Q2 & H1 FY17 Earnings Conference Call Transcript

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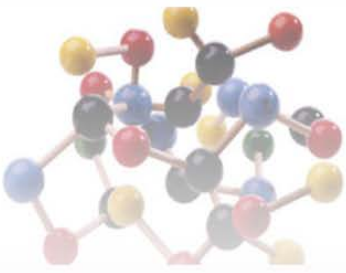
Aarti Industries Ltd






Moderator Ladies and gentlemen, good day and welcome to the Aarti Industries Q2 & H1 FY17 earningsconference call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Vikram Rajput of CDR India, thank you and over to you.

Vikram Rajput Thank you Karuna. Good evening everyone and thank you for joining us on Aarti Industries Q2 & H1 FY17 earnings conference call. We have with us Mr. Rajendra Gogri – Chairman and Managing Director, Mr. Rashesh Gogri – Vice Chairman and 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 Q&A session.

Before we begin this call, I would like to point out that some statements made in today's call may be forwardlooking in nature and a disclaimer to this effect has been included in the results presentationshared earlier. We will begin the call with opening remarks from Mr. Gogri who will take you through the strategic imperatives and performance of the company. We will then have the forum open for Q&A session. Now I will invite Mr. Rajendra Gogri to share his views.

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

Aarti Industries is a global speciality chemicals company that combines process chemistry competence with scale-up engineering competence. AartiIndustries is a knowledge-driven company focusing on developing integrated product chains rather than fragmented, standalone products. This enables significant cost synergies and deeper relationships with clients who partner with us for multiple products over several years. We have also chosen to be in several niche products where competitive intensity is low. These attributes together differentiate Aarti Industries from other chemical companies globally, allowing us to deliver secular growth and expanding value to our stakeholders. We have over 125 different products and in 75% of these products we rank #1, 2, 3 or 4 globally. This clearly shows the deep, long-term "Partner of Choice" relationships that we have developed with many of our 500 plus customers in India and 150 plus customers globally. When using the term Global Partner of Choice, we mean that our business is fully complimentary to that of our customers. We align all our product development and new product innovation initiatives with the forward growth path of our customers. Our capital expenditure commitments are majorly mapped to the customers' expansion objectives. We understand that Safety, Health and Environment objectives are of critical importance in a business environment where triple bottom line objectives are in focus. Our initiatives and capabilities in this regard our well appreciated by our global customers.

Coming to the Q2FY17 performance, I am pleased to report a steady performance in Q2 & H1, which is in line with our business objectives. While gross revenues was almost flat YoY at Rs. 710 crore in Q2FY17 and Rs. 1,445 crore in H1FY17 (net revenues for Q2F17 was Rs 657 crore and H1FY17 Rs 1342 crore), our profitability continued to expand meaningfully, indicating the quantum of value addition from our product mix. Of the total revenue for the quarter, exports were at Rs. 312 crore, accounting 47% of the total net revenue. Similarly, of the total revenue for the half year, Exports amounted to Rs. 653 crore, i.e 48% of the total net revenue.

As many of you are aware, our realizations are linked to global crude oil prices, so the key parameter to track is profitability. For Q2FY17, EBITDA improved 15% YoY to Rs. 151 crore from Rs. 132 crore, translating to an EBITDA margin of 22.8%. For H1FY17, EBITDA improved 16% YoY to Rs. 306 crore from Rs. 263 crore, translating to an EBITDA margin of 22.6%. EBITDA performance was supported by decline in raw material prices and better product mix enabling better margins. Depreciation has increased as new production facilities have been operationalized. PAT grew significantly, with a 24% YoY increase in Q2FY17 to Rs. 76 crore and 30% YoY increase to Rs. 159 crore in H1FY17.

