

November 22, 2022

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

Scrip Code : 524208

Dear Sir/Madam,

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

**Sub.: Transcript of Q2 FY23 Earnings
Conference Call**

**Ref: Regulation 30 of the SEBI
(LODR) Regulations, 2015**

Please find enclosed herewith the Transcript of Earnings Call held on Tuesday, November 15, 2022 on Audited Financial Results of the Company for the quarter and half year ended September 30, 2022.

Kindly take the same on record.

Thanking You,

Yours faithfully,

FOR AARTI INDUSTRIES LIMITED

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



Aarti Industries Limited

Q2 FY23 Earnings Conference Call Transcript

November 15, 2022

Moderator: Good day, and welcome to Aarti Industries Limited Q2 FY23 Earnings Conference Call. As a reminder, all participant lines will be in 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 touch-tone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you, and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone, and thank you for joining us on Aarti Industries Q2 FY23 Earnings Conference Call. Today we are joined by senior members of the management team, including Mr. Rajendra Gogri, Chairman and Managing Director; Mr. Rashesh Gogri, Vice Chairman and Managing Director and Mr. Chetan Gandhi, Chief Financial Officer.

We will commence the call with opening thoughts from Mr. Rajendra Gogri, who would take us through the performance, update on growth initiatives and outlook on the business. Post this, we shall open the forum for question and answers where the management will be addressing to queries of the participants.

Just to share our standard disclaimer here. Some statements that will be made in today's may be forward-looking in nature and a disclaimer to this effect, has been included in the results presentation that has been shared earlier and also uploaded on Stock Exchange websites.

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

Rajendra Gogri: Thank you, good afternoon, everyone and welcome to our Q2 FY23 earnings conference call. We have shared our results documents and I hope you had an opportunity to go through them.

We have reported a resilient performance during the period under review which has come on the backdrop of continued inflation in key input costs both on raw materials and utilities, some slowdown in end-user industries linked to dyes & pigments, extreme foreign exchange volatility as well as uncertainties prevailing in the global market. Our performance was a culmination of solid expertise attained in managing multiple chemistry processes with superior execution track record. We adhered to our delivery commitments thereby winning customers trust and further deepening our relationships with them. Our knowledge and capabilities demonstrated in several product value-chains linked to Benzene and Toluene is



best-in-class and we are replicating the same to create strong foundation across other adjacent chemistry value-chains.

In a significant development, we received Hon'ble NCLT approval to demerge our Pharma business into a separate Company named Aarti Pharmed Limited. This will extensively enhance value for our stakeholders and also help us achieve operational efficiencies. Mainly, this will help both the companies to take appropriate strategic decisions in view of the growth opportunities available. We have been expeditiously working to conclude this and expect the listing of Aarti Pharmed Limited to take place sometime in December 2022.

Let me quickly share some of the key financials for Q2 FY23. Before that, let me inform you that the financials for Q2 FY22, Q1 FY23 and H1 FY22 were recasted to consider the effect of Scheme of Arrangement for the demerger of Pharma Segment from the Appointed date of 1st July, 2021. Our revenues increased by 29% Y-o-Y to Rs. 1,847 crore, with exports contributing over 50% of the total revenues.

- EBITDA improved by 5% to Rs. 267 crore; Normalising the impact of Shortfall fees in Q2 FY22 of Rs. 52 crore, the EBITDA growth in Q2 FY23 is over 30%
- Profit after tax stood at Rs. 124 crore

Our revenue momentum was fuelled by a stable demand trajectory for key products under the essential end usages, further aided by volume gains. As was highlighted in the past, we are seeing slower demand for products associated with the end-user industry of Dyes, Pigments, etc and to that extent the performance appears moderate. However, we expect this demand to recoup from Q4 of FY23. While the RM and utility costs have remained elevated during the quarter, we have strong pass-through mechanisms in place, to pass on these cost pressures thereby protecting absolute profitability. We expect the elevated input cost scenario to soften in Q3. EBITDA was higher, supported by product optimization and increased export revenues. Absolute profitability levels were maintained during the period. Considering the slowdown in demand due to global factors, we have utilised this time to take up the maintenance works at our Jhagadia locations. As a result the volumes for a few products were lower in Q2 FY23. Profit after tax appears muted owing to higher finance costs due to negative FOREX mark-to-market impact of Rs. 20 crore and increase in depreciation in-line with new capacities added in the recent past. With the current performance for H1 FY23 and the visibility that we have for H2 FY23, we expect our FY23 EBITDA to be about Rs. 1,100 crs.

Now, let me turn your attention to the production details for Q2 FY23. Production of Nitrochlorobenzene stood at 20,276 MT, while the same for hydrogenated came in at 2,558 TPM. For Nitro-Toluene, the production for Q2 FY23 stood at 4,954 MT. Production levels were lower due to the maintenance shutdown that was taken at the Jhagadia facility. This will benefit us to maximise on the operating time when the demand resumes back.

Let me now move your attention to some of the expansion initiatives announced and updates around that.

