Q4 & FY18 Earnings Conference Call Transcript

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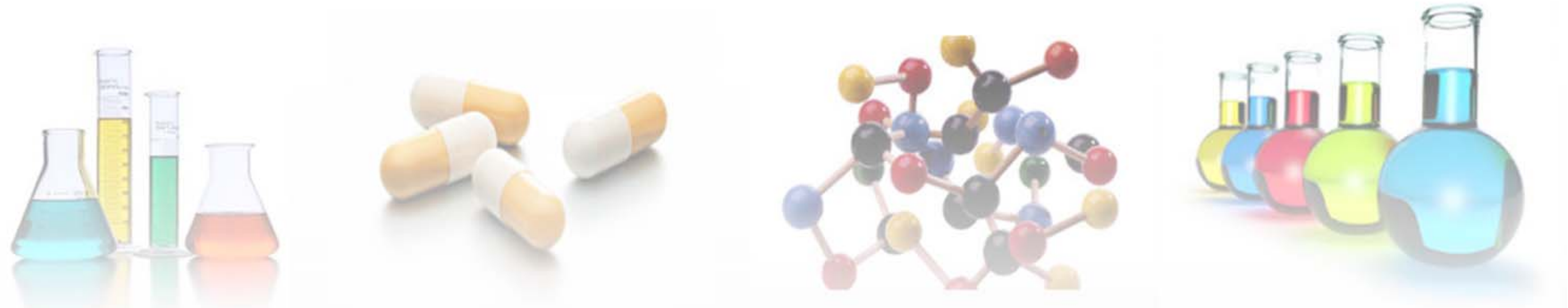
AARTI INDUSTRIES LIMITED



Moderator Ladies and gentlemen, good day and welcome to the Aarti Industries Limited Q4 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, Lisa. Good afternoon everyone and thank you for joining us on Aarti Industries Q4 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 afternoon and a very warm welcome to all of you.

In line with our vision statement, with each passing year we continue to add heft to our 'Partner of Choice' relationships global chemical giants. This has been an eventful year for AIL on several fronts. We have delivered healthy numbers in our speciality chemicals business in what has been a challenging year for the industry. Pharmaceuticals business has sustained a strong growth trajectory with margins expanding significantly. We have signed two game-changing multi-year deals, commissioned Nitro toluene facility, augmented our knowledge capital – recognition of these initiatives has resulted in creating significant value for all our stakeholders.

Coming to Q4, Revenues were up 21% YoY to Rs. 1,029 crore and up 23% YoY to Rs. 3,699 crore for FY18. Volumes in Speciality chemicals segment grew by 9% YoY in Q4 and 7% YoY in FY18. There was higher revenue contribution from the direct linkage and pass through of raw material prices. For year as a whole, the Gross Income from Operations on standalone basis increased by 21.3% to Rs. 3,699 crore, EBITDA was up 7.9% to Rs. 657 crore and Profit After Tax was higher by 4.2% at Rs. 316 crore. Likewise Gross Income from Operations on consolidated basis increased by 20.5% to Rs. 3,814 crore, EBITDA was up 7.8% to Rs. 707 crore and Profit After Tax was higher by 5.4% at Rs. 333 crore.

As part of its strategy to safeguard business against currency risks, especially against US Dollars, earlier this year, we had discussed about hedging a part of exports over next 2 to 3 years by entering into multi-year 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 in a M2M loss of Rs. 10.7 Crore in Q4 FY18. Company had further provided for revaluation loss on long term borrowing (ECBs) to the extent of Rs. 2.51 crore as at 31st March, 2018.

As most of you are aware, our realizations are linked to global crude oil prices, so the key parameter to track is absolute EBIT. I am happy with our EBIT performance, showing 18% YoY growth in Q4, despite the forex m2m impact of about 13 crs and higher expenses following the commissioning of our growth projects. We expect the volumes of these facilities to ramp up gradually over 3-4 years, driving higher contribution.

We clocked production of about 17800 MT of NCB during Q4FY18 and as against 16500 MT for Q4FY17. The annual production for NCB was 68800 MT, thereby achieving about 92% capacity utilization. We are in process of implementing various debottlenecking projects to further expand these capacities.

We have continued to execute our capex as per plan and invested about Rs. 575 crore during FY18, out of which investments of approx. Rs 60 crore were related to acquisition of land for various expansion projects and proposed new R&D centre.

