Q3 & 9M FY18 Earnings Conference Call Transcript

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AARTI INDUSTRIES LIMITED

Moderator Ladies and gentlemen, good day and welcome to the Aarti Industries Limited Q3 FY18 Earnings conference call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Vikram Rajput Thank you. Good evening everyone and thank you for joining us on Aarti Industries Q3 FY2018 Earnings Conference Call. We have with us Mr. Rajendra Gogri – Chairman & Managing Director, Mr. Rashesh Gogri – Vice Chairman & Managing Director and Mr. Chetan Gandhi – CFO of the Company.

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

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

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

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

We continue to have a strong year from a new deal perspective. We have recently announced a Rs. 10,000 crore multi-year, exclusive supply contract with a leading global chemical conglomerate over a 20-year period. The supplies are expected to commence from 2020. With this deal, AIL is set to enter a new chemistry range, first of its kind in India; and its end product is amongst the major growth initiatives for the customer. AIL will be investing $35-40 million to setup dedicated large scale manufacturing facility for production of this speciality chemical intermediate, and will be built on the basic technology package received from the customer. The upcoming facility will be a 100% export oriented unit in the state of Gujarat. The customer shall provide $42 million as an advance to AIL in installments, to be adjusted against supplies in the future. This advance will help reduce the net capital employed enabling higher ROCE for this project. This deal follows another Rs. 4,000 crore, 10-year contract signed a few months back. Such deals highlight our Global Partner of Choice positioning among leading global agrochemicals, polymer, pigment, pharmaceuticals and other speciality chemicals companies. We see this as a sustainable model, providing strong visibility of returns on our capex commitments. Focus on innovation, SH&E (Safety Health & Environment), green chemistry along with our scale and integrated operations make us a natural partner for our existing as well as potential customers.

Coming to Q3, Revenues were up 21% YoY to Rs. 2,670 crore for 9MFY18 and up 29% YoY to Rs. 770 crore for Q3FY18. Exports were 45% for 9MFY18 and 42% for Q3FY18. Volumes in Speciality chemicals segment grew by 8%. There was higher revenue contribution from the direct linkage and pass through of raw material prices in long-term contracts.

Keeping in mind the rupee appreciation against US Dollars, earlier this year, we had discussed about hedging a part of exports over next 2 to 3 yrs by entering into multiyear forex forwards/hedges. In connection to the same, we had entered into various forward contracts with maturities from 3 months to 3 yrs. This has resulted into a mark-to-market benefit of Rs. 10 Crores as at 31st December 2017, which includes the gain of Rs 3 crs for contracts with maturities over one year.

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, showing 15% YoY growth, 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 years.

We clocked production of about 18,350 MT of NCB during Q3FY18 and as against 16,630 MT for Q3FY17, thereby achieving over 95% capacity utilization. We have taken up at drawing board stage the next level of capacity expansion for these products.

We have continued to execute our capex as per plan and invested about Rs. 389 crore during 9M, out of which investments of approx. Rs 289 crore were capitalized and the balance are still under WIP. Nitro toluene facility at Jhagadia which commenced in the month of September has reached 25% utilization.

Moving on to the Pharmaceuticals segment, Q3FY18 revenues grew by 35% YoY and 9MFY18 revenues grew by 25% YoY. I am pleased to report momentum in EBIT performance continues with EBIT in Q3 at Rs. 17 crore, up 89% YoY. 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, which saw a substantial improvement in topline and, as a result, there was a positive profit contribution in this segment. The segment performance improved significantly on account of higher volumes and better product mix. We are making concerted efforts to gain larger scale and drive sustained improvement in this business, while continuing exploring the demerger process.

I am pleased to share working capital management remains efficient and leverage has remained stable while growing profitability which has allowed debt to be serviced comfortably. In terms of shareholder value creation, distributing value to our shareholders is a corporate philosophy. As everyone is aware we announced a buyback program of over Rs. 98 crore. In FY17, we had bought back shares worth Rs. 96 crore. The Company's strong balance sheet and cash flows enable us to simultaneously reward the shareholders, while continuing to invest in growth opportunities.

