

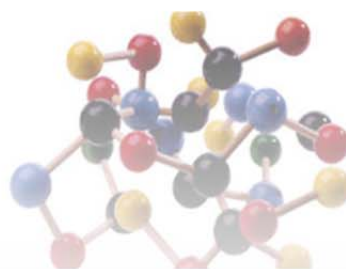


**Q2 & HI FY18
Earnings Conference
Call Transcript**

**5.00 PM IST
November 13, 2017**



**AARTI
INDUSTRIES
LIMITED**





Moderator

Ladies and Gentlemen, Good Day and Welcome to the Aarti Industries Limited Q2 & H1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case, you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Vikram Rajput of CDR India. Thank you and over to you, Sir!

Vikram Rajput

Thank you. Good evening everyone and thank you for joining us on Aarti Industries Q2 & H1 FY18 Earnings Conference Call. We have with us Mr. Rajendra Gogri – Chairman & Managing Director, Mr. Rashesh Gogri – Vice Chairman & Managing Director and Mr. Chetan Gandhi – CFO of the Company.

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

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

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

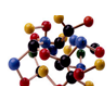
Rajendra Gogri

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

In a challenging and rapidly changing global environment we believe that our relationship-driven approach where we are an extension of the customers premises acts as insurance. Aarti is a natural Global Partner of Choice amongst the leading global agrochemicals, Polymer, Pigment, Pharmaceuticals and other Speciality chemicals companies. This gains increased significance especially when a larger number of global industrial players are graduating from vendor enlistments to strategic partnerships; the conventional cost arbitrage model is being replaced by knowledge arbitrage; short-term opportunism is being replaced by long-term stability and sustainability.

Over the years Aarti Industries has invested proactively in process, product research and professional talent graduating to a knowledge arbitrage that resulted in our offering enhanced product value to the customer’s table. We have always stayed ahead of the curve to offer what we felt would take the business of our customers ahead, providing the complete cultural eco-system comprising governance, values and client confidentiality. Aarti offers the comfort of a robust Balance Sheet that made it possible to invest periodically out of accruals to service the growing consumption appetite of our customers.

Coming to Q2, Revenues were up 16% YoY to Rs. 1,680 crore for H1FY18 and up 25% YoY to Rs. 888 crore for Q2FY18. Exports were 46% for H1 FY18 and 47% for Q2 FY18. Our performance captures resumption of normalized operations in the Speciality Chemicals business following the acid facility shutdown during the Q1 FY18. Revenues in Speciality chemicals segment expanded 17%, inclusive of 13%





raw material price increase and 4% volume growth, which should accelerate further in H2. I am happy to state towards the end of September, we commissioned our greenfield nitro-toluene facility in Jhagadia from which we see higher business contribution over H2 and next year. Whenever we commission new capacities, we are largely covered for prospective off take. The make-to-order model provides us with revenue visibility that makes it possible to plan for the long term.

As most of you are aware, our realizations are linked to global crude oil prices, so the key parameter to track is profitability. I am happy with our EBIT performance especially when you take into account Rupee appreciation impact of Rs. 4-5 crore and higher expenses driven by commissioning of our growth projects. We expect the volumes of these projects to ramp up gradually over 3-4 yrs.

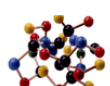
We clocked production of about 16,900 MT of NCB during Q2FY18 and as against 16,600 MT for Q2FY17.

We have continued to execute our capacity expansion plan and invested about Rs. 245 crore during H1, out of which investments of approx. Rs 176 crore were capitalized and the balance are still under WIP. In addition to the capitalization of Nitro Toluene unit, various smaller debottlenecking and normal capex projects, the capitalized capex also includes an amount of Rs 24 crore for acquisition of Land at Dahej SEZ and Jhagadia. The land at Dahej SEZ would be utilized for setting up the unit to mainly supply the agrochemical intermediate under the long term supply contract entered into by us in June 2017. The contract envisages supply of product for application into Herbicide for a 10 year period starting from 2020. The estimated value of revenues to be generated under this contract over the 10 year period is approx. Rs 4,000 crore and the investments proposed for setting up the facilities is approx. 400 crore. This unit at Dahej SEZ is expected to be commissioned in H2 FY20. Further, the land at Jhagadia was an adjoining plot of land which the company had acquired under the auction by an ARC. This land would be utilized for future scaleup opportunities. These capex had been substantially funded by cash flows generated by the business. Debt has increased largely to fund the additional working capital requirement linked to topline growth in this period.