Nitro toluene facility at Jhagadia which commenced in the month of September has reached over 40% utilization. This investment adds a new revenue stream, creating additional cross selling opportunities as the customer set remains similar to that in our benzene chain. We expect revenue of Rs. 350-400 crores on an annual basis from this facility upon reaching optimum utilization. It will further strengthen our global presence in our target end-user applications.

We have acquired land for a new R&D and Innovation facility in Navi Mumbai and expect to commission the facility by the end of FY19. The setting up of this R&D Centre is in line with our focus on research led product and process development and will enable us to enhance and expand our capabilities to develop high-end value added products and chemistries with niche market opportunities.

We have planned an annual capex of approx. Rs. 600-700 crs for the next two years to take the Company to the next level of growth, and are executing a multi-pronged expansion plan across multiple processes/products in a calibrated manner. This includes Speciality Chemical Complex at Jhagadia, Acid Reconcentration Plants, API and Pharma Intermediate de-bottlenecking and expansions at Vapi & Tarapur, R&D and innovation facility, capex for the Rs. 4,000 crore multi-year deal and various other speciality chemical based project initiatives.

Moving on to the Pharmaceuticals segment, Q4FY18 revenues grew by 45% YoY to Rs. 174 crore and FY18 revenues grew by 31% YoY to Rs. 556 crore. I am pleased to report momentum in EBIT performance continues with EBIT in Q4 doubling YoY to Rs. 30 crore, and FY18 EBIT was up by 65% YoY to Rs. 79 crore. As guided earlier, this performance was enabled by improved business across markets and significant operating leverage. Our optimism around this business remains strong.

Coming to the Home and Personal Care, which saw a healthy improvement in topline, however segment profitability was impacted on account of raw material supply constraints due to hurricane in the USA in Q4.

As most of you are aware, we have a low capital employed here and we have formed a Committee of Directors to review and recommend to the Board, a scheme of arrangement pertaining to Demerger of Home and Personal Care segment of the Company and to appoint the valuer, merchant bankers and other required agencies in this regard. We also propose for evaluate the merger of manufacturing division of Nascent Chemicals Industries Ltd into Aarti Industries Ltd. Nascent Chemicals Industries Ltd (Nascent) is an entity incorporate in the year 1966 and having the business of manufacturing operations in Gujarat as well as Trading of Chemicals. Aarti Industries Ltd (through its 100% subsidiary Aarti Corporate Services Ltd) holds 50.49% stake in Nascent. The manufacturing division of Nascent manufactures few speciality chemicals on behalf of Aarti Industries Ltd under the conducting arrangement. These products are part of the integrated value chain of Speciality Chemicals of Aarti Industries Limited. For FY 18, Nascent had reported the Gross revenue of Rs 12.4 crs for the manufacturing division and Rs 9.6 crs for the Trading division. The combined PAT for Nascent for FY 18 was Rs 5.73 crs.

Talking about the balance sheet, you may have observed a slight increase in our leverage. I would like to point out there has been no change in the operating structure. Debt to equity has increased as a result of delay in GST refunds for exports. The impact is of over Rs. 70 crores. As most of you are aware this is an industry wide issue and we are expecting government to fast track the process of release of refunds.

In terms of shareholder value creation, distributing value to our shareholders is a corporate philosophy. AIL's Board recommended a final dividend of Rs. 1 (20%) per equity share for FY18. During the year, we had also effected a buyback program of over Rs. 98 crore. The Company's strong balance sheet and cash flows enable us to simultaneously reward the shareholders, while continuing to invest in growth opportunities.

Our differentiated business model which seamlessly combines a de-risked product portfolio, scale, integrated operations, innovation and 'green chemistry', inclination towards strategic investments, and consistently strengthening relationships with customers has helped the company grow multi-fold. FY 18 was a consolidation year with the impact of Rupee appreciation, higher costs due to project commissioning, etc kept the PAT growth lower than earlier years. For the coming year we expect 12-15% volume and 18-20% PAT growth on the back of higher utilization of various capacities and also considering the new capacities expected to come up in coming years.

From a longer term perspective, the multi-year deals, capacity expansion for existing and new products, innovation agenda coupled with 'Partner of Choice' relationships has set us up well for the next leg of growth in Speciality Chemicals. As guided earlier, the transformation in our Pharmaceuticals business performance becoming more visible. As a Company, we remain committed on delivering growth while maintaining positive return ratios and maximizing shareholder value.

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.

