIAL OFFICER, AARTI INDUSTRIES LIMITED

MODERATOR: **MR. KAILASH YEVALE - ASSISTANT ACCOUNT MANAGER - INVESTOR RELATIONS - ADFACTORS PR**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Aarti Industries Q4 FY'16 Result Conference Call. As a reminder, all participant' lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kailash Yevale from Adfactors. Thank you and over to you, sir.

Kailash Yevale: Good Evening; Ladies and Gentlemen. Welcome to the Aarti Industries Q4 and FY16 Results Conference Call. Joining us on the call today are Mr. Rajendra Gogri -- Chairman and Managing Director, Aarti Industries Limited; Mr. Rashesh Gogri – Vice Chairman and Managing Director, Aarti Industries Limited and Mr. Chetan Gandhi – the Chief Financial Officer, Aarti Industries Limited. I now hand the conference over to Mr. Rajendra Gogri – Chairman and Managing Director. Thank you and over to you, sir.

Rajendra Gogri: Good afternoon, everybody and thank you for joining us on this call. We shall run you through the operational performance and key highlights for the quarter and year ended March 31st, 2016.

Total revenue for Q4 FY'16 stood at Rs. 699 crores versus Rs. 677 crores for Q4 FY'15. Of the total revenue for the quarter, Exports consisted about Rs. 369 crores that is over 52% of the total revenue. EBITDA for Q4 FY'16 grew by over 15% and was Rs. 137 crores versus Y-o-Y EBITDA of Rs. 119 crores.

During the quarter we had received dividend to the tune of Rs. 8 crores from subsidiaries. Net profit after-tax for Q4 FY'16 also grew by 32% to Rs. 70 crores vis-à-vis Rs. 53 crores for Q4 FY'15. On an annualized basis the consolidated revenues were lower by about 4% at Rs. 2,780 crores for FY'16 versus Rs. 2,908 crores for FY'15. This was mainly of the lower raw material prices related to crude like Benzene. Consolidated EBITDA for FY'16 grew by about 23% to Rs. 572 crores as against Rs. 466 crores for FY'15. Similarly, consolidated PAT grew by 25% to Rs. 257 crores for FY'16 as against Rs. 206 crores for FY'15. Simultaneously, consolidated EPS for FY'16 also grew by 32% to Rs. 30.83 from Rs. 23.24 for FY'15.

The Board of Directors had already approved three interim dividends during FY'16 aggregating to Rs. 8.50 per share as against the total dividend of Rs. 5.50 per share for FY'15. In view of this the board had not proposed any further dividend for FY'16.

Now, let us look at the standalone segmental performance during the quarter-ended and year ended March 2016. The revenue from Specialty Chemicals segment was at Rs. 542 crores versus Rs. 554 crores for Q4 FY'16 while the EBIT for the segment grew by about 15% Y-o-Y to Rs. 121 crores versus Rs. 105 crores for FY'15 and by about 3% as compared to Rs. 117 crores for Q3 FY'16.

As you are aware that our business is largely operated on formula based variation in raw material prices plus model, wherein the delta is fixed in absolute basis and per kg margins remain stable. Hence, the raw material price fluctuations are passed on to the customers. And the absolute EBITDA is based on volumes and product mix and not the price fluctuation.

During Q4 FY'16, we had witnessed some shortage in availability of raw material i.e Nitric Acid. As a result, the volume of Nitrochlorobenzene and Nitrated Compounds and Q4 were affected. We had achieved the production of 12,460 tonnes of Nitrochlorobenzene during Q4 FY'16 as against the production of about 16,400 metric tonnes for Q3 FY'16. The company had therefore optimized on the limited quantities available of Nitric Acid and realigned its diversified product mix to mitigate this situation. For the year, the Company had achieved the aggregate production for NCB of over 59,500 tonnes as against the production of 53,400 tonnes for FY'15.

On an annualized basis, the Specialty Chemicals segment revenue for FY'16 was Rs. 2,202 crores as against Rs. 2,361 crores for FY'15. The same were lower due to lower raw material prices. While the EBIT for the segment grew by about 18% Y-o-Y to Rs. 469 crores versus Rs. 395 crores for FY'15.

