Q1 FY18 Earnings Conference Call Transcript

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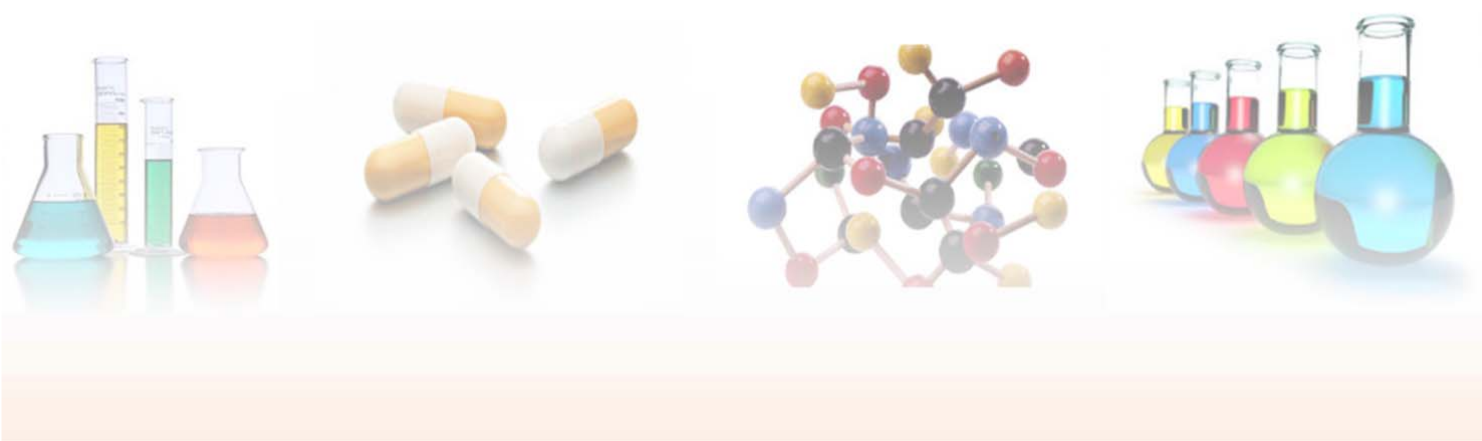
AARTI INDUSTRIES LIMITED



Moderator Ladies and Gentlemen, Good Day and Welcome to the Aarti Industries Limited Q1 FY 2018 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. In case, 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 Vikram Rajput of CDR India. Thank you and over to you, Sir!

Vikram Rajput: Thank you. Good evening everyone and thank you for joining us on Aarti Industries Q1 FY2018 Earnings Conference Call. We have with us Mr. Rajendra Gogri – Chairman & Managing Director, Mr. Rashesh Gogri – Vice Chairman & Managing Director and Mr. Chetan Gandhi – CFO of the Company.

We will begin this call with opening remarks from the management, following which we will have the forum open for a question and answer session. Before we begin this call, I would like to point out that some statements made in today's call maybe forward looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.

We will begin the call with opening remarks from Mr. Rajendra Gogri who will take you through the strategic imperatives and performance of the Company during the review period. We will then have the forum open for an interactive question and answer session.

Now, I would like to invite Mr. Rajendra Gogri to share his views.

Rajendra Gogri: Good evening and a very warm welcome to all of you.

We had an eventful start to the year and we believe we continue to hit the right milestones at the right time. In a challenging scenario, as most of you are aware AIL entered into a multi-year contract with a global agriculture company, to supply a high value agrochemical intermediary, for use in herbicides, of an aggregate value of approximately Rs. 4,000 crore over a 10 year period. This deal highlights what we have been saying since a while, the strength of our Global Partner of Choice positioning amongst the leading global agrochemicals, polymer, pigment, pharmaceuticals and other speciality chemicals companies. What is particularly pleasing is that the deal is signed with a new global customer, where the end-use is amongst the major growth initiative of the Customer with approximately US$ 1 billion being invested for this project/initiative. This is testament to our increasing brand equity amongst targeted customers. We see this as a sustainable model providing strong visibility of returns on our capex commitments. Focus on innovation, SH&E (Safety Health & Environment), green chemistry along with our scale and integrated operations make us a natural partner for our existing as well as potential customers. The opportunity in the agrochemicals space is quite sizeable; this deal in particular will boost our growth trajectory further.

