Q1 FY19 Earnings Conference Call Transcript

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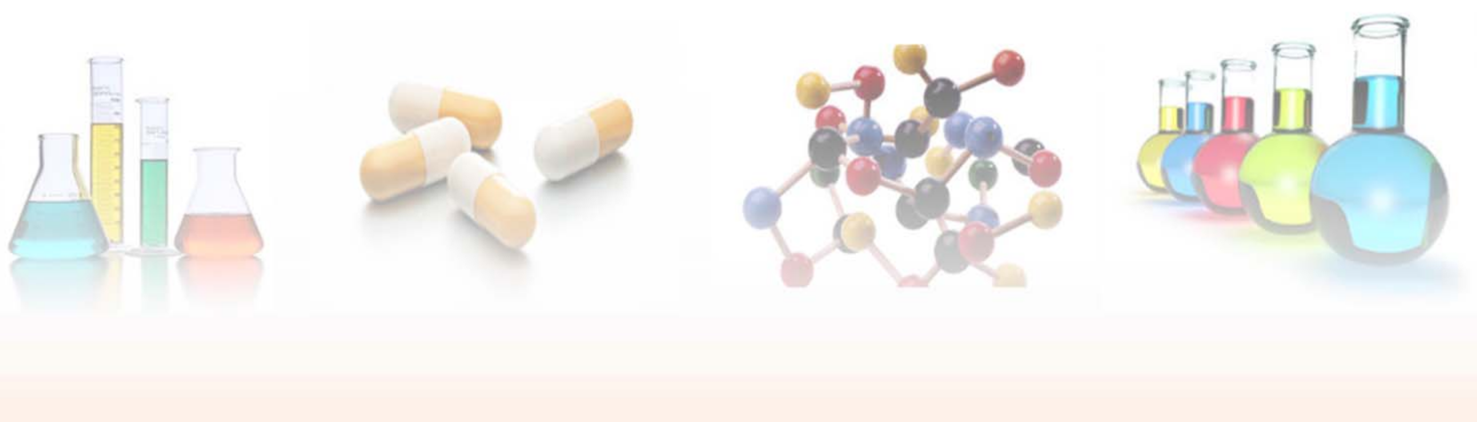
AARTI INDUSTRIES LIMITED



Moderator Ladies and gentlemen, good day and welcome to the Aarti Industries Limited Q1 FY19 earnings conference call. As a reminder, all participants' 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. Vikram Rajput from CDR India. Thank you and over to you, sir.

Vikram Rajput Good evening everyone and thank you for joining us on Aarti Industries' Q1 FY19 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 the opening remarks from the management following which we will have the forum open for question-and-answer session.

Before we begin this call, I would like to point out that some statements made in today's call may be 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. Over to you, sir.

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

The speciality chemicals industry continues to move from cost competiveness to long-term supply, quality and higher SHE compliance model. Aarti industries has passionately kept pace with the changing industry landscape and transformed from being one of the suppliers to Partner of Choice relationships with global chemical leaders. We continue to gain increasing prominence in the large chemicals enterprise ecosystem with a clear focus on empowering customers with seamless supply of critical intermediates and continuing to innovate and scale our products in line with their business objectives.

We have started the current financial year with strong momentum. Revenues were up 36% YoY to Rs. 1079 crore, EBITDA has increased by 38% to Rs. 188 crore with strong contribution from speciality chemicals, pharmaceuticals and home and personal care segments. Volumes in Speciality chemicals segment grew by 12% in line with the guidance shared previously. There was higher revenue contribution from the direct linkage and pass through of raw material prices.

As part of its strategy to safeguard business against currency risks, Company had entered into forward contracts to hedge its exports contracts. In Q1FY19, EBIDTA impacted by Rs 28.95 crore due to Mark to Market loss on such contracts. Company had further provided for Revaluation loss on long term borrowing (ECBs) to the extent of Rs. 7.23 crore as at 30th June, 2018. This loss had been provided in the Finance Costs of the Company. Despite of the above M2M impacts, YoY PAT registered a significant growth of 42% to Rs 89.28 crore.