I will spend a few minutes to address the news regarding China's announcement to collect additional deposits on OCPNA imported from Indian companies, including Aarti Industries. China's Ministry of Commerce intends to collect a temporary anti-subsidy deposit/additional duty of 20.4% and anti-dumping deposit/countervailing duty of 31.4% on OrthoChloro Para Nitro Aniline (OCPNA) imported into China from the company. The anti-subsidy deposit and anti-dumping deposit rates on OCPNA have been set at 166.0% and 49.9% respectively for imports into China from all other Indian companies. We don't expect any material impact of the above on our operations as OCPNA contributes approximately 1% to AIL's annual revenues. However, our legal team are preparing for appropriate submissions to defend our case against this provisional duty being imposed in China.

This again highlights the inherent strength of our diversified and relationship based model and also the competencies which we enjoy over our competitors. We generated more than 85 per cent of our 2016-17 revenues from customers with whom we had worked for five years or longer; virtually every single customer reported a larger quantum of purchase; and yet, our largest customer accounted for no more than 9 per cent of our 2016-17 revenues, indicating business broad-basing and corresponding de-risking.

Moving on to the Pharmaceuticals segment, Q2 FY18 revenues grew by 35% YoY and H1FY18 revenues grew by 20% YoY. I am pleased to report our best ever EBIT performance having crossed the 13-14 crore quarterly run rate reaching 19





crore for Q2 FY18. EBIT was up 37% YoY in Q2 and 29% in H1. This performance was enabled by improved business across markets and significant operating leverage. We are committed to sustain this momentum.

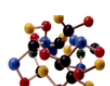
Coming to the Home and Personal Care, the segment performance was impacted by GST-related demand weakness in user markets. We are making concerted efforts to gain larger scale and drive sustained improvement in this business, while continuing exploring the demerger process.

We expect to end the year with an improved performance over the previous year driven by volume growth of ~10% in the second half of the year in Speciality Chemicals and sustained momentum in pharmaceuticals. We expect PAT growth of about 10% in the H2. The conservative PAT expectations are keeping in mind continued rupee appreciation from Q4FY17 onwards against the dollar and Chinese yuan. And also due to increase in expense on account of the projects commissioned in FY17 and to be commissioned in FY18 while the volume growth would come in next two to three years.

From a longer term perspective, we believe that we have an exciting future ahead. The number of customers that we are working with is growing; each our customer accounts are growing; we believe that our prospective investments in plants and people, as well as capabilities and competencies, will translate into a larger operation that addresses the growing appetite of our customers. I am confident that the company will sustain its multi-year growth expanding profitability, generating higher cash flows and enhancing value of shareholders.

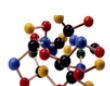
On that note I conclude my opening remarks. We would be happy to give you our perspective on any questions that you may have. I would request the operator on this call to open question and answer session. Thank you.

- Moderator** Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak** For 1H for the first half of this year what was the volume growth?
- Rajendra Gogri** This Q2 was 4% and overall also will be about the same range for H1.
- Dheeresh Pathak** And full year did you give some guidance, or you have been that guidance?
- Rajendra Gogri** Yes, second half we expect about 10% volume growth Y-o-Y.
- Dheeresh Pathak** So, then we would probably close it high single digit growth and I think at the start of the year I think you had guided for mid-teens, low to mid-teens volume growth. So the entire thing has been Rupee appreciation versus what has been the main reason?
- Rajendra Gogri** Acid shutdown was one part and second is overall because of newer capacity ramping up and also the qualification of the products and all. So in general there is going to be a little bit of uncertainties. So, those are the main reasons.
- Dheeresh Pathak** Sir, on the reported balance sheet for day ending 30th September, I see there is about 333 crore of CWIP. So, can you just give us summary of which projects these are, and which one will get commercialized in the near term?