Coming to Q1, gross revenues were up 8% YoY at Rs. 792 crore in Q1FY18. Of the total revenue for the quarter, exports were at Rs. 361 crore, accounting 46% of the total net revenue. In Q1, we saw a subdued 3% y-o-y growth in volumes in our core speciality chemicals business. Underlying this was the impact of a periodical full scale shutdown in our acid production facility during the quarter. This facility has since been operating at optimized production levels in Q2. We also had the impact of build-up of inventories by end of June, which subsequently reduced by mid-July on dispatches.

As most of you are aware, our realizations are linked to global crude oil prices, so the key parameter to track is profitability. For Q1FY18, EBITDA decreased 10% YoY and 9% QoQ to Rs. 138 crore, translating to an EBITDA margin of 18%. PAT decreased by 24% YoY and 15% QoQ in Q1FY18 to Rs. 63 crore. Profitability was impacted on account of three factors. Firstly, the full scale annual maintenance shutdown for Acid division in Q1 FY18 impacted EBIT by about Rs. 8 crore to Rs. -10 crore. This is typically scheduled in Q4 of every year and was postponed last year. Secondly, the buildup of inventories in Q1. Thirdly, Rupee appreciated, having an impact of Rs. 4-5 crore, which is in line with what we had stated on the earlier call.

We clocked production of about 15,932 MT of NCB during Q1FY18 and as against 13,900 MT for Q1FY17.

We have built a differentiated business model which seamlessly combines a de-risked product portfolio, scale, integrated operations, innovation and ‘green chemistry’. We see this as a sustainable model providing strong visibility of returns on our capex commitments – which were at Rs. 110 crore in Q1 and continue to be implemented as per plan. I am happy to share that Nitro toluene unit has commenced trail runs and we expect to start commercial production by end of the Q2. Also, for the new contract, we plan to build an integrated green-field facility that will entail capex of Rs. 400 crore spread over 2-3 years. This capex would be funded via mix of debt and internal accruals. The product will fetch high operating margins nearly double of our existing margins.

Moving on to the Pharmaceuticals segment, Q1FY18 revenue stood at Rs. 106 crs, a 4% YoY growth. EBIT increased to Rs. 14 crore from Rs. 12 crore, marking 17% YoY growth. We have been consistently increasing our share of operations and engagement with various customers in regulated market space. Further the API intermediate business is also expected to grow upon the capacity coming online in FY17-18. Since major fixed costs are already built-in, incremental volumes result in significant increase in segmental profits. We expect to progressively improve on our performance.

Coming to the Home and Personal Care, Q1FY18 revenue stood at Rs. 60 crs, a 43% YoY growth. EBIT improved to Rs. 0.6 crore as against Rs. 0.1 crore. We are making concerted efforts to gain larger scale and drive sustained improvement in this business, while continuing exploring the demerger process.

To conclude, normalizing for the one offs and the challenging global scenario, we have performed is in line with our stated targets. For the remainder of the year we expect 10% volume and PAT growth. The conservative PAT expectations are keeping in mind continued rupee appreciation against the dollar and Chinese Yuan. And also due to increase in expense on account of the projects commissioned in FY17 and to be commissioned in FY18 while the volume growth would come in next two to three years.

We see these factors and the current year as a transitional phase in our journey to deliver secular growth through deep, partner of choice engagements with a large number of global customers. We see India further establishing its position as global hub for speciality chemicals. We have built in superior compliance, development processes and people resources to benefit from ensuing opportunities in higher-value chemical processes. Each year, our company has been progressively getting operationally stronger, expanding profitability and generating higher cash flows. We remain committed to build on our strong performance and deliver on our value creation agenda.

On that note I conclude my opening remarks. We would be happy to give you our perspective on any questions that you may have. I would request the operator on this call to open question and answer session. Thank you.

Moderator Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir, just wanted to have more sense on the margins decline what we are evincing since last couple of quarters. In it largely because of the benzene spike what we have seen overall last three quarters?

Rashesh Gogri: Yes, actually the benzene gone up last quarter, this quarter is around…

Surya Patra: 20% Y-o-Y up.

Rashesh Gogri: Yes, this quarter it is around Rs. 55 benzene. As we have been mentioning, you have to look at absolute EBITDA and which generally will be linked to the volumes and also the product mix. In this particular quarter because of this acid shut down we had reduction in EBIT and structurally because the rupee which was around average between Rs. 66 to 67 in the FY 2017 is now around Rs. 64, so there is a structural appreciation against a normal reduction in rupee. So, that impact will come in this financial year.

Surya Patra: Okay. Sir, I just wanted to have more sense on this benzene thing. So, since last 2 quarters or rather 3 quarters the elevated benzene prices are sort of a concern. So, wanted to have a sense that, how many months for inventory for benzene that we maintain at any moment of time?