On the project front we like to add that our PDA expanded capacity additional Calcium Chloride unit and Ethylation unit at Dahej have entered the final stage of this commissioning and is expected to go on stream in the Q1 of FY'17.

Moving on to the Pharmaceuticals segment, on an annual basis the revenue for FY'16 grew by over 26% to Rs. 383 crores from Rs. 303 crores for FY'15. While the EBIT increase to Rs. 35.8 crores for FY'15 to Rs. 38.8 crores for FY'16. For Q4 FY'16 the revenues had increased from Rs. 82 crores for Q4 FY'15 to Rs. 120 crores for Q4 FY'16 thereby, posting about 46% Y-o-Y growth. Similarly, EBITDA also has grown by about 69% to Rs. 14 crores for Q1 FY'16 versus Rs. 8 crores for Q4 FY'15. We expect to build onto this performance and continue on the growth path, going forward in both top-line and EBIT.

Coming to the last segment, that is Home and Personal Care, the revenue for this segment Q4 FY'16 was at Rs. 37 crores with EBIT was a loss of Rs. 0.4 crores and annual basis the revenue for FY'16 was at Rs. 132 crores as compared to Rs. 207 crores for FY'15. The EBIT for FY'16 was a loss of Rs. 0.2 crores as against EBIT of Rs. 3 crores for FY'15. The performance of this segment has been impacted due to technical issues and general market sentiments as discussed by us in earlier quarters. We expect to resolve this issue and would see the segment to bounce back in coming quarters.

With reference to our plans for the proposed de-merger of the Pharmaceutical and Home and Personal Care segment into separate entities. Considering the current financial parameters for this segment the board has deferred the plans of de-merger at this stage.

As you are aware we have been undertaking various expansion activities. Part of this had already been commissioned and ongoing project which would be commissioned in coming quarter would help the volumes and profits to grow in FY'17 and subsequent years. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir, just one broad question. Syngenta is getting acquired ChemChina so and Syngenta is believed to be one of our key customer also so what is the kind of supplied impact on the supply demand situation for Aarti that we are looking for specifically and generally for the industry what is the kind of supply demand situation what you were anticipating?

Rajendra Gogri: It has been announced basically that Syngenta will be managed by the same team which has been managing it right now and Syngenta being such a large company we do not see any big impact or change in that policy by ChemChina. So overall whatever the feedback we are getting that there should not be any change in their strategy.

Surya Patra: Okay. Considering this China slow down aspect and this development how you read these two developments at a time sir, means what are the kind of implication one should....

Rajendra Gogri: Chain actually now is getting more stabilized compare to the last few months. As far as this particular thing is more related to the global because Syngenta is very global operational.

Surya Patra: Okay. And coming to the Aarti's performance, can you just repeat once again what is the kind of number that you have given sir for the Nitrochlorobenzene production for the fourth quarter and the full year and same is the case for the Hydrogenation capacity that means products Hydrogenation production also?

Rashesh Gogri: Yes, for Q4 the Nitrochlorobenzene production was about 12,460 tonnes and annualized was 59,500 tonnes. And Hydrogenated products we had 1,745 tonnes per month so approximately 5,230 tonnes for the Q4.

Surya Patra: Okay. And on the CAPEX front what we see is the fixed asset incremental over last year's something 400 odd crores. So actually what is the kind of CAPEX that you have executed throughout last one year and what are those and how much was the capitalization that has happened for this year?

Rajendra Gogri: Over Rs. 300 crores have been capitalized. Actually a lot of our new plants are going to be capitalized in first quarter as I already mentioned the PDA second phase additional Calcium Chloride plant and Ethylation at Dahej. Last year we had finished the NCB expansion PDA

first phase and also in Pharmaceutical and Home and Personal Care, these are capacities we have expanded.

Surya Patra: So, are we on track that the Toluene project will also be commercializing this first quarter something like that?

Rajendra Gogri: Ethylation unit at Dahej which consumes Toluene based products will be commission in the Q1.