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Moderator Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund.

S. Padmanabhan Sir my question is on specialty chemical side. While we have shown some good growth across the board, one thing we are also seeing is from the agrochemical side a lot of companies talking about revival in growth and inventory levels being lower. And since we are in the value chain of a number of companies, do we think that we should shorten the arm as far as growth is concerned as we move in FY19 and FY20?

Rajendra Gogri Yes in general, the agrochemical demand is showing a little bit pickup, but overall in general it will be always boiling down to specific molecules. So some of our downstream molecules, we are definitely seeing good momentum.

S. Padmanabhan And sir, with respect to commentary on crude prices and rupee dollar I would assume that most of the contracts that we have a pass-on the raw materials. So to that extent the margins might continue to be optically lower but the absolute growth will still continue to be good. In context of rupee dollar, do you think that higher crude prices could be offset by the declining rupee and we should take the benefit of the lower rupee on the topline, this will percolate to the EBITDA?

Rajendra Gogri	Yes basically we being a net exporter, any devaluation in rupee will definitely help us in operating profit. You rightly mentioned as far as crude oil prices, we have all the businesses where we are able to pass on the variations on the crude oil as well as benzene prices to the customers. So we don't expect any impact per se of the crude oil prices. But rupee going down definitely will help us.
S. Padmanabhan	Sure sir. Sir, in terms of the utilization of the new capacities, how do we see the ramp up happening over the next couple of years in the Jhagadia unit?
Rajendra Gogri	Nitro toluene in the next 2 years we should be crossing above 80% I think, last quarter we had 40%. By FY20, we should be able to cross at least 80% of nitro toluene capacity.
S. Padmanabhan	I mean I would assume that at this point of time, the nitro toluene capacity would not yield substantial amount of profit, but at that point of time do you think the operating leverage should drive the incremental margin?
Rajendra Gogri	Yes.
S. Padmanabhan	I mean from an apple to apple, margins would improve. I am just trying to understand that.
Rajendra Gogri	Yes that is what we had mentioned earlier also because the fixed cost will be spread over more quantity, so it will improve the operating margin also on a constant raw material prices from this particular business line.
Moderator	Thank you. The next question is from the line of Surya Patra from Phillip Capital.
Surya Patra	So one query on the specialty chemical business, in the first quarter we have reported revenue growth of 19% against a volume growth of around 9%. So this entire difference of 10% is the price difference or price rise difference what we are seeing. Is it entirely because of the cost push or there is an element of price rise also in certain portion of our portfolio?
Rajendra Gogri	No, the marginal price increase in part, and the other part is basically of raw material cost impact.
Surya Patra	Sir, can you break it up ? How much would be the cost push and how much would be the real price rise?
Rajendra Gogri	I think some price rise at least couple of percent, I do not have an absolute number but definitely around 1% to 2% increase in the pricing are taking place.
Surya Patra	Sir, is it that the Chinese revenue or what scenario that we are currently seeing the price escalation in China, for many of the chemical products, so that should be benefitting whoever is there in China. So since a portion of our business comes from there, so we should be accordingly benefitted in terms of the realization as well as volume. Is that right? Or we are yet to see that benefication?
Rajendra Gogri	No in general for a lot of chemical products, the prices of Chinese material have increased but then ultimately you have to move to specifics. In ours also, we have very broad range of products, and in some of the products, the benefit of this Chinese prices increase will be there.
Surya Patra	And regards the margins for the specialty chemicals business, see last year it was because of the unobserved overheads that was associated with the expansion all

that to some extent has impacted the margin performance, but now this year we should be seeing the operating leverages also and we should be seeing incremental revenue flowing from the downstream product as well as the higher priced product. So what is the sense one should have for the margins?

Rajendra Gogri Yes, definitely there will be a margin improvement in specialty chemical because of the higher capacity utilization.

Surya Patra In regards the demerger and merger restructuring what you have indicated, so what is the timeline and whether this is currently in the discussion levels or what have you decided and if you can say something more on the activities or operations of the Nascent Chemicals, then that would be useful?

Rajendra Gogri Yes, we have actually formed a committee of directors and we are going to appoint the valuer and merchant banker for this activity and once we get the report, we will take up in the board again. And regarding the Nascent Chemicals, actually it's Aarti Industries subsidiary through its 100% subsidiary called Aarti Corporate Services Ltd. So Aarti Industries is holding about 50.49%. It's a relatively small business, but in our integrated value chain, some of the intermediate steps are manufactured in Nascent Chemicals. And some of the products, we have an overlap also. And overall the manufacturing, gross revenue is about 12.4 crore. So they are doing conducting for some of our products. So the joint venture partners have shown willingness for a merger. That's why we are looking at consolidating our position in this product.

