Aarti Industries Limited

Q4 FY 2021 Earnings Conference Call Transcript

May 19, 2021

Moderator: Ladies and gentlemen, good day, and welcome to the Aarti Industries Limited Q4 FY 2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Shiv Mattoo from CDR India. Thank you and over to you, sir.

Shiv Mattoo: Thank you, Zaid. Good evening, everyone. Thank you for joining us on Aarti Industries Q4 FY 2021 Earnings Conference Call. We have with us today on this call Mr. Rajendra Gogri – Chairman and Managing Director of the company, Mr. Rashesh Gogri – Vice Chairman and Managing Director, and Mr. Chetan Gandhi – CFO of the company.

Before we begin the call, I would like to point out that some of the statements made in today's call maybe forward-looking in nature. And a disclaimer to this affect has been included in the results presentation shared with you.

I would now like to invite Mr. Rajendra Gogri to take talk about the performance of the company and his outlook on the business. We will then open the forum for Q&A. Over to you, sir.

Rajendra Gogri: Thank you. Good evening and a very warm welcome to all of you attending this call. I hope all of you and your families are in good health and keeping safe. As we speak, the country is passing through a difficult phase and we hope to see the aggressive response instigated by the government, improving the situation in the coming period. I trust that all of you have received the Q4 and financial year 2020-2021 results presentation that has been uploaded on stock exchange website earlier today.

First, a review of our financial performance:

In FY 2021 we have delivered 8.7% growth in revenues. EBITDA has increased marginally to Rs. 982 crore, while profit after tax was lowered by 2.2% than the preceding year. In the context of the prevailing operating circumstances, during one of the most challenging phases we have witnessed so far, we believe we have done an outstanding performance. After the initial impact of the pandemic resulting in the curtailment of industrial activity across the country, we have recouped back on the business in subsequent quarters.

We have improved utilization of existing facility, while also completing and operationalizing new project facilities. This has allowed us to almost match FY 2020 profits in FY 2021 despite an increase in operating costs and fixed expenses from newly commissioned plants that are now selling up to more optimal utilization level. Overall, as indicated previously, Q4 was another quarter for operating improvement which is in line with our expectation in the outlook of stronger and progress you turnaround in the second half of the financial year.

We sustained strong momentum on both operating and financial parameters during Q4 based on improving business visibility. During the quarter, we reported revenue of Rs. 1,347 crore which is higher by 13.2% Y-o-Y. This was driven by strong demand visibility for most of the products recovering to normal pre-COVID volumes. Further gross margins are also bad to pre-COVID levels as higher volumes have been recorded from regular market and established relationships. Also driving the business is the 75% contribution from value-added product which is in line with our strategic direction.

EBITDA expanded by 18.9% Y-o-Y two Rs. 260 crore in Q4. Profit after tax grew by 23.6% to Rs. 136 crore despite the higher operating cost base as well as on increase in fixed cost.

Our Speciality Chemical business grew 14.1% in Q4 to Rs. 1,123 crore. As demand returned from established markets, EBIT margin expanded by 120 basis point to 18.7%. During the quarter, we undertook the annual maintenance shutdown at the asset division at Vapi and an asset revamp-linked maintenance shutdown at Jhagadia. These impacted volumes have resulted in higher cost by about Rs. 12 crore. Also, there was an additional cost attached to incremental depreciation and fixed cost due to commissioning of new units during Q4 FY 2021. While the volume scale for those will come in from FY 2022 onwards. This represents a strong recovery in the second half of FY 2021 bagged by most products hitting pre-COVID volumes.

Now for the Q4 production update:

Production for Nitrochlorobenzene was at 19,100 metric tonnes compared to 14,700 metric tonnes a year back. Similarly, for hydrogenated products we have achieved production of 1,935 tonnes per month compared to 2,315 tonnes per month last year. On the nitro toluene front, the production for Q4 was 2,935 metric tonnes compared to 2,843 metrics tonne in the same quarter last year. We expect to deliver steady performance improvement going forward as new facility delivers scale up in volumes.

Our Pharma business grew by 8.7% Y-o-Y to Rs. 224 crore during Q4. Positive leverage from higher utilization of facility drove volume and resulted in EBIT margin expansion from 17.4% to 21.2%. Business visibility in Pharma is based on higher volume from regulated markets, value-added products and new introduction of intermediate. Overall, the trend of volume expansion and structural made a marginal improvement is sustained. Revenue growth is expected to be maintained at additional capacity for API and intermediates are getting operationalized in the coming quarters.

During Q4, there were some stoppages in pharma operations that were linked to the implementation of sustainability related initiatives. We have had some impact on production and sales turnover during the quarter. Going forward, we have a strong pipeline of approvals that will allow us to further strengthen our position in therapies such as NP hypertension, cardiovascular oncology, and corticosteroid, etc.

Now, I would like to cover our capital expenditure initiative underlying long-term growth prospects. We have incurred CAPEX about Rs. 415 crore in the fourth quarter bringing the aggregate investment for FY 2021 to Rs. 1,300 crore. During H2 FY

2021, we operationalized a new chlorination unit in Jhagadia and Phase-2 unit at Dahej SEZ for agrochemical intermediate.

At present, we have several other capital investment projects in pipeline. This includes;

- Expansion of US FDA capacity currently underway at the API unit located at Tarapur and at the intermediate unit at Vapi.
- Set up of production unit for the second long-term contract at Dahej SEZ, our third long-term contract at Jhagadia and the NCB expansion at Vapi.
- Expansion cum asset upgradtion for our asset unit at Vapi.
- Overall, we are undertaking several expansion asset restoration and sustainability related initiatives across various locations.

This will entail a CAPEX during FY 2022 and FY 2023 of about Rs. 1,500 crore.

Considering the global opportunities available, we have invested in to setting up a state-of-art Research & Technology Centre in Navi Mumbai. The center was operationalized in March 2020 and has been driving by innovation for us to be able to cater to these opportunities. Over the last two, three years we are focused on enhancing our internal talent pool by onboarding experienced professionals at various business functions across the company, and also creating a bench strength to cater to growth initiatives.

Driven by R&D and innovation, the company is embarking into the journey of expanding its product portfolio. And we will come in to implement growth projects over FY 2022, FY 2024, entailing CAPEX of Rs. 3,000 crore to Rs. 3,500 crore. These include a range of product to be introduced in nitro toluene value chain, other value-added products and Speciality chemical products, additional custom manufacturing opportunity being explored, setting up you UMPPs, that is universal multi-purpose product plant, expansion of existing pharma products and introduction of new pharma API and intermediates.

This will lead to addition of new chemistries for value-added products with an objective to launch 40-plus products for chemicals and 50-plus products for pharma, driving growth beyond FY 2025. Substantial part of the product's chemistry being introduced for the first time in India. This will strengthen India's position as a key global supplier. This product would cater to wide range of end use applications such as pharmaceutical, agrochemical, polymers, pigments, rubber chemical, etc. And have an EBITDA margin of about 25% to 30%. We are also actively pursuing additional manufacturing outsourcing opportunities and strategic alliance.