Rajendra Gogri: Yes, it will not be more than 10 days because benzene is a liquid, we cannot store that, it has to be specially approved storage facility, so we are not able to store any benzene as such.

Surya Patra: Okay. So, then whether the elevated price point on the benzene front is could not be transferred to the customers what we have been anticipating that with a quarter lag for the export business the spike in the raw materials can be transferred to the customers. So, that is how we were building something like better margin performance in at least after 2 quarters of relatively lower margin performance.

Rajendra Gogri: Yes, in the benzene in the exports it generally gets passed on a quarterly lag whereas in domestic it will be part on a monthly basis.

Surya Patra: Okay. But that is not visible in the margin performance what we are currently seeing in this quarter, sir.

Rajendra Gogri: No, some stock valuation impact will also come. So, part of the stock valuation impact is corrected by higher prices in Q1 compared to the Q4. And overall margin depends also on the product mix what is the kind of mix that we get that tend to vary from quarter-to-quarter.

Surya Patra: Okay. And how big is this acid division impact? So, whether it is for the backward integration of our current activities or it is acid division we do sell some product from the acid division?

Rajendra Gogri: We sell a lot of products from acid division. Actually, one of key long-term product dimethyl sulphate comes from acid division.

Surya Patra: Okay. And how big that acid division, sir? Revenue mix wise whether it is 10% - 5% what? Can you give some sense on that?

Rajendra Gogri: Generally it is a high margin product business, so the top-line impact as such doesn't comes much. It is about Rs. 43 crore in this quarter.

Surya Patra: Okay. And regard the rupee impact, around 52% of our business is export oriented, so entirely it is dollar denominated, right sir?

Rajendra Gogri: Yes.

Surya Patra: Okay. So, then it is only whatever the kind of rupee, sequentially if we see from last quarter to this quarter hardly any variation in the dollar INR equation so…

Rajendra Gogri: No, actually the rupee appreciation started after UP Election results, I think which was mid-February and generally we have enough forward contracts. So, none of this rupee appreciation impact was there in Q4 and once we set up all our thing on mark-to-market basis, the actual impact started coming in from this quarter.

Moderator: Thank you. We have the next question from the line of Bobby Jairam from Falcon Investment. Please go ahead.

Bobby Jairam: My question is regarding the currency movement. Last conference call you mentioned that the Chinese currency has been depreciating and that also led to a rise in imports and you are also seeing increased competition globally. If you look back from 2010 onwards, the Chinese currency has appreciated from Rs. 6.5 to Rs. 7 to around Rs. 10 and I think this was a major tailwind for all chemical companies. So, the question I have is what if it starts reversing. What if the Chinese currency goes to Rs. 8.5, given that India is growing faster, inflation is dropping, etc., etc., what is going to happen to the business?

Rajendra Gogri: Definitely in chemical segment India competes mainly with China, so the Chinese currency getting strengthened against the Indian rupee, we will have impact, in past when it strengthened from Rs. 6.5 to Rs. 10 partially unwinding of export incentives what Chinese were giving that has also come down, so it was not like fully the benefit was only on Chinese currency appreciation. But as you rightly said, any appreciation of rupee against the Chinese currency, we will have impact and it will depend on product mix like in our case we have business where we do not have Chinese competition where we have Indian competition where we have Chinese competition and where somewhere we have virtually no direct no competition was in India and China. So, it will depend on product mix from a company to company basis but it will be definitely a negative factor for Indian industry.

Bobby Jairam: Yes, I know it will be an impact I am just trying to get a sense of how much this would be because it seems quite a bit.

Rajendra Gogri: Actually last year itself there is a substantial appreciation that has taken place. Actually, that appreciation has started reversing in this quarter. The Chinese currency has appreciated against the Indian rupee in this quarter it reached to around Rs. 9.6 as compared it going down up to Rs. 9.3. And now, I don't know but definitely if there is going to be a further weakness of Chinese currency some impact will come then we will have to see company to company and product mix to mix basis.

Bobby Jairam: But would the business really be viable if the Chinese currency depreciate severely which is a possibility?

Rajendra Gogri: In general, the capacity do not move around very fast, so it is the volume you do not expect to get impacted much. But the margins will tend to get impacted in this.

Bobby Jairam: 50% of your business is domestic. As the Chinese currency weaken they can start importing a lot of the stuff in here. So, that would hit your domestic business quite a bit, right?