Surya Patra: Okay. And just last one question, is it possible to say what is the mix between in the entire Benzene chain, the Nitrochlorobenzene and the other downstream product what would be the revenue mix in that?

Rajendra Gogri: I will not be able to give any specific number.

Surya Patra: Okay, later on I will collect then. Thank you, sir.

Moderator: Thank you. The next question is from the line of Nihal Jha from Edelweiss. Please go ahead.

Nihal Jha: My first question is what is the price of Benzene, this quarter for us?

Rajendra Gogri: Rs. 40.3.

Nihal Jha: Rs. 40.3 so, did we see the shutdown in acid plant as we mentioned last quarter?

Rajendra Gogri: Actually that shut down, we had taken a very short shutdown which has overlapped last quarter of FY' 16 and first quarter of FY' 17 so, relatively smaller shutdowns over both quarters.

Nihal Jha: Absolutely, that is what I want to understand that we have seen actually an improvement in margins in our Specialty Chemicals segments so, it is because we have delayed our acid plant shutdown, could that be the reason?

Rajendra Gogri: Generally even the previous year Q4 there was no acid shutdown so in that respect the acid shutdown has not been an impact if you consider a Y-o-Y feature as such.

Nihal Jha: Fair enough. And are we still seeing pressure in agrochemical segment or has they a little in this quarter compare to the last one.

Rajendra Gogri: Overall agrochemical segment is still under pressure and may remain so for may be another one quarter or two quarters.

- Nihal Jha:** Sure, sir. One last question from my side, in the pharma segment the growth we have seen is that mainly laid by the new Caffeine plant or is it driven by the API segment,
- Rashesh C. Gogri:** Yes, it is a mixture of both.
- Nihal Jha:** It is a mixture of both, okay.
- Moderator:** Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.
- Saravanan Vishwanathan:** Can you give us volume guidance for FY17?
- Rajendra Gogri:** Yes, we are targeting in the range of around 15%.
- Saravanan Vishwanathan:** 15% in the volume terms?
- Rajendra Gogri:** Yes.
- Saravanan Vishwanathan:** So this Nitric Acid, was it a temporary problem or has it been resolved or you expect it to reoccur?
- Rajendra Gogri:** Actually Nitric Acid problem has occurred because of the drought situation which has resulted to water shortage in Maharashtra. So part of that impact will still come in Q1 also of FY'17. But Deepak Fertilizers our major supplier readjusted the product mix to reduce the impact.
- Saravanan Vishwanathan:** Okay. Because in Q3 if I recall we did 16,400 tonnes and now in this quarter we have only 12,460 tonnes, right?
- Rajendra Gogri:** Yes.
- Saravanan Vishwanathan:** And the capacity is now 75,000 tonnes, full capacity?
- Rajendra Gogri:** Yes.
- Saravanan Vishwanathan:** Okay. So we have given 15% volume growth guidance, fine, sir. And in terms of you had mention that board has deferred the demerger so, is it deferred by a year or two years or indefinitely deferred?
- Rajendra Gogri:** Right now, no any specific date has been fixed for any further immediate review on this.
- Saravanan Vishwanathan:** Okay, understood, sir. And in terms of Benzene prices, are you seeing the prices moving up in line with the crude prices going up?
- Rajendra Gogri:** Yes, the prices have gone up in last two months.