Coming back to the current year:

To reward shareholders for their continued support we announced the issue of bonus shares in the ratio of 1:1 and a final dividend of Rs. 3 per share on a pre-bonus basis. While on ex-bonus basis would be about Rs. 1.5 per share. The Board had further cleared a fundraise proposal of up to Rs. 1,500 crore to support and strengthen balance sheet.

Driving forward on the strong momentum in the business, we are now well placed to able to hit high growth phase in FY 2022. We expect to be able to register top-line and bottom-line growth of about 25% to 35% in FY 2022. Excluding the one-time compensation for termination of contract accruing at the end of FY 2022. We are on track to maintain our long-term growth momentum as guided earlier.

Based on these initiatives, the near-term horizon till FY 2024 we expect 1.7x to 2x growth based on combined benefit of our initiative with stable margins and profits. In the longer-term horizon, till FY 2027 we expect revenue to rise by 2.5x to 3.5x for FY 2021 with expansion in margins and strong leverage in profit. With the exploration of our planned growth objectives, we look forward to driving stronger value for all stakeholders associated with Aarti Industries.

With that, I conclude my opening comments and we will open the floor for the Q&A session. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Congrats on the Ecovadis medal for sustainability, as well ISO 27,000 for R&D. Sir, my first question is in terms of the investments that we have done on the sustainability and VHS side. So, I understand over the last five, six years, we have invested close to about Rs. 300-plus crore kind of money on this. So, how do you expect that this has helped us in the last few years? And how will it help us in terms of future growth? Thank you.

Rajendra Gogri: I think that's a really good question. I think chemical industry, one of the key factors for India to grow in this will be on focus on safety and environmental SSG. And our trunk focus by Aarti Industries in last few years, actually is one of the key reasons for getting these three contracts, long-term contracts which we could get. We could demonstrate that our infrastructure as well as our practices are meeting the customer's requirements. And that definitely gives you a higher volume share as well as in some places higher margins because of this sustainability of related automation or zero liquid discharge and effort to minimize the exposure.

Rohit Nagraj: Understood. Sir, the second question is in terms of the next leg of CAPEX, which is almost close to about Rs. 5,000 crore. So, what provides just visibility from our investment perspective? Now, earlier we had the visibility that we had these long-term contracts based on which the CAPEX program was planned. Now, what is the underlying based on which we believe that we will be going ahead with such a massive expansion plan? Thank you.

Rajendra Gogri: Generally, I think we have been guiding that selection of products are based on three factors, one is the import substitution, second is where there is a global growth, and third, where in China plus one strategy we can be the only first or second Indian source. So, based on that, we have selected the product lines. As mentioned in my speech that a lot of them wouldn't be the first-time made in India and some of the chemistry. Like cholortoluene, there is no cholortoluene in manufacturing in India itself, and even the first chemistry like ammoxidation and photochlorination of the PCB is not done in India. And similarly, a lot of other Speciality chemicals, we will be only one from India to manufacture. So, that gives us a very strong visibility and we have a very strong customer base in India as well as across the board in various end use sectors, I would say agro chemical or engineering polymer on ice and pigment. So, that gives us a very good confidence about the volumes.

Moderator: Thank you. Next question is from the line of Ritesh Gupta from Kotak Securities. Please go ahead.

Ritesh Gupta: Just was curious that on couple of products you have seen a volume decline on a Y-o-Y basis, what is the reason for that?

Rajendra Gogri: As I mentioned that we had taken a shutdown in Jhagadia during this quarter. So, PDA and NT, those products are made in Jhagadia facilities which has resulted in the reduction in volume.

Ritesh Gupta: Understood. And sir, just on the long-term CAPEX side. I mean, what is it that you incrementally see? So, I know that you alluded to the China plus one and all that, but let's say for example even in last two, three years we have invested a lot of money. And since the last QIP we have been aggressively investing as well. But honestly, the earnings for last two years have been pretty flattish. I understand there are cyclical reasons for the same, but what gives you the confidence that, let's say, in terms of realization and in terms of IRR etc., things may continue to remain or probably will improve from here on and it can support the kind of, let's say, 4x growth that you are targeting within next six, seven years?

Rajendra Gogri: In this FY 2021, I think COVID was a major impact, which led to a decrease in volumes and also supply of the material to a non-regular market as lower margins. Going forward, we expect that the demand has now reached pre-COVID levels and with our new capacities, we should be able to increase our volume substantially. So, current year we are guiding 25% to 35% top-line, and similar volume growth in Speciality chemical and also pharma also nearing that level. And subsequent two years also with further commercialization of NCB and all, so that 1.7x guidance by FY 24 will be based on our most of the existing product lines.

Ritesh Gupta: Got it. And just on the CAPEX beyond 2024, I mean, what are the new things that you are targeting? I mean, is it like the application areas which are completely new for you? Or these are largely the downstream derivatives of what you are already doing? How you are looking at things, let's say, beyond 2024, I mean, what are the key target areas there?

Rajendra Gogri: One is the introduction of a new value chain, chlorotoluene. So, chlorotoluene, then there are host of downstream chemistry going into that, that is photochlorination, oxidation, hydrolysis, bromination**,** Balz-Schiemann Reaction, HG Fluorination. So, host of chemistry in that entire value chain. And for our normal Nitrochlorobenzene, Dichlorobenzene and nitrotoluene, also the downstream products are being added with newer chemistries. So, we will be first time also introducing **(Inaudible) 17.35** in India, that is also like an 100% import at present, and also has an export potential. So, one new value chain, and our existing business lines have more and more value-added products. And somewhere it will be even a custom manufacturing kind of a product where the raw materials can be supplied by the customer, because we take it from some party and then add the value. So, that is a overall scenario.

And on end use side, one question was on end use side. So, the end use of this will be in the same side, agro-chemical, pharmaceutical, polymers, dyes, pigment, rubber chemicals. So, the customer base is going to be very, very similar. So, that's a very big advantage that, that gives us a very good volume visibility from market point of view. It will be very similar customers where this product will be going.

Ritesh Gupta: Just last one if you can squeeze in. I mean, on the take-or-pay contract that you had and where the customer has kind of led to unfortunately cancel the order. I mean, you have written you have almost got the money back, so why there is almost, I mean, whatever money that was supposed to be received in full, so have you received the entire amount or is there something which is there which we need to know?

Rajendra Gogri: No, for first year that's what we have written almost means, we have already raised the invoice we will be getting the payment in next few days, for the first year money. And substantial portion is going to come in FY 2022 for those compensation. FY 2021 invoice has been raised and we should be getting the final instalment payment shortly.

Moderator: Thank you very much. The next question is from the line of Naushad Chaudhary from Systematix Shares. Please go ahead.

Naushad Chaudhary: A couple of questions. First, I wanted to understand on our chloronitrotoluene project, if I recollect it correctly, we started the construction of this project in FY 2020 and it was expected to complete in mid over FY 2022. So, what is the status of this project and how much CAPEX have we deployed so far in this? And when can we expect this project to be operational?

Rajendra Gogri: Yes. The first phase will get commissioned in first half of FY 2022. And the second phase actually has been delayed because of certain equipment related issues. So, that will be commissioned in FY 2023 for Nitrochlorobenzene expansion.

Naushad Chaudhary: How much capital have we deployed in Phase-1?