Project linked to the 1st long term contract is scaling up as expected, and we anticipate high utilisation levels of about 70% by next financial year. The recently commissioned facility that houses the 2nd long term contract is getting utilised in a phased manner and we expect to generate the EBITDA as guided by the contract terms and shared earlier. Construction and other plant-related activities associated with the 3rd long term contract at Jhagadia is progressing well and we expect commissioning towards the end of this quarter. Several other projects including

brownfield expansion of NCB facility at Vapi are underway and will start getting operationalised progressively in next 4 quarters and thus will be contributing meaningfully from next financial year. In respect for our Ethylation capacity at Dahej SEZ, which is operating nearly at 90% now, is being tripled with an investment of around Rs. 200 crs and is expected to come onstream in H1 FY25. We are also planning for further debottlenecking of our Nitro Toulene Capacities. The products will enable us to cater to few high growth Agrochemical molecules/applications.

During the half year ended Sept 2022, we entailed a CAPEX of Rs. 577 crore towards growth initiatives outlined and target the annual capex to be about Rs. 1,100 to 1,200 crs. Full benefit of various of our current ongoing projects will be visible in FY24 and FY25 as we anticipate some demand recovery from Q4 of FY23. While volume ramp-up from new capacities will come in the next two years, the fixed costs will not generally rise to that level, thereby resulting in strong Gross Profit to EBITDA conversion from FY24 onwards. With these volume ramp up, we anticipate our EBIDTA to grow at CAGR of about 25% for FY 24 & FY 25

Collective CAPEX for FY 24 and FY25 is expected to be around Rs. 3,000 crore and will steer our momentum in the forthcoming period. Through this, we plan to create newer chemical value-chains and also introduce high-potential products that will expand our addressable market opportunity and will also cater to increased demand from key end use customers.

We have built a very strong R&D team with 250+ engineers and scientists working on several high potential projects across segments including some of the sunrise sectors. Our expertise in wide-ranging chemistries with focus on technological expertise is driving gains in a sustained manner. Currently, we have 50+ products in the R&D pipeline of Chemicals at various stages, and this will help accelerate our performance trajectory. Our utilisation levels across plants are being ramped up based on steady demand. We have created a strong foundation through an integrated and well-diversified business model with relentless focus on R&D and chemistry capabilities. Our deep connections with key customers will drive sustained growth and profitability going forward as well.

The roadmap looks encouraging, and we will continue to capitalise the opportunities created through rapid shifts in global chemical supply chains. Focus on R&D led product offerings together with incremental gains from existing value-chains will propel our value proposition.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Aditya Khetan of SMIFS Securities. Please go ahead.

Aditya Khetan: Yes. Thank you, sir for the opportunity. Sir, first question, if you can provide the break up on the top line, i.e., from our core business and from the custom synthesis business from contract one and two. Now we can provide the breakup of our revenue into core and into the custom synthesis part?

Chetan Gandhi: The revenue from the contract would be relatively lower. I don't have the numbers right now; maybe in single digit numbers. We'll have to see the numbers and come back to you later on.

Rajendra Gogri: We can say that our value-added product, which we generally guide, 78% sales is coming from value added products.

Aditya Khetan: Okay. So, what I wanted to know, so this quarter-on-quarter growth of 5% into top line, how much was it from the core business and how much was it from the contract one and contract two?

Rajendra Gogri: The contract one is already terminated. So there's no connection of contract one as such and as Chetan mentioned, the contract two, there is not a very significant addition in Q2, I think. So, that number will not be available hands on.

Aditya Khetan: Sir, we have also taken a maintenance shutdown. So, what was the one-off impact in this quarter and how much in volumes has been impacted because of this?

Rajendra Gogri: Yes. Our Nitro Toluene, PDA and Chloro aniline volumes were impacted. So that's why the numbers for Nitro Toluene are also low and PDA also are low in this quarter comparatively.

Aditya Khetan: Sir, we are also doing debottlenecking of the Nitro Toluene capacities as said by you in your initial remarks. So, how much we are planning to expand on the base capacity? So, is 15-20% addition that we can take and what could be the CapEx for the same?

Rajendra Gogri: Yes. We are fine tuning the details for the future capacity. Current capacity is about 30,000 tons and we are now fine tuning the de-bottlenecking. I think around 45,000 tons is what we are targeting to debottleneck.

Aditya Khetan: 45,000 tons. What would be the CapEx, sir, similarly?

Rajendra Gogri: No, that is still being worked out. Whereas the ethylation is brownfield plan. So, there already the construction and everything has started. So that CapEx is about INR 200 crore and there we are increasing the capacity to three times from current capacity about 7,000 tons to 10,000 tons, it will become three times for ethylation.

Aditya Khetan: One last question, are we witnessing the benefit of the freight cost as of now? Is it that in this quarter we had got the benefit and that should continue or still we are witnessing that freight cost is elevated?

Rashesh Gogri: No, the freight cost is coming down, in the current quarter. So, in Q3, we will see freight cost reduction.

Aditya Khetan: So, from the current quarter we should see improvement in the margins from the freight cost?