As discussed earlier, this year would be the consolidation year with the impact of Rupee appreciation, higher costs due to project commissioning, etc would keep the PAT growth lower than earlier years. However considering the current performance and future outlook, we expect to end the year with a positive bottom-line growth. The growth rate shall again reach the double digit mark from next year onwards considering the higher utilization of various capacities and also considering the new capacities expected to come up in coming years.

From a longer term perspective, we see India further establishing its position as global hub for speciality chemicals. We have built in superior compliance, development processes and people resources to benefit from ensuing opportunities in higher-value chemical processes. 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. We will now begin with the question-and-answer session.

We have the first question from the line of Kishan Gupta from CD Equisearch. Please go ahead.

Kishan Gupta I want to know how much is your capacity fungible this new capacity which you are setting up for this global major?

Rajendra Gogri It will be a dedicated plant.

Kishan Gupta: Dedicated plant, so after the completion of that supply agreement so how would you utilize that infrastructure?

Rajendra Gogri That is a 20-year contract.

Kishan Gupta One is 10-year also, right?

Rajendra Gogri Yes the earlier one was for 10 years and recent one is for 20-year contract.

Kishan Gupta So you have not thought about it like how you will go beyond 10-years for the infrastructure?

Rajendra Gogri No, for this 10-year contract that can be utilized for other purposes also. For making other downstream products and also we can sell it in the market. This 20-year contract is for specific customers only. So we expect to recover our CAPEX by that time and this obviously we will continue to manufacture that product and we see that those contracts should continue for longer time.

Kishan Gupta How much would be the IRR for the 20-year project?

Rajendra Gogri The 20-year project basically we are going to get substantial advance from the customer, so IRR is significantly higher.

Kishan Gupta Then how do you explain the increase in employee cost this quarter?

Rajendra Gogri We are building a new assets and also overall increasing the team with higher competent manpower to capitalize on all these growth opportunities.

Kishan Gupta Will it remain buoyant going ahead also, because it is already up almost over 20% in nine months?

Rajendra Gogri More or less we will be completing our organization build up by end of this financial year.

Kishan Gupta And what would be the impact of crude oil price rise on margins?

Rajendra Gogri	As we have always been mentioning that crude oil price does not impact the volume or the absolute margin for us because it gets passed on to the customer either on a monthly lag or a three monthly lag. So basically it just affects the top line but does not affect the absolute operating profit neither the volumes.
Kishan Gupta	But your margins would decline as a percentage of sales if I am not wrong?
Rajendra Gogri	Yes.
Kishan Gupta	Till when you expect to remain in MAT?
Rajendra Gogri	MAT we expect to be much longer because some of our facilities are coming up in SEZ where there are exemptions of profit. Further with substantial MAT credits, we expect to be in MAT at least for next few years.
Moderator	Thank you. The next question is from the line of Bobby Jairam from Falcon Investments. Please go ahead.
Bobby Jairam	In your press release with the one year contract you had mentioned that you will get suppliers for $40 million or so and also that you would be spending $40 million. So is that on top of the advance?
Rajendra Gogri	No, that is not on top of that. So our total CAPEX will be around $35 million to $40 million only, total CAPEX.
Bobby Jairam	So the customer is virtually financing all your CAPEX in installments?
Rajendra Gogri	Yes.
Bobby Jairam	Okay and could you elaborate a bit on how you got this contract, was it a bidding process or was it a customer from yours you have dealt with before or how did it happen?
Rajendra Gogri	No, it was not a bidding process as such. As we have been telling that there is going to be an easternization of chemical manufacturing towards India and China. The current preference is more towards China especially with better IPR regime. So it was more because of our track record on various chemistries and good robust safety environment systems and other manufacturing systems which were key for getting this contract.
Bobby Jairam	So they were a client of yours before that?
Rajendra Gogri	Yes.
Bobby Jairam	And over this FY18 stabilizers and your utilization increases over the next three to five years what kind of volume growth do you envision is it 12%, 15% what is your guidance there?
Rajendra Gogri	Yes, it will be in the range of 10% to 15% over next few years.
Moderator	Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.
Surya Patra	Just wanted to ask some clarification on that 20-year contract again. Can you just give some sense about the nature of the business or nature of the product that you

are manufacturing or supplying or application of that product or the end user segment wherein the product will be utilized and who will be the owner of that asset because we are financing the entire asset upfront so whether the plant would be owned by the customer or how is it?

