February 10, 2025

To,
Listing/ Compliance Department
BSE LTD.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

BSE CODE – 524208

To,
Listing/Compliance Department
National Stock Exchange of India Limited
“Exchange Plaza”, Plot No. C/1,
G Block Bandra - Kurla Complex,
Bandra (E), Mumbai – 400 051.

NSE CODE:AARTIIND

Dear Sir/Madam,

Sub.: Transcript of Q3 FY25 Earnings Conference Call
Ref.: Regulation 30 of the SEBI (LODR) Regulations, 2015

Please find enclosed herewith the Transcript of Earnings Conference Call held on Monday, February 3, 2025 on Audited Financial Results of the Company for the quarter and nine months' ended December 31, 2024.

Kindly take the same on record.

Thanking You,

Yours faithfully,
FOR AARTI INDUSTRIES LIMITED

RAJ KUMAR SARRAF Digitally signed by RAJ KUMAR SARRAF Date: 2025.02.10 18:41:37 +05'30'

RAJ SARRAF
COMPANY SECRETARY
ICSI M. NO. A15526
Encl.: As above.

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Aarti Industries Limited
Q3 FY '25 Earnings Conference Call
February 03, 2025

Moderator: Ladies and gentlemen, good day and welcome to the Aarti Industries Q3 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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. Nishid Solanki of CDR India. Thank you.

And over to you, sir.

Nishid Solanki: Thank you. Good morning, everyone, and thank you for joining us on Aarti Industries' Q3 FY '25 Earnings Conference Call.

Today, we are joined by senior members of the management team, including Mr. Suyog Kotecha, Executive Director and Chief Executive Officer; Mr. Chetan Gandhi, Chief Financial Officer. We will begin the call with an overview on the developments for the quarter, followed by highlights on the financial performance, which will be provided by Mr. Kotecha, post that, we shall open the forum for Q&A, where the management will be discussing queries of the participants.

Just to share our standard disclaimer. Certain statements that may be made in today's conference call may be forward looking in nature. And the disclaimer to this effect has been included in the results presentation which has been shared earlier and also uploaded on the stock exchange websites.

I would now like to invite Mr. Kotecha to share his perspectives. Thank you. And over to you, Mr. Kotecha.

Suyog Kotecha: Thank you, Nishid. Good morning, everyone, and welcome to our earnings call for Q3. Before I commence, I would like to wish all of you a very successful and happy new year 2025.

I hope you have had an opportunity to review the quarterly presentation that was uploaded on the exchanges over weekend. Overall, we reported a resilient performance with sequential improvement in EBITDA in Q3 FY '25. While pricing pressures impacted margins despite strong volume growth, we proactively addressed this through cost efficiencies, product diversification and geographic expansion.

Volumes in the non-energy business grew by 14% Y-o-Y and 8% Q-o-Q, while the growth in the energy business came in at 10% quarter-on-quarter basis. Growth in energy business actually could have been better but for a large-volume bulk shipment which was spilled over from late December to early January.

In the non-energy business, we are seeing a volume-led recovery both on Y-o-Y as well as on Q-o-Q basis. However, pricing pressure continues across various product chains, especially in agrochemical intermediates. End use applications like dyes, pigments, polymer additives continue to exhibit positive demand trends. We also believe inventory levels for agrochemicals have normalized in most end markets now.

And further, in order to diversify our product base and to augment our utilization levels, we are engaged in the development of new products, especially within the ethylation value chain where we recently expanded our capacity. Additionally, we are also pursuing backward integration into select downstream products to enhance our margin profiles and ensure better control over cost and supply.

Polymer and additives continue to be on the recovery path. Despite some uncertainty surrounding 2025 demand due to potential U.S. policy changes, we remain focused on increasing our market share in the global markets, especially in the U.S. and Japan, for polymer and additives segment. The pharma business has sustained the positive trajectory following the recovery in FY '24.

Coming to energy business, where MMA remains a key part of our product portfolio. We are diversifying our solution offerings and customer base to adapt to the evolving market. The weak gasolines and naphtha cracks in Q3 impacted octane boosting economics. However, we anticipate improvement in Q4. We have also established our bulk shipment capabilities to serve larger clients more efficiently; and are expanding our customer base in U.S., Europe as well as Middle East. The broader geographic reach is now helping us mitigate regional slowdowns and is supporting sustainable growth.

As indicated in previous communications, the ramp-up of MMA volumes will be gradual but consistent. Our numbers showed healthy improvement in Q3, giving us optimism for the future. We are also focusing on a solution-based approach leveraging our expertise to optimize performance and positioning MMA as a high-octane fuel additive. These efforts, fuelled by our commitment to growth and innovation, will position us well for long-term success in this evolving market.

Recently we also had 2 other major developments, which I would like to highlight. We signed 2 renewable energy power purchase agreements for solar and hybrid power with Cleanmax and Prozeal. With this, AIL's renewable share in total power purchase is expected to exceed 75% by Q1 FY '27. And we'll also accrue significant savings in power costs. One of the contracts will start delivering within this calendar year, versus the second one which is expected to start in Q1 FY '27 time frame.