Speciality chemicals revenue had declined marginally on YoY basis and was at Rs 572 crore in Q2FY17 and Rs. 1,163 crore in H1FY17. During the quarter, volume expansion was about 2% YoY. Speciality Chemicals volume growth moderated due to a weakness in agro-chemicals sector. We expect demand to improve in the second half of the year. EBIT expanded by 14% YoY to Rs. 129 crore in Q2FY17, and 13% YoY to Rs. 262 crore for H1FY17, as value addition component of revenues continues to increase by leveraging our wide range of products. As you are aware, our business is largely operated on formula based model based on variation in raw material prices plus margins, wherein the delta is fixed in absolute basis and per kg margins remain stable. Hence, the raw material price fluctuations are passed on to the customers and the absolute EBITDA is based on volumes and product mix and not the price fluctuation.

We clocked production of about 16,680 MT of NCB during Q2FY17 as against the production of about 16,400 MT for Q2FY16 & 13,900 MT for Q1FY17.

Progress on our growth investments has been on schedule. During the quarter, we commenced commercial production at multipurpose Ethylation unit at Dahej SEZ, Gujarat. The Greenfield Ethylation unit is first of its kind to be set up in India and has adopted Swiss Technology with a capacity to manufacture about 8,000-10,000 tpa of Ethylene derivatives. The initial product manufactured at this unit has applications into Herbicides (Agrochemicals), and the Company plans to add other products in due course with applications majorly into Agrochemicals, catering to global Agrochemical majors. Additionally, the Company also commenced commercial production of its 2nd Phase of PDA expansion from 450 tpm to 1,000 tpm. Earlier in FY16, the Company scaled-up capacity from 250 tpm to 450 tpm. The products are used in high growth industries mainly, Engineering Polymers. We expect to reach near full utilisation of these capacities within a span of 3-4 years. Both the units shall enable the Company to further strengthen its global presence in the end-user applications of Polymers and Agrochemicals.

We have already laid out our expansion blueprint. Our other key expansion projects in pipeline are Nitro Toulene& its derivatives and Co-Generation Power Plants, which are progressing as per plan and expected to be commercialised in H2FY17. Despite expansion of operations, financing costs are under control and debt coverage is improving. Aarti Industries has an established track record of executing value accretive growth investments. We are focused on a disciplined capital allocation approach, which is visible in the growing return on capital. With our growth initiatives, we will continue to drive value in the business.

Moving on to the Pharmaceuticals segment, Q2FY17 revenue increased by over 6% to Rs. 101 crore and H1FY17 revenue increased by over 3% to Rs. 203 crore. The increase of business in regulated markets along withCaffienescale up would help in consistent growth in segment performance. In H1FY17, EBIT increased to Rs. 24 crore from Rs. 15 crore, marking 66% YoY growth. In Q2FY17, EBIT increased 33% YoY to Rs. 12 crore from Rs. 9 crore. We have been consistently increasing our share of operations and engagement with various customers in regulated market space. Since major fixed costs are already built-in, incremental volumes result in significant increase in segmental profits. We expect to progressively improve on this upward trajectory.

In Home and Personal Care, revenue for Q2FY17 stood at Rs. 37 crore as against Rs. 31 crore in Q2FY16 and revenue for H1FY17 stood at Rs. 79 crore as against Rs. 70 crore in H1FY16. This business has only about 3.5% of the overall capital employed in it. We are making concerted efforts to gain larger scale and drive sustained improvement in this business.

I am happy to share that CRISIL has upgraded its ratings on our bank facilities and debt instruments to 'CRISIL AA-/Stable/CRISIL A1+' from 'CRISIL A+/Positive/CRISIL A1'. As most of you are aware, recently, we also affected a share buyback program highlighting the Company's belief in its long-term growth prospects and commitment to efficient capital allocation. The Company's strong balance sheet and cash flows enable us to simultaneously reward shareholders, while continuing to invest in growth opportunities that will further strengthen our robust operations and drive long-term profitable growth.

To sum up, it's all about execution at Aarti industries. We have been building a pathway to the future through our investments and a stepped-up innovation process which has enabled us continue to stay ahead of the curve as far as what customers needs are concerned. We have confidence in our ability to take advantage of the growth opportunities which are clearly identified and we continue to remain focused on them without any change. We have created a world-class speciality chemicals organization that is poised for substantial gains from scale and operating leverage. Our strong leadership, global-scale operations, de-risked & leading product portfolio, co-product balancing, pioneering technologies, globally scaled highly integrated operations, brand salience and strong financial position have placed us on a firm footing to stay on top of global industry trends like Easternization, etc and capture emerging sector prospects and drive sustainable long-term value. The commitment that we have to deliver higher return ratios and maximize shareholder value remains as steady and central to our thinking and our actions and you will continue to see that going forward as well.