Rajendra Gogri: Currently around I think Rs. 60 crore to Rs. 70 crore has been spent.

Naushad Chaudhary: Okay. If I recall it correctly, it was expected to have around Rs. 400 crore to Rs. 800 crore of CAPEX in overall this project, so isn't Rs. 60 crore to Rs. 70 crore very small against the proposed CAPEX amount?

Rajendra Gogri: Then there is some confusion. I was talking about Nitrochlorobenzene which was a total Rs. 150 crore, whereas you are referring to chlorobenzene, so that main chlorination plant has been commissioned. The hydrogenation portion was commissioned in FY 2021. And this first contract which is also part of the chloro-benzene chain has been also commissioned in FY 2021.

Naushad Chaudhary: I am referring to chloronitrotoluene for which we had a proposed capacity of 42,000 tonnes, and for 2 chloro 4 nitro toluene for which we had a proposed capacity of 64,000 tonnes, which was expected at Dahej GIDC with a total CAPEX of around Rs. 800 crore to Rs. 1000 crore.

Rajendra Gogri: Yes. So, that project, as already mentioned, that was part of the long-term contract, that has been commissioned in Dahej. And a precursor to that, the chlorination plant and Jhagadia also has been commissioned.

Naushad Chaudhary: Okay. Second clarification on the Tax paid part, as per cash flow statement, in this financial year we have paid around Rs. 96 crore of tax versus as per P&L it is Rs. 163 crore of tax. There is a huge difference between these two. So, if you can give clarity on this part.

Chetan Gandhi: The P&L doesn't have a tax of Rs. 156 crore. I would request you to just reconsider the numbers.

Naushad Chaudhary: Sir, the full year I am talking about.

Chetan Gandhi: Yes, I am talking about the full year only.

Naushad Chaudhary: Sorry, so for the full year we have Rs. 130 crore in P&L versus in cash flow we have around Rs. 96 crore only, so there is a gap of Rs. 30 crore to Rs. 35 crore I guess.

Chetan Gandhi: No, the thing is that you will have to consider the deferred tax of around Rs. 23-odd crore, and there is a MAT credit also available. So, that's why the gap is. So, major chunk is the deferred tax of Rs. 24 crore.

Naushad Chaudhary: Okay. Lastly, I missed on the volume part, can you repeat the PDA and nitro toluene volume for this quarter?

Rajendra Gogri: The PDA volumes were roughly around 970 tonnes a month, and nitrotoluene for the quarter it was 2,935 tonnes.

Moderator: Thank you. Next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Sir, in fact, the guidance what you have provided, long-term guidance, I think it really looks interesting and it is having seen a kind of 11%, 12% kind of growth CAGR over last five year period, now we are guiding about 30% kind of CAGR on the revenue side. And similar on the earnings side also. So, this really looks very strong, but can you just give some more clarity about it, whether the growth momentum would be largely back ended or if you can just provide some more colour to this, what would drive these and how would that be achieved?

Because one more aspect that I see, when you are saying that revenue growth is 30% CAGR and you are talking about the margins could be in the range of 25% to 30%, then from the current level of 21%, 22% I think the earnings growth can be really 40% - 45% CAGR or beyond. So, what is the kind of gap that I am finding in terms of earning growth CAGR, if I can clarify please?

Rajendra Gogri: Yes. FY 2027 we have said about 2.5x to 3.5x on sale and 3x to 4x on EBIT and PAT level because new products will have a higher EBITDA margin. So, EBIT and PAT growth will be higher than the turnover. Then as far as the volumes is concerned, there is a lot of import substitution as well as demand from India and some of the products there is a good growth on engineering polymers and chemicals. So, these are the key volume drivers, like there is expansion from some of the customers in India of agrochemicals and all, they are expanding and on back of that our volumes also will be increasing.

Surya Patra: I was largely mainly referring to the FY 2020 for growth guidance. So, kind of 2x both on the revenue front as well as earnings front that we are talking.

Rajendra Gogri: In the current year there is that one-time shortfall fee is there where there is no turnover. So, now the turnover is added so that's why a little bit mismatch is coming.

Surya Patra: And now on the dicamba front, that facility was there ready, so whether we have started seeing any kind of incremental business out of it? Because possibly, we are the most integrated player for that intermediate. And with the business now remaining as it is, with the kind of reversal of the US court order, did you see any kind of incremental business or are you getting ready to have any incremental business out of that?

Rajendra Gogri: Yes. Actually, overall, in dicamba the situation is improving as compared to the last year. And we say that this new plant volumes will start getting ramped up over the next two, three years period. And we will be able to supply this product to other customers.

Surya Patra: Okay. So, is it the validation thing which is taking time or what is it for this?

Rajendra Gogri: It's the global demand, which was impacted, so right now whatever is the inventory in pipeline, is getting consumed. But now, general feedback currently is that from next year onwards the dicamba overall demand will increase, and correspondingly we will be able to supply the intermediate.

Surya Patra: Okay, just last question from my side. So, in your long-term growth triggers that you have mentioned, you are setting up a dedicated toll manufacturing plant for customers and also indicated about high growth sectors that you are now adding. So, if you can just clarify on these two factors, whether in your CAPEX plan you have already factored any kind of incremental supply projects apart from already known project? Or in the new growth area if we can just elaborate a bit.

Rajendra Gogri: Yes, in chemical segment we never had UMPP kind of plant where you can add any chemistry and product can be introduced fast. The first timer will be having those UMPP type facilitators will be designed to take different product with different chemistry. So, this will help us for our regular multi-customer product also, and also for contract manufacturing on one-on-one, that entire commercialization cycle will become much faster once we have the UMPP on ground. They will be used for multi-customer as well as for single customer tooling. This will be a very good plus point going forward in next few years, that in UMPP facility you can commercialize things much faster.

Surya Patra: Okay. This is pre or beyond FY 2023, 2024 like that?

Rajendra Gogri: Yes. There is a lot of appetite but currently we don't have plants available.

Surya Patra: Correct, multi-purpose plant is not there.

Rajendra Gogri: Yes. Once we have couple of these UMPP plants on the ground, a lot of things we will be able to capitalize, because the customer wants material from us, because we are totally backward integrated, and customer wants supplies independent of China. And so there is no appetite from us, if the customer wants a product of $60, $70 also. So, once you have this kind of facility that will really drive the growth in the second half of this decade.

Moderator: Thank you very much. Next question is from the line of Manish Jain from Gormal One. Pease go ahead.

Manish Jain: Congratulations on very aggressive plans for the next five, six years. My first question is on, the world is moving towards carbon neutrality. So, what are the decarbonization plans that you are building in your business? And off the Rs. 5,000 crore CAPEX that you are talking about, is there any allocation to decarbonization?

Rajendra Gogri: Yes. Actually, now we have decided that all our projects sites will have a proper solar energy also, and we already have cogeneration plants, so steam generation also will ever more cogeneration plants. And also sourcing power from green energy, that will be another area on this carbon footprint point of view. So, our effort will be everywhere for decreasing the energy consumption and water consumption. And our threshold for even capital investment for energy saving devices, we have kept lower than a normal CAPEX, both on power sourcing and solar energy as well as cogeneration, these will be the three main things. And also, in our operations wherever we are able to recover energy, that will be a strategy.