Surya Patra So we need to pay anything that has been decided sir?

Rajendra Gogri No, it will not be the direct payout, shares will be given.

Surya Patra And the valuation will be accordingly done?

Rajendra Gogri Yes. It will be given to valuers. So then they will do the analysis but purely looking at the numbers, the entire profit is only 1.6% of Aarti Industries' profit. So the impact of whatever the ultimate valuation comes will be obviously less .

Surya Patra So as per our assessment since the EBITDA, even if the demerger of the personal care business happens and the integration of this happens, then the net-net, the earning should be accretive only because the contribution wise at the net level of the personal care business is insignificant or negative. Is that right?

Rajendra Gogri Yes because last year FY18, the EBIT was hardly about 2.75 crore for home & personal care. So, it is not a very significant impact on EBIT. Actually, it will improve ROC and ROE.

Surya Patra Just one last question on the chloro toluene, what is the timeline that we are planning for setting up the plant and commercializing?

Rajendra Gogri Yes, We have not still fixed up any timeline, but we expect to start construction of the plant in this financial year FY19. So the commissioning will be more in FY21.

Moderator Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital.

S. Vishwanathan With respect to the pharma division, what's the current capacity utilization?

Rashesh Gogri In pharma, current capacity utilization would be around 80%.

S. Vishwanathan Would we spend any CAPEX for pharma either this year or next year?

Rashesh Gogri Yes, we will have some CAPEX, actually we are looking at acquisition of land. So this CAPEX will happen over a period of 1.5-2 years.

S. Vishwanathan You will have to do CAPEX for 10,000 crore order and even 4000 crore order, but leaving that aside, what is the organic CAPEX that has been planned for FY19?

Rajendra Gogri Lot of our other products also, we are planning to do de-bottlenecking and also planning to add some more downstream products other than for these 2 particular contracts as we also mentioned nitro-chlorobenzene capacity utilization is reaching about 92%. So, that also we are going to have progressive de-bottlenecking of nitro-chlorobenzene and some of the downstream also.

S. Vishwanathan So could you please quantify sir? FY19 what sort of a CAPEX?

Rajendra Gogri Yes, annual CAPEX we are looking at about 600 to 700 crore in FY19-FY20.

S. Vishwanathan And other aspect I want to cover was, was there any inventory gain or loss because of the crude movement this quarter.

Rajendra Gogri Yes, it may be around Rs. 5-7 crore gain because of the crude movement.

Moderator Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management.

Chirag Dagli This FY18 you've done 9% volume growth and about 14% gross profit growth. Part of this is product mix improvement? Is that a fair statement?

Rajendra Gogri Yes, product mix and some price increase also is there, so on a combined basis that impact is there.

Chirag Dagli As we look into FY19 when you do 12%-15% kind of volume growth. Would not the gross profit growth be higher than this 12 to 15%?

Rajendra Gogri Yes, we are expecting EBITDA growth will be higher than the volume growth and PAT will be still higher.

Chirag Dagli And in pharma, this quarterly sales run rate has it now stabilized at this level or do you still think on a quarterly basis this could be volatile?

Rashesh Gogri In pharma, this current quarter our gross sales was Rs. 175 crore and I think next couple of quarters we hope to stabilize at this range and then maybe further growth can come towards end of current financial year.

Chirag Dagli So what is the reason for this sharp growth in sales, in pharma?

Rashesh Gogri Yes basically, overall caffeine plant utilization was good and intermediate plant utilization also was good. And overall due to China effect, I think we were able to have reasonable margins with a higher quantity manufactured. So both these effect came into the overall numbers.

Chirag Dagli So there is no one time sale kind of an impact in this quarter?

Rashesh Gogri No.