Rajendra Gogri No, plant will be owned by us, this asset will be in our name and it is a specialty chemical intermediate that is all I can tell you.

Surya Patra And end use applications and whether it is in the polymer side or agrochemical or colors, any such indications?

Rajendra Gogri It will be difficult to specify any of that.

Surya Patra Now again on the quarterly performance front, so there has been a volume growth of 8% but we have delivered 23% revenue growth. So that gives an indication of the price spike of around 15%, so with that is it fair to believe that all of the kind of a price appreciation what we had seen in our raw materials since last few quarters that has been past now?

Rajendra Gogri No, Q4 there is further raw material increase in prices because of the crude prices.

Surya Patra Okay, and for the long-term contracts how frequently you revise your prices sir, I think for export contracts you take?

Rajendra Gogri For us it is quarterly.

Surya Patra And for the long-term contracts?

Rajendra Gogri Yes, long-term contracts also quarterly.

Surya Patra Okay, and is it possible to share how much revenue that you would be generating out of China if for the quarter or if not for the YTD period so far?

Rajendra Gogri Actually we had about 10% of our exports so it will be more around Rs.150 crore around that number, exact number I do not have, but of that order of magnitude.

Surya Patra So whether it has increased or decreased because last full year if I remember it was 16% or so. So the China sale would have gone up or it would have declined?

Rajendra Gogri I do not think it has gone up, it has gone down.

Surya Patra And on the nitrotoluene project we have indicated 25% utilization in the first quarter of operation. So can you quantify sir what is the revenue that we would have earned out of it?

Rajendra Gogri Specific revenue number I do not have, it is more on volumes.

Surya Patra Volumes at least can you tell me?

Rajendra Gogri We have a capacity of 30,000 tons. On a quarterly it will come around to less than 7500 capacity and we had produced around 2000 tons, thus 25% utilization.

Surya Patra So this is 25% annualized number?

Rajendra Gogri Yes.

Surya Patra And regards the margin I think nitrotoluene whether it is still to achieve the breakeven or it has already it is a profit making business from the first quarter itself or it will take some time to breakeven?

Rajendra Gogri No, obviously at 25% it cannot be breakeven but we are looking in the next year more than in the range of 50% to 70% range of capacity utilization and it will be crossing breakeven next year.

Surya Patra So that means around 50% utilization is the kind of breakeven number that is how one should believe, is that right?

Rajendra Gogri We are seeing the breakeven point to be between 60% to 70%.

Surya Patra So the margin profile of this nitrotoluene is similar to that of the existing specialty chemicals business or it is slightly lower?

Rajendra Gogri It would be similar.

Surya Patra And any outlooks you can provide on the margin front why because in one way we are seeing raw material price is leading to a kind of rise in the revenues but the margin percentage is under pressure. So but on the other hand there is a possibility of improvement in the asset utilization next year so which is giving an indication about margin expansion further. So two contradicting facts, so if you can share some of your thought process about the margin and outlook, it would be better?

Rajendra Gogri We have been always telling for us margin as a percentage has no meaning, so absolute number will continue to grow on EBITDA as well as EBIT number year-on-year.

Surya Patra Okay so that means the guidance what you have been giving for current financial year around 10% volume growth and similar earning growth, so that scenario should change meaningfully next year onwards?

Rajendra Gogri Yes next year we expect significantly more than that.

Surya Patra Just one last question. On the Pharma business so we have seen over 30% revenue growth whether it is coming from the prices or it is coming from the volume growth or any new products that you have added because Pharma is under pressure in various manner, prices volume all that. But still we have delivered a robust more than 30% kind of for YoY growth for the quarter and we are very optimistic about that segment. So where from that you are getting that spike and how sustainable the growth is?