Rashesh Gogri: Yes, from the freight part, but largely we had done freight pass through for most of the larger contracts. So, overall, we may see some improvement but it may not be a very meaningful number.

Aditya Khetan: Just one last question. On the raw materials, how is the trend now? We have been witnessing that the raw material prices are going down, like Benzene, Toluene and **Phthalic Anhydride**. So, this should benefit the Company and in case when the raw material prices decline, how confident are we that we can maintain the gross per ton in the coming quarters?

Rashesh Gogri: Basically the raw material prices are definitely coming down and we have a pass-through mechanism where we have a quarterly or monthly lag of passthroughs. So, whatever those lags are, we will get advantage to that effect. But largely the raw materials are also, on a one-month lag of pass on. On the export side, wherever we have three-month lag of pass on, so there we will get benefited.

- Aditya Khetan:** One last question – generally, we are only focusing on the Specialty Chemical business. So, would it be possible from next quarter so we can give the revenue breakup of the Nitro Chloro Benzene or PDA segment and the Di-Chloro Benzene. That would help to delve more deeper into the Company's Specialty Chemicals business, because now the Pharma business has been excluded? So, if possible, so if we can provide more breakup on to the numbers, that would be helpful, sir.
- Rashesh Gogri:** Anyway, we are providing you the quantity breakups. So, I don't know, further breakups we will have to deliberate and get back to you, how we can do that.
- Moderator:** Thank you. The next question is from the line of Vivek Rajamani from Morgan Stanley. Please go ahead.
- Vivek Rajamani:** Hi, sir. Thank you so much for this. Two questions and just two small clarifications from me. Firstly, sir you obviously highlighted in the previous quarters regarding some challenges on the raw material sourcing side. If you can just provide an update in terms of how the situation was in this quarter and how do you see this evolving in the next few quarters? That's the first question.
- Secondly, if you could just provide an update on some of your own remedial measures that you're doing, which you'd indicated in the past quarter? Thank you very much.
- Rajendra Gogri:** Yes. On nitric acid, there is no significant impact of any nitric acid in Q2 and in the second half also, we don't expect much impact of nitric. This is because the overall demand in the market is subdued and some more capacity will also come out of nitric acid in the second half. So, in the next year, there will not be much issue regarding availability of nitric acid. What we had announced, our planning is to get the concentrated nitric acid plant commission in Q4 of FY24.
- Vivek Rajamani:** Understood, sir. Just two clarifications. On the maintenance side, which you had this quarter, did you specify what was the period of the maintenance shutdown?
- Rajendra Gogri:** About three weeks, in Jhagadia.
- Vivek Rajamani:** Got it. I'm not sure if I missed this, you gave the volume breakup, but did you also give the numbers for the PDA volumes?
- Rashesh Gogri:** Yes. The PDA Q2 numbers are around 242 tons per month.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.
- Abhijit Akella:** Yes. Good afternoon, sir. Thanks for taking my questions. Just a few data related requests, if it's possible to share these on the call. One was with regards to the restated financials, if it's possible to share with us the base EBITDA and PAT for the years FY22 and FY21? That would be helpful.
- Chetan Gandhi:** Come again. What are you looking for?
- Abhijit Akella:** So, following the restatements, following which, we have only the Specialty Chemical financials now, so is it possible to get the base numbers for FY22 and FY21 just in terms of EBITDA and PAT for the remaining business.
- Rajendra Gogri:** Nine-months number will be available, from July '21 to March '22. I think that number is available.

Abhijit Akella: Okay. Okay. But a full year base won't be available?

Rajendra Gogri: Yes. Because the effect appointed date was 1st July, '21. So, post 1st July, '21, we have all the quarter number for both, Chemical and Pharma separate.

Abhijit Akella: Okay. Fine. I understand. Thank you.

The second thing was just with regard to the demand softness that you pointed. So, what exactly are the factors that lead us to expect a recovery in demand in Q4 of this year? What exactly were the reasons for the margin pressure that we saw this quarter - was it combination of higher raw material costs, as well as the softness in demand? How would you describe that?

Rajendra Gogri: Yes, regarding demand, we have been in touch with the customer and there is feedback, that now there is some recovery, especially on the dye stuff side is to start coming in. Actually, on the pigment side, the impact had started little later on, so, I think there recovery also might be a little later on. So that is mainly coming from our customer side. That's how they see the demand shaping up.

Abhijit Akella: Was the margin pressure this quarter primarily because of falling Benzene costs and maybe some inventory related pressures or was it something else?

Rajendra Gogri: No, overall margin, I think there's not much different than in product mix and some raw material price and everything. Broadly, I think EBITDA will be down by about 5%.

Chetan Gandhi: On the Benzene side also, just to add on it, the Benzene prices are also fairly similar. So, the reduction as Mr.Rajendra Gogri shared, price reductions would start being seen from this quarter onwards.

Abhijit Akella: Okay. Understood. One last thing for me was, is it possible to share our volume growth number for this quarter?