The second major development Re Sustainability and Recycling Private Limited; and Aarti Circularity Limited, a wholly owned subsidiary of AIL, have joined hands to establish transformative first-of-its-kind India joint venture company for driving the development of plastic material recycling facilities which will use advanced chemical recycling technology. This partnership is committed to achieving a resource recovery capacity of 500 tons per day by 2030 and will focus on chemically recycling the difficult-to-recycle plastic waste materials into niche and high-value chemical compounds which have good demand potential.

Coming to the financial performance, revenues for the quarter was at INR2,035 crore, 14% higher on Q-o-Q basis while 8% higher on Y-o-Y basis. EBITDA grew by 17% Q-o-Q to INR236 crore. Growth was primarily led by volumes, operating leverage and product mix improvements.

PAT was reported at INR46 crore. This was impacted by high finance costs due to forex mark-to-market loss of INR23 crore on a long-term ECB loan arising due to rupee depreciation. It may be noted that this impact is due to the accounting practices, while the actual outflow will happen over a period of 9 years. Also, given the fact that company is a net exporter, the depreciation in rupee should actually benefit the company in the coming quarters.

Coming to capex and capacity expansion projects, broadly, our capacity expansion initiatives are aligned with the growing market demand. Our projected capital expenditure for FY '25 remains unchanged as we have mentioned in the last quarter, INR1,300 to INR1,500 crore, with over INR380 crore spent in Q3 and about INR1,020 crore in the 9-month year-till-date time frame.

Let me run through the updates in respect of key capacity expansion projects and initiatives. Our nitrotoluene plant expansion from 30 to 45 KTPA got commissioned this quarter, is expected to yield benefits now in the subsequent quarters. Our expansion of ethylation facility from 8 to 10 KTPA to about 25 to 30 KTPA also got commissioned this quarter. This expansion enhances our ability and flexibility to utilize the overall ethylation capacity for diverse range of ethylation- and propylation-based products while also enabling the scaling up of production volumes within the nitrotoluene value chain. Ramp-up of both of these capacities will continue through Q4 and going forward.

The MMA capacity expansion to 200 KTPA had already been completed, positioning us to be the market leader, and also increased our share in this high-growth segment. MMA capacity can also be expanded further, if required, with minor investments. And we will remain agile to market shifts and address that opportunity.

Additionally, various projects in Zone IV, our new greenfield site, are being executed in phased manner. And the commissioning is expected gradually through FY '26. We are pleased to announce that our new pilot plant at Zone IV has already begun its commercial operations. It will play a crucial role in fuelling new product development and allowing us to innovate and diversify our offerings going forward.

Overall, we have room to scale up several production chains without incurring significant capex. Higher asset utilization offers a significant upside potential. And we remain focused on achieving scale in each of our value chains to realize gains from operating leverages.

As shared in the last meeting, let me reiterate that we are on track and confident to meet our guidance shared for both short term as well as medium term. Our focus is on sustainable mid- to long-term growth targeting roughly 20% to 25% CAGR EBITDA over 3 to 5 year's time frame. And we continue to leverage R&D to explore new products, seek long-term partnerships, implement our cost improvement initiatives; and targeting high-growth sectors such as circularity, battery and electronic chemicals.

That will conclude my initial remarks. I will now request the moderator to open the forum for the question-and-answer session. Thank you.

Moderator: Thank you very much. The first question is from Rohit Nagraj from B&K Securities. Please go ahead.

Rohit Nagraj: Thanks for the opportunity and congrats on good volume recovery as well as absolute EBITDA expansion on sequential basis. First question is on MMA, just to understand. What would be the threshold spreads of gasoline-naphtha or gasoline-crude at which MMA becomes more competitive and, at the same time, MTBE becomes more acceptable as a fuel?

Suyog Kotecha: So on the MMA front, we had mentioned in the last conference call that, anything where naphtha-gasoline differential remains in 2 digits, we still have a play. I think, in the last quarter, actually see gasoline-naphtha spreads were and still continue to remain under pressure. They were at roughly at 9.5 levels. And we were able to still deliver certain volumes to the market, so I guess that is indication of our competitiveness of this product in the market when it comes to octane boosting.

As we are seeing, in Jan, we are already seeing improvement in the gasoline-naphtha spread. And that should enable the competitiveness of this product against some of the other octane-boosting products even more in the Q4 and the going-forward time frame.

Rohit Nagraj: Just a clarification on this. What would be the price differential between MMA and MTBE now?

Suyog Kotecha: It's ever evolving. In both products, the price variation is there almost on sort of month-on-month quarter-on-quarter basis, but roughly you can assume that MMA at any point in time would be roughly 1.8x to 2x of MTBE pricing.

Rohit Nagraj: My second question is so we have commissioned the ethylation capacity. So effectively we'll need ethylene oxide, if I'm not wrong, for the capacity to operate. So in terms of sourcing of the same incrementally, how are we placed to get it from Reliance in terms of commitments for the volumes, incremental volumes, which we'll require?

Suyog Kotecha: No. I think I would like to correct