Rajendra Gogri: No, a lot of our domestic business virtually there is no Chinese imports actually, more than 50% to 60% our products which are going in within India, like in acid division business there is none of this Chinese import. Some of the other intermediates also there is no Chinese import. And some of the products which we export to China obviously there are no Chinese import. So, our domestic business is I think out of 50% only 10% - 15% might be something where the Chinese impact might come, it is not significant.

Bobby Jairam: Okay, all right. The other question was doing we know about this plant maintenance last quarter?

Rajendra Gogri: Yes.

Bobby Jairam: Because I do not remember you telling us about this in the conference call.

Rajendra Gogri: No, we had not mentioned but obviously it is a planned shutdown.

Bobby Jairam: It was planned, is there a schedule or does this just happen out of the blue?

Rajendra Gogri: No, it was planned which was around towards the end of the last year we had planned sometimes there is some flexibility in this we can push around 1 - 2 months. But in general, more or less it has to be taken before monsoon, so it has been around month on May. But last year we had not taken and because now we have taken on the full fledge, we will take next one in 18 to 24 months period.

Moderator: Thank you. We have the next question from the line of Umesh Patel from TCG Asset Management Company. Please go ahead.

Umesh Patel: Sir, few things, you mentioned in your earlier remarks about the plant shut down that has impacted EBIT by around Rs. 8 crore to Rs. 10 crore in quarter one. So, going ahead do we see I mean quarters to be normalized I mean or may see to recover the pent-up demand in the coming once moving towards FY 2018 on Y-o-Y basis?

Rajendra Gogri: Yes, this impact will be only for this particular quarter whatever was that shutdown. Subsequent quarter it will come to a normal operation.

Umesh Patel: Yes, but if I look at your margin performance actually, your raw material cost as you mentioned benzene prices was by 15% to 20%. So, there was a hit of 300 bps are we going to pass on the incremental cost to end users that will take place in the second-half kind of thing or if I adjust your one-off this losses due to plant shut down as well as the rupee currency, so after considering rupee dollar to be stabilized at around Rs. 62 to Rs. 64, then it comes around 19% EBITDA margin than if we look at historical performance, I mean your EBITDA margin was stood at around 18% to 19% in past 7 to 8 quarters. So, is it possible to achieve the similar level I mean the second-half or we will see margin contraction for this year?

Rajendra Gogri: No, this rupee impact will continue throughout the financial year. If it remains at this level than compare with the last year I think in the range of Rs. 20 crore to Rs. 25 crore…

Umesh Patel: Okay. Overall for the full year FY 2018, right?

Rajendra Gogri: Yes, for the full year it will come as such. Other than that, as we had mentioned in the past that whatever asset which has been commissioned last year and also in the current year we will be commissioning nitrotoluene. But the ramp-up, it takes 2 to 4 years depending on the product to reach to 80% - 90% than the manufacturing expenses as well as depreciation is on the full assets, so that gives some impact on the operating profit.

Umesh Patel: So, this would be your I mean higher product in this nitrotoluene project which would be commissioned in quarter two?

Rajendra Gogri: It is the similar to nitrochlorobenzene, so margins are going to be similar.

Umesh Patel: Right. So, what would be the incremental revenue that this project will contribute in the second-half over and above the normal growth that we are anticipate for FY 2018?

Rajendra Gogri: We expect in the range of Rs. 60-90 crore additional revenue.

Umesh Patel: So, hopefully we are targeting to achieve around Rs. 3,400 plus revenue growth for this year, right?

Rajendra Gogri: Yes, at this kind of pricing level we should be able to be reaching that level.

Umesh Patel: Correct. And sir, second question was related to GST, have you see any GST impact or slow volume off take or slow order inflow from our existing customers from domestic market?

Rajendra Gogri: In textile sector there seems to have been some impact other than that not much. But textile I think entire textile sector is still coming into the trying to adjust to the new GST regime.

Umesh Patel: So, what proportion of our revenue comes from different-different sectors like textile or any other sectors?

Rajendra Gogri: Speciality chemical textile may be around within India around 10% - 15%.

Umesh Patel: And textile?

Rajendra Gogri: Yes, Textile that is what I am saying.

Umesh Patel: Okay. And the rest comes from?

Rajendra Gogri: No, rest is across the board we are in polymer, agrochemical, pigments, pharmaceutical and others.

Moderator: Thank you. We have the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, what explains the sharp Y-o-Y increase in other expenses?

Rajendra Gogri: Acid shut down and co-gen power plant along with that increased power**.** I think for our loans and all we had to do registration of the property and all. So, these were some of the reason for increase in other expenditure.