Chetan Gandhi: This quarter the volume growth will be really substantially flat. It won't be anything, because we had this shutdown which was taken up.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Yes. Thanks for the opportunity. First question is in terms of exports, on a sequential basis, the numbers look quite promising. So, were there any currency benefits? An allied question to that, Q2 has been pretty strong in terms of exports and in Q3, we are already one and a half months done. So, any demand related challenges from the export side that we have faced in the last one and a half months? Thank you.

Rajendra Gogri: Yes. Some of the pigment intermediates, as I mentioned earlier, are where we are seeing some challenges but the other sectors, we don't see much challenges as far as exports are concerned.

Rohit Nagraj: Right. And any currency benefit on a sequential basis?

Rajendra Gogri: I think Chetan will be able to answer on currency benefits.

Chetan Gandhi: Structurally, rupee depreciation benefits us, so, to some extent, there will be a benefit of that which would have been there in Q2 as well. The numbers would be

in the range of around INR8 crore to INR10 crore. The aspect is that, we do have forwards for part hedging the export, over next three years. So, there's also a limitation, in terms of not everything which is there as a part of our export is completely open. So, then the benefit is limited to those forwards and they are anyway accounted by way of mark to market accounting.

- Rohit Nagraj:** Right. Got it. The second question is just a book keeping question. We have reiterated the numbers for FY22. Can you give the gross block by end FY22? We have given the net block.
- Rashesh Gogri:** Yes. So, the gross block of FY22 should be around INR5,000 crore.
- Rohit Nagraj:** This is only pertaining to Specialty Chemicals, the business which is now separated.
- Chetan Gandhi:** It is roughly INR5,000 crore.
- Rohit Nagraj:** Just one last clarification. I missed the number on NCB volumes.
- Chetan Gandhi:** NCB volumes were 20,276 metric tonnes for the quarter.
- Moderator:** Thank you. The next question is from the line of Rohan Gupta from Nuvama. Please go ahead.
- Rohan Gupta:** Hi, sir. Good evening and thanks for the opportunity. Sir, couple of clarifications. First is on our Dicamba intermediate sales. So, if you can give some sense that how has been the utilization for the current quarter on Dicamba intermediate.
- Rajendra Gogri:** Yes, overall, I think, current quarter's is not significant. About 10% level on that but progressively I think it will go on increasing.
- Rohan Gupta:** Okay. So, 10% is the only utilization, while I think that by FY24 for next year, we are looking some 70% utilization, level to go up, right?
- Rajendra Gogri:** No, actually that is my mistake around 25% was around 720 tonnes per quarter. That will be against quarterly capacity of 2,400 tonnes. So, it will be around 25%.
- Rohan Gupta:** So, sir, around 25% utilization level, in this entire block related to this intermediate, will it be breakeven or it will be dragging profitability?
- Rajendra Gogri:** No, we expect progressively from second half onwards for the capacity utilization to increase.
- Rohan Gupta:** Okay. I am asking, at 25% in the current quarter.
- Rajendra Gogri:** Yes. Currently also it will not breakeven.
- Rohan Gupta:** Okay. There will be some losses there.
- Rajendra Gogri:** Yes.
- Rohan Gupta:** Sir, second is in terms of the guidance of roughly INR1,100 crore this year, you're looking in EBITDA, while almost half of that we have already done in the first half. So, you're clearly indicating that in second half there won't be any growth while we have a large CapEx commissioned already and current quarter is already weak. So, just wanted to understand the thought process that second half will be just exactly as the first half, no volume growth. What is the particular reason for that?

Rajendra Gogri: Yes. I think the dyes and pigments segments are weak. So, I think that will continue in the second half also. That is the main reason for lower guidance. Hopefully the things start recovering in Q4 and the next year, we don't have any impact of this slowdown in this segment.

Chetan Gandhi: Couple of capacities are coming on stream in the second half. So, there will be a component of fixed costs by way of manpower and other stuff, which will start ticking in.

Rohan Gupta: On the segments, you mentioned that the dyes and pigments is seeing a drag right now. Is it primarily coming from the European market, because of the inflationary scenario or what is a particular reason for it? Also, in which segment, I mean like agro-chemicals and all we must be seeing a good group. So, if you can just give some segments, which are the segments that are drag and which segments where you are seeing good growth?

Rajendra Gogri: See, pigment impact is global, whereas, with dyes, the impact is more on within India as most of the dyes intermediates are consumed in India and in some exports also. On some of the agrochemicals, additive businesses are quite strong.

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

Meet Vora: Hi. Thanks for the opportunity. My first question was towards our earlier guidance, you were saying that that we are facing shortage of nitric acid and as a result, volumes might be impacted. So, two-three questions regarding that. So, Q2 is generally a seasonally weak quarter for nitric acid, as monsoons are going on and nitric is basically used in fertilizers. So, is it that we are facing, that demand was down because of the seasonal quarter? How do we look at it from Q3 or Q4 perspective?

Secondly, we say that while new capacities are coming on stream in Q4, what kind of visibility do we have that volumes will be shared with us?

Thirdly, more clarity on the CapEx plan; whether we will set up a concentration plant or a backward integrated plant? That will be helpful.