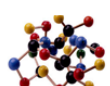


- Rajendra Gogri** We have one Chlorination project at Jhagadia going on. We are also expanding our Hydrogenation capacity further in Jhagadia and in Vapi we are doing some debottlenecking and adding a concentration plant at Vapi. Some of the other various specialty chemicals in our various other divisions, we are doing some expansion cum debottlenecking. As well as also expanding in home and personal care and pharmaceuticals.
- Dheeresh Pathak** So, when would the large part of this get commercialized and put to use?
- Rajendra Gogri** Yes, this project what I mentioned and all those on going should be operational in FY19.
- Moderator:** Thank you. Next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.
- Ritesh Gupta** Sir, on the guidance front only, so basically you said that now your guidance is second half you will do about 10% revenue growth and 10% bottom-line growth that is the correct understanding?
- Rajendra Gogri** Yes.
- Ritesh Gupta** And sir, from a volume perspective could you just give us a sense that is there a kind of slowdown in your basic core products like say nitro benzene, Nitro Toluene, chloro nitro benzene, etc. Because I think there is a new product launches which probably as you said that it is not ramping up well but possibly in the base portfolio also used to grow at 10% or so over last few years. So, do you see a slowdown in that base portfolio as well?
- Rajendra Gogri** No, I do not think there is any issue in the base product line as far as the demand is concerned. So, there is no issue in our existing product lines.
- Ritesh Gupta** And sir, can I get a sense of what you have capitalized in the first half?
- Rajendra Gogri** Yes, Nitro Toluene plant which has been commissioned that has been capitalized and around Rs. 24 crore is for the land we purchased at 2 locations. These are the major capitalizations and then some additional dryers and all we have put up in home and personal care and there has been some expansion in pharmaceutical facility.
- Ritesh Gupta** And sir, pharma margins have been very strong in the first half versus what you reported last year same half. So what has been the driver for the pharma margins and any guidance on the pharma side in terms of margins and growth over next 2 years?
- Rashesh Gogri** In terms of pharma margins overall capacity utilization and products commercialization has happened in first half. New onco products have driven our good performance in first half. For next 2 years we have been guiding 20% growth in terms of topline and bottom-line.
- Ritesh Gupta** And this includes FY18 as well?
- Rashesh Gogri** Yes.
- Ritesh Gupta** So basically, you are saying topline increases at 20% and bottom-line increases at same level. So which means that, margins you are expecting to be flat?





- Rashesh Gogri** The margins will also improve as you have seen in this first half over last year, they have improved and margins will improve little bit more.
- Rajendra Gogri** EBIT should increase more than the topline. So, this year also I think we will have more than 25% almost 30% increase EBIT is expected.
- Ritesh Gupta** So, it is primarily driven by the new product launches on the onco side is there is something else also which is probably driving the growth?
- Rashesh Gogri** Some intermediates we have launched. For caffeine we are now at expanded capacity we are supplying in the market place. So, all these 3 factors are contributing to the growth.
- Moderator:** Thank you. Next question is from the line of Mehul Seth from PhillipCapital India Pvt. Ltd. Please go ahead.
- Mehul Seth** Sir, first question related to you raw material side. Since last 2 quarters, Q1 and Q2 benzene prices moved up like 20%-23% Y-o-Y basis, so and this is basically you pass it on to your customer with a lag effect of say one quarter's time. So, you have pass on a successfully or there are some parties remaining?
- Rajendra Gogri** No, generally when it is formula based part of it gets passed on for export and for domestic market generally it is a one-month lag.
- Mehul Seth** The entire pass on and everything is complete sir?
- Rajendra Gogri** Yes, that is always an ongoing process.
- Mehul Seth** And also sir, going ahead if say crude and benzene will remain at this elevated levels or even can move upside. So, what will be is your margins scenario means? What kind of operating performance that we are seeing for next, say in for a second half?
- Rajendra Gogri** So, as most of you know our overall margins are volume linked. So, any increase or decrease in benzene price, does not affect the per kg margins. For export there is a quarterly lag. So, on an absolute operating profit there will not be any impact because of increase in benzene prices.
- Mehul Seth** Sir, can I get a volume numbers for hydrogenation in our PDA?
- Rajendra Gogri** Hydrogenation, we are 2,048 tonnes per month in the second quarter and PDA was 450 tonnes per month.
- Mehul Seth** And sir, you are giving a volume guidance as well as the bottom-line, so what is your guidance for your operating performance like at EBITDA level what kind of margin you are seeing? So in first half you have done something like 18%, so for H2 what you are expecting?
- Rajendra Gogri** As I mentioned it will be based on the benzene prices. So, as percentage generally we are not able to give any guidance. But with the volume growth corresponding operating profit growth we will also take place.
- Mehul Seth** Sir one last question, on this multiyear deal with for agrochemical supply, so you had acquired a land. So sir, what was the costing means out of this 400 crore that