Chirag Dagli	And sir CAPEX of 600 crore is the annual for FY19 and then in FY20 also you will spend around 600-700 crore?
Rajendra Gogri	Yes.
Chirag Dagli	And this includes the two large projects as well?
Rajendra Gogri	No, it will include only one of the large projects, the second project is going to be funded by the partners.
Moderator	Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs.
Dheeresh Pathak	For the full year how much was the volume growth? I think for the quarter you mentioned 9%. For the full year, how much was the percent?
Rajendra Gogri	7%.
Dheeresh Pathak	So can you just refresh and remind me like, earlier also FY18 when we started, you always guide for like double digit volume growth. So what specifically was the reason, if you can just remind that why volume growth was lower in FY18?
Rajendra Gogri	So that's earlier only we have said it will not be of double digit. It will be more in a single digit because of the new product added. The capacity ramp up was expected to be slower. Our guidance was also below 10%.
Dheeresh Pathak	And this entity which is the subsidiary that you are planning to merge although it's very small, so who are the other shareholders in the JV?
Rajendra Gogri	They are Mashruwala family.
Dheeresh Pathak	Are there other JVs also of such structure where you are buying your starting materials from these said JVs or this is the only JV.
Rajendra Gogri	No, we have another JV where we hold more than 50%, but there, there is no interlinkage like some other products which we buy in the intermediate and again they consume our intermediate and we get the product. So we don't have that kind of a structure. The other JV, they are consumers of some of our other products. But then they make their product and sell in the market. So it is not a big cross linkage in the other JV.
Dheeresh Pathak	And like employee cost growth this year was higher than the gross profit growth and volume growth. So next year we should expect a lower than volume growth because we have been running, you know higher employee costs inflation versus the volume growth for 2 years now.
Rajendra Gogri	No, I don't think there will be any further impact on that.
Dheeresh Pathak	No, my question was like the employee growth, employee expenses year-over-year growth was more than 20% this year while volume growth was 7%, gross profit growth of 15%. So obviously you would have had some new plants where you would have added employees, which is not fully ramped up.
Rajendra Gogri	Yes.

Dheeresh Pathak Nitro Toluene and a couple of others like that. So next year or let's say next 1 or 2 years before the multiyear project, if you leave that aside then employee growth should be lower than volume growth is what we should expect for next year FY19?

Rajendra Gogri Yes it will be up because a new plant also will be started in the next year. So that time there will be further increase on employees. Otherwise, it should remain lower, or maybe more towards the volume growth.

Moderator Thank you. The next question is from the line of Abhijit Akella from IIFL.

Abhijit Akella Sir, on the MTM FOREX loss for the full year, how much would the loss have been?

Chetan Gandhi For the full year the impact would be around 2 crore to 3 crore. It is not something major because in Q3 we had a gain of around 10 crore and Q4 we had a loss and earlier anyways the hedge book was pretty small. So, on an annualized basis it will be a smaller number.

Abhijit Akella And the 10 crore loss in 4Q is that included within any of the segments or does it come under un-allocable or how should we think about that?

Chetan Gandhi No, it would be included in the segment revenues in proportion to the overall export stuff.

Abhijit Akella Segment revenues and segment EBIT?

Chetan Gandhi Yes.

Abhijit Akella And so it is in all the 3 segments, it is not just in …

Chetan Gandhi Yes, it will be largely in specialty and pharma.

Abhijit Akella So, that is probably the main reason for the EBIT's slight decrease that we see in specialty on a Q-o-Q basis.

Chetan Gandhi Yes.

Abhijit Akella And lastly, in terms of the volumes of the key products, I think you mentioned Nitrochlorobenzene volumes. Sorry, I could not catch that if you could repeat that. And also volumes for Hydrogenation.

Chetan Gandhi So, Nitrochlorobenzene volume was 17,800 for Q4 and annually it was 68,800. Hydrogenation volume for this quarter was around 2,200 tonnes per month.

Moderator Thank you. The next question is from the line of Dhruv Bhatia from AUM Advisors.

Dhruv Bhatia Sir, if you look at your sort of CAPEX guidance from FY15 onwards, so at that time you was broadly spending about 200 crore–250 crore on an annual basis, then in FY17 and FY18 it became in the 450 crore range and now we are guiding for 600 crore or plus over the next 2 years FY19 and FY20. Is the incremental asset turnover ratio on the CAPEX that we were spending falling because we are not seeing the same sort of increase in sales and volume growth. Though, I understand there is a crude linkage so that has to be taken out. But has the incremental CAPEX being spent on slightly lower asset turn over type of products which are much more higher in profitability?

Rajendra Gogri One of the new contracts what we have got, the turnover is more or less it is one-on-one ratio Rs.400 crore CAPEX and about Rs.400 crore turnover. It is a very high value added product and some of the other investment also was partly for augmentation related to environment and safety health related issues and replacement CAPEX also. But again it depends on the product mix. So, if it is a high value added like for a new contract, then asset turn ratio becomes lower.