Rajendra Gogri: As I mentioned earlier, this year, we don't anticipate much impact of nitric in the second half because overall also, there is a demand slowdown and some capacity will come up. As of now our concentration plant order has been placed. The comprehensive nitric strategy is what we were planning to share in this call but it may take some more time and we'll come out with the comprehensive strategy.

Meet Vora: Sure, sir. And secondly, our volume growth guidance for FY23.

Rajendra Gogri: FY23?

Meet Vora: Yes.

Rajendra Gogri: I think overall we have given an EBITDA growth, I already mentioned earlier now the value-added products are increasing this year they were around 78%.

Meet Vora: Sir, stable number on the working capital since it has gone up in H2 FY23?

Chetan Gandhi: There could be a potential of that to reduce because the way freight rates and raw material prices are, there's some softness which is getting visible. So, working

capital cycle in number of days should remain similar but on a value basis. I expect some reduction to happen.

- Meet Vora:** The last question from my side. Sir, has there been any change on presentation of our numbers from gross sales and net sales perspective because last quarter, our Spec Chem revenue was around INR1,750 crore, and right now, it's somewhere around INR1,680 crore. So, should we look at the net numbers or the gross numbers because last quarter our breakup of Spec Chem and Pharma, in that Spec Chem revenue was INR1,750 crore and it is around INR1,610 crore. What is the right number to look at and am I missing something or the presentation has changed or it has remained the same?
- Chetan Gandhi:** I don't think so the numbers are different. We can probably separately connect and see the connection. If you will see, the numbers are fairly similar.
- Rashesh Gogri:** I think it is the GST impact. Basically, in whatever number comparison that you are doing, so gross number, there is a growth and also, in net number also there is a growth. So, one number that you have stated is with GST and one is without GST.
- Meet Vora:** Sure. So, our presentation has not changed in any form, right?
- Rashesh Gogri:** Yes.
- Chetan Gandhi:** No, no. So, we will connect separately to just give you the number.
- Moderator:** Thank you. The next question is from the line of Chetan Thacker from ASK Investment Managers. Please go ahead.
- Chetan Thacker:** Good evening, sir. Just a question on the gross block that has been transferred to the Pharma business and working capital that has moved there?
- Chetan Gandhi:** We will have to pull out some numbers because the transfer is effective 1st July, '21 and that number keeps on changing. I guess the gross block, which should have been transferred would be upwards of INR1,200 crore and working capital, I'll have to pull out some numbers and check on that.
- Moderator:** Thank you. The next question is from the line of Mihir Damania from Ambit Asset Management. Please go ahead.
- Mihir Damania:** You mentioned in earlier commentary that you're expecting a 25% growth for both, FY24 and FY25. Do you have a potential range of numbers you are targeting either on EBITDA, profitability for those years?
- Rajendra Gogri:** Current year our target is around INR1,100 crore. So, correspondingly, 25% CAGR will be expected. Within two years, we are targeting around INR1,700 crore.
- Mihir Damania:** I just have one other clarification. What will be the potential impact on profitability for the maintenance shutdown that we did in one of our plants?
- Rajendra Gogri:** That will be around INR15 crore.
- Mihir Damania:** Do we expect the EBITDA margin, sorry, the absolute EBITDA number to be ranged down to what we have done in Q1 and Q2 for the next half of the year? Is it what we are looking at?
- Rajendra Gogri:** Yes, I think some change may happen because where there is demand pressure, there, it may go a little bit down and there is some opportunity also because of

some shortages due to the European shutdown. On a product-to-product basis, there may be some variation because of the little unusual situation which is one, on the demand side of certain products and two, on the supply side because of the European natural gas scenario; so some shortages are taking place.

Mihir Damania: What I wanted to allude to was that – the majority benefit of any further CapEx will only be visible from FY24 onwards not any material impact we are seeing in either Q3 or Q4 of this year?

Rajendra Gogri: Yes, because mainly, in the next two years, we expect direct transfer of gross profit to EBITDA because we don't expect much of fixed costs or employee cost increase in the next couple of years, other than the normal increments. So that's why we are targeting a 25% CAGR.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Thanks, sir. We have a CWIP of INR1,400 crore. So, just help us understand, what are the major projects that will be getting capitalized in the next 18 months and the CapEx for the current year?

Rajendra Gogri: Yes. This contract 3 will get capitalized, some other Specialty Chemical blocks and Nitro Chloro Benzene, we should get capitalized. Actually, second half, we expect capitalization of about INR1,000 crore in this year.

Vishnu Kumar: INR1,000 crore this year?

Rajendra Gogri: Yes. Basically, INR1,000 crore capitalization – this third contract and few other Specialty Chemical blocks also will get commissioned.

Vishnu Kumar: Ok. How much is the CapEx for the current year and how much have we spent till now?

Rajendra Gogri: In the current year, we have spent INR557 crore in the first six months and overall annually, around INR1,000 to INR1,200 crore will be the CapEx.

Vishnu Kumar: Next year, what are the projects that we will be capitalizing? Major projects, if you can?