you are spending on this deal. So, how much you have spent for this land? How much you are planning to spent for let's say next 1.5 year?

Rajendra Gogri This land was about Rs. 8 crore but this is a multi-steps synthesis, so only final step will be done at this land whereas the other steps will be done in our other Jhagadia and Dahej sites.

Mehul Seth So, what is your spending, means plan means it will be over next 1 year, 1.5 year-2 years kind of ...

Rajendra Gogri We are targeting commissioning in second half of FY20. So, most of the spending will take place from here to September of 2019. So, over next 24 months the total spending will take place. Part of that already has been done which is under Capital WIP.

Moderator Thank you. Next question is from the line of Umesh Patel from TCG Asset Management. Please go ahead.

Umesh Patel Sir, you mentioned about raw material, wanted to know for each, I mean every increase in dollar USD per Dollar what impact generally we see in EBITDA margin if in case we are not have been able to pass it on to either domestic or export, international customers?

Rajendra Gogri For domestic customers, the prices will adjust and in general around 15% of our topline sales is sensitive to the Rupee Dollar exchange rate.

Umesh Patel So, in terms of hedging wanted to know what is the generally cost that we are paying for hedging purpose?

Rajendra Gogri We are doing only a normal forward contract. So, we are not taking any complex product.

Umesh Patel So, recently Rupees has also appreciated, so there would not be major impact in the next quarters, right?

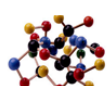
Rajendra Gogri On Y-o-Y basis that impact will continue for the second half also. Subsequently, now we have started doing multiyear hedging. So, we do not expect those kinds of impact coming from next year.

Umesh Patel Sir related to your home and personal care at EBIT level it is still negative. So, when can we expect, I mean it to break even since it is more than 6 to 7 quarters that we were expecting last year quarter as well, few quarters as well. But still it is showing negative EBITs. So, wanted to know your view?

Rajendra Gogri GST had impacted our volumes in this quarter. Volumes have subsequently started picking up. Some of the equipment we have placed for dryers and all which is expected to meet the quality of some of the products. We expect second half we should come into definitely a positive trajectory as far as EBIT is concerned from home and personal care.

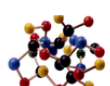
Moderator Thank you. Next question is from the line of Bobby Jairam from Falcon Investment. Please go ahead.

Bobby Jairam The new capacities that has coming over the next year and 2-3 years, do you have customers already booked with us?