Rashesh Gogri In Pharma we run two businesses one is API business of new generic business and other is theophylline caffeine derivative business. So in our API business there has been better utilization in both the businesses of capacity which has resulted in overall growth in revenue. Of course, as you know prices have been under pressure so it has been largely driven by volume play only.

Surya Patra So improving asset utilization has resulted in the improvement in the EBIT segment?

Rashesh Gogri	Yes, and also we are focusing more on intermediate business as well which is our third segment. So there also we have recently started additional blocks for manufacturing intermediate with additional capacity which also will start giving revenue from next financial year. So it can improve further.
Surya Patra	So now what current rate average asset utilization has been running, sir?
Rashesh Gogri	Say around 70% for our API plant and for our intermediate plant since the new block is coming up so I think from next year we will start with 60% asset utilization, then we will grow over there.
Surya Patra	Okay. So your outlook you are still maintaining near about 20% kind of growth for next financial year?
Rashesh Gogri	Yes, 20% will be a good number to target.
Moderator	Thank you. The next question is from the line of Chetan Thakkar from ASK Investments. Please go ahead.
Chetan Thakkar	Just wanted to know the volume data for the quarter for NCB and hydrogenation?
Rajendra Gogri	18,350 tons.
Chetan Thakkar	And secondly, on this new agreement that we have signed what will be the kind of asset turn that we can expect on that project?
Rajendra Gogri	It is almost will be more than 1.5.
Chetan Thakkar	And sir lastly, the organizational cost that is coming because of the employee build up so that will be there in the base for the next year, so can we expect operating leverage out of this cost that will start kicking in from next year?
Rajendra Gogri	Yes, obviously volume also will increase and this manpower cost normal increment will come.
Moderator	Thank you. Next question is from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.
Mayank Hyanki	Hi, I have a couple of questions around the long-term deals. So if you could highlight in both the cases the reason of outsourcing by client, in the sense was it new products or the placing of in house production or was it replacement of some existing suppliers?
Rajendra Gogri	No, both of that were for their growth this is not a replacement of any from one supplier to another. So part of their overall growth strategy they wanted to source the key intermediate. In the second case we are going to get the technology also. First case it was our in-house technology and second case the some technology is going to be supplied by them and they are giving almost 100% advance in the second case.
Mayank Hyanki	So it was in existing product where they see more growth coming in future and the additional growth capacity will be sourced from you, is that the case?
Rajendra Gogri	Yes, for the second one it is an existing running product for them. The new expansion instead of doing with themselves they have selected to do with us.

Mayank Hyanki Sir, in both the cases when we assume the beginning of the commercialization should we expect that from first year itself we should be able to do optimal utilization of the plants or should we assume a gradual ramp up?

Rajendra Gogri We expect a substantially faster ramp up in this cases.

Mayank Hyanki Given that you already have a ready client which is a dedicated one for you, so and assuming that from now until the commercialization you would have done pilot runs and all, so one should assume the whole contract size divided by the number of years that kind of run rate from the first year itself?

Rajendra Gogri By second or third year we should be almost reaching the contract and numbers.

Mayank Hyanki Okay. And given that you have stuck two major deals FY20-21 onwards, would be still looking out for more such deals or are we done for now? Is it something that it is a constant lookout it is a busy activity which keeps on getting done and we are still open to more such contracts if they come our way?

Rajendra Gogri Yes, we are definitely looking at more such deals. Basically, we have a very huge strong market base across the end user segment. If you take engineering, polymers or agrochemical, pigment, printings and pharmaceutical also, we see very good possibilities of attracting this kind of a deal and I think this should be one of our key growth drivers in coming next few years in addition to our normal Nitrochlorobenzene and chlorobenzene products.

Mayank Hyanki Okay, and apart from these deals how about the in-house projects, R&D projects which we are running? So what would be the outlook for the next three years on organic growth apart from the two long-term deals?

Rajendra Gogri That is what I am saying we will be also increasing the volumes of our existing products and add few more products in that value chain also. So that will continue to be an ongoing exercise in reaching more and more markets and in the global growth for our existing product lines.

Mayank Hyanki And we see that the current management done which is good enough to take of the current business as well as these two long-term deals or more bidding activities or we would be looking to expand there also significantly?