As most of you are aware our realizations are linked to global crude oil price, so the key parameter to track is our absolute EBIT. I am happy with our EBIT performance showing 45% YoY growth in Q1 despite the FOREX MTM impact. The increased EBIT is on account of the in-line volume growth and also due to improvements in margins for various products across our highly integrated volume chain.

We clocked production of about 17,000 tons of Nitro-Chlorobenzene during Q1 FY19 as against 15,900 metric tons for Q1 F18.Thereby achieving over 90% capacity utilization. We are in the process of validating the next level of CAPEX to further expand the NCB capacity and would share more details once our plans get finalized. We have continued to execute our CAPEX as per plans, we have invested about Rs. 153 crore during the quarter. Nitro Toluene facility at Jhagadia which commenced in the month of September is operated around over 40% during Q1 FY19. We expect the facility to reach 80% to 90% utilization by the end of FY20.

Moving onto the pharmaceutical segment, Q1 FY19 revenue grew by 42% YoY to Rs. 150 crore.I am pleased to report momentum in EBIT performance continue with EBIT in Q1 of 86% YoY to Rs. 26 crore. As guided earlier this performance was enabled by improved business across market and significant operating leverage. Pharmaceutical business is steadily growing into a sizeable business entity. We are further in the process of finalizing the next level of expansion for the pharma business. It will help us maintain our growth momentum in this vertical over long-term period.

Coming to home and personal care, this business saw healthy improvement in topline and profitability. Segment performance was helped by effort to gain large scale and improved product mix. With an eye on creating value for all stakeholders we have set the process of demerger of home and personal care business in motion and expect closure later this financial year.

We continue our guidance of about 12% to 15% volume growth for the current year, however considering the strong Q1 performance, ramp up of volume for recently commissioned facilities and based on the business optimism that prevails we revise our previously stated PAT growth guidance from 18% to 20% to upward of 25%.

We are seeing all around growth across our benzene chemistry chains and other speciality chemical vertical as well. This business is seeing positive visibility from a range of end user verticals, a trend that we expect will continue based on strong demand, India's growing stature in global supply chains and further recognition of Aarti's own position as a partner of choice for a large number of clients. The Company is at an inflection point. An operating model built around innovation and chemistry strength, scale and sustainability has created a strong value proposition for our global customers. The planned expansion in the speciality chemical businesses and the transformation of the Pharmaceuticals business enabled by 'Partner of Choice' relationships has set us up well for the coming years. Our eyes are set on driving growth, and value creation.

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 request the operator on this call to open the Q&A session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We have the first question from the line of Abhijeet Akella from IIFL Securities. Please go ahead.

Abhijeet Akella: If you could help us with the volume growth for the quarter in the specialty chemicals business?

Rajendra Gogri: Yes, the overall volume growth is 12% in specialty chemicals.

Abhijeet Akella: So, out of this 30% revenue growth 12% is volume and rest is basically coming from pricing which is largely driven by cost inflation, right?

Rajendra Gogri: Yes, raw material price changes over the last year.

Abhijeet Akella: How much was the Benzene cost for the quarter on average?

Rajendra Gogri: It was Rs. 58.

Abhijeet Akella: I am not sure if you gave the volume numbers for the key products, NCB, Hydrogenation and capacity utilization at any of the other newer plants? If you could just share that, that will be helpful?

Rajendra Gogri: Yes, this NCB number was 17,000 tons and Nitro Toluene our new plant we had 3,070 tons which is about 40% and Hydrogenation of 1,950 tons per month.

Abhijeet Akella: And how about the PDA capacity?

Rajendra Gogri: PDA was about 550 tons per month.

Abhijeet Akella: Your 1Q last year results were a bit depressed because you had taken a Sulphuric Acid plant shutdown last year in 1Q. What is the status this year have they taken it in the March quarter that went by or is it in the June quarter or are you still yet to take it?

Rajendra Gogri: In between actually we had one shutdown in March this year, so now next shutdown we expect in Q4 of this year.