Dhruv Bhatia So, if you were to spend Rs.1,200 crore over the next 2 years for example ,what sort of turnover are you expecting from that product assuming constant crude at current levels?

Rajendra Gogri Yes, it will be more towards around Rs.1,200 to Rs.1,500 crore.

Dhruv Bhatia But will be significantly higher margin I am presuming.

Rajendra Gogri Yes, some of the products margins are higher, so overall margins will be higher.

Dhruv Bhatia And the second question is, that you have always maintained a 1:1 debt equity. This time around it is slightly elevated with Rs.600 crore over the next 2 years where do you expect the debt equity to go to?

Rajendra Gogri Yes, this year one of the reasons was GST. And we are right now not looking at further buyback in this year. And so, we should be coming back to around 1.2 number because in general our idea is to be between 0.8 and 1.2. So, I think we should be coming to that range in 1 or 2 years.

Dhruv Bhatia And the last question sir, is there any other deals of the type of deals that you have struck in the pipeline or for the moment you are done with those kinds of deals?

Rajendra Gogri So, right now we are not in a position to give any comment on that.

Moderator Thank you. The next question is from the line of Rohan Gupta from Edelweiss Securities.

Rohan Gupta Rohan here. Sir, one question is that with this such a huge volatility in crude and currency both in the current scenario, do you see that there will be any sort of short term impact on our profitability?

Rajendra Gogri So, as we said the crude is passed on some of the products it gets passed on month-on-month and some it gets on a quarterly basis. Whereas this sharp devaluation of Rupee will have a mark-to-mark impact I think in first quarter depending on actually what rate it closes on 30th June, so we do not know. But if it closes above 67 then obviously there will be a mark-to-market impact on FOREX. But in long-term, obviously Rupee weakening is a very big plus point for us from second half onwards.

Rohan Gupta So, when you say that it is a very positive it means that the price increase which you will be able to take will be more than the cost increases?

Rajendra Gogri No, some of our business is where we do not have much Indian competition the prices are determined more on US Dollar term.

Rohan Gupta That is the general business where we have our exports will be the particularly benefitted but I am just saying that is there any opportunity with the cost increasing that you see with the changing product basket of the company the price increase which you will be able to take will be more or more or less that only cost increases, cost price pass on.

Rajendra Gogri Yes, generally that is the model of basically cost price, raw material price plus minus passed on to the customer that model still remains in place and then that is very important to have that kind of a structure.

Rohan Gupta And sir, also when whenever you see that such a sharp volatility in crude then generally your customer behavior in that time is to delay the order or like they want to just see that crude is stabilizing at whatever level and then only they will come back to the order? Or these orders are on continuous basis, so there is no any such quarterly impact on our business.

Rajendra Gogri Generally we are dealing very high-volume products. So, we do not see that kind of a movement in customer demand. It will be very insignificant may be 1% or 2% volume where the customer can take some timing advantage. So, almost 98% plus I think will not have any change in the volume impact.

Rohan Gupta And sir also you have mentioned in the current quarterly press release that because of such a high volatility in currency you have entered into further more forward contracts. So, to hedge just medium and long-term exposure, so I think that you have always been doing that is it right, right now that you have increased it further or what percentage of the business is in terms of risk covered or hedged with the currency.

Rajendra Gogri This multiyear perspective we will start in FY18 only. Previously, we used to have only one year, but because of the FY17 and early part of this FY18 the Rupee instead of depreciating, actually appreciated. So, now we have started some strategy to have 2 to 3 years hedge also for our Rupee component.

Rohan Gupta That is mainly you are saying for the long-term projects you have.

Rajendra Gogri Yes.

Rohan Gupta Multiyear contract.

Rajendra Gogri Yes.

Rohan Gupta On a daily basis, on a regular activity business it is not like that you have increased your hedging portion.

Rajendra Gogri No, for yearly basis we had more or less that we were doing ongoing basis.

Rohan Gupta Sir, just last and on the CAPEX side you mentioned roughly 600 crore for FY19 that includes the one part of the long multiyear project, how much mount you are building in debt from the long-term project, I mean multiyear project in CAPEX?

Rajendra Gogri So, multiyear it will be, I think 200 plus we will go in that multiyear contract.

Rohan Gupta Rs. 400 crore will go in the normal CAPEX, I mean on ongoing business?