Rajendra Gogri We do not see too much of further addition maybe required.

Mayank Hyanki This is more at plant level and plant specific people who will be?

Rajendra Gogri Yes, some are in our business side also, but not as much we need in plants.

Mayank Hyanki And slightly near to medium term question on the current supply contracts that you have extended but I just wanted to re-understand that. In case of sharp Forex movement like which we have seen right now that rupee correcting from 68 to 64 almost what is the process in the sense that if you can renegotiate the prices, what is the process that is followed normally and is the hedge shared or its head divided or does client take all the benefit of the appreciating rupee?

Rajendra Gogri Generally all these multiyear contracts there are a couple of things. Somewhere either we have to hedge the risk, or they will hedge the risk. So there are different models with different customers.

Mayank Hyanki	So at an average, what should we take as in like, what should we assume for at an average for all the deals?
Rajendra Gogri	Basically we can do a forward contract and all of that. Right now current rates are around 4% to 4.5% forward, so you know where we have to hedge we can do that, where they have to hedge, then we do not have to worry and the hedging is done by them. So there are different models.
Mayank Hyanki	No, hedging would be more internal. I am talking about the prices of let us say every quarterly which are renegotiated, or which are touched upon?
Rajendra Gogri	It is a structured formula only on a quarterly basis.
Moderator	Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
Dheeresh Pathak	Sir, just want to confirm if I got the data correct. For the quarter you were saying it was 8% volume growth and for nine months it was 5% and guidance for FY18 is 10% volume growth?
Rajendra Gogri	No, the second half is about 10%.
Dheeresh Pathak	So first half it was 4% volume growth, what is the volume growth for this quarter Q3?
Rajendra Gogri	Q3 it is 8%.
Dheeresh Pathak	8%, so for nine months it would be around 5%, or so right? And for the full year we are saying we will be 10% volume growth?
Rajendra Gogri	No, I think what we had clarified last time that the second half volume growth will be about 10%.
Dheeresh Pathak	So similarly 10% shots the volume growth in the fourth quarter, okay. And FY19 if I heard correctly you said will be meaningfully better volume growth than 2018? And that will be driven mainly by which new volumes which capacities commissioning?
Rajendra Gogri	Nitrotoluene capacity, our PDA volume also should get ramped up some other specialty intermediate also we have expanded and debottlenecked so all those combined we should be able to get more volume.
Dheeresh Pathak	We should be able to do more than mid-teens volume growth in FY19 like 15% plus?
Rajendra Gogri	We are looking at 10-15%.
Dheeresh Pathak	And sir, just one clarification. This home and personal care, this is entirely surfactant business or what is part of this?
Rajendra Gogri	Yes this is entirely surfactant business.
Dheeresh Pathak	Okay so for nine months we have seen good traction, anything has changed in this business for this year?

Rashesh Gogri Yes, basically we have installed the powder processing equipment and they have come in line. So basically these surfactants are sold as solid or liquid and when we sell it as solid we get better margins. So we are moving towards a higher margin product mix.

Moderator Thank you. The next question is from the line of Kushagra from Ambit Capital. Please go ahead.

Ritesh Gupta Ritesh here from Ambit Capital. Sir, just wanted to check on one thing that you said to a second half growth of 10%, right so basically you are expecting around 12% growth in Quarter 4?

Rajendra Gogri Yes, on those lines.

Ritesh Gupta And sir, on Nitrotoluene and PDA I just wanted to understand what has been the reason which is it like the usual ramp up period because I think the plant got commissioned early FY18 and possibly we had some issues there in FY18 on ramp up. So is there a trend wherein a new plant itself takes one year or two year to ramp up or is it more because there was some signing up issues with the client something like that was happening?

Rajendra Gogri Yes, nitrotoluene is an entirely new range of products. So generally any new product is bound to take a longer time because some places you will require qualifications and all but the customer base is very similar and there are also some import substitution taking place in those nitrotoluene range of products. But being a totally new range it is expected to take more time and some time you know there are certain products more on export base than qualification and the export market share also tends to take some more time to ramp up.

Ritesh Gupta But this nitrotoluene is going to be more on the export side, or is it more import substitution on domestic side?