Abhijeet Akella: One clarification on the MTM impact which you talked about in the finance cost, the ECB related adjustment. The wording in the results says that this Rs. 7 crore impact is as at June, so I am just trying to understand whether this is a cumulative impact or this Rs. 7 crore is only for the June quarter?

Chetan Gandhi: It is only for the June quarter. As per the accounting standard the outstanding borrowing have to be restated as of the closing rate.

Abhijeet Akella: One clarification on the interest cost trend, we have seen in the last 4 or 5 years, Chetan, the interest cost has been fairly steady over FY14 to FY18, even though the overall debt has almost doubled. So, if you could just clarify on that?

Chetan Gandhi: There has been a benefit on account of the reduction in interest rate which has only started going up over last 9 to 10 months, otherwise the interest rates are being falling. That is one area. Another reason has been, we had a larger concentration of rupee debt earlier which gradually is moving towards foreign currency.

Abhijeet Akella: Is it possible to share the mix between foreign currency and rupee debt right now as of end of FY18?

Chetan Gandhi: On the long-term loans, the foreign currency proportion is roughly around 15% whereas on the working capital it ranges between 25% to 50% depending on how the volatility in currencies are.

Abhijeet Akella: What would be the cost of the overseas debt be?

Chetan Gandhi: Overseas debt would be in generally in the range of 3% to 4%.

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

Sneha Talreja: I would like to know the breakup of your CAPEX. You are planning to do somewhere about Rs. 600 crore in FY19, so would be largely spent on?

Rajendra Gogri: One is the contract which we have got which is going to be commissioned in the FY20 second half which is actually a 4 step process, so, in that various stages CAPEX is going to be incurred. In addition to that some of our other product lines some debottlenecking is taking place and then there is normal maintenance CAPEX. Also we are planning to have the R&D pilot plant setup in this year or which maybe commissioned towards the first quarter next year.

Sneha Talreja: Coming to the long-term contract which you are talking about out of which, despite the long-term contract we are actually guiding for about 12% to 15% volume growth in FY19, however we have increased our profitability guidance because if I am not wrong the key product that we are commissioning in Q3 of FY20 would be a high margin product?

Rajendra Gogri: No, current year itself we are revising the PAT guidance to 25% because currently the overall margins in some of the products have increased. Looking at the higher margins we have revised profit guidelines upwards and keeping the volume guidelines same.

Sneha Talreja: So, we are assuming the margin increase which we have seen in the current quarter would be sustainable even going ahead?

Rajendra Gogri: So we are giving the guidance upward of 25%, and if the price remains it can cross 30% also, we have to see how it moves.

Moderator: Thank you. We take the next question from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: One clarification that I wanted on the commentary that you have mentioned in your presentation, the strong growth visibility from the end user industry what you have mentioned. So, can you provide some more clarity about it whether the price led visibility that you are getting or it is volume led visibility that you are getting, because sequentially there is a slight decline in the volumes for NCB and all that?

Rajendra Gogri: Overall there is a trend of increasing chemical manufacturing and sourcing from India. Some of our downstream products consumption we are seeing that more capacities have been put up in India, further are in execution and planning stage. We expect good volume growth within India, some of that maybe for Indian consumption and some of that will be for export purpose. Overall India is becoming a good supply chain destination in chemical industry and we are going to benefit from that on a volume part. As far as the pricing is concerned, the price of quite a few products and margins have shown upward trend.

Surya Patra: Any specific end user industry that you want to highlight?

Rajendra Gogri: It is mainly with Dyes and Pigment, and even Petrochemical we are seeing more volume demand in India currently and also way forward. We started ethylation plant in India first time which was mainly for export but the downstream consumption has started also in India. The Indian companies have put up the plant to make downstream products.

Surya Patra: On the export growth this quarter. YoY, export growth is the share of export which earlier used to be something like more than 50%, this quarter it is 40% or slightly lesser than 40%, and growth in the exports is around 18%. So, that means the domestic share has gone up significantly by delivering around more than 50% kind of growth. So, is this that okay in the domestic business we have seen the pass through of the elevated raw material prices, but we will see a lag impact in the exports, that is why the export revenue numbers are relatively less compared to the domestic business. Is it that correct?