- Saravanan Vishwanathan:** Okay. What are the current prices?
- Rajendra Gogri:** Current prices are around 45.
- Moderator:** Thank you. The next question is from the line of Dinesh Pathak from Goldman Sachs. Please go ahead.
- Dinesh Pathak:** I am sorry, I missed if you gave earlier, what was the volume growth for full year in FY'16?
- Rajendra Gogri:** FY'16 overall volume growth of the company was around 10%.
- Dinesh Pathak:** Okay. I remember sir, earlier we had guided for 15% so any particular reason if you can summarize that volume?
- Rajendra Gogri:** Basically Q4 because of this Nitric Acid shortage, virtually there was no growth in Q4 in volumes.
- Dinesh Pathak:** Okay. So Q4 volume growth was flat or it was de-growth?
- Management:** Flattish one.
- Dinesh Pathak:** Okay. And how much cash CAPEX did we do this year in FY'16?
- Rajendra Gogri:** That was around Rs. 440 crores that is including WIP, Rs. 300 crores was capitalized.
- Dinesh Pathak:** Rs. 440 crores were the cash spent?
- Rajendra Gogri:** About 380 Cr. would be cash.
- Dinesh Pathak:** In the CAPEX, okay. And sir, on a blended basis what would be our capacity utilization right now?
- Rajendra Gogri:** Pardon.
- Dinesh Pathak:** So for the various products that we sell and use **captively**, if you can just share on a blended basis the capacity utilization for our company as a whole?
- Rajendra Gogri:** I would say it will be more in the range of 75% to 80%.

- Moderator:** Thank you. The next question is from the line of Dixit Mittal from Shubhkam Ventures. Please go ahead.
- Dixit Mittal:** Sir, my question is regarding CAPEX, because in earlier calls we were guiding around 325 crores CAPEX for the full year but if I see the consolidated balance sheet we seem to have done around Rs. 500 crores. So sir, have we proposed some of the CAPEX or what explains this difference, sir?
- Management:** So basically, if I can just answer this question. We made one of our associate entity Ganesh Polychem as a subsidiary so there has been an addition coming because of consolidation of that associate being a subsidiary in this year. So almost close to Rs. 90 crores would have come because of that. From the cash flow the cash CAPEX is roughly around Rs. 380 crores for the year.
- Dixit Mittal:** Okay. So what will be the CAPEX for next year sir?
- Rajendra Gogri:** That will be about on plant and machinery, we are looking at about Rs. 400 crores CAPEX because the power plant will be coming for two sides and the new Chlorination Complex and additional Hydrogenation capacity and Pharmaceutical side also we are adding some intermediate blocks for Pharma.
- Dixit Mittal:** Okay. So this Rs. 400 crores for FY'17?
- Rajendra Gogri:** Yes, on plant and machinery side.
- Dixit Mittal:** Okay. So can we conclude that we will need around Rs. 400 crores per annum kind of CAPEX to grow by around 15% CAGR?
- Rajendra Gogri:** Yes, I think that can be same around that number.
- Dixit Mittal:** Because earlier we were saying around Rs. 300 crores will be sufficient for the growth?
- Rajendra Gogri:** Generally, then this will go on a percentage basis base number goes on increasing so then in absolute terms the amount increase, the growth numbers also.
- Dixit Mittal:** Okay. And sir, debtor days also seem to be increased for the full year so any particular reason for those receivables from Rs. 440 crores to Rs. 520 crores??
- Rajendra Gogri:** So the receivable generally has been a bit higher in case of exports and from current year the subsidy which was originally received directly from Government of India, is now being released to the customer & we have to recover from them. Hence as results about 22 crs. of debtor had increased. Baring there, we believe the debtor day to be similar. Secondly, we also

have to look at it from the perspective of the last quarter, revenues and other things, as against the annual number. So the last quarter sale is more as compared to the average quarterly sales.

Dixit Mittal: Okay. So current level of receivables is the right number to look at for projections?

Rajendra Gogri: Yes.

Dixit Mittal: Okay. Sir, last question, is there any inventory loss also during this quarter?

Rajendra Gogri: Not significantly.

Moderator: Thank you. The next question is from the line of Prashant Tarwadi from Axis Capital. Please go ahead.

Prashant Tarwadi: Sir, just wanted to understand a few things, firstly on the Nitric Acid supply issue, I understand we are procuring from Deepak Fertilizers. So is this the sole supplier of Nitric Acid to us and given that Deepak has been facing a little bit of issue lately. So are we thinking about diversifying our sources from that perspective?

Rajendra Gogri: Yes, basically GNFC and Deepak Fertilisers has been too regular supplier but Deepak Fertilisers is the major supplier. Now HOC also started and RCF has also started because overall the market prices had increases so they have also started. But that is a temporary, I do not think they will be in the market for long-term. But Deepak Fertilisers as such has enough capacity. It is because of the shortage of water which has impacted.