Rajendra Gogri It will be both actually, a lot of import also is taking place and is going to be export led because some of the key products that are there are global growth. So we will be participating in that growth as well as picking up some market share.

Ritesh Gupta Okay and what is happening on the PDA side, I mean it was majorly capacity augmentation. What is happening there, what is giving you the confidence for the higher volume growth rate in coming quarters?

Rajendra Gogri Yes there also we are looking at building export in coming years.

Ritesh Gupta Okay and sir, on margins specialty chemical side, I think this quarter also EBIT was down on a YoY basis while there is a gradual improvement in margins over the quarter. So I should assume this is more to do with the lower capacity utilization at nitrotoluene and PDA level and as these capacities get utilized, the margins should also normalize to your earlier margins of close to 20%, 22%?

Rajendra Gogri As I said basically there is raw material price increase so that pushes the percentage down.

Ritesh Gupta But that do you think it can resolve in like quarter or so, or what is the?

Rajendra Gogri As far as the absolute number, it is important, absolute number wise last year EBIT was 131, this year it is 151 in Q3.

Ritesh Gupta Okay so you are basically saying that the mathematics of crude increase effectively not that you are facing any higher raw material which you are not able to pass on?

Rajendra Gogri Correct.

Moderator Thank you. The next question is from the line of Sneha Talreja from Edelweiss. Please go ahead.

Rohan Gupta Rohan here. Sir, couple of questions only on these new contracts which you have been. Both the contracts I mean earlier one the second one both are from the different customers, right?

Rajendra Gogri Yes.

Rohan Gupta Sir, how big these customers will be in terms of their own revenue size and in terms of this product, second one is roughly Rs. 500 crore annual revenue for you and first one was Rs. 400 crore. So for their in total scheme of the outsourcing how big this will be if you can just give some sense on that?

Rajendra Gogri Both are $10 billion plus revenue customer. So this is not a very big number but it is a significant number.

Rohan Gupta For both of these companies. And what will be total outsourcing size for them and if you would not got this order then who would have got whether it is company in China or someone in India?

Rajendra Gogri I do not know. It will be China may be, as I think they would have been the other competing country in this.

Rohan Gupta So far now all these orders was going to any Chinese companies, right?

Rajendra Gogri They could have put themselves also. Obviously as we have been saying that India and China are the main competing countries in this specialty chemicals and the intermediate landscape. So there will be competition between India and China. As far as within India we are holding more than 70% to 90% market share for all our products. So we do not see many Indian competitors.

Rohan Gupta So for this $10 billion sized companies how much every year incremental outsourcing opportunity emerges for these companies?

Rajendra Gogri Depends on their growth.

Rohan Gupta Yes, I mean last two years, three years average if you can give some sense?

Rajendra Gogri We have not looked at those. But they are also continuously growing.

Rohan Gupta And they are mainly in specialty chemical and agro because globally we have seen the agri has been weakening in last two to three years global market as well. So just wanted to understand little bit why they are I mean whether this increased outsourcing a need for them to survive in the market or it is just their general trend and since China is getting out of then we are gaining the market share?

Rajendra Gogri Basically sometime in agro as a sector might be slowing but when you go to specific molecule each molecule have different trends. So it ultimately everything will boil down to individual molecules.

Rohan Gupta And the intermediate which you are making for them will have a single application because giving a 20-year's visibility I do not know how it works because in agrochemical none of the products have a such large cycle so these products which you are manufacturing they are intermediate but they have multiple uses in many products or they have single product use?

Rajendra Gogri No, this product they are going to use to make only for a one particular product but that particular product their end molecule will have multiple uses.

Rohan Gupta But sir, that was my view was that I mean any customer giving you 20-years order they must have a visibility of that long for their end product as well. But we do not see that in agrochemicals product has such a large lifecycle so that is a worry. And sir, second thing that this will be a fully integrated product starting from end or some raw material will also be supplied by you in this product chunk?

Rajendra Gogri No, first one was benzene-based chemistry we started with benzene. Second case the intermediate going to coming from them.