Rajendra Gogri: You maybe knowing that we were exporting lot of material to china, and lot of downstream production is getting increased in India, that shift is also taking place. Also as I already mentioned some of the consumption has started in India for further downstream products for export. So, this combined factor is leading towards increase in domestic sale and this quarter one of the major volume drivers were acid plant, which is virtually mainly for the domestic market.

Surya Patra: But again, the understanding that export numbers would also be seeing kind of a meaningful sequential up move because of the pass through, the one quarter lag what we see in passing through the elevated raw material prices so?

Rajendra Gogri: There are no changes in prices, Benzene prices virtually remained flat. Q4 price was Rs. 59.6 and Q1 price is Rs. 58.2, so there is no significant change there.

Surya Patra: On the other expenses front, if we adjust for the FOREX M2M loss, then we see a kind of a meaningful improvement of more than 300 basis points kind of improvement in the other expenditure line item for the quarter compared to the last quarter. So, where is this benefit coming from and how sustainable is this?

Chetan Gandhi: The Forex is adjusted directly in the revenue and not in other expenses.

Surya Patra: So, which line item that is there?

Chetan Gandhi: It affects the revenues. It gets adjusted in the revenues. It does not impact in other expenses.

Surya Patra: So, then revenue will be accordingly elevated by that much amount?

Chetan Gandhi: Reduced by that much amount.

Surya Patra: The loses are there in the revenue, so it would be, revenue would be appreciated by that much amount, right?

Chetan Gandhi: Without considering the loss impact, yes.

Surya Patra: On the prices front, the trend for most of the lead product what we are seeing, so there is a kind of a sequential improvement gradually since last few months. So, how sustainable the prices trend would be? Do you see this is sustaining for or this is the new norm that is what you think?

Rajendra Gogri: I think some of the products we see long-term sustainability, some of the products it may not sustain for long. So, there is a balance between the two. Some places where the actual closure has taken place in China and the price have really jumped up, those may not sustain but some other places there is structurally some improvement in the pricing taking place.

Surya Patra: On the new project, for the Rs. 4,000 crore long-term agreement, so the CAPEX we are planning but whether we have identified the location and whether we have received the environmental clearance for that?

Rajendra Gogri: Yes, we have received, that is going to come up in SEZ in Dahej. Already the construction is going on and we have got the environment clearance also for the same.

Moderator: Thank you. We take the next question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: On the pharma business, can I get to know more about what is driving the business turnaround, is it specific chemistry products that are getting traction in. So, just more granularity on which parts of the business are doing well, and when you say you are looking to expand capacities in pharma which kind of chemistries or which kind of products that they are into and what kind of CAPEX we are looking at? I know it is not easy but could you just indicate a ballpark number or thought process there? And secondly on the Toluene business what was the utilization this quarter, I think somewhere you said 40% is that correct on nitro-toluene?

Rajendra Gogri: Yes.

Ritesh Gupta: So, pharma business is what I think I am looking at more clarity on and what is driving the change basically?

Rashesh Gogri: Yes, in the pharma business, our overall pharma business comprises of three business models. So, one is the API, other is the intermediates, and third is benzene chemistry which comprises of caffeine. So, overall for these last couple of quarters, all the three have been looking well and particularly we have seen growth in intermediates business which has turned around, and which is helping us build up the overall profitability and we are seeing good demand in the intermediates also.

Our utilization of API as well as caffeine is relatively was always higher but now the intermediate utilization, plant utilization also has improved significantly. And we have been able to get higher prices of it in the market.

Ritesh Gupta: So, basically intermediate business has been kind of seeing a bigger turnaround and probably that is more because is it likes some intermediate shortage from China or is it something else?