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, sir. Ladies and gentlemen, we will now begin the Question and Answer Session. First question is from the line of Abdul Puranwalafrom Centrum Broking Limited. Please go ahead.

Abdul Puranwala Sir, may I know the PDA volumes for the quarter?

Rajendra Gogri It was about350 tonnes per month.

Abdul Puranwala And, on the specialty chemical volume growth front, so we saw volume growth of only 2% so, I understand that the last two quarters there was some issue with the Nitric Acid due to which the volume growth was not there. So, I mean what was the reason for low growth in volumes for the current quarter and how do we look forward for it?

Rajendra Gogri The main reason for lower volume growth was slow down in global agrochemical sector, which has also impacted our export as a percentage. But we expect that things to improve in second half and then next year, to gain volume in the agrochemical sector.

Abdul Puranwala	Okay. And for the full year what sort of volume guidance would you like to give?
Rajendra Gogri	Yes, I think full year we should be in the range of 7% to 10% volume growth.
Abdul Puranwala	Okay, 7% to 10%. And sir, can you also tell me what was the CAPEX done so far in H1 FY 2017?
Rajendra Gogri	We had spent approx. Rs. 185 crore on plant and machinery. And we have procured land parcel in Jhagadia, and some other land. A sum of about Rs. 50 crore has been spent on acquiring these land parcels and staff colonies**.**
Abdul Puranwala	And just lastly what I want to still check is the EBITDA as a percentage of sales for the pharmaceutical segment so, even in the current quarter that contribution is around like 12% so, is that the normal range what we will see going forward or the margins are expected to increase and come out of that range? Historically, that is what the range it has been.
Rashesh Gogri	Yes, we expect it to grow. Particularly this quarter was slow due to lower exports,on account of slow-down in Europe.We expect top-line and the margins both to grow in coming quarters.
Moderator	Thank you. We have next question from the line of SaravananVishwanathan. Please go ahead.
Saravanan V	Sorry, I missed out in this number what has been the volume growth in this quarter the specialty chemicals division?
Chetan Gandhi	The volume growth was roughly around 2%.
Saravanan V	2%. And for the full year we are expecting anywhere 7% to 10%?
Chetan Gandhi	Yes.
Saravanan V	And what would be the similar number for the next financial year, volume growth?
Chetan Gandhi	We would target around a number between 10% to 15%.
Saravanan V	Okay, 10% to 15%. So, despite muted volume growth what led to the increase in EBITDA?
Chetan Gandhi	We have got a larger basket of products, there are certain products where we have got better margin profile. So the volume growth has been compensated by a better product mix within the overall product profile of ours.
Saravanan V	Okay, that is helpful. So, this Nitric Acidshortages has been completely set right?
Chetan Gandhi	Yes.
Saravanan V	Okay. And last question, would we revisit the pharma segment demerger sometime in Q4 or what is the status?
Rajendra Gogri	Not in this year.
Saravanan V	Okay. Somewhere down the line you will revisit that possibility?

Rajendra Gogri In anycompany there are always possibilities of revisiting the issues.

Chetan Gandhi Just to clarify, there isnothing on the cards as of now.

Moderator Thank you. Next question is from the line ZeeshanBagwan of JM Financial. Please go ahead.

ZeeshanBagwan Sir, I wanted to know what would be your steady state EBITDA for the pharmaceutical segment assuming capacity utilization of more than 80%.

Chetan Gandhi Wedon't have the numbers handy. We will work on that and probably discuss on it later.

ZeeshanBagwan Okay, sir.

Moderator Thank you. Next question from the line of Mahesh Bendre from Way2Wealth Securities. Please go ahead.

Mahesh Bendre Sir, you have mentioned that you have incurred a Rs. 185 crore of CAPEX in the first-half of this financial year so, what is the CAPEX guidance for this entire FY 2017 and for FY 2018?