Chirag Dagli: Can you quantify the element of one-offs in this or should we think that this quarterly run rate is sort of sustainable for the rest of the year, sir?

Rajendra Gogri: No, it will not continue because power itself was around Rs. 6 crore or so.

Chirag Dagli: For the quarter?

Rajendra Gogri: Yes.

Chirag Dagli: Incremental, sir?

Rajendra Gogri: Yes, that was because we did not generate that much captive power.

Chirag Dagli: Okay. So, this is now back to normalized run rate.

Rajendra Gogri: Yes.

Chirag Dagli: So, the Q2 run rate should be Rs. 172 crore minus 6 and then whatever the natural…

Rajendra Gogri: Yes.

Chirag Dagli: Okay, fair point, sir. And sir, in the past we have been able to grow gross profit higher than volume growth by tweaking the product, and in the past we have indicated product mix as a sort of a lever to improve margins. This time around you are guiding to a 10% volume growth for the rest of the year and similar kind of profit growth. Are you not including any improvement in product mix, is this lever no longer available?

Rajendra Gogri: As I mentioned, the currency impact itself is going to come around Rs. 20 crore - Rs. 25 crore, so that is one thing which gives impact. As far as our product mix, we are continuously rearranging product mix, some marginal impact between various products the profitability goes on changing and we effectively change the product mix, so that is an ongoing process.

Chirag Dagli: This Rs. 20 crore to Rs. 25 crore that you are alluding to is at the PAT level, sir?

Rajendra Gogri: It will be at operating profit level.

Chirag Dagli: At EBITDA level, okay. And then the last question sir, on this contract that we have had with the agri MNC for herbicide, should we treat this as a one-off opportunity that came along or is there repeatability, is there a conscious effort from the company to have more such partnership, if you can give us some sense of what you are doing to sort of on this effort?

Rajendra Gogri: This was a very sizeable business. Basically, if you take a Rs. 400 crore top-line and we are targeting almost double operating profit of about Rs. 160 crore, so that is a substantial almost 25% of our existing operating profit from chemical business. So, something of this big we do not get very often but we are looking at potential of variety of this kind of businesses with various different companies because as such there is a trend that India is going to become a bigger manufacturing hub for chemicals and potentially we see that we will definitely able to get those opportunities in coming year.

Chirag Dagli: Is your efforts specific to any industry or is it across the board for many industries if you can sort of indicate the kind of customers that you are looking at?

Rajendra Gogri: This was for agrochemical then you know that will be similar on polymer, pigments side also, pigment intermediate. So, in general any western company now when they have choice whether to invest in their own country or go to India and China. I think, everybody will start to look at it because the CAPEX in India will be in the range of 40% to 60% of the CAPEX in U.S. or Europe. Now everybody has started looking at it. And once it will have domino effect more and more company will start putting assets in India and then more and more will be willing to take that further.

Moderator: Thank you. We have the next question from the line of Alok Ranjan from JM Financial. Please go ahead.

Alok Ranjan: My question is regarding the agrochemical segment within the speciality chemical. Sir, do we supply to innovators or generic because the response that we have got from industry that there is reduced off-take from the innovators, so can you clarify on that portion, sir?

Rajendra Gogri: We have a mix actually. Some of the products are going for generic products. Some also go for patented, some of the product even though they may be generic but also manufactured by only very few multinationals. So, we have a wide range of mix going into geographies and also in herbicide, insecticide and fungicide, so our overall balance seems to be reasonably good because some intermediates have some weakness, some other intermediates are stronger. So, overall I think we are quite balanced.

Alok Ranjan: Sir, have you experienced any kind of delay in taking the orders or any reduced off take from the innovators and importers?

Rajendra Gogri: No, as I said because it becomes more or less product to product specific, so in our own product mix somewhere where there is a little bit pressure part of that is compensated by some increase in some other product.

Alok Ranjan: Okay. Sir, my second question is regarding the segments that we have in speciality chemicals. So, we have agrochemical, polymer additive and dyes and pigments and others, so where do you see the near-term higher growth amongst these segments, sir?

Rajendra Gogri: Like nitrotoluene what we will get in the basic outlets are in pigments and optical brighteners and agrochemical, so most of that product line is going to in that segment, PDAs are more used in polymers, so nitrochlorobenzene has a variety of use in various pharma or in agro, textile, it is very versatile. And some fuel additives also we expect to grow. So, across the board we are looking at growth, somewhere it will be global growth, somewhere it will be additional market capturing.