Rashesh Gogri: Basically, our intermediate business, we have two kinds of businesses. One is Generic intermediates and the other api-intermediates. So, we have been doing well on both the sides. In generic intermediates, of course there is China driven advantage but we are also able to get contracts from customers who were earlier not ready to change the source are now easily ready to change because they want to have an Indian source also approved.

We have been backward integrated for our API business also, we have less cost pressure related to any other player because we have our own intermediates which we support for our API.

Ritesh Gupta: And on the CAPEX side, what kind of CAPEX where you are seeing kind of capacity expansion, where do we see opportunities there to expand capacity?

Rashesh Gogri: In pharma, we have additional blocks for intermediates as well as the API in existing sites, we are planning expansion.

Ritesh Gupta: And from a margin point of view you are already done with like these are the margins which are sustainable or is it that there still scope to improve these margins from probably better or putting the leverage even from here on?

Rashesh Gogri: In pharma, overall there is a scope of further improvement in the EBIT percentage so are working on that, so higher and higher utilization of facilities and pricing power will give us better numbers.

Ritesh Gupta: And what sort of utilization will be at the Intermediate and API businesses?

Rashesh Gogri: 70% to 80%.

Ritesh Gupta: And you can go all the way to 100%?

Rashesh Gogri: Yes.

Ritesh Gupta: And in the presentation I saw this remark on Nascent Chemical, so Chetan if you can just explain what is this whole thing is happening, I mean demerger of the manufacturing undertaking of Nascent Chemicals?

Chetan Gandhi: So, Nascent Chemicals is a step-down subsidiary of Aarti Industries which is manufacturing certain products which is part of Benzene integrated value chain, it is a relatively very small business from the revenue perspective. That facility is also been leased out to Aarti Industries. On the numbers perspective it had Rs. 12 crore revenue in last financial year and around a PAT of almost around Rs. 5.7 crore. It is anyway consolidated in Aarti's consol numbers, so this merger is more in terms of integrating the operations rather than having multiple entities.

Ritesh Gupta: And when you increase your PAT guidance and when you do not increase your volume with that is it that your profitability has improved due to better pricing environment? So, your profit per volume or profit per unit that you sell has improved, so what could have been the driver there? Is it again the rupee depreciation and probably the China angle or is it something else?

Rajendra Gogri: There are the two main angles, rupee depreciation and as well as some of the product lines where China is a major price driver we are seeing increased prices.

Ritesh Gupta: And on Agrochemical side are you seeing a traction improvement? Is it that the end demand itself is improving or is it just gaining more market share?

Rajendra Gogri: Overall some of the places we are taking up the market share also, and there is normal growth also is taking place. It is a mix of both.

Ritesh Gupta: So, the industry environment has gradually been improving versus what it was maybe a year back, is it what you will say?

Rajendra Gogri: Yes.

Moderator: Thank you very much. Ladies and gentlemen, we take the next question from the line of Dixit Mittal from Shubkam Venture. Please go ahead.

Dixit Mittal: My question is on this expansion in EBITDA margins. Is there any element of inventory gain during this quarter?

Rajendra Gogri: It is not significant because the raw material prices have remained constant but some because of the product mix change in the sales there will be some gain, but the raw material price overall has remained the same.

Dixit Mittal: If I adjust this Rs. 29 crore FOREX loss, so more than 50% jump in EBITDA is truly remarkable. So, just wanted to know whether this is sustainable, this kind of margins or there is any one off in this quarter? Because the volume has grown only by 12% as you mentioned?

Rajendra Gogri: Yes, but you know what happens is, different products have different margin. So, even if the volume growth maybe 12% but if there is a high margin product volume increase then you will have a bigger impact.

Dixit Mittal: So, this kind of product mix is it sustainable or it may change depending on product like which quarter?

Rajendra Gogri: Yes, that is what we are looking at, overall higher margins in general. Quarter to Quarter depending on the product mix on the production side or the sale side there will be variation but in general there are margin improvements in lot of products.

Dixit Mittal: This 25% growth that you have given guidance that is on the EBITDA level, right?

Rajendra Gogri: At the PAT level.