Rajendra Gogri Yes, normal CAPEX plus other.

Rohan Gupta Ongoing businesses rather I will say.

Rajendra Gogri Ongoing businesses, yes.

Rohan Gupta And the same is for FY20 as well for Rs. 200 crore for multiyear or …

Rajendra Gogri Yes, may be 150-200 that similar range.

Rohan Gupta So, for next two years we are talking about Rs. 800 crore investment on a normal business, I mean ongoing business.

Rajendra Gogri Yes.

Moderator Thank you. The next question is from the line of Abhijit Akella from IIFL.

Abhijit Akella Just one clarification on the Pharma segment. So, the margins this quarter are at 17% at EBIT level. So, should we expect that they would remain at this level in 1H and then may be improve further in 2H as the revenues scale up. How would you think about it?

Rashesh Gogri Yes, overall last year the Pharma EBIT numbers were 14.5% and this quarter we were at 17%. But we hope to be in between we will try to be more towards the 17. We have to see how the year goes.

Abhijit Akella But overall two year timeframe, do you think you can even exceed this 17% as volume scale up?

Rashesh Gogri We are having couple of new blocks which will come online in our intermediate manufacturing plant. And with that we can see some marginal improvement in the EBIT further but that will take couple of years.

Abhijit Akella And in terms of growth for the Pharma segment, obviously first half you said is stable at 4Q level.

Rashesh Gogri So, overall we had 566 crore gross sales for this financial year. We are expecting 25% to 30%, 25% kind of a topline growth in Pharma.

Abhijit Akella And when you give the overall volume guidance of 12%-15% growth that was only for Specialty Chemicals is it, that was excluding Pharma?

Rajendra Gogri Yes.

Moderator Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management.

Chirag Dagli Sir, I am sorry if this has been covered in the past but staff cost that you said last 3 years we spent, the staff cost absolute growth has been in excess of 25% each year. How do you look at this number in the next 2 years with everything in right new plants coming in as well as the existing ones scaling up?

Rajendra Gogri Yes, I think it will be still 15% plus may be between 15% to 20% as we will be doing some R&D activity, also we are expanding. So, and also on the commercial side also as new products are being added. And as the size of the company is increasing, some of the employees at the strategic level also will be increasing. So, in the range of 15% to 20% employee cost will increase.

Chirag Dagli And sir on the R&D that you are going to put this new center, if you can give some color on what businesses this is going to be and what sort of R&D is this? This is for the specialty business or for the pharma business?

Rajendra Gogri Yes, it will be mainly specialty business may be in future we may shift our pharma also here but currently it is going to be mainly for specialty. We are looking at more different value chain also being added and more specialty chemistry and go for more agro toluene kind of activities. So, it will increase our chemistry expertise substantially.

Chirag Dagli And when do you expect this to be operational, sir?

Rajendra Gogri We are looking it in by end of this year.

Chirag Dagli And last question sir, if I may on the working capital side, there has been some increase in the March 2018 balance sheet. Where did you see this going forward? There was some initial, in your initial comment you mentioned something about GST I was not able to actually quantify that numbers. Sir, have you put that number out?

Rajendra Gogri Yes, impact is about Rs. 70 crore because of the GST refund for exports.

Chirag Dagli So, if in the existing working capital we add back 70 crore and that is where the sustainable working capital for the business is?

Rajendra Gogri Yes, we are not seeing any significant change in our debtors and stock levels in terms of number of days.

Chirag Dagli Sir, on an absolute basis there is a 200 crore increase on the net working capital ballpark that kind of a number. Even if I reduce about 70 crore and then the balance is basically the normal business?

Rajendra Gogri Yes.

Moderator Thank you. The next question is from the line of Amish Kanani from J. M. Financial.

Amish Kanani Sir, I just wanted to understand this exclusive supply contract of 10,000 crore. If you can tell us what really because it says we are entering a new chemistry range. What lead the client to choose us as a company giving us upfront 10-year contract as well as some money to be invested? So, if you can just give us our strength what clearly lead that tilt the scale in our favor? And also if you can just also update us on R&D side, how many people now working in the center and what kind of money are we spending as percentage of turnover and stuff like that and in what range are we working, so stuff like that?

Rajendra Gogri Yes, that is because our expertise in variety of chemistry on batch as well as continuous automated plant. That was one of the reasons. Second was our strong financial performance and ability to put up the projects as per our balance sheet and also the safety health environment emphasis on those factors which were one of the most crucial for global multinational that confidence on that particular front was also very important factor in getting that business.