Manish Jain: So, do you have any fixed plans or timelines by when you expect to become carbon neutral?

Rajendra Gogri: Actually, a lot of things will happen with our customer collaboration, because we are N-1, N-2 to a lot of global customers. So, a lot of this strategy will combine with their strategy, in that sense where we can use more of a natural gas compared to coal as energy source in that sense. But we are intermediate players, we cannot become carbon neutral in that sense.

Manish Jain: Sure. And my last question was on asset turnover. Given that the CAPEX that we are incurring, what's to come thumb rule asset turnover incrementally that we can assume on the CAPEX being incurred over the three years?

Rajendra Gogri: We are looking at turnover to CAPEX in the range of 1 to 1.5 for this value-added products. That will be the range. So, if you take middle around 1.25 kind of a thing. That generally depends on the value addition, so that's why this range comes. But here we are going to have more value-added products in our expansion. So, asset turnover will be little less.

Manish Jain: Excellent. And congrats once again on phenomenal execution and consistent growth opportunities in your business.

Moderator: Thank you very much. Next question is from the line of Chetan Thakkar from ASK Investment Managers. Please go ahead.

Chetan Thakkar: Sir, just two questions, one was in the guidance. Just wanted to understand, so the guidance, we should not build in the short fall fee that has come in the base or it's on top of that shortfall fee, but excluding the shortfall fee for FY 2022?

Rajendra Gogri: No, this will be based on including shortfall fee.

Chetan Thakkar: So, even for FY 2022, but your guidance does not include the balance settlement that will happen, right, that is a fair understanding in the guidance?

Rajendra Gogri: Yes, that is for the future period. So, that is not included. Whatever is pertaining to FY 2022 is included.

Chetan Thakkar: Okay, understood. And the second was, I just missed the volume on hydrogenation and NCB, if you could share that number please.

Chetan Gandhi: NCB was 19,100 and hydrogenation was 1,935 per month.

Moderator: Thank you. Next question is from the line of Arun Prasad from Spark Capital. Please go ahead.

Arun Prasad: Sir, again, one clarification on the guidance. What you are saying is, by FY 2024 the turnover over FY 2021, the growth could be around 2x. So, basically the Rs. 5,000 crore turnover could become Rs. 10,000 crore. And the incremental CAPEX, that is including the CV which is currently at Rs. 1,500 crore, and another Rs. 1,500 crore

CAPEX that you are proposing for 2022 and 2023, so the incremental CAPEX is around Rs. 3,000 crore and incremental turnover is Rs. 5,000 crore. So, are we saying the incremental asset turns is going to be 1.6x? Is it what are the calculation?

Rajendra Gogri: Basically, by FY 2024 we will be Rs. 9,000 crore to Rs. 10,000 crore on a sales basis. And that will be compared to whatever has been capitalized in the FY 2021, 2020 also, and in the future also, next two years, so that will be reflecting the turnover of that. And from FY 2024 to FY 2027, that growth will be from that newer expansion of Rs. 3,000 crore to Rs. 3,500 crore, and some more capacity utilization of the earlier CAPEX, that's how it will be.

Arun Prasad: Specifically, between 2021 and 2024, the Rs. 5,000 crore increase is only coming from the Rs. 3,000 crore incremental CAPEX or is it something else?

Rajendra Gogri: No, the incremental CAPEX is going to be executed between FY 2022 to FY 2024, next three years. So, the turnover from that will actually start coming in mainly from FY 2025 onwards.

Arun Prasad: So, basically this incremental revenue from 2021 to 2024, that will be delivered over the existing assets?

Rajendra Gogri: Yes, existing whatever has been capitalized now, and what will be further capitalized in next year, that will be driving this turnover growth from FY 2021 to FY 2024. Whereas additional Rs. 3,000 crore to Rs. 3,500 crore what we are saying which will be for the newer products, that will drive the turnover mainly from FY 2025 onwards.

Arun Prasad: Because this turns out to be a little bit in higher asset turns, because as it generally happens, more high value-added products usually results in high margins but at lower turnovers. When you are about increase your high value products, this turnover from the incremental capitalization, I just want to get it right that this is the right number.

Rajendra Gogri: I will explain. FY 2024 to 2027 if you see, our turnover guidance is less than the EBIT and PAT guidance is more, if you take from 2024 to 2027 as a base. That is where the asset turnover will be less.

Arun Prasad: Okay, all right. So, my second question is on the reason we see that the composition of the high value products has been decreasing in the last two quarters. Is there any specific reason related to demand, you are seeing more and more PD, CDs in the base products getting exported, less of the hydrogenation products and ammonolysis products, is there any reason specifically, is it an aberration or still the demand has not come back from the export markets?

Rajendra Gogri: This quarter we had this shutdown in Jhagadia, where actually the value-added products are made, of Chloroaniline and PDAs. So, that was the reason. But in general, these value-added products share will continue to grow.

Moderator: Thank you very much. The next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: Sir, my question is on your photochlorination, and definitely you have competency in photochlorination and then ammonization, hydrolysis and other chemistry, then definitely you will make the derivatives on this photochlorination. So, I need to understand what is the market size globally for those derivatives and photochlorination chemicals currently? And at what growth rate the demand is growing for these products?

Rajendra Gogri: Yes. Actually, they are mainly growing in pharma and agro. Even your statins has ammoxidation. And then basically, ultimately a lot of them end up in fluorinated compounds, going into agro and pharma. There's quite a bit of this growing demand.

Nilesh Ghuge: And sir, what is the current market size?

Rajendra Gogri: Individual product wise will be difficult to have that number. Overall chloro toluene we are looking at Rs. 1,500 crore to Rs. 2,000 crore sales in the entire value chain.

Nilesh Ghuge: Okay. And that will be your target between this FY 2025 to 2027, right, is my understanding correct?

Rajendra Gogri: Yes.

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

Rohan Gupta: Sir, first question is on our investment, the CAPEX which we have already done in last couple of years, almost Rs. 2,500 crore plus has been spent. But we have seen that definitely our EBITDA has been flattish in last three years. Generally, we see gestation period ranges from almost 18 months to 24 months in most of the companies, but in our case it seems a bit longer. Is there any possible reason for that? And why we have seen that this CAPEX getting converted into EBITDA or revenue has taken longer than the industry average?

Rajendra Gogri: So, last year, FY 2021 was impacted by the COVID, that was one of the reasons. So, that's why this year onwards we see a sizable volume growth and we are guiding almost 30% this year, and next three years almost we will become another 30%, 40% volume growth.

Rohan Gupta: But sir, even 50% to 60% of the industry which we cater to, agro and pharma has done phenomenally well even in the current year. So, that kind of growth number is also not getting reflected in the current year numbers, and the overall performance has been muted. Just wanted to understand a little bit more, is it something that some of the projects have just got completed and have taken a longer time in completion and the impact in 2022 numbers can be much sharper than what we are projecting?

Rajendra Gogri: Yes, basically, again, depending on how the ramp up and everything takes place, in this year. So, broadly, we are looking at around 25% to 35%, that is our current estimate for FY 2022.