Rajendra Gogri: Next year, some of these Specialty Chemical and Nitro Chloro Benzene expansion may go towards the first quarter of next year. Most of the capital WIP except this ethylation loop, we expect that, capital WIP get capitalized by the Q2 of FY24. Except for this ethylation loop, which will be commissioned in first half of FY25. Subsequent to that, will be all the new product lines at the new location in Jhagadia, where the construction is expected to start from Q4 of this year onwards.

Vishnu Kumar: So, INR1,300 crore of CWIP and current year CapEx of about INR1,200. So, INR2,500 crore will get capitalized by the first half of next financial year. After the new capex is only going to come after '25-'26. Is that right understanding.

Rajendra Gogri: No, the ethylation loop and all also will come in the next year. That is also where we are going to spend. So, at least around INR2,000 crore will get capitalized. And subsequent to that, will be more of a normal CapEx and some debottlenecking and all. So, there will not be any significant capitalization other than this loop, which is about INR200 crore and some normal CapEx for about 12 months period.

Vishnu Kumar: Okay. Sir, currently, I mean, if you could just give us a broad mix of revenue from end-user segment, say agro, pharma, dye stuff, or if you could give us what is the broad number, let's say last 12 months or how has been the revenue share? And once you execute your new projects, as in '24-'25, the CapEx, how should this look like in terms of end-user segment?

Rajendra Gogri: Overall, basically, agro, pharma and FMCG, which are not that much economically linked, we are around 50% and 50% will be more on our dyes, pigments, polymers and additives. So that's broadly, 50% or basically, 40% to 60% quarter-to-quarter in that. It will be more around that number and as we go forward also, this may not change much because across the board, some pharma also will increase. Means, will be increasing the numbers across the board in all the segments. So even after two years, I will not say that it's going to be a significant change.

Vishnu Kumar: Just to conclude what you're saying, you're saying, it will be more or less similar, but slightly towards agro, pharma. Is that the right understanding?

Rajendra Gogri: Currently, it is 50%, 50%, agro, pharma and FMCG and the others is 50%-50%. So, those kinds of numbers will remain. It's not like something will become 70% and other will become 30%. So, same amount of magnitude.

Vishnu Kumar: Understood, sir. Given the global slowdown, people are at least talking about and maybe if there is a slowdown, our export division, which probably the second segment which is the dyes, pigment, would this be a larger chunk of exports or which segment is currently contributing to majority of exports? I am trying to understand if there is a slowdown next year, I mean, which segment will probably see an impact?

Rajendra Gogri: Actually, Exports are more on polymer and additives and then agro and pigments.

Vishnu Kumar: Okay. Would any consideration be done if we're seeing some slowdown for the next 12-18 months? If we are not seeing much growth, then will our CapEx intensity slowdown or we will continue today? I mean, the plants are going to continue?

Rajendra Gogri: So, we have a long-term visibility of the products. So as such, we are not looking at any slowdown in the CapEx.

Vishnu Kumar: Understood, sir. And one final question would be, the closing net block as of March was INR4,400 crore. which is, as of 30th September, only INR4,000 crore. So is it right to understand that INR400 crore is the net block transferred to the Pharma division, as per the statements given?

Chetan Gandhi: So, you are comparing March versus September, so the net block transfer to Pharma would be more than that.

Vishnu Kumar: How much would that number be, sir?

Chetan Gandhi: I believe the net block transfer to pharma should be in the range of around INR700 crore to INR800 crore, if I am broadly looking at it. We would have to reverify the numbers but it should be in this kind of range.

Vishnu Kumar: Sir, just one comparable number. I know a couple of guys have asked earlier also, if you could just give annualized EBITDA for the company, I mean only for this division or now as the company exists for the previous year? The comparable of the INR1,100 crore that you are talking last year. You could just do that number if you have.

Chetan Gandhi: We'll have to work on it because as per the scheme, the Pharma business continues to be part of the continuing Aarti Industries for the quarter of April '21 to June '21 and from 1st July, it went off. See, how we look at dissecting that number, we'll spend some time and work on that. It will not be available right now with us.

Moderator: Thank you. The next question is from the line of Bobby Jay from Falcon Investments. Please go ahead.

Bobby Jay: Hi. Regarding dyes and pigments, what is the end user industry that's being affected? Is it textiles?

Rashesh Gogri: Yes. It is textile printing ink and also coating for the automotive. So, all these segments had been affected during last quarter.

Bobby Jay: But the auto industry, at least in India, is supposed to be picking up. So, how is it affected?

Rashesh Gogri: Yes. So, basically global auto industry and also I think in the pigment sector, there is destocking which is happening and there has been a lot of consolidation amongst the players. So, all that has also come into the effect of overall slowdown in pigments.

Bobby Jay: I see. This is in India or globally?

Rashesh Gogri: Yes. It is global.

Bobby Jay: Okay. So, you actually produce the pigment intermediates and supply to the pigment formulation companies like Sudarshan etc. Is that correct?

Rashesh Gogri: Yes. We supply to the pigment manufacturers and who in turn, supply to the printing guys and the plastic masterbatches guys, as well as the coating for automotive paint manufacturers.