Prashant Tarwadi: Okay, understood. The second question is on the CAPEX cycle, so FY'17 CAPEX you are guiding at about Rs. 400 crores. So on a sustainable basis, I would say from FY'18 over FY'20, if I were to forecast, is it right in assuming that you will continue to spend around Rs. 400 crores every year or is there sometimes we stop and do just the maintenance CAPEX and start contributing as the free cash flows?

Rajendra Gogri: No, basically it depends on opportunities. If there are opportunities and then we will be continuously investing and also we are foreseeing some further opportunities which are not yet totally crystallized. But overall investment will continue which will lead to further in FY'19 and FY'20 and FY'21.

Prashant Tarwadi: Yes, absolutely. So growth is the only object, Yes, I got it. And lastly, the utilization level 75% to 80% so what is the maximum utilization that we can grow from here on from the operational perspective, the question is more of an operational perspective, sometimes there is batch processing, we can just go up to the 90% or more than or may be 85%. So at this capacity, can we go up to let us say 95% utilization or is it capped at 80%?

Rajendra Gogri: No, it is a 90% to 95% generally you can go that is not an issue.

Rashesh Gogri: Plus with the new capacity is coming in the utilization would reduce so; there will be some additional scope of further scale up and another thing as utilization to go up.

Rajendra Gogri: So when we say overall 75%-80% some we are operating at around 95% some at may be 85% so it is a broad answer was that because depending on when we have expanded on that basis the capacity utilization will vary.

Prashant Tarwadi: Yes. And lastly, just wanted to understand Specialty Chemicals side is much diversified understand so just wanted to understand, how do you spot the scope from that perspective when you say we are going to grow at 15% volume CAGR. So what is the thought process of the management where do you see the opportunity? Why 15% why not 10%? So how does management take a decision that about the production planning, etc., then more or a strategic related question?

Rajendra Gogri: Basically, there are multiple growth drivers, one is in our existing product line whatever is the global growth as such we are a global player and our capacity generally more 75% to 100% of the India's production and we are globally in top two to five in most of our product range so, existing product increasing global demand that is one growth drivers. Second thing, we are also looking at adding some new products which can be import substitutes or as well as for export market. And third, were starting entirely new chain of Nitrotoluene which is similar market in dyes pigments and agrochemicals. Then also being a very strong customer base we are also putting up products which are more on a one-on-one basis also and another is that there is a tendency for the companies to move towards India or try to spread the sourcing from China to India also, so these are the few growth drives on that basis we are identifying the opportunities.

Prashant Tarwadi: Lastly, again on the Nitrotoluene side, I understand it goes into like dyes and pigment. But if we were to read some of the consultant's report they are very positive on construction chemicals and the other chemicals that go into polymer, etc. And typically dyes and pigment because given that the end user industry is facing a little bit of issue. So what is our thought process of getting into Nitrotoluene at the moment basically targeting the dyes and pigment segment?

Rajendra Gogri: No, actually it is not only purely dyes and pigment, it goes in optical brighter also and it goes in agrochemical also. As such organic pigment demand is continuing to increase in that respect and as far as what you are saying is correct, the engineering polymers and all demand is growing quite well and that was one of the reason why we have expanded in our PDA capacity, the major market for that is going to be on the engineering polymer. So we are trying to look at in all the segments wherever opportunities are there.

Moderator: Thank you. The next question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.