Rohan Gupta: And the similar number would be for FY 2023 as well because the money has already been spent on the CAPEX, right?

Rajendra Gogri: Yes. So, basically from FY 2020 to FY 2024 we are looking at you know 1.7- 2. So, that will be the kind of thing which will happen between the two. So, over three years this will be almost doubling in three years.

Rohan Gupta: And sir, just one on the extension of the previous participant question only. So, even you have given in your presentation that you look at improving EBITDA margins to almost 25% to 30%, which is given between 2022 to 2024, not beyond 2024 and

2027. So, this margin expansion which you are talking about is only possible after 2024, not in a current scenario where we are adding EBITDA margin of 22% right now will increase to 300 to 400 basis points in next few years or there will be no expansion in margins?

Rajendra Gogri: That growth will happen more from 2024 to 2027, because they are much more value-added. In chlorotoluene we will not be selling virtually nothing, no OCD, BCD will be sold. Whereas here we sell a lot of PNCB and PDCB, so it is substantially value-added. And also, further downstream products on Nitrochlorobenzene, chloro benzene, we are adding more value-added products. So, this jump of EBITDA as a percentage will more happen in that 2024 to 2027 period.

Rohan Gupta: Okay. And just last question, sir. Sir, on the Bayer and our money which was supposed to come, just to reiterate and the brushing it up, you mentioned that $5 million or $20 million dollar will come in FY 2022, and balance $80 million will come at the end of FY 2022. So, that contrasts and the cash flows remain intact for FY 2022 and we should be expecting by end of FY 2022 we will get another $80 million or any changes there?

Rajendra Gogri: No, that is maintained.

Rohan Gupta: So, by end of FY 2022, I mean, this year we may get $80 million dollars again, right?

Rajendra Gogri: Yes. But that has not been taken into the guidance.

Rohan Gupta: Yes, that shows. And just only the last thing, any changes or any further development on the product or intermediate which you were making for the dicamba, any further plan on that that was we plan to go ahead, what do you plan to do with this existing plant?

Rajendra Gogri: No, we will be able to market the product. That's what I think in previously I think one of the question I had disused, and that plant also we expect to reach maybe 70%, 80% capacity by FY 2024.

Rohan Gupta: So, this revenue guidance includes that plant utilization also, right?

Rajendra Gogri: Yes.

Moderator: Thank you. Next question is from the line of Amar Maurya from AlphaAccurate Advisors. Please go ahead.

Amar Maurya: A couple of things. Number one, the capitalization which we have done in this year is around Rs. 1,100 crore. So, can you tell us what would be the capitalization where this CAPEX would be capitalized?

Chetan Gandhi: Rs. 450 crore is for that Dahej SEZ, then chlorination plant at Jhagadia is around Rs. 250 crore, and then we also purchased some land in Gujarat, and in pharmaceutical segment also and R&D centers. So, that will be another around maybe Rs. 150 crore. And another will be maintenance CAPEX and some further Speciality chemicals. So, that will be the broad bifurcation.

Amar Maurya: And sir, this Rs. 1,200 crore of WIP which we see here, basically what would be the breakup of this?

Chetan Gandhi: The breakup of that would be projects which are under execution, the expansion of Nitrochlorobenzene capacity, the scale or expansion on the US FDA pharma facility, the capacity which is coming up for the second and third long-term contract. So, these are the major ones. There has been a phase for acid division expansion and revamp so that is also there. But these are not the major ones.

Amar Maurya: So, for Nitrochlorobenzene or toluene?

Chetan Gandhi: Benzene.

Amar Maurya: So, NCB capacity, if I am not wrong, it has already increased, right, we have already increased the NCB capacity?

Chetan Gandhi: There were two phases, NCB capacity thing is that we enhanced it from 57,000 tonnes to 75,000 tonnes. A year back we started the journey of enhancing it or expanding it further from 75,000 tonnes to 108,000 tonnes. So, that particular expansion from 75,000 tonnes to 180,000 tonnes is underway.

Amar Maurya: Okay, so that will happen in 2022?

Chetan Gandhi: It will happen in 2022, as Mr. Gogri said sometime back in the call that there are some equipments which have been delayed, so part of it might get spilled over to next year.

Amar Maurya: And sir, just for clarification, you said NCB will expand from 75,000 tonnes to 180,000 tonnes, and chlorination we were expanding from 110,000 tonnes to 175,000 tonnes, right? So, that is also the part of the CAPEX?

Rajendra Gogri: That is completed, it is already commissioned and operationalizing in FY 2021.

Amar Maurya: Okay, so that is operationalized, NCB got delayed and that will happen in 2022 partially and 2023 partially, right?

Rajendra Gogri: NCB are anyway scheduled for FY 2022.

Amar Maurya: Okay. And these two projects of the 2-nitro toluene and 4-nitro toluene, what would be the CAPEX of that would be penciled in in this Rs. 1,200 crore?

Rajendra Gogri: No, there is no 2-nitro toluene, 4-nitro toluene.

Amar Maurya: Sir, 6-chloro 2-nitro toluene and 2-chloro 4-nitro toluene, these were the two CAPEXs, right?

Rajendra Gogri: No, no. From where that name is coming, I don’t know.

Amar Maurya: So, the toluene CAPEX, the expansion in toluene.

Chetan Gandhi: That chlorotoluene change that’s going to come up, as a part of the future strategy it may, I am not sure whether this will have that names or not.

Rajendra Gogri: So, this Rs. 1,200 crore includes only benzene, US FDA, the long-term second and third contract, right?

Chetan Gandhi: Yes.

Rajendra Gogri: And some other Speciality intermediate revamp and expansion.

Amar Maurya: And sir, the second and third long-term contract, when the plant will be commissioned for that?

Rajendra Gogri: The second one will happen in, we are targeting to complete in first half, but depending on the COVID it might go to Q3. And the third contract will be in the second half of this year, FY 2022.

Amar Maurya: And lastly on the CAPEX, we indicated that we already have done Rs. 1,400 crore of CAPEX in financial year 2021, and we intend to do Rs. 1,500 crore kind of CAPEX in financial year 2022 to 2023, correct?

Rajendra Gogri: Yes.

Amar Maurya: And then remaining going further expansion of that Rs. 5000 crore, so out of that around Rs. 1,700 crore kind of a CAPEX will be also done in 2024, correct?

Rajendra Gogri: So, that is a separate Rs. 3,000 crore to Rs. 3,500 crore which will happen over this three-year period, that will be for the newer product range.

Amar Maurya: So, meaning that Rs. 9,000 crore or Rs. 10,000 crore target of revenue which we are targeting is largely based on the current gross block of Rs. 3,500 crore plus the WIP of Rs. 1,200 crore and the CAPEX of around Rs. 1,500 crore which we are going to do by financials 2023. Is that a fair assumption?

Rajendra Gogri: Yes.

Amar Maurya: So, then basically you are targeting around something around 1.4 to 1.6 kind of a turnover ratio, that is the math, right?

Rajendra Gogri: Yes, I think you have done that calculation, so that must be correct.

Amar Maurya: Perfect. And then the Rs. 5,000 crore additional which we are targeting is largely in what kind of chemistry then?