Rajendra Gogri FY 2017 overall in the range of about Rs. 400 crore. Next year as of now it is around Rs. 250 crore to Rs. 300 crore, but some projects are on drawing board so, depending on when they are finished and when the actual assets are being put up, only then we will be able to have a total clear picture for FY 2018.

Mahesh Bendre And sir, this capital expenditure will be funded through an internal accruals and date or are we planning to raise it through equity?

Rajendra Gogri It will be through internal accruals and debt that we are not planning any increase in equity.

Mahesh Bendre Sure. And sir, you generate around half of our business comes from the export and 50% is approximately from domestic market. What are the risk you foresee in each of the segment for the domestic as well as the export business?

Rajendra Gogri You see basically our risk profile is very wide spread. We have different sectors, we operate in agro, engineering, polymer, dyes, pigments, pharmaceutical.Certain sectors are economic cycle wise like polymer and dyes and pigments whereas agro has his own cycle, pharma is more of a steady as far as the volumes are concerned.Internationally, we do not see an threat like with the new U.S. President imposing any duty and additional competitions from U.S. because the chemical manufacturing will remain more or less in India and China for our kind of products. So, globally we do not see any that kind of risk other than the normal cyclic risk of various sectors.

Mahesh Bendre Sure. And sir, the current the de-monetization scheme introduced by the government will that have any impact short-term impact in our company or our industry?

Rajendra Gogri We are seeing that a many of services are being utilized much less, whether it is restaurant, or movie. So, that will have indirect effect on our GDP and which may affect the demand. It will be all indirect percolated kind of thing more or less.We have confidence on our production volumes as we are able to manage our transportation facilities with our transporter so we do not see much disruption in manufacturing but on the demand side it will be more of a trickle down impact from the overall economy impact.

Mahesh Bendre Sir, this move de-monetization along with GST will this have any impact, will this be benefit of us in terms of dealing unorganized sector or anything like that in our industry?

Rajendra Gogri I think GST is overall good because of the continuity of credit we expect, more and more things will be on an accounted basis, so that will be good for the economy. As far as the direct benefit to us, right now we are paying state taxes in various form for around Rs. 18 crore to Rs. 20 crore. So, there will be a direct benefit to us, we expect a good part of that to remain with us, may be part of that will be going to our customers. But overall that is a kind of benefit we see direct monetary benefits.

Moderator Thank you. Next question is from the line of Rohan Gupta from Emkay Global. Please go ahead.

Rohan Gupta Sir, just wanted to check what performance of our specialty chemical business will be coming from agrochemicals?

Rajendra Gogri It will be around 25% to 30%.

Rohan Gupta Okay. So, sir that is the only category where we have seen pressure in terms of demand and growth was only limited to 2% or other categories also have seen some pressure in the demand.

Rajendra Gogri No, other sector we are not seeing much pressure on the demand.

Chetan Gandhi So that 2% is the overall number for the specialty chemicals including other sectors and everything, agrochemical would be a bit lower.

Rajendra Gogri Agrochemicals was a de-growth actually.

Rohan Gupta Agrochemicals would have been de-grown sir, up to any… if you can just give some number what extent (-10) to (-20)?

Rajendra Gogri No, not that high.We will have to check the exact number. But there was aagrochemical de-growth, that is why our overall growth became only 2%.

Rohan Gupta Okay. And sir, this 2% you are talking about is still on a volume number?

Rajendra Gogri Yes, we are always talking of volume because on an actual revenue top-line there is a decrease on a net revenue basis.

Rohan Gupta Correct. So, sir, that was my worry because agrochemical is only 20% of our total specialty chemical and other categories have not de-grown we have always been talking about at least 15% sort of volume growth. So, when we are talking about 15% I mean the damage in agrochemical scene could not have been I mean drag the overall performance as low as 2% so, just wanted to understand is there any other category in specialty chemical which is also witnessing some pressure?

Rajendra Gogri As I mentioned this is a de-growth, when you have a de-growth where we have an exposure of about 30% in the specialty chemical approx. then obviously it will on an average it will drag it down.