- Kishan Gupta:** I want to know how much was the production loss due to disruption in Nitric Acid supply?
- Rajendra Gogri:** We are at about 12,400 so, I would say around 3,500 tonnes to 4,000 tonnes.
- Kishan Gupta:** That is it. There is no loss in hydrogenation?
- Rajendra Gogri:** No then some impact comes on some of downstream product also because these are the nitro compound which is pegs for various down streams also. So that impact cascades also so but we try to see you know whether we can increase some non-Nitro also and try to get the best product mix.
- Kishan Gupta:** So has it been sorted out now?
- Rajendra Gogri:** Impact is expected in Q1 also. Q1 like we are looking at 15,000 tonne production for Nitrochlorobenzene and things would normalize from Q2 onwards.
- Kishan Gupta:** So basically, is that what, based on your interactions with your suppliers that you are saying post Q1 things will be sorted out or is it like your internal understanding with that matter?
- Rajendra Gogri:** The reason is water, if there is enough rain then situations should normalize. Another thing what has happened now that you know Deepak Fertilisers has rationalized product mix and also put some equipment which has got reverse osmosis facilities which will reduce their water consumption so, based on these two factors we see that the availability will be more or less smooth in the second quarter because you do not expect that the water shortage will be there.
- Kishan Gupta:** Has there been similar problems in the past also, is it the first time it is happening?
- Rajendra Gogri:** At least last 25 years I have not seen.
- Kishan Gupta:** Okay. It the first time it has happened, okay.
- Rajendra Gogri:** Yes.
- Kishan Gupta:** And what is your strategy on the HPC business?
- Rajendra Gogri:** Yes, HPC business still actually we are struggling on some technical issues and some market issues. But we are still continuing to make efforts that we get into positive side of that mostly from this Q1 of FY'17 we should be in positive.
- Kishan Gupta:** But no plans to hiving off this business?

- Rajendra Gogri:** Yes, that is also is like de-merger we have to postponed because of the financial parameters and hiving off also is something which we have not given a big thought but in may be in future we may have to look at it.
- Kishan Gupta:** Okay. And last question, why did receivables go up, I could not follow that up?
- Rajendra Gogri:** Yes, the export tends to have higher receivable and for receivable basically you have to count the last quarter numbers only not on the annualized basis. So there has been a margin increase overall in number of days in debtors.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Monarch Network Capital. Please go ahead.
- Vipul Shah:** I am looking at the subsidiary performance on Specialty Chemicals so, what I found that we did revenue of around Rs. 62 crores - Rs. 63 crores at subsidiary level and we did an EBIT of around Rs. 35 crores. So it seems that your EBIT margin is very high it is subsidiary, so can you throw some light on that?
- Rajendra Gogri:** We have not looked at into that in that respect but yes, obviously this very specialized product which we manufacture and the margins are higher. We use to be at 50-50 joint venture which has been converted into a subsidiary.
- Chetan Gandhi:** Another aspect or over here you also have to consider there is inter-company transactions which also get eliminated so you would see the top-line falling of debt remain in the same because of the inter-company eliminations.
- Vipul Shah:** I agree but it changes your margin very high in that business extremely high.
- Rajendra Gogri:** That is the main reason.
- Vipul Shah:** Sir, one more question, what is the revenue and profit and loss because of this Nitric Acid issues in Q4? If you have some estimates on that?
- Rajendra Gogri:** Rs. 20 crores may be on the revenue.
- Vipul Shah:** Okay. And EBITDA side?

- Rajendra Gogri:** It will be around Rs. 5 crores to Rs. 6 crores.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Sir, so you broadly mentioned that volumes for the first quarter have been flat but as I can see EBITDA growth has been 15%. So you alluded to some change in product mix that you have tried to sort do. So this is something that you can very easily do sir, over time as in change the product mix to make sure you optimize on whatever is available?
- Rajendra Gogri:** No, it is not easy but as we have been telling, generally, that because we have a wide product range and also wide end-user industry profile so in this particular time we had a little bit higher margins on some of the other products so there are two factor – the product mix also and higher margins in some of the other products so, it is a combine.
- Chirag Dagli:** No, but it is commendable, sir.
- Rajendra Gogri:** I could not say that this can happen all the time.
- Chirag Dagli:** Fair point, no it is a commendable thing, sir. The other thing sir was on the dividend payout so, for last year the dividend as a percentage of profit has gone up. Would you sort of maintain this payout ratio of about 29%-30%?
- Rajendra Gogri:** The profit has increased on a consolidated basis by about 30% so with that respect the previous year was a little less this comes to around 27%. So generally we are around 25%, it is a little higher then what will be our normal benchmark number.
- Chirag Dagli:** But we intent to keep the percentage of profit the same going forward?
- Rajendra Gogri:** 95% it is more of a benchmark.
- Moderator:** Thank you. The next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.
- Chetan Thakkar:** Just wanted to know the Hydrogenation volume for FY'16 and FY'15.
- Rajendra Gogri:** Hydrogenation volumes last year were 1,683 per month and current year is around 1,800.
- Chetan Thakkar:** 1,800, sure, sir.
- Moderator:** Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.