Rohan Gupta Okay in second case intermediates going to come from them only and you will be working more as a converter or a processor?

Rajendra Gogri Yes.

Rohan Gupta Sir, I mean the second one looks very promising and attractive because the money is also CAPEX is also funded by them in advance payment, your visibility is also for 20-years and technology is also given by them. So for you in terms of margins the customer will not be giving you very high margin. So is it just a 6%, 7%, 8% margin for you or because your risk is not there, your investment is not there, you are just operating the facility, is not it?

Rajendra Gogri Yes, but obviously it will not be a similar margin to what where you have your own technology where you invest your own money. So it will not be of the same order but the overall the scope of the order is high so as and when an absolute number it becomes quite sizeable.

Rohan Gupta I understand because this will be an approved EBITDA addition to your P&L but in terms of its margin profile of this product and ROA profile should be pretty lower than your existing business?

Rajendra Gogri Yes, margin as a percentage to sales will be lower.

Rohan Gupta It will be sub 10% something or?

Rajendra Gogri Yes, that much detail I think I cannot give.

Rohan Gupta It will depend on the raw material prices also. Sir, just a last thing. So when this first and the second project will start contributing to P&Ls in a meaningful way?

Rajendra Gogri FY21.

Rohan Gupta So when is the commissioning date, I mean Q4 FY20 or Q1 FY21?

Rajendra Gogri Q4 FY20 or Q1 FY21 that is the period there.

Moderator	Thank you. The next question is from the line of Parth Adhiya from B&K Securities. Please go ahead.
Parth Adhiya	Just a couple of questions. Sir, could you share the PDA and hydrogenation numbers for the quarter?
Rajendra Gogri	Hydrogenation was 2,241 tons per month and PDA was 516 tons per month.
Parth Adhiya	And sir, also what was the average benzene price for the quarter?
Rajendra Gogri	Average benzene price was Rs. 54.
Parth Adhiya	And sir, can you share the number for NCB for the quarter?
Rajendra Gogri	It was 18,350.
Parth Adhiya	For the quarter?
Rajendra Gogri	Yes.
Moderator	Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
Dikshit Mittal	Sir, my question is on longer term growth rates because we have observing that your base business is growing at 15% CAGR. So post these two new contracts start contributing so can we expect material pickup in growth rates because the base business will be at 15% plus additional contribution from these two new contracts?
Rajendra Gogri	Yes, we are looking at a multiyear growth now. We have been growing for the last four, five years more than around 18% to 20% in bottom line. And we have the higher base we are looking at the similar kind of multiyear growth.
Dikshit Mittal	Because if I take these two contracts these alone can give around Rs. 1,000 crore annual kind of topline contribution. So that is around 30% of your current topline. So can we expect that growth rates to inch up from 15% to 25% CAGR post FY20?
Rajendra Gogri	Basically the base number also goes up.
Dikshit Mittal	But base business we can continue to assume 15% grow rate, right. So whatever contribution comes in from new contracts that will be additional?
Rajendra Gogri	So the first contract was more of our normal value chain contract.
Dikshit Mittal	So that is included in your base business?
Rajendra Gogri	Yes.
Moderator	Thank you. The next question is from the line of Dheeraj Dave who is an individual investor. Please go ahead.
Dheeraj Dave	Sir, one thing on environment approval. Have we got environment approval for both these contracts which we are looking at?