Alok Ranjan: Sir, my last question is regarding the nitrotoluene plant. So, when we will be having the mix of product from both the benzene and the nitrotoluene based products, whether we will be witnessing improved margins? Can we say that the product that will be coming from the nitrotoluene plant will be having higher margin?

Rajendra Gogri: No, it will be similar basically, it is a similar chemistry and the margins will be similar kind.

Alok Ranjan: Okay. So, the product mix will be different but the margins will be more or less same?

Rajendra Gogri: Yes.

Moderator: Thank you. We have the next question from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: First of all, just on the guidance front, we had got revised it to around the fourth quarter last year, so is that guidance intact or we would like to relook at that guidance?

Rajendra Gogri: As you know we have a basket of products and margins generally will be determined by the volume and margin in each products and also, again we are ramping up the newer capacity, so guidance we are looking up to 10% that is the guidance as a growth in PAT levels.

Ranjit Cirumalla: For FY 2018?

Rajendra Gogri: Yes.

Ranjit Cirumalla: Sir, second question, can you share the volume growth for the quarter?

Rajendra Gogri: Volume growth for speciality chemical was about 3%.

Ranjit Cirumalla: And sir, on the CAPEX front, earlier you used to guide that in order to grow our business we have to incur at least around Rs. 300 crore to Rs. 400 crore kind of CAPEX every year. This year we would be incurring for the agreement which we have we have been entering into one of the MNCs. Apart from that then the other growth plans would be delayed or we would be on track on those growth plans?

Rajendra Gogri: No, other growth plan also is going on, this nitrotoluene will be commissioned and some additional hydrogenation capacity also we are planning and first phase of expansion for this new business is going to be commissioned early in FY 2019. But it will not be limited to only for that particular product, it will be for wider range of market. And some other fuel additive agrochemical and all which are relatively smaller products but debottlenecking and expansions are an on-going process.

Ranjit Cirumalla: What will be the CAPEX guidance for this year then?

Rajendra Gogri: This year also around because about Rs. 100 crore goes into normal CAPEX, if you consider that Rs. 400 crore something which we will look at.

Ranjit Cirumalla: And out of this the one the new plant or dedicated plant that would be continuing bulk of this CAPEX?

Rajendra Gogri: It will be more to around Rs. 100 crore for that project.

Ranjit Cirumalla: So, that means remaining Rs. 200 crore would be for the growth CAPEX of the base business?

Rajendra Gogri: Yes.

Ranjit Cirumalla: Yes. And finally, just on the book keeping we use to share this PDA, hydrogenation numbers for the quarter. If you can get that would be helpful.

Rajendra Gogri: Yes, hydrogenation was 2,200 per month; PDA was around 500.

Moderator: Thank you. We have the next question from the line of Sneha Talreja from Edelweiss. Please go ahead.

Sneha Talreja: Sir, Sneha Talreja here from Edelweiss. Sir, question was basically pertaining to margins, as you mentioned there was this shut down which was of a value-added segment and there was other expenses which was again a one-off. So, can we see margins coming back at least to the last quarter's level apart from the rupee appreciation impact that we are seeing?

Rajendra Gogri: Yes, basically, this shut down impact will go off. So, absolute EBIT will increase.

Sneha Talreja: Okay. Sir, secondly you have been at least last 2 quarters what we are seeing there has been some reduction in your guidance from 15% to 20% earlier and even last quarter there was a bit of more guidance and now we have come to around 10%. Apart from the currency appreciation what are the other challenges that we are seeing?

Rajendra Gogri: The other is basically ramping up of the capacities, so initial at the lower capacity we will have full depreciation and substantial part of manufacturing overheads will be there, so once you go in higher capacity utilization, it will get less. So, that is the reason and again, we are working on higher base also in that.

Sneha Talreja: Okay. So, any specific segment where ramping up is getting a problem?

Rajendra Gogri: No, anyway it is a new product then it is definitely going to take more time and debottlenecking our expansion of the existing product ramping up generally will be generally will be faster.

Sneha Talreja: Okay. Sir, one book keeping question, can you share the volumes of NCB?

Rajendra Gogri: It was 15,900 tonnes.

Rohan Gupta: Sir, just a follow-up question from my side, Rohan here. If I just adjust your Q4 performance with the shutdown which you generally take in Q4 but this time you have taken in Q1. So, it means that there is a very-very sharp improvement in margin at least in the gross margin from Q4 to Q1 if earning would not have shut down here. And probably you would have gone may be 48% to 50% sort of gross margin at that time. This is all you are saying because of the improvement in product mix or there is some general scenario also have improved in the industry and in the company mainly?