Saravanan Vishwanathan: As regards Pharmaceutical segment, what kind of revenue growth can we expect in FY'17 and margins seem to have slightly improved even Q-on-Q it is slightly improved so, what kind of margins can we expect?

Rashesh Gogri: We expect analyzed growth of 20% to 25% going forward and I think we also we see some EBITDA margin improvement.

Saravanan Vishwanathan: Okay. So this is going to happen in phased manner, it will not be lumpy, right, so we can expect this is like this 11.5 or 11.7...

Rashesh Gogri: We would as a company like to build on the Q4 and grow it. So that is the aim. Q4 numbers are same we would like to grow on those numbers.

Rajendra Gogri: Q4 EBIT was about Rs. 14 crores so, our idea will be based on that so target about 60 crores as EBIT for the year.

Saravanan Vishwanathan: Okay. So and overall the company level you had given a 15% volume growth, would that result in overall EBITDA margins also going up slightly because of I mean increase capacity utilization?

Rajendra Gogri: Yes, the constant raw material prices, it should grow. If you see the last three years also our EBITDA margin was around 15% in 2013-2014 which we have reached around 19.5. so that is more because of the increase in volumes as well as reduction in the raw material price.

Saravanan Vishwanathan: Okay. And on the EBITDA level, you would see a growth higher than the volume growth; is that fair assumption?

Rajendra Gogri: Yes, it has to be because in the manufacturing expenses will be spread over more.

Saravanan Vishwanathan: That is right.

Moderator: Thank you. The next question is from the line of Nihal Jha from Edelweiss. Please go ahead.

Nihal Jha: Yes, sir. Just one more point on the Specialty Chemicals segment, what has been our volume growth for this quarter if I were to look at quarter-on-quarter specifically. We have mentioned flat year-on-year, right?

Rajendra Gogri: Flat quarter-on-quarter.

Nihal Jha: Okay, it has been flat quarter-on-quarter. And our Benzene price has fallen by approximately 10% right, Q-on-Q from 44 to 40 this quarter.

Rajendra Gogri: About Yes, less than that, yes.

- Nihal Jha:** So if I look at the revenue they have just fallen by 1% or 2% so, just wanted to understand how has that evolved?
- Rajendra Gogri:** That is what we have been telling, it is product mix and we have a lot of product which are not directly related to Benzene also. We have Sulphur based product, Aniline, Phthalic, Alcohol-based product also.
- Moderator:** Thank you. The next question is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.
- Manish Jain:** Yes, I just wanted to understand on the de-merger plan was the key reason for planning a de-merger in the first place and now what has changed that we are dropping the de-merger plan?
- Rajendra Gogri:** So basically the return on capital employed still is less and then it becomes difficult to sustain on a standalone basis, this is businesses then what we would have expected. Especially in the Pharmaceutical side because the Pharmaceutical side the total capital employed is sizeable so if we hive it off then we may have to give a pass a lot of equity for that business. So we felt that it cannot be it is not yet right time to hive it off and this can be revisited may be after a year or so. The idea basically is that if the both of this separate then both can be valued separately the Specialty and Pharma because the market generally will tend to value both the kind of businesses separately that was the main idea. But important thing is that the Pharma segment also has to be strong enough on a standalone basis.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Rajendra Gogri for closing comments.
- Rajendra Gogri:** Yes, thank you all for participating. And as we have been mentioning, with continuously identifying the opportunities and investing, we are keeping this growth momentum for last three years - four years and that we expect to continue for the next few years also. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Aarti Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.