Rohan Gupta	Okay. So, agrochemical roughly you are saying roughly 30% of our total portfolio?
Rajendra Gogri	Yes, it is more around 25% to 30% of the specialty chemical.
Rohan Gupta	And we had a de-growth of almost (-10%) may be?
Rajendra Gogri	Yes, you can say.
Rohan Gupta	Okay. So, you see this category picking up in second-half that is why you are targeting almost 10% growth in a full year?
Rajendra Gogri	Yes, we expect, we have more visibility in third quarter and fourth quarter.Some of products where we have seen decline in the demand in second quarter picking up in second-half of the year so, that is why we are confident that we will reach to around 7% to 10% on an annualized basis.
Rohan Gupta	Okay. So, sir probably in first-half I mean your first quarter top-line growth was near just overall at 9% at overall level and second quarter is flat, when we are talking about second-half almost 10% growth. So, EBITDA growth in second-half is likely to be much higher then what we have already witnessed in first-half?
Rajendra Gogri	Basically absolute number of EBITDA growth and volume linkage cannot be directly correlated. As you can see our EBITDA growth is more than 2% in this quarter.Overall we are going to have obviously EBITDA growth in specialty chemicals but sometimes we do not always mirror with the actual volume growth because of the wide range of products.
Rohan Gupta	No, because sir, in first-half we have achieved an EBITDA growth of almost 15% without or I mean very insignificant volume growth of mere 3% to 4%. Now, if you are talking about second-half volume growth will come back then our EBITDA growth must be significantly higher than what we have witnessed, otherwise I mean there will be some other factor which I am missing probably.
Rajendra Gogri	What you are saying is fair, basically, there will be an EBITDA growth and we expect it to be higher.But there are a lot of other factors, what is the exchange rate moving and then we have to readjust our numbers based on the exchange rates. How the Benzene price moves if the Benzene price goes up and down then there will be a inventory effect. So, all those things combine can have some other impact also.
Rohan Gupta	Fine enough, sir. Sir, you mentioned FY 2018 CAPEX somewhere at Rs. 250 crore to Rs. 300 crore. I believe that earlier you are talking about almost Rs. 400 crore to Rs. 450 crore CAPEX every year for next two years to three years. Is there any some of scale down have been in FY 2018 CAPEX?
Rajendra Gogri	No, what I mentioned is some of the project are on drawing board and it will be finalized in second-half of the year and once we finalize that we will have detailed scheme how the CAPEX will be rolled out in next two years to three years.
Rohan Gupta	Okay. But you still intend to spend almost Rs. 400 crore in FY 2018?
Rajendra Gogri	Yes, we will be investing more than Rs. 400 crore for sure next year.
Rohan Gupta	Next year also, okay.

Moderator Thank you. Next question is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain Yes, I just wanted one minor clarification on the CAPEX plan for current year and next year? How much will be the allocation to non-specialty that is pharma and consumer?

RajendraGogri Pharma and consumer will be more around Rs. 75 crore to Rs. 100 crore, this year and next year may be around Rs. 75 crore.

Manish Jain With more tilt towards pharma than consumer?

Rajendra Gogri Yes.

Moderator Thank you. Next question is from the line of AnubhavGoel from Sirius Corporation. Please go ahead.

AnubhavGoel Sir, is it fair to assume a large part of the margin expansion has come on account of decline in raw material prices that the end products may change?

Rajendra Gogri No, as we have been always mentioning that it is the absolute operating profit or EBITDA is more important, so raw material price change does not have much impact on absolute operating profit.

AnubhavGoel Okay. And sir, the guidance of 20%-25% growth for pharma for this year is intact?

Rashesh Gogri I think there will be a little lower growth, 15% - 20% will be better instead of 20% - 25%.

AnubhavGoel Okay. And sir, lastly, can you help me understand which end user industries do polymer additives cater to?

Rajendra Gogri This is a high-end engineering polymer which goes in automobile and aerospace and dialysis frames and composites, in electronics so, these are the range of industries this product goes. So, primarily electrical & electronics, aerospace, and automobile are the three major sectors.

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

Saravanan V In quarter two, what has been in the range of Benzene prices per kg?