Moderator: Thank you. We take the next question from the line of Sarvanan Vishwanthan from Unifi Capital. Please go ahead.

Sarvanan V: Regarding the multiyear Rs. 10,000 crore contract that you had indicated, we were supposed to receive $42 million advance, so when would that come?

Rajendra Gogri: We expect to start from this quarter.

Sarvanan V: So, it will be paid in installments?

Rajendra Gogri: Yes.

Sarvanan V: Because you will be commencing the corresponding CAPEX also for that project, right?

Rajendra Gogri: Yes.

Sarvanan V: As regards pharma division you mentioned that you are at 80% capacity utilization and you are considering adding some more blocks in the existing facility, similarly what is the status in specialty chemicals Benzene especially? What sort of capacity utilization as of now and when do you have to add the next round of capacity?

Rajendra Gogri: We already mentioned that Nitro-Chlorobenzene, we are already operating at 90% plus so that we are in the process of finalizing the next phase of expansion whereas the product for which 10-year contract we have that is for Dichlorobenzene value chain, so there we are expanding the entire value chain from all the four steps.

Sarvanan V: That will be a dedicated unit, right? You will not be able to?

Rajendra Gogri: Only the fourth stage is the dedicated, the first three stages will be utilized for other purposes. It is a four-step chemistry. Last step is dedicated plant for them, but the first 3 products are used for other customers.

Sarvanan V: As regards to the R&D lab that you are going to setup, what is the CAPEX earmarked for that? When will it be operationalized?

Rajendra Gogri: Overall CAPEX for R&D we have earmarked for about Rs. 75 crore and it is expected to operational in Q1 of FY20.

Sarvanan V: So, this year there will be only spend towards the projects, the asset creation, so there would be any R&D expenses as such?

Rajendra Gogri: No.

Moderator: Thank you. We take the next question from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

Lakshmi Narayanan: I have couple of questions. First in terms of your guidance can you just let me know what is the volume guidance for the entire business you have given for this financial year? And the second question is if you look at the next 2 to 3 years what percentage of our business is something which will be a repeat business and what percentage of business would we need to actually scout for? And the third question is that you frequently mentioned in terms of China getting less competitive when compared to India and how do you see it? Is it going to be transient or is it going to keep on coming for the next couple of years? So, there are my three questions.

Rajendra Gogri: Lot of our products on an ongoing basis we are selling to the customers. And then one particular contract we will be setting up for them and it will be dedicated for them. And regarding this Chinese situation, overall the indications are that there will be rationalization of capacities in China and some of them will be for long-term. Some new capacities of some of the products may come up but then it will be at a higher cost and it may take couple of years but overall the cost, China is increasing and that trend will continue.

Lakshmi Narayanan: Any number you would actually try to give, for example for this year how much of that you think is coming because of this Chinese transition?

Rajendra Gogri: It will be difficult to specify a number because different products will be having different drivers. What we are mentioning is that the Chinese situation is giving a higher pricing.

Lakshmi Narayanan: And you mentioned that there is some amount of revenues would be slightly repeat business as well as new thing which you talked about but in general what percentage of our revenues for this year would be something which was not existent last year in terms of new clients or new products from new clients?

Rajendra Gogri: Clients are same, this is ongoing business whereas in Nitro-toluene some of the products which we have started only last year fourth quarter, there we will be adding the new customers as our volumes ramp up. For all our other businesses where we have been manufacturing for years, that customer base virtually remains the same. But as I mentioned earlier also that some of the downstream consumption has started more in India, so customer maybe same but the product range what they are buying from us is expanding.

Lakshmi Narayanan: What is that mix? What is your repeat customer's existing products and repeat customer's new products?

Rajendra Gogri: Overall, we have 600 customers in domestic. So, it will be difficult but in general the manufacturing in India is increasing, so a lot of them are our existing customers, and I think in India definitely consumption is increasing for our products.

Lakshmi Narayanan: And on the exports?