Rajendra Gogri: Yes, it will be Rs. 3,500 crore, Rs. 1, 500 crore is counted in this one. So, that chemistry basically will be, one is a base chlorination, then ammoxidation, photochlorination, then HF fluorination, there is a Balz-Schiemann Reaction, Sandmeyer Reaction, bromination, there's a host of new chemistries, which we will be getting into.

Moderator: Thank you. Next question is from the line of Atul Bhole from TSP Investment Managers. Please go ahead.

Atul Bhole: Sir, my question is about the fund raise which you have announced. So, have you decided the kind of instrument you will use for the fund raise?

Rajendra Gogri: Not yet.

Atul Bhole: Okay. So, it may not be 100% equity, so it can be a partial of equity and debt or debt only?

Rajendra Gogri: Yes, only the resolution right now is passed, then we will be studying what should be the combination and what should be the instrument.

Moderator: Thank you. Next question is from the line of Aditya Khaitan from East India Securities. Please go ahead

Aditya Khaitan: Sir, my first question, in this quarter, both the Speciality chemicals and the pharmaceutical business has taken a shutdown. So, what could be the increase in the fixed costs which has been taken in this quarter, cumulatively?

Rajendra Gogri: Chemical about Rs. 12 crore were the expenses because of that, and pharma maybe another Rs. 2 crore, Rs. 3 crore.

Aditya Khaitan: So, Rs. 15 crore increase in the fixed cost, okay. Sir, my second question, as this has been all already asked by an earlier participant, sir the $20 million cash flow has been received or you are yet to receive that money?

Rajendra Gogri: No, $15 million has been received.

Aditya Khaitan: Okay, $15 million has been received as cash flow for the whole year?

Rajendra Gogri: Yes.

Aditya Khaitan: Okay. And the third question again, so on the CAPEX side. So, this Rs. 5,000 crore CAPEX, Rs. 1,500 crore we are targeting from the raising of funds, almost Rs. 2,000 crore would be from the cash flow which the company is generating and remaining would be from the debt. So, is this a fair math?

Rajendra Gogri: Yes, there will be some debt element also, and we will be getting the shortfall on this fee also, so part of that will be debt.

Aditya Khaitan: Okay. And just one last question from my side, on the pharma business so sequentially there has been a dip in the margins by 259 basis points. So, what is the reason for this?

Chetan Gandhi: No, in the current quarter we had this shutdown. And also, it depends on the product mix that ultimately comes out every quarter. This quarter, we had few products which were having less margin that came out in the production, because we run a multipurpose plant.

Aditya Khaitan: Is it because of less demand or something or both could be the reason for it?

Chetan Gandhi: Yes, see, we are operating a facility where we manufacture 48 products, API's and almost another 50 intermediates, so we manufacture close to 100 products, depending on the demand of the products and time to time we have to maintain the position of products. So, quarter-to-quarter there could be such variations, which can result in Rs. 5 crore to Rs. 7 crore up and down in EBIT number.

Aditya Khaitan: And just one more question, sir, any call has been taken on the pharmaceutical demerger part?

Rajendra Gogri: I think the committee is examining, we have formed a committee which is examining all the options, and they will take call in due course of time.

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

Bobby Jairam: You have given a forecast for revenue quite far out and the same for profit, but for revenues you need the RM prices, right, you need to forecast the oil prices too. And for profit, you need to know the prices of your intermediate. So, how are you so confident of those things that follow?

Rajendra Gogri: You rightly mentioned on oil, so that will be constant raw material prices, generally, its revenue guidance. If there is a change in the crude prices, which increases benzene or toluene prices or decreases the prices, that will impact the top-line. But our basic business model is a raw material costs pass through model, so it doesn't inspect the absolute EBITDA, it is that top line might change if the benzene is at Rs. 50 Rs. or Rs. 150, the EBITDA doesn't change much, it is the top-line which changes. So, this is when we are giving the top-line guidance, It is based on that the raw material prices which are oil-linked, more or less remain same. So, EBITDA guidance will be more or less in maintained, but the top-line all depends on oil prices or sulfur prices.

Bobby Jairam: Are you basing the top-line guidance on today's oil prices?

Rajendra Gogri: That will be based on the current prices for benzene.

Bobby Jairam: Okay. The oil prices decrease by half, your revenue will go down by half?

Rajendra Gogri: Yes, linked to that, depending on our benzene consumption and toluene consumption. So, whatever will be the impact, that corresponding impact will come.

Bobby Jairam: Okay. The more important, your EBITDA numbers, a lot of the prices today have been very much influenced by China and the pandemic issues. Going far out 2024 or 2025, 2027, all those factors would pretty much stabilize. So, how do you know what the prices would be for the intermediates?

Rajendra Gogri: So, that is basically we have taken what are the prices under normal circumstances and like some inflation increase in that, so that has been taken into account.

Bobby Jairam: You based on conservative basis, right?

Rajendra Gogri: Yes. Sometimes a lot of time you get a one-time increase, but in overall our guidance, that has been removed and that is based on an normal market circumstances, what are the typical margins, that has been taken.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Emkay Global. Please go ahead.

Harsh Bhatia: I just had a couple of bookkeeping questions. Firstly, on the other non-current liabilities, over the year FY 2021 it has decreased from Rs. 550 crore to Rs. 220 crore approx. So, as I understand it, the last part of this is the advances from customers which have long-term contracts. If you could throw some light as to what pertains to this to Rs. 220 crore on the balance sheet, that could be really helpful. Thanks.

Rajendra Gogri: So, basically you are right in terms of reflecting that a larger part of that is related to the advance coming from the long-term contracts. Now, as we are moving towards the commercialization phase, there is a plan in which the advances will get adjusted.

So, a certain component of the non-current liability which essentially means that we existed over a period of beyond 12 months, is now coming into within 12 months, and it has moved from non-current liabilities to current liabilities, so keeping movement with within 12 years and beyond 12 years.

Harsh Bhatia: Right. So, this is all related to the three contracts in place or at least the other two contracts that are remaining, right?

Chetan Gandhi: This is related to the first and the second contract, the first contract we got already has some advance which will be adjusted against the fees. And also, on the second contact there is an advance.

Harsh Bhatia: Okay. And lastly on the non-controlling interest, it has reduced significantly. Any commentary on that front?

Rajendra Gogri: So, we had one where we have 50.2% stake, over the last fortnight of March that stake came to 50%. So, from a subsidiary it became a joint ownership entity. So, that was in relation to that.

Moderator: Thank you. Next question is from the line of Nitin Tiwari from YES Securities. Please go ahead.

Nitin Tiwari: And my apologies if you have already answered that. The new product lines, the high margin products that we are talking about, with actual revenue over 2024 and 2027, so which basically the industries and markets would you be targeting? And what would their core functionality be if you would like to throw some light on that.

Rajendra Gogri: Yes. So, basically, it will be in pharmaceutical, agrochemical and dyes segment, polymers, rubber chemicals are very widely used products, end use market. 50% to 60% will be in pharma and agro combined, 40% to 50% will be more on your discretionary. So, there would be a broad composition.

Nitin Tiwari: Right. No, I was assigned to understand more from the functionality perspective that what would make the products high value add compared to the current line of products that we already have and what would change in terms of functionality and what solutions are we going to provide.