Moderator: Thank you. The next question is from the line of Tejas Sheth from Nippon India AMC. Please go ahead.

Tejas Sheth: Hi, sir. I have two questions. One, the INR3,000 crore of CapEx which we are doing over the next two years, that is FY24 and FY25, what would be that for? Secondly, INR3,000 crore of CapEx for two years and INR3,000 crore odd of EBITDA for two years, so, we see our borrowing increasing on a FY23 levels as well, considering that we will be having our tax outflow and dividend outflow on that EBITDA level?

Rajendra Gogri: This will be mainly for this new range of products – Chloro Toluene and its downstreams and also, on Specialty Chemicals which we have identified. Some of this already ongoing expansion also will take place, the CapEx plan will be take place upon this second ethylation loop and also will take place in the next two years. It will be a mix of both, the Chloro Toluene related blocks, multipurpose plants at the new location and this ethylation loop, Nitro Toluene debottlenecking and some other ongoing projects which we get commissioned in first half of FY24.

Tejas Sheth: On the cash flow side, as I said INR3,000 crore of EBITDA, we would be doing and if we subtract the tax outflow and dividend outflow and also, we incur INR3,000 crore of CapEx, there would be debt increase.

Rajendra Gogri: Yes. There will be debt increase for sure.

Tejas Sheth: Just lastly, what would be the tax rate for this year and for FY24?

Chetan Gandhi: I guess the tax rate should be in the range of around 18% to 20-21%. Next year it should be around this 18% to 20-21%, broadly.

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

Archit Joshi: Hi, sir. Thanks for the opportunity. Sir, we have listed out a strategy in our presentation. So just wanted to understand if we can say some rough timeline? Also, a question linked to the same – is it that they are interdependent? I mean you are setting up a multipurpose plant, would that translate into more custom manufacturing opportunities or the fact that you have listed, which we are looking for more strategic alliances; or is it that we are already in touch with some customers who look at these opportunities at the base business? So, if you can elaborate on these two sides. Thank you.

Rajendra Gogri: You are right. In the multipurpose plant, simultaneously, there will be contract manufacturing. Partly, the multi-purpose plant will be used for a contract manufacturing. The strategic alliance and all, they are more of different kind where there may be dedicated plants for certain customers and all that. So, they are generally at an individual, level bigger opportunities. With the contract manufacturing there maybe a variety of products or the number of the products maybe more but individual product sales may be less. That kind of a thing will happen in multipurpose.

Archit Joshi: Understood, sir. In continuation with the previous participant's question, we are looking at commissioning most of these projects before the end of FY24. Just wanted to see what kind of timelines we are looking at, be it the new chemistry that we are adding - Chloro Toluene and we would have the multipurpose plant setup, and this is other than the parts which you're doing in the base business which is the debottlenecking of say, the Nitro Toluene or adding more ethylation capacity. So, on the newer initiatives, when will those start contributing with respect to revenue?

Rajendra Gogri: It will be coming in mainly starting from second half of FY25. Second half of FY25 and FY26 will be where all the new initiatives will start getting commissioned. Whereas, the ethylation loop is expected to be in first half.

Archit Joshi: First half of FY24, right?

Rajendra Gogri: FY25.

Archit Joshi: FY25. Got it. Sure, sir. Sir, just one last question. So, I think we are looking at FY24 as a transitionary or looking at a significant volume growth with a lot of CapEx that has already gone by. What I was trying to understand is, the major projects which got commissioned in the last two-three years, most of them have been in the same part of the chemistry that we were into, except for the two contracts that you might have a full-fledged utilization on.

So, barring these two, what exactly is materially changing, going from the second half FY23 to FY24 that we are kind of assuming that a lot of fixed cost will get subdued and operating leverage will start peaking and there will be a vertical growth, because currently as you have been pointing out that certain pockets where we are supplying products to, be it dyes or pigments, those still continue to be under pressure. So, is it that we do expect some meaningful recovery

happening in FY24 or is there something else to it that some new customers have been added or some new products have come into the portfolio?

Rajendra Gogri: Yes. Some new products are also coming in and Nitro Chloro Benzene will be additional where substantial part goes into pharma and polymers. Also, the slowdown in dyes and pigments, we don't expect that to be continuing for a very long time. Definitely by FY25, it has to become a normal year. Whatever the slowdown which we are witnessing in the current year, we expect that, by FY25 at least, dyes and pigments should become normal and contribute to the volumes.

Moderator: Thank you. The next question is from the line of Pujan Shah from Congruence Advisers. Please go ahead.

Pujan Shah: Hi, sir. My first question would be, let's suppose we didn't do this maintenance shut down for three weeks, what would be the volume growth in H1? It would be around 5% or it would be less than that?

Chetan Gandhi: You're talking about the current Q2?

Pujan Shah: Yes. I am talking about H1, where we are saying that the volume was flat. One of the reasons is because there was a maintenance shutdown in our plant. So, let us hypothetically think that the plant had not gone for the maintenance CapEx, would the volume have been flat or would there have been something of a more marginal improvement in the volumes?