Rajendra Gogri: Yes, exports also. Exports you do not see a new customer because exports generally we have a strong base. Export will see may be more of somewhere the market share growth or their natural growth like you know the new project which we are putting up, that is the back to back with the customer also putting up the facility in west. But in India there is more manufacturing shifting taking place from China to India so that is creating more usage of our products into India.

Lakshmi Narayanan: Last thing on the guidance. What is the guidance you have given for this year and what is it for the next 3 years?

Rajendra Gogri: This year we are expecting an upwards of 25% PAT growth. Then overall next 3 to 4 years we see CAGR of 20% plus.

Moderator: Thank you. We take the next question from the line of Rahul Singh from Ampersand Capital. Please go ahead.

Rahul Singh: I have two questions. Firstly, when you sign these sales contracts with your customers typically how long they are valid for and when you say that the margins have gone up in certain parts of the value chain has that been a reset negotiation and how frequently those contracts are revised? Just wanted to get a sense of that, how short term or long-term these contracts are for which the margins have gone up?

Rajendra Gogri: Yes, we have multiyear contracts, we have yearly contracts and three monthly businesses and within India generally we have normally a month or sometime two months order booking. So, as long as the contracts are already in place then there will not going to be any intermediate price change once we have structured pricing formula in place which is based on the raw material pass through mechanism.

Rahul Singh: And these raw material pass throughs which happened which you are saying margins have gone up. What would be the mix like I mean have you seen that margin movement mostly in the shorter-term contracts right now and do you think that will spread to the other longer term contracts when they come up for renegotiation if you can just give some idea on that?

Rajendra Gogri: It will be case-to-case basis. Somewhere it will come up in some of the contracts that is when contracts are up for renewal because if the overall structurally the margins have improved then corresponding increase we will be able to get in some of those contractual type of business also.

Rahul Singh: And you mentioned that there are some margin improvements happening because of structural reasons and some temporary reasons due to China closure? What are the structural reasons which you mentioned apart from the China factor?

Rajendra Gogri: Structural reasons, as the manufacturing costs are going up and we have already existing plants for which the CAPEX has already been done over the years. So, in those products because for the new plant or in general the other costs also increasing. We are seeing potential increase in structurally the margins. And also because we are more integrated that also gives additional benefit.

Rahul Singh: Okay one last question. On the CAPEX for that Rs. 4,000 crore multiyear contract of Rs. 400 crore CAPEX which you are doing. That Rs. 400 crore CAPEX number when you give you give it for all four stages, right not just the last step which is dedicated for the customer?

Rajendra Gogri: Yes, it is four stages but the first three stages it is proportional because then whatever additional capacity we put up looking at for other customers that becomes an additional. Fourth step is dedicated CAPEX and for the first three it will be proportional CAPEX.

Rahul Singh: So, CAPEX next year will be what fiscal 20 total CAPEX roughly?

Rajendra Gogri: We have still fine tuning but earlier guidance we have given about Rs. 600 crore to Rs. 700 crore annually for these two years.

Moderator: Thank you. We take the next question from the line of Sarvanan Balakrishnan, individual investor. Please go ahead.

Sarvanan B: My question is related to the net fixed asset turnover for Aarti Industries. So, for the past five years if I calculate the net fixed asset turnover so the ratio is coming down from 3.5% to 2.23%. So, as the utilization improve so do you confirm that the asset rate to increase by FY20-21?

Rajendra Gogri: In general, the newer assets are costlier and also, we had lot of investment in safety and environment related assets. That is also one of the reasons that the asset turnover has reduced. Again, the turnover also depends on the raw material prices also. And also, how value added the product is like the new contract we have is a 40% EBITDA. So, the profit will be much higher as compared to the turnover it will bring a very high value-added product. So, direct turnover to fixed assets number becomes a difficult to put.

Sarvanan B: And coming back to the debt to equity so are we planning remain at the same level of 1.1 to 1.2 or incrementally we will come down to 1?

Rajendra Gogri: Right now we are in a CAPEX mode that is why the debt equity is higher. So, it will all depend on when we start the consolidation and have less CAPEX. But overall looking at the opportunity in the Indian chemical manufacturing and we having a very strong customer base on various end user industry we are looking at a very good volume growth possibility. So, as long as we have that visibility we will continue to invest.