Rajendra Gogri: The value addition, in the sense the number of chemistry steps what you have, so that creates a value addition. So, if you have a two-step process, then third step, fourth step, then value-added becomes higher So, your raw material cost and the sales price difference goes on increasing, as you have more and more steps. So, we started with benzene, which is less than $1, then we make products which are $5, $10, $20, $30, and now we are looking at $70, $80 also. So, that's how the value addition we count. So, when it becomes $80, then you expect that your raw material cost will not be more than 30%, 40% in that product.

Moderator: Thank you. Next question is from the line of Roshan Nair from Equentis Wealth. Please go ahead

Roshan Nair: So, going forward what will be the revenue mix you will be envisaging, between pharmaceuticals and Speciality chemicals?

Rajendra Gogri: I think around 75:25 range, 75 to 80 on Speciality, and around 25 on pharma.

Roshan Nair: And what will be the immediate projects that you will be taking up on CAPEX front? So, the current phase is over, now which will be the immediate projects that we will be taking up?

Rajendra Gogri: This chlorotoluene related product chemistries, then this universal UMPP kind of a plant, and pharmaceutical related UMPP, this will be the expansion which we will be doing.

Roshan Nair: Okay. So, from the specialized product portfolio, so what will the contribution that you are envisaging going forward, can you give some rough idea on that?

Rajendra Gogri: Can you repeat the question?

Roshan Nair: From the specialized product portfolio, since you are undertaking many downstream projects, what will be the guidance going forward? In what direction will it contribute to EBITDA, can you provide some details?

Rajendra Gogri: Yes, just what we said, about 25% to 30% EBITDA margin will be there. Some places it can be 40%, 50%also, it depends. So, broadly, overall, as a basket we are looking at 25% to 30%.

Moderator: Thank you very much. Next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Chetan, I am a bit confused, if you can just clarify, maybe I couldn't hear it properly. In terms of business, we are seeing from roughly Rs. 5,000 crore of turnover for fiscal 2021, we should probably be about double that numbers in fiscal 2024. And by fiscal 2027, we should be about 3x to 3.5x that number, so about Rs. 15,000 crore to Rs. 18,000 crore. And EBITDA margin compared to about 21% odd that we have clocked for the last year, in this six-year period should range 25% to 30%. Have I understood this correctly?

Rajendra Gogri: No, this 25% to 30% is for the newer products.

Bharat Shah: Okay. And therefore, the overall margin because of that will get lifted up?

Rajendra Gogri: Yes.

Bharat Shah: And turnover doubling in the three years and then not creating another Rs. 5,000 crore to Rs. 8,000 crore in the next three year further?

Rajendra Gogri: Yes,

Moderator: Thank you. Next question is from the line of Rohit Jain from Tata Capital. Please go ahead.

Rohit Jain: Just two questions, one is a clarification question. So, over FY 2022, FY 2023, the CAPEX is going to be Rs. 1,500 crore for each of the years or is it going to be Rs. 1,500 crore combined?

Chetan Gandhi: That is as regards the existing product portfolio what we have, it is only Rs. 1,500 crore combined.

Rohit Jain: Okay, fair enough. And second, I am sorry to belabor that point, it's a continuation of what one of the earlier participants said. So, in a dynamic world with so many variables are out of our control, does it make sense to sort of project that far out? I mean, from FY 2024 to 2027 based on investments that are going to happen in the future, how much of it is in our control? How much of it is out of our control? I mean, what I fear is, because of change in variables, are we not sort of putting ourselves under too much of a spotlight by projecting confidence so far out?

Rajendra Gogri: No, basically, in this chemical there are only China and India, there are two players, and obviously there is appetite on China plus one. Then a lot of these products we will be the only player in India. So, from market size, we are fairly confident on that side. And then we have also analyses the downstream products, how that demand is growing and what is that situation and customer appetite also. So, we have given a range, on a profitability it is 3x to 4x and turnover is 2.5x to 3.5x. So, it is not a very, very narrow range, I think it's a very reasonable range which we feel that we should be able to hit.

Rohit Jain: No, I will tell you where I am coming from. Let's say, we haven't had a full blown recession over the last many years, I mean, COVID was a very sharp spike and then a equally sharp spike up. And we supply a lot of our products to cyclical industries. Let us assume that if we have a two, three-year recession over the next seven, eight years, if not outright but realm of possibility, so then all these predictions are sort of become moot. So, I am just struggling, I mean, being a supplier to cyclical industries, how do we have visibility back for us?

Rajendra Gogri: Yes, basically around 60% products will be non-economy linked, non-discretionary, will be an agro and pharma. If you take pharma and both the segment combined, will be more than 60%, which has not discretionary, so will not be related to any recession related cycle. So, agrochemical is own cycle, sometime in one year or two it can be going up and down. And agrochemical also we are not restricted to one geography, nor are we restricted to one kind of herbicide, fungicide. We have herbicide, fungicide, insecticide going into different geography, different crops, so very quite well spread out basket on the agrochemical side also. So, this recession part it's not like we are only in auto exposure, then suddenly everything gets kind of a collapse situation. We have a very widespread end use exposure. So, that's why I think broadly this range we should be able to hit, that's what we feel.

Rohit Jain: Thank you. Next question is from the line of Vikas from Spark Capital. Please go ahead.

Vishnu: Thanks. Vishnu from Spark Capital. Sir, on your incremental investment, this Rs. 2,500 crore to Rs. 3,000 crore, if you could broadly break it down into sub categories, because I see that you have written on chloro toluene's value chain, that UMPP, if you could just broadly bifurcate under each category, how much would we be the spending? And also, if it is possible, how much of this incremental CAPEX will go in towards import substitution or an export opportunity, if you could give some break up on that?

Rohit Jain: Basically, there will be three kinds of manufacturing plants will be put, certain plants will be totally dedicated like chlorination, OCD, PCD becomes a totally dedicated plant. Then photochlorination, ammoxidation, which are called single chemistry multi-campaign-based plants.

Vishnu: Sir, if you could give the CAPEX number also against this?

Rajendra Gogri: Yes, first let me explain. There are three kind of plants, one is dedicated, second is a single chemistry multi-product. So, that single chemistry multi product, there can be chloro toluene product also being chain also and even Nitrochlorobenzene or chlorobenzene chain also can be used there. And third is a UMPP plant, where the chemistry as well as a product can be different. So, it become difficult to allocate the assets that how much asset will go into it. It is going to be a dedicated, that entire range of chlorotoluene will be in a particular dedicated asset, and as a product will be in another dedicated asset. So, if you have a chlorination process, it used be called as process block, the process block will have a product coming from various value chain, it can be Nitrochlorobenzene, chloro benzene, nitro toluene, chloro toluene, we will have four value chains. So, it cannot be directly linked to a particular value chain and then act as one on one. And regarding the inputs, substitution and exports, a substantial portion of our business will come in that two buckets.

Vishnu: I mean, if you could split that, sir, I mean, import substitution, how much would that be and export opportunities? Let's say if it is $100 price, so 50:50 or 70:30, any broad details?

Rajendra Gogri: Yes, it will be more or less equal.