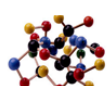


- Rajendra Gogri** One what we have done is that the multiyear contract, so, that we have a firm contract. Most of the other products we have a fair visibility with the customer but some time it will take some qualification also. Some of the products are import substitutes, which we feel that with our domestic customer base we can have substantial domestic market carry. So, generally we have very fairly confirmed or informed information regarding the ramping up of the capacities.
- Bobby Jairam** And in terms of the competitive dynamics, we understand that in China some of the plants were coming on stream or the ones that were shut down because this pollution. So, you see any change in competition overall?
- Rajendra Gogri** They is not much change in our product line. We are not seeing any big change in that.
- Bobby Jairam** So, there is no pricing pressure or anything because of new competition?
- Rajendra Gogri** No.
- Moderator** Thank you. Next question is from the line of Archit Joshi from B&K Securities. Please go ahead.
- Archit Joshi** If you can just repeat the volumes of PDA, NCB and hydrogenation and if you can just tell us what was the average benzene price for the quarter?
- Rajendra Gogri** Yes, NCB was 16,900 tonnes, PDA was 450 tonnes and our Hydrogenation was 2,050 tonnes.
- Archit Joshi** And sir, average price for benzene?
- Rajendra Gogri** Q2 was Rs. 50.
- Moderator** Thank you. Next question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.
- Kishan Gupta** I want to know how much was the interest capitalized in H1?
- Chetan Gandhi** The interest capitalization in H1 would be around Rs. 10.5 crore.
- Kishan Gupta** And how much was in FY17, full year?
- Chetan Gandhi** I do not have the numbers off-hand right now.
- Kishan Gupta** So you said 10.5 crore, but you have been mentioned that you have been funding your CAPEX really from internal accruals. So how come this capitalization is happening now?
- Chetan Gandhi** As per the accounting standard and even the tax clause I have to consider the average cost of borrowing and to the extent the projects are in WIP, I have to allocate that much cost to that.
- Kishan Gupta** Sir, you are saying essentially whatever is in WIP you have to allocate that, right?
- Chetan Gandhi** I have to allocate some cost, I cannot just completely keep it free. So, that is from the perspective of the tax loss and the accounting standard requirements of India.



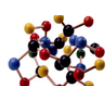


- Kishan Gupta** And given this project and how much is the FX debt?
- Chetan Gandhi** The foreign currency debt as of now, it is roughly around Rs. 600 crore. So that is close to around 35%. 35% of the debt is foreign currency.
- Kishan Gupta** So, did you increase the assets debt last year?
- Chetan Gandhi** Yes, there has been an increase. Debt has not increased majorly in last year it has increased in this year.
- Kishan Gupta** This year, FY18?
- Chetan Gandhi** Yes.
- Kishan Gupta** And what is the cost of debt for this FX debt?
- Chetan Gandhi** FX debt would roughly cost us because we have done some fixed interest rate structure. We have not kept it open on the LIBOR front. So, the cost should be around 4% to 4.2%.
- Kishan Gupta** And how much is hedged?
- Chetan Gandhi** So, this is the un-hedged part.
- Kishan Gupta** All exposures are un-hedged, right?
- Chetan Gandhi** Yes.
- Kishan Gupta** And about this multiyear do you deal for Rs. 4,000 crore and you said you will be investing approximately Rs. 400 crore, right? Over a 10 year period. So this contract is for 10 year period, right?
- Chetan Gandhi** Yes.
- Kishan Gupta** And how much is the IRR for this project?
- Chetan Gandhi** So, this project would have an operating profit of roughly around 40%. So, the IRR in this project would be significantly higher.
- Kishan Gupta** 40% operating margins for these supplies you are saying.
- Chetan Gandhi** Yes.
- Moderator** Thank you. Next question is from the line of S. Vishwanathan from Unifi Capital. Please go ahead.
- S. Vishwanathan** So, Nitro Toluene what will be the total capacity? What has been commercialized?
- Rajendra Gogri** We have 30,000 tonnes capacity per year.
- S. Vishwanathan** So, do you expect commercial supplies to start from Q3 onwards or some validation time and stabilization time is required?
- Rajendra Gogri** No, it is already started commercial supplies in Q3.