Rajendra Gogri: One of the reasons for maintenance shutdown was that there was a pressure in demand. So, overall, it won't be much different, maybe 2-3%.

Pujan Shah: I just wanted to know your outlook on dye and pigment for H2 FY23. Would it be like this sluggish demand as we are witnessing in Q2 or it would see some improvements or we'll see the witness of the base where we have built the base and now there is only an improvement going forward for the dyes and pigment?

Rajendra Gogri: Dye stuff will recover faster. The pigment side the impact had come later on. As Rashesh bhai mentioned, some destocking and everything taking place. So, some recovery on the dyes side may be achieved in Q3 and pigment might take Q4 and all that. So, slowly it might happen.

Pujan Shah: So, the demand has been strong. We are witnessing this due to destocking. So, we are expecting improvement in demand coming forward after this destocking gets concluded on the distribution side. So, that's what our idea is?

Rajendra Gogri: Yes.

Moderator: Thank you. The next question is from line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Yes. Thanks for taking my questions, sir. Some of my questions are already answered.

Just wanted to know understand, as we as mentioning that almost 70-75% of products are value-added products for us. So, which are the industries where we are having this kind of exposure or it is across the industry where we are supplying? Going forward, which industry will be focused for us to add more value-added products in that particular industry?

Rajendra Gogri: Our end-user industries are quite varied across the board and this Chloro Toluene range will be dominated by pharma and agro intermediates. So, we don't see much polymer intermediates and all coming in that new range of products. That will more on pharma and agro, some in dyes and pigments.

Rohit Sinha: And that will be benefiting to all margin expansion?

Rajendra Gogri: Yes. There are going to be more value-added products also. So, EBITDA per kg is also expected to be higher, in that range, but that will start having an impact only over from FY26 onwards.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Hi, sir. Thanks for taking my question. On the other expenses which are they're going up pretty sharply on QoQ on a YoY basis. So, are there any specific drivers for that, sir?

Chetan Gandhi: No, so one of the components would be – if you look at the exports, which generally was in the range of around 40-45%, this quarter it is around 50% and the higher freight cost on exports has kind of moved the other expenses up. So, I don't see any major upticks apart from the export and so. On YoY basis something related to some maintenance, but other than that, it is fairly in line.

Nitin Agarwal: Typically in the past, you've given for the combined business, a three year guidance for '24 and '27. Now, in the context of where the Chemical business is, how should we look at it, may be FY23 numbers, maybe numbers for FY24, FY25, FY27 as you have guided in the past for the Chemical business?

Rajendra Gogri: For FY25, we have already guided. We have guided for FY23 and the next two years. For FY27, I think we will come up with the guidance in the next couple of quarters. We will have a comprehensive guidance for FY27 also.

Nitin Agarwal: So, we should assume that FY22 our EBITDA for Spec Chem was INR1,100 crore. So, INR1,100 crore compounded at 25% for the next two years.

Rajendra Gogri: Yes. That is how it will be.

Moderator: Thank you. The next question is a follow from the line of Rohan Gupta from Nuvama. Please go ahead.

Rohan Gupta: Hi, sir. Thanks for the follow up opportunity.

Sir, in terms of our nitric acid problems which we faced in the first half, you mentioned that definitely in Q2 we have not faced any such challenges, so did you see that the raw material, I mean the nitric acid prices were still volatile and that had some impact on our gross margins or you see that the availability and the pricing, both have corrected?

Rashesh Gogri: Yes. The nitric acid prices are dependent on the ammonia prices and globally due to the Ukraine war, overall, the ammonia prices have increased significantly and they are at around \$1,000 level. So, due to that, overall, the nitric acid prices for the first half have remained significantly higher due to the ammonia pricing. Once the war and other external pressures ease out, then the prices will come down.

Rohan Gupta: So, sir, in the current scenario, when we see the Benzene prices should have started moderating and nitric acid also, so, you see that the raw material prices

broadly have started coming down. How do you see that in terms of our percentage margins? So, should we go back to EBITDA margins of almost 24% kind of range with the moderation in the raw material prices or with the values, you see that the margin profile can be even better than earlier?

Rajendra Gogri: No, generally, it will not affect the EBITDA margin as such. Generally, it is more on absolute EBITDA. Depending on some correction in raw material prices if they take place, then obviously, margins as a percentage will increase, but any specific number will be difficult.

Rohan Gupta: From this Nitro Toluene chain, the product development which you are working on and expecting to commission by FY 25, how has been the customer acceptance and have we started demonstrating the products and started doing the sampling for these products or is there still some time from the customer acceptance?

Rajendra Gogri: No, the existing products only we are supplying to the customers. The customer acceptance is not needed We are already making these products. It is more of volume expansion for the same range of products.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I now hand the conference back to the management for their closing remarks.

Rajendra Gogri: Thank you everyone for taking out the time to join us on our Q2 FY23 earnings conference call. Hope we have addressed all your questions. If you have any further questions, please feel free to contact our Investor Relations team, and we will address them. Stay safe and we look forward to connecting with all of you again in the next quarter. Thank you once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Aarti Industries, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.