Vishnu: Okay, got it. And if we see that the last nine months profitability, I am excluding the 1Q because we had a very bad quarter because of COVID. You see that if we strip the $5 million that we get on a run rate, the overall EBITDA margin is slightly weaker compared to the last year as well. And especially given that next year onwards we won't have this Rs. 150 crore run rate going up, what should we be seeing as a near-term margin, will it materially inch up the other products or rather the profitability will inch up in 2023 to kind of maintain a run rate? If you could just explain on this.

Rajendra Gogri: Yes, because really 2023 and 2024, the volumes of other products will come up, so that will drive. You are right that shortfall fee will not be there in FY 2023. But the volume from other products should compensate, then this contracts two and three will have a entire year under operation.

Vishnu: Sir, **o**ne of the contracts, if I am not too wrong, is actually low margin, because it's full cash up front, so it can also probably brag a little bit?

Rajendra Gogri: On an absolute percent base wise, okay. But we are generally looking at an absolute EBITDA level. As a percentage, maybe that can be a dip.

Vishnu: So, what should be the rough EBITDA margin that we should work with? Because we closed probably around 22%, any rough guidance on this for at least the near term next two years?

Rajendra Gogri: Yes, that's why in FY 2024 virtually we have said it is more or less same, turnover and EBITDA growth would be more or less similar. So, current margin in FY 2021 should sustaining in FY 2024 also, that's what we see.

Moderator: Thank you. Next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Sir, just one clarification. So, if I look at the current capitalized gross block, that must be around Rs. 5,000 crore, and we are at Rs. 5,000 crore of sales. Now, over next two year you are talking about CAPEX of Rs. 1,500 crore, plus I am assuming this Rs. 1,300 crore of work in progress getting capitalized. So, for incremental Rs. 5,000 crore of sales over the next three years, we only need Rs. 2,700 crore, Rs. 2,800 crore of CAPEX which is almost 1.8x, 1.9x asset turn. If this is true then you explain how it will happen or correct me if I am wrong in my understanding?

Rajendra Gogri: No, there will be always a ramp up of asset which is already capitalized. So, that ramp up also takes place, it can't be that they are going to be capitalized in next two years, is going to be reflecting in the third-year turnover. So, earlier it was also whatever was capitalized, also will cap it in the business model.

Moderator: Thank you. Next question is from the line of Ankit Gor from Systematix Shares. Please go ahead.

Ankit Gor: Sir, my question with regards to what sort of place you envisage while giving guidance for 2024 and 2027? And pertaining to that, what event can make you lower your guidance in future? That's my first question.

Rajendra Gogri: Generally, the Chinese currency depreciation against Indian currency, that will be one of the key which can impact your margins. And that will be always a risk which will remain, because we are mainly competing with China in that sense. Other than that, we are quite well spread in our end use, we don't have any customer concentration and geography also. And number of products are also very large, manufacturing facilities are also located at very different locations. So, significantly one kind of event impacting your profitability by 25%, 30%, I don't see that kind of a risk.

Ankit Gor: Okay. And to manage this considerable guidance, what sort of management bandwidth we currently have, and how are we thinking about it going ahead to manage the scale which you are guiding there? A second line of management that’s what I am trying to understand.

Rajendra Gogri: Yes, actually that was also in one of my part of my speech, that last two, three years a lot of human talent side we have strengthened by recruiting senior level professionals from outside company. So, we have got Chief Manufacturing Officer, we have CHRO, Chief Scientific Officer, Chief Project Procurement Officer, and IT officer also we have taken. So, we have strengthened human talent across various functions in last two, three years. As we had visualized that there is a tremendous growth opportunity, so you will have to strengthen not only R&D but also on manufacturing and projects, in information technology for digitalization and all. And strategy also, business development also we have got IIM, IIT graduates who are part of the team.

Ankit Gor: And sir, just the department heads, aren’t these guys coming up from the reputed MNCs or if you can give that background as well, just want to understand their remuneration and how our employee costs will be in subsequent years. I am just trying to understand their background, not from a remuneration perspective but more from background perspective.

Rajendra Gogri: Yes, we have people from Syngenta, people from Aditya Birla and Vedanta, and from Reliance and from Deepak Nitrite, then from PI, SRF, UPL. So, quite a few we have from Reliance and Aditya Birla on one side, then Indian company PI, SRF, UPL, then Syngenta.

Ankit Gor: Thanks a lot. Lastly from my side, any timelines to do a fund raise? And will this be utilized, whatever funds we will raise, this will be utilized to achieve FY 2024 targets or 2027 targets?

Rajendra Gogri: Basically, overall we are going to spend this Rs. 4,500 crore to Rs. 5,000 crore CAPEX, so money will be used for general combined purposes. It will not be specifically linked to a particular project as such. And regarding timeline and all, we have not yet finalized, we have just passed the resolution and now we will work out the timeframe.

Moderator: Thank you. Next question is a follow-up from the line of Aditya Khaitan from East India Securities. Please go ahead.

Aditya Khaitan: Sir, first question is, what would be the maintenance CAPEX for the full year FY 2021 on a CAPEX of Rs. 1,300 crore?

Rajendra Gogri: That would be about Rs. 200 crore to Rs. 250 crore.

Aditya Khaitan: And sir, second question is on the interest cost side. Sir, do we have any figure for the full year mark-to-market gain what we have got in FY 2021? When I look at on a Y-o-Y basis, the number has declined quite sharply. Is there any mark-to-market gain which we have received for the full year FY 2021?

Chetan Gandhi: It will be in the range of around Rs. 6 crore to Rs. 7 crore.

Aditya Khaitan: But still sir, the number is issuing a quite amount of difference.

Chetan Gandhi: You should look at the general interest rate also falling up significantly on a year-on-year basis.

Aditya Khaitan: Okay. Third question is on the NCB business, do we have any sort of numbers, so what is the input substitution size in the NCB business? Now, because there is one more company, Bodal Chemicals, they are also entering into the NCB business by setting up a 55,000 tonnes per annum capacity. So, that capacity will come by next year, so I just wanted to know what would be the import substitution size of this and we are also expanding into this segment only. So, what is the outlook and what would be the sizes, if there is any idea on this side?

Rajendra Gogri: Yes, Nitrochlorobenzene and para Nitrochlorobenzene is currently imported. Now, because the para-aminophenol government has introduced PLI scheme, so we see that substantial expansion coming up in that downstream product, which will increase the PNCB demand in India production. And regarding ONCB, we will be expanding our downstream capacities to manage ONCB.

Aditya Khaitan: Okay. And regarding the Bodal Chemical expansion, any outlook, like how are you looking to compete with them or what could be the commentary, can you give us some idea on that part?

Rajendra Gogri: As I mentioned, a lot of para-aminophenol investment will come up in India. So, that will increase the PNCB demand substantially. And there are a lot of other downstream products like para anisidine also is not made in India, so that also capacity is going to come up. So, downstream import substitution also is going to take place, which will increase the demand of PNCB.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question. I now hand the conference over to Mr. Rajendra Gogri for closing remarks. 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 and would like to know more about the company, kindly reach our Investor Relations desk. Thank you.

Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of Aarti Industries, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.