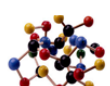


- S. Vishwanathand** And what is the capacity utilization you are targeting for the second half as well as next year?
- Rajendra Gogri** Second half should be more around 35%-40% range and next year 60% capacity utilization we are targeting.
- S. Vishwanathand** You also mentioned that H2 year-on-year there will be a 10% growth in profitability. So if we factor in that on a yearly basis, if we have to take FY17 number and FY18 number it looks like this year we could end flattish in terms of profitability, is that the right assumption?
- Rajendra Gogri** Yes, overall it will be more of flattish.
- Moderator** Thank you. Next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli** Sir, this how many steps in this new product that we bought land in Dahej for, how many steps will be do before we finally get the product here?
- Rajendra Gogri** 4 steps.
- Chirag Dagli** 4 steps we will do outside in our current facilities and then bring this for the 5th one here?
- Rajendra Gogri** No, total four. The 4th one will be in this site.
- Chirag Dagli** And what is the operating expenditure hurt from this new Nitro Toluene plant, depreciation as well as the above EBITDA?
- Rajendra Gogri** Not much other than depreciation.
- Chirag Dagli** There must be some operating expenditure no?
- Chetan Gandhi** We just started towards the end of the quarter. So the operating expenses will not be significant. Few days would be there.
- Chirag Dagli** And what is the depreciation increase then from these plants?
- Chetan Gandhi** Since it was towards the end of the quarter depreciation also would not be a significant larger number.
- Rajendra Gogri** Overall the depreciation has increased to Rs. 33 crore from Rs. 28 or something.
- Chirag Dagli** From 28 to 33 sir, this incremental 5 is it all because of this plant or there was some something else also?
- Chetan Gandhi** This would be hardly small component of that.
- Rajendra Gogri** The first quarter our depreciation was Rs. 31.7 crore.
- Chirag Dagli** Sir, the NCB volumes are these volumes are these in line with your expectations?
- Rajendra Gogri** Yes, more or less (+/-5%) impact generally will be there on either the production or the market side but overall they are in line.



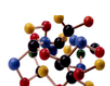


- Chirag Dagli** And sir this quarterly run rate in pharma sales of Rs. 136 crore has this run rate stabilized or do you think this can there will still be quarterly variations in this?
- Rashesh Gogri** Overall, for this year we expect 20% increase over last year. However, quarterly depending on the shipments of large export orders there could be some bumps but overall we would maintain that kind of topline number.
- Chirag Dagli** There is no one-off large supply in this Rs. 137 crore?
- Rajendra Gogri** No.
- Moderator** Thank you. Next question is from the line of Rohan Gupta from Edelweiss. Please go ahead.
- Rohan Gupta** Sir, first question is on exports, you have shown almost good 32% growth for the quarter which is pretty decent compared to weak Q1 and higher also on overall growth. So, do you see some pickup happening in a global agrochemical or is this driven by agrochemicals or this is driven by some other specialty chemical products in exports?
- Rajendra Gogri** This is all the products in general but agrochemicals some of the product lines are getting strengthened.
- Rohan Gupta** Because if I remember rightly that you mentioned last quarter that global agrochemical markets have affected your specialty chemical business and that led to lower volume?
- Rajendra Gogri** Yes, but now it seems to be getting better.
- Rohan Gupta** Sir, second question on a full potential I am 100% or 90%-100% utilization that Nitro Toluene business what will be the revenue potential of this plant, at the current realization I understand that it moves a lot depending on the product prices?
- Rajendra Gogri** It will be around Rs. 200 crore level approx.
- Rohan Gupta** And you are talking about 60% utilization we will next year?
- Rajendra Gogri** Yes.
- Rohan Gupta** And this year second half can we expect it to operate at maybe 40%-50% utilization?
- Rajendra Gogri** Between 30%-40% that is what we are working at.
- Rohan Gupta** But full potentially 200 crore?
- Rajendra Gogri** Yes.
- Rohan Gupta** And by margin profile Nitro Toluene falls in the similar category or this offers a better margin profile?
- Rajendra Gogri** It will be more or less similar.