Rajendra Gogri: Because we have a lot of products; in a particular quarter which product volumes sales has gone up and down, that gives an impact. Overall, I think the industry situation is similar except I think currency impact will be across the board either against imports, or in export, that currency impact that will be there that will be for the industry in general.

Rohan Gupta: But is it so that our performance on couple of products is so volatile that or so dependent that a swing in 1 quarter to 2 quarter can have such a significant impact in our margins?

Rajendra Gogri: We have quite stable portfolio but certain product volumes sometime can change from quarter-to-quarter, so if it is at 25% some time it may become 50 and some time it become 40 also. So, there are some products which have that kind of flexibility also.

Rohan Gupta: And this currency impact which you mentioned Rs. 4 crore to Rs. 5 crore, this will be revenue wise or it is sitting in the cost?

Rajendra Gogri: They are on the revenue side.

Rohan Gupta: So, our revenue is understated by that Rs. 4 crore to 5 crore?

Rajendra Gogri: Yes.

Rohan Gupta: Okay. Just one more question, if you give me the opportunity. Sir, you just mentioned on the previous participant question that India bigger and bigger for chemical, and you are saying that no from Europe and U.S. almost 55% to 60% now business is probably flowing to India or India is getting the prefer partners. But have you seen that any such impact or any such business opportunities flowing as of now because we have not seen in last 1.5 years though there have been a lot of talks but we have not seen any concrete thing coming for the Indian agrochemical companies or Indian chemical company except that one contract which you have won.

Rajendra Gogri: No, actually what I mentioned it is in general the capital expenditure, if somebody is putting a plant in U.S. or Europe, if it is costing $100 million, the project cost up that in India will be in the range of $40 million to $60 million so that is what I was telling. So, this 50% has not yet started. But I think this will start and this will over next 5 - 7 years it will continue to happen.

Rohan Gupta: But in China also, sir it as costing almost similar number 50% to 60% compared to U.S. that is why all the companies were preferring to put plants in China.

Rajendra Gogri: Yes. But I think India will be a better destination and especially where there are issues of IPR the preference will be always India.

Rohan Gupta: Sir, fair enough the point we have also been highlighting from last 2 years but the point I wanted to make that so far nothing concrete is happening still, so have you seen the additional traction that is what I wanted to know.

Rajendra Gogri: I am hopeful that we will have something in future. I cannot say much now.

Rohan Gupta: As are we also sir, thanks.

Moderator: Thank you. We have the next question from the line of Pooja Beniwal from Gold Coin Capital. Please go ahead.

Pooja Beniwal: I just want to ask you, I want you to throw some light on agrochemical space since, that has been going through a soft patch, how has your order book placed on the agrochemical end used?

Rajendra Gogri: As I mentioned the products which are going into agrochemical from our overall baskets there is impact in some of the products but some products we are getting some uptick also. Sometime the customers are adding some formulation where they need more material. So, overall we are seeing in balance we are quite all right as far as the demand scenario is concerned.

Pooja Beniwal: Okay. Overall it is balanced. And sir, one more question, in the nitrotoluene plant which you are putting how is the end use or the product mix different? Can you just throw some light on that?

Rajendra Gogri: That is more on pigment, optical brighteners and agrochemicals, not much going into polymers in this.

Pooja Beniwal: Okay. And sir, in your Spec Chem like as you told that the margins keep on varying from quarter-to-quarter which product of yours has the highest margin and it contributes most to the top-line and the margins EBITDA margins?

Rajendra Gogri: We have a host of products, so it will become difficult to give specifics.

Pooja Beniwal: But then like if we say like these are the top 3 or 4 products which always has a good margin, so which would be those 3 - 4 products?

Rajendra Gogri: We will not be able to give any specific names.

Moderator: Thank you. We have the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: The 10% PAT growth is for full year of FY 2018 or for the balance of nine months?

Rajendra Gogri: No, full year FY 2018.

Chirag Dagli: Full year FY 2018, right. And sir, the PDA scale-up, I can see 3 quarters back you had indicated a number of about 350 per month that is now up to 500 per month. This kind of scale up is sustainable will this increase, will this go down, how should we think about the scale-up?

Rajendra Gogri: Quarter-to-quarter it may not be that secular but year-on-year we expect to increase in FY18 FY19, FY20, as we go on picking up more market share.