Sarvanan B: And also with respect to the pharma business so Quarter-on-Quarter so there is an increase of 15% in the revenue. So, is that something that we see for the subsequent quarters down the line?

Rashesh Gogri: Yes, going forward we expect to be in the range of we have given earlier guidance of 25% topline growth for pharma sector so that will happen.

Sarvanan B: And are we planning for any CAPEX in the intermediatary chemicals in pharma?

Rashesh Gogri: Yes, it is at planning stage basically we have envisaged the need for CAPEX and we are working on that.

Moderator: Thank you. We take the next question from the line of Shrinath Shridhar from ICICI Securities. Please go ahead.

Shrinath Shridhar: The two projects that you all have in the pipeline one is the Rs. 400 crore and one is the Rs. 200 crore. So, can you please tell me the margin for each of these projects and when they will be underway?

Rajendra Gogri: The first one which is the Rs. 400 crore per annum has an EBITDA margin about 40% plus. And second one is we are expecting is about Rs. 500 crore per year turnover that will be commissioning in Q4 FY20 or Q1 of FY21 where the PBT range is about 10%.

Shrinath Shridhar: PBT?

Rajendra Gogri: Yes, because there will not be any investment from our side.

Moderator: Thank you. Next question is from the line of Sarvanan Vishwanthan from Unifi Capital. Please go ahead.

Sarvanan V: Sir, the pharma business what is the US sales as of now and how many DMF we filed and how many have got approved and launched?

Rashesh Gogri: So, in the US overall our regulated market sales is close to 45% to 50% of our exports. Totally we have filed more than 20 plus US DMFs out of which 13 to 14 have commercialized.

Moderator: Thank you. We take the next question from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Sir, can you just give some clarity about the timeline for the merger and demerger?

Rajendra Gogri: We will expect it by end of this financial year.

Surya Patra: And there is a sense that okay on the personal case side there is a meaningful growth that we are witnessing since last few quarters and whether any structural changes that we have done to our existing business line and in the personal care business side? So, what is that and how is that or what is the way forward for this business segment going ahead?

Rashesh Gogri: So, home and personal care comprises of sulfonation and specialty chemical. So, in sulfonation particularly we have been able to stabilize our SLS production which we had been trying to stabilize for last several quarters. So, basically the SLS is the powder that goes for toothpaste as well as the washing application. So, we have been able to tie up and have contacts with MNCs on this product and our overall capacity utilization is improving and the product right quality we have been able to manufacture. So, that has been a turning point in terms of topline growth and once we further utilize our capacities then of course the bottom-line growth will then happen in future. But I think that will take some time.

Surya Patra: Okay and what is the utilization sir?

Rashesh Gogri: Utilization of the sulfonation block would be close to 65% to 70%.

Surya Patra: And just one last question. Sir, is it possible to share what is our export performance to China specifically during the quarter and over last one year?

Rajendra Gogri: That will not be immediately available but there is a declining trend.

Surya Patra: It is because of the volume getting shifted to India or because the realization seems to be much higher in the recent period compared to the earlier phase?

Rajendra Gogri: Yes, the volumes are getting shifted.

Moderator: Thank you. We take the next question from the line of Hasmat Ladhani from Progressive Shares. Please go ahead.

Hasmat Ladhani: Sir, I just wanted to know there is a huge jump in the other income. So, can you just give me a brief regarding this about what is the breakup with regard to this?

Chetan Gandhi: So, in the case other income there was a dividend which we have received from a subsidiary of around Rs. 2.5 crore. So, that is the major number.

Hasmat Ladhani: Okay that is it, sir?

Chetan Gandhi: Yes, that is the major number because it is only a Rs. 3.4 crore other income.

Moderator: Thank you. Well, ladies and gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

Rajendra Gogri: It has been a 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 we conclude today's conference. Thank you all for joining us and you may now disconnect your lines.

- ENDS -