Rajendra Gogri Benzene prices was flat.It was Rs. 45.

Saravanan V Similar to Q1?

Rajendra Gogri Yes.

Saravanan V And in terms of pharmaceuticals, where do you expect the margins to be in the next year?

Rajendra Gogri We expect it to increase exact number we will have to look at but it should move towards 15%.

Rashesh Gogri That is depending on the approvals; how FDA is giving us, our partners approval.

Saravanan V Okay. Because as of Q1 you had mentioned that 26 DMFs had been filed and 50% has already been commercialized, any change in the count?

Rashesh Gogri No, I think this quarter we did not have any.

Chetan Gandhi It remains the same.

Saravanan V So, no new filings, no new approvals.

Chetan Gandhi Yes.

Saravanan V Okay.Any inspections due sir, now from US FDA?

Rajendra Gogri Yes, we are going to have an inspection in December.

Moderator Thank you. Next question is from the line of AvinashNahatafrom Aditya Birla Money. Please go ahead.

AvinashNahata What is the general stocking level for your user industry in terms of number of days?

Rajendra Gogri In domestic market, it will not be more than 7 days to 15 days.

AvinashNahata 7 days to 15 days. So, it is not much given the average of ten days so, my question was pertaining to do you see the industry de-stocking?

Rajendra Gogri No, that is a level generally remains. Because domestic when we have a continuous product then customers will keep for those kind of stock levels, that is historical levels.

AvinashNahata Okay. So, it is generally low at 7 days to 15 days, you said?

Rajendra Gogri Yes, depending on the each company and how they earn on because if they are oncampaign their stock levels will vary, but if they are also on a continuous consumption and not on campaign then it will be more than 7 days to 15 days.

AvinashNahata Okay. Another question is on the export market, can you give your top three countries by contribution in terms of exports?

Rajendra Gogri United States is the largest and second will be European countries, in Europe mainly in Germany and Switzerland, all the major companies are there in Germany and Switzerland like BASF, Clariant, and Syngenta.

Moderator Thank you. Next question is from the line of MehulShethfrom PhillipCapital. Please go ahead.

MehulSheth I just want to check what was your volume number for NCB?

Rajendra Gogri It was 16,680 tonnes.

MehulSheth Okay. And also volume number for hydrogenation?

Rajendra Gogri	1,900 tonnes per month.
MehulSheth	Sir, one question related to your Toluene base plant; so, how you are seeing this market to develop, means how the response is there?
Rajendra Gogri	Basically it is going to be in the similar end use and on a similar customer base so we expect to pick-up significant market share over the period of the existing demand as well as part of the growth and global growth of those products.
MehulSheth	Okay, sir. One more question on this you have commissioned this multiple purpose plant at Dahej so, what is this plant is related to?
Rajendra Gogri	That is for making products out of ethylene, where we can use different other raw materials to make the products.Right now we have a couple of Toluene based product line up then we have some Anilinebased product lined up and so, there is a lot of ethylene base then we are also looking at possibility of putting in a Propylene base but that will take at least a year. Initial roll out will be more of all ethylene based products.
MehulSheth	Sir, on other expenses side your other expenses seems to be quite high this year. So, is there any FOREX element in it?
Chetangandhi	No, there is no FOREX element in that.
MehulSheth	Because it is sequentially, I mean in Q1 it was at around 18.1% and it is at around 21% so….
Rajendra Gogri	The top-line has gone down.
MehulSheth	Okay, so it just top-line function.
Chetangandhi	Yes.
MehulSheth	On your tax rate, your H1 tax is in range of 19% so, what is the annual tax rate that we can expect?
Chetan Gandhi	We would presume around similar number say 19% - 20% would be the average rate.
Moderator	Thank you. We take next question from the line Kishan Gupta from CD Equisearch. Please go ahead.
Kishan Gupta	You said 10% to 15% volume growth for FY 2018. So, what is the crude oil price assumption you have taken?
Rajendra Gogri	That is irrespective of crude oil price.
Kishan Gupta	And if suppose crude prices move up around 30% over the course of one year what would be the impact on your specialty chemical margins?
Rajendra Gogri	Even if crude oil goes double there will not be any impact. Volumes are not connected with the crude oil pricing.
Kishan Gupta	I am saying margins specialty chemical margins.