Amish Kanani And is this relationships a new one or it is someone with whom you are working?

Rajendra Gogri No, we had relationship with them for other products but for this particular it is a new product.

Amish Kanani	And about R&D spending and number of headcount and focus area?
Rajendra Gogri	Ours is more on process improvement so, R&D tends to be less than 1% as overall cost. And on chemical we are more towards around 50 that should be 2 to 3 times we are looking at expanding.
Amish Kanani:	Is this possible to give as a timeline about this 10,000 crore contract which we are seeing 2020, so is it a calendar year or what second half of 2020 is something?
Rajendra Gogri	FY21 during the last quarter we should be commissioning.
Moderator	Thank you. The next question is from the line of Saravanan Vishwanathan from Unifi Capital.
S. Vishwanathan	With our focus switching to long-term sustainable contract and we expect more such deals in the current financial year?
Rajendra Gogri	As I mentioned earlier, we have very close relations with so many multinationals. But anything specific more than that, we are not in a position to comment.
S. Vishwanathan	And in terms of user industries which user industry is growing fast? So, we are doing capacity expansion in almost all the segment. So, which user industry is lifting these capacities?
Rajendra Gogri	One is on herbicide and second is speciality chemical. These two are the major volume drivers and some others are import substitute also. So, import substitute will, then that will move towards dyes and pigment color and business. As China is becoming costlier we are seeing more and more downstream production also happening in India.
S. Vishwanathan	In terms of domestic versus exports both are growing to take our incremental capacity?
Rajendra Gogri	Yes, actually we are seeing lot of further increase in chemical manufacturing in India. So, some of the products which are not made in India in past because we started our ethylation facility some more downstream products is coming up in India in a big way. So, those are actually indirect export product what they make substantial portion of that gets exported. So, more value-added activities are starting in India.
S. Vishwanathan	I presume in all these aspects, all this new segment we will be cost leader because we would be the first to introduce in India.
Rajendra Gogri	Yes.
Moderator	Thank you. The next question is from the line of Darshan Sanghvi from Reliance Portfolio Management.
Darshan Sanghvi	My question was regarding the US President speech on our lowering drug prices last week. So, just wanted to understand that how are we placed regarding this matter? So, any short term effects should be we having in the pharmaceutical division and should we avoid this as a news?
Rashesh Gogri	Yes basically we are supplying API and we are not into the formulations and API prices are very competitive anyways. So we do not see any great impact. Already

as you know that US market is already quite competitive in API as well as the formulations. So I do not see much impact.

Darshan Sanghvi The CRAMS as well, so the CRAM players whom we supply to they will not be seeing any disruption?

Rashesh Gogri Yes, the CRAMS overall the percentage is not very significantly high which will have any overall impact on whatever growth projections that we have mentioned during this year.

Darshan Sanghvi So, we can expect the run rate to continue?

Rashesh Gogri Yes.

Moderator The next question is from the line of Rohan Gupta from Edelweiss Securities.

Rohan Gupta Just I know sir it is small business for you home and personal care but any particular reasons sir that the business have not been able to generate money for us or while we see there are other players are probably continuously doing well in that segment. So, just only the lack of focus in the business or there is something which we have to correct in that segment to make it profitable?

Rajendra Gogri Another thing is size wise also we are much smaller in that. So, that kind of gives us disadvantage in our raw material procurement also and sometime the price realization also. That is also one of the reasons. But now we have done lot of investment there also. So, we expect that volume growth and margin growth to happen in that business in this year. And we should be able to sustain itself. But overall it has not been a focus area because say different customer base, different raw material, different chemistries.

Rohan Gupta So, it is roughly 250 crore out of revenue business for us and you said that you have already made some investment. And so, where you see that this business is going in next 3 years, I mean will it attract management bandwidth a lot or on a Rs. 250 crore turnover where you see this business going in next 3 years?

Rajendra Gogri We expect substantial improvement. Current EBIT was only around 2.75 crs, so we also looking at almost reaching around 30 crore EBIT in 3 – 4 years.

Rohan Gupta 30 crore EBIT this business with increase in turnover or mainly driven by margin expansion.

Rajendra Gogri Both.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Rajendra Gogri for his closing comments.

Rajendra Gogri Yes, it has been 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.

- ENDS -

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