Rajendra Gogri	No, that is under process.
Dheeraj Dave	So when we expect that because I think that is becoming a real issue?
Rajendra Gogri	We should be getting in next few months.
Dheeraj Dave	So if environment approval comes let us say by April 2018 how much time exactly you see setting up the plant and commissioning for both these projects?
Rajendra Gogri	It will take 15 to 18 months.
Dheeraj Dave	And land etcetera is acquired all the other part basically that all is already in place or we will be starting once we get?
Rajendra Gogri	Some land we already have, some is under acquisition.
Dheeraj Dave	And sir, second question is basically sometime back we were looking at dividing three businesses in three units of companies. So are we still looking at that in the revised scheme of things we have changed our plan?
Rajendra Gogri	No, Pharma we are not going to, Pharma and chemical will continue to be in a single company. Home and personal care is something which we are looking at demerging.
Dheeraj Dave	And then last question on Pharmaceutical we find that EBIT margin has declined while the topline has grown significantly. EBITDA is almost remains constant 9 months to 9 months it is Rs. 33 crore. So basically new product launch is it like what is the problem there is there some kind of issue we face there?
Rashesh Gogri	Yes, basically there has been a revenue growth of around 20%, 25% quarter-on-quarter. Total YoY growth is there. And even the absolute EBIT numbers has grown however the percentage we have earlier also mentioned that it would remain in 10% to 12% level. And eventually it will take some time for it to grow to 12% to 15% in next couple of years.
Chetan Gandhi	Just to correct your query the EBITDA for Pharma which was Rs. 33 crore in 9 month FY17 is Rs. 49 crore for 9 months FY18.
Moderator	Thank you. The next question is from the line of Anubhav Sahu from Moneycontrol. Please go ahead.
Anubhav Sahu	My question sir, more on HPC segment. Sir, basically wanted to understand is there timeline for spin off and if you can elaborate on what is the capacity right now we have for Surfactants and how is the capacity utilization right now?
Rajendra Gogri	During our annual meeting, we should be taking a call on that. And right now it will be around 60% to 70% utilization.
Anubhav Sahu	And sir, what is the capacity we have for Surfactants?
Rajendra Gogri	It is a multipurpose plant.
Rashesh Gogri	50,000 tons in a year.

Anubhav Sahu And sir, you mentioned that there was change in process of making products and that is why there has been approval margin any industry wide trend which is benefitting the company in the segment?

Rashesh Gogri Actually we have been announcing that we would like to change our product mix and earlier we have been concentrating on alcohol based sulfonation products and now we are concentrating on LA based sulfonated products which are used in toothpaste and other laundry detergents which require powder form. So the powder form margins are higher whereas the liquid form margins are much lower. And powder requires specialized equipment which we had bought and now it has stabilized. So now we have one unit which has stabilized, and another two units are being under trials. So once they stabilize then we will have much more better powder quantity.

Anubhav Sahu And sir, in the medium term what kind of margin can we expect around 11% to 12% would be a justified expectation and also wanted your views on the raw material side all your chemicals. Suppose that would be a mirror chunk of your raw material cost so how is the pricing trend there and how do we manage it?

Rashesh Gogri Basically the business is largely cost plus business for key customers which are large multinationals who makes this detergents where our margins are largely fixed. So there our oleochemical costs are passed on so that will constitute to close to 50% of our forward business and rest 50% will be where we will take call on raw material and we will decide the final pricing.

Anubhav Sahu How much would be exports in this segment?

Rashesh Gogri Export initially could be 25% to start with.

Moderator Thank you. The next we have a follow question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta Just one on CAPEX. So what is the guidance for next year FY19? Should it increase more from here on?

Rajendra Gogri Yes, both the projects CAPEX will be happening in next year. So the numbers will be higher.

Ritesh Gupta So something like a Rs. 500 crore, Rs. 600 crore something like that for next year?

Rajendra Gogri Yes, may be higher than that depending on how much we spent on next subsequent years. But part of that will be getting the advances.

Ritesh Gupta What is the core CAPEX apart from these two contracts what is the core CAPEX for next year or there is no CAPEX on that side?

Rajendra Gogri Yes, core CAPEX will be some expansion some debottlenecking of other products in a normal CAPEX and some Pharma and others. So there will be more couple of hundred crore on that side.

Ritesh Gupta But there is no major project which is pending now given that you have commissioned nitrotoulene facility as well?

Rajendra Gogri We are increasing hydrogenation capacity so that will be coming up in second half of FY19.

Ritesh Gupta And sir, on Pharma side from whatever I heard what I understand is both on Pharma and HPC the current numbers are sustainable and profitability on Pharma side should continue to improve from here on as the utilization gets better?

Rajendra Gogri Yes.

Moderator Thank you very much. That was the last question. I would now like to hand the conference back to the management for closing comments.

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

Moderator Thank you very much. On behalf of Aarti Industries Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

- ENDS -

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