Chirag Dagli: But so you will pick only, so now you are up to about 50% utilization if I am not wrong sir. But you expect to peak only in 3 years from now?

Rajendra Gogri: Yes, 2 years from now.

Chirag Dagli: 2 years from now. Okay. And then the last question, sir, on the pharma API scale up if you can sort of, we are seeing increasing FDA approvals probably to some of your customers also they may have been increasing approvals, if you can sort of indicate what is happening there how much time for scale-up for finally?

Rashesh Gogri: Yes, the increased FDA approval is definitely coming through and I think our customers are again relooking at their pipeline whether to launch or not because they have also seen several approvals, so they are deciding and as you know there is increased competition in the finished dosage market in U.S., so despite of getting newer approval we are yet to see a significant impact on sales at our end because we have to get our customer launch this product, that is a challenge currently.

Chirag Dagli: How many of the approved products are we currently not selling in the market, sir? I can see in the Presentation there are 48 commercial APIs, if you can sort of indicate of these how many do we sell in the market?

Rashesh Gogri: We are selling more than 30 products in the market but everything may not be going to U.S. so, I think your question was directed towards U.S., right?

Chirag Dagli: Yes, sir.

Rashesh Gogri: Yes, so in U.S. we have 7 - 8 products that we sell and of course, each product has their life cycle also depending on whether the certain products which we choose where older molecule where there was no competition but unfortunately few products the innovator stopped pushing that product through their representatives in the market. So, that product gets replaced with the newer product, so those things are also happening. However, we are hopeful that newer product launches will happen with us going forward.

Chirag Dagli: How do you see the 7 - 8 API sold in the U.S. increasing 3 years out sir?

Rashesh Gogri: Newer approvals are coming they have to launch it, so I am also waiting.

Moderator: Thank you. We have the follow-up question from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla: Sir, just on this home and personal care segment, even though we have seen a flattish sequential kind of revenue figure but the profitability has again gone back to earlier level.

Rashesh Gogri: Yes, so what do you want to ask? So, basically, you are saying that the sales volume has improved and…

Ranjit Cirumalla: Yes, the sales figures have been flattish on a Q-on-Q basis from Rs. 50 crore to Rs. 60 odd crore…

Rashesh Gogri: Yes, basically here also the product mix we have been able to sell more powder products than the liquid products which has resulted in improvement in the overall margins and I think going forward it will still improve further.

Ranjit Cirumalla: Yes, sir. Home and personal care if you see the margins have actually come down from the fourth quarter from Rs. 4.5 crore to around 66 million kind of a figure.

Rashesh Gogri: Yes, so there was some one-off write-off on some off spec product which was produced that was written down in this quarter but otherwise overall, going forward we will see some improvement.

Ranjit Cirumalla: Can you quantify the figure, if possible?

Rashesh Gogri: I think more than Rs. 1 crore - Rs. 1.5 crore was the write-off.

Ranjit Cirumalla: So, this Rs. 2.5 crore should a sustainable figure for the home and personal care?

Rashesh Gogri: Yes.

Moderator: Thank you. We have the follow-up question from the line of Bobby Jairam from Falcon Investment. Please go ahead.

Bobby Jairam: All the capacities that you are ramping up over the next couple of years, do you have any clients and place for that for the off-take?

Rajendra Gogri: For all the products, what we are ramping-up we have definitive visibility to reach to 70% to 90% capacities. Generally for different client either the qualification or the market share or the growth all those three factors combine, but we have enough visibility as far as long-term volumes for all our expansions.

Bobby Jairam: So, there are from existing customers or do you have to look for new one?

Rajendra Gogri: In our kind of business there will be few consumers, customers across the globe, it will like 20 - 30 customers for the same product. So, based on that we will have a quite good visibility because a lot of them are existing customers who are buying other products, so from that we can understand what is growing and what kind of which kind of product they would like to add new sources, especially if there is only Chinese source, they would like somebody from India. So, that also gives the idea how much market share we will be able to get. So, India sourcing whether it is competition is from China or Europe, people would like to add Indian source also into that.

Bobby Jairam: Right. And who is your biggest domestic competitor in this kind of business?

Rajendra Gogri: Actually, for most of our products, we make 65 to 100% Indian production. So, we do not have any significant domestic competitor as such may be in 1 or 2 products where we are moved towards 65 there will another significant player.

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

Rajendra Gogri: It has been pleasure interacting with you over the call. We thank you for taking time out and engaging with us today. We value your continued interest and support. If you have any further questions or would like to know more about the Company, kindly reach our Investor Relations desk. 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.

- ENDS -

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