- Rohan Gupta** Sir, second question is on our other segments like especially in pharma and HPC. So, we have seen that they are definitely have been trying to demerge these two businesses but we could not get I think adequate approvals to do so. With our performance of both the segments actually have improved significantly and have been showing some improvement continuously, do you see that with this kind of improved performance in especially pharma and HPC the demerger that thought process which you had earlier will be easy now to do it maybe we can see that rolling it out over next 1 year, 1.5 year?
- Rajendra Gogri** Actually, pharma we have dropped that idea totally. Only home and personal care is something which we intend to demerge. But till this year EBIT levels are on a negative on 6 monthly basis, so that is why that decision is getting a little bit delayed. But that we expect to happen in the next year. Pharmaceutical we do not have any intention to demerge.
- Rohan Gupta** Sir, on pharma only that you mentioned that you have crossed now Rs. 19 crore market EBIT level with the turnover of almost Rs. 136 crore in pharma business, sorry 136 crore. So is this with this kind of Rs. 137 crore-Rs. 138 crore revenue run rate if we continue then we should see that this run rate even at EBIT of 19 crore-20 crore will continue or can improve or we have already benefited from the operating leverage now this is the margin which we keep on working on this kind of 14% margin only?
- Rajendra Gogri** No, as our capacity utilization increase, we expect this percentage to increase. So, on an absolute level EBITDA also we expect jump in the next year and also in terms of percentage also.
- Rohan Gupta** So, pharma business where EBIT margins as per you sir can be in what range? It can go up to 18% to 20% or ...
- Rajendra Gogri** 15% to 18% should be possible.
- Rohan Gupta** So, this quarter itself was 14% you can say that it can lay between 15% to 18%?
- Rajendra Gogri** Yes.
- Moderator** Thank you. Next question is from the line of Vinod Vaya from Anand Rathi. Please go ahead.
- Vinod Vaya** So, can you just again share the guidance for FY18 and 2019?
- Rajendra Gogri** FY18, overall we expect profit increase in the H2 and end the year more on a flattish note.
- Vinod Vaya** And 2019 will 20% as you said earlier?
- Rajendra Gogri** Yes, FY19 with all the additional volume increase in Nitro Toluene and other products. We expect to have a significant growth in FY19.
- Moderator** Thank you. We have follow up question from the line of Umesh Patel from TCG Asset Management. Please go ahead.
- Umesh Patel:** Sir, you mentioned earlier remark that Vapi you did some debottlenecking and also this Jhagadia plant expansion is already done for Nitro Toluene plant which is already commissioned. So, wanted to know for this new plant with the capacity of 30,000 metric tonnes and 60% utilization which we are targeting for FY19 what





would be the revenue addition that we are seeing and overall at optimum level how much revenue potential this plant can generate?

Rajendra Gogri As we have mentioned, the total revenue potential at the full capacity is around Rs. 200 crore. So, at 60% it will be around Rs. 120 crore.

Umesh Patel: And this debottlenecking at Vapi plant will add how much percentage revenue, incremental revenue? Or by how much percentage you have increased your existing capacity?

Rajendra Gogri So, about 7% to 10% increase in our volume should happen there.

Umesh Patel: Sir, roughly 5% to 6% additional revenue that we can generate at all, overall right?

Rajendra Gogri Yes.

Moderator Thank you. We have a follow up question from the line of S. Vishwanathan from Unifi Capital. Please go ahead.

S. Vishwanathan The capacity addition that we have planned for the agrochemical multiyear deal, so will it be capitalized in a phased manner or everything will be capitalized only in 2020?

Rajendra Gogri No, our first phase chlorination plant will be capitalized in FY19 and other 3 steps will be capitalized in FY20.

S. Vishwanathan And the revenues would start from FY21?

Rajendra Gogri Yes, second half of FY20.

Moderator Thank you. We have a follow up question from the line of Ritesh Gupta from Ambit Capital. Please go ahead

Ritesh Gupta So, sir what is your CAPEX guidance for 2018 and 2019?

Rajendra Gogri This year it should be in the range of Rs. 450 crore to Rs. 500 crore and I think similar level for the next year.

Ritesh Gupta And this includes the 400 crore CAPEX that you have to do for that customized product?

Rajendra Gogri Yes.

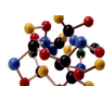
Ritesh Gupta So, this is lower than what you were expecting earlier?

Rajendra Gogri No, basically this is the range which we are looking at.

Ritesh Gupta And sir this 10% growth guidance that you have given for the second half includes there were strong number that you are probably going to report in pharma as well?

Rajendra Gogri Yes, that is overall.

Ritesh Gupta And sir, broadly on China side, do you think like competition is being raising for you guys in China given that some of those plants might be coming back or do you see





any, how do you assess the overall China situation in what implications it has so you from one to two year view?

Rajendra Gogri Overall in our product range there is not much impact as such. So, it is quite stable may be some time, some price increase decrease takes place in some of the product on a sporadic basis. But overall, I think is we are not going to see any positive or negative impact of China in our range.

Ritesh Gupta And on agro-chemical side you expect, probably a better recovery from next year?

Rajendra Gogri Yes.

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 Yes, 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 Industries, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

- ENDS -

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