Rajendra Gogri	Margin has no meaning it is absolute operating profit which we have to track. So, historically when the crude oil was even $140 in 2008 at that time our operating margin use to be 16%, so, those things do not make much sense.
Kishan Gupta	So, now it is like 22% so, you have seen an expansion in margins partially also because of lower crude oil prices?
Rajendra Gogri	Yes, basically I have the crude oil prices for the same operating profit because your top-line increases with at the same volume your operating margin as a percentage goes down.
Kishan Gupta	So, there will be impact on operating margins but you are saying there will not be much impact on the operating profit.
Rajendra Gogri	Yes.
Kishan Gupta	And what is the rationale going for a buyback?
Chetan Gandhi	Basically, we have got annual payout to shareholders which is more or less in the range of around 25% to 30% plus dividend tax and other front.Buyback happens to be a more efficienct way of distributing it.
Kishan Gupta	Because dividend also is tax free in the hands of inventors right?
Rajendra Gogri	No, the DDT is not there in buyback.
Kishan Gupta	Okay. So why did not you thought of retiring of some debt rather than going for a buyback?
Chetan Gandhi	We have got a general payout policy, we have always been maintaining the same over several years.
Rajendra Gogri	And it will also will help in improving our earnings per share and ROE and by reduction in the equity base, thereby it will lead to long-term increase in shareholder values.
Kishan Gupta	So, that is now going ahead also you may think of doing that, instead of paying dividends, you may go for buyback in future as well.
Rajendra Gogri	We might have a mix of both actually because then some shareholders may need some dividend also, it will not be like no dividend only buyback, it may be mix of both.
Moderator	Thank you. Next question is from the line of NakulManaktala from Samaira Investment. Please go ahead.
NakulManaktala	Yes, my question is regarding the new capacity expansion that you guys are carrying over. So, you said, you have two plants that have already been operational in second quarter and then you have a couple of plants coming up third quarter - fourth quarter so, of this 7% to 10% of your volume what you are expecting for the year, what sort of incremental volume is going to be provided by the new plants that you are opening up?
Rajendra Gogri	As you may be aware we have been expanding capacity continuously in various of our products in last two years - three years, generally it is like a relay race, one is

going to mature towards 85% - 90% and the second one we would also.Next year it is obviously it is Dahej and PDA plus some more increase in Nitro chlorobenzene related volumes we will see so, those will be the contributor.

NakulManaktala Okay. But this year I mean what are the contribution from the new plants?

RajendraGogri Dahej we have just commissioned in second quarter as well as the PDA we have seen some increase it is around 350 tonnes per month. So, current year whatever we have capitalized there has not been any virtual impact in the first-half of the volume.

NakulManaktala Okay. But second-half whatever the impact of Dahej?

RajendraGogri Dahej, still we have to go on qualification of some of the products so, we are not expecting any significant volume contribution from Dahej because it is our newer product, it is Greenfield new product. But the PDA and all we expect that it should start contributing more volume in second-half.

Moderator Thank you. Next question is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

Manish Jain Yes, Chetan, I just wanted to know do you have any room for improving the working capital from the current levels?

Chetan Gandhi We are constantly working on that. While there may not be much room but still we would like to put our efforts and see if something can be bettered out from it. As you know that most of the growth is coming from export based products and export share is gradually moving up. Over there the credit period with the customer is typically higher than the domestic businesses, so I feel there would be some marginal scope for improvement may not be a significantly larger avenue as such.

Manish Jain Fine, because I was trying to calculate the entries in debt given that the cash generation rate and first-half has been close to Rs. 215 crore even if I just double for full year it will come to around Rs. 430 crore - Rs. 440 crore. I was just trying to estimate the overall level of debt by end of March 2017. Thanks.

Moderator Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, Sir!

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 sir. Ladies and gentlemen, on behalf of Aarti IndustriesLimited, that concludes this conference call. Thank you for joining us and you maynow disconnect your lines.

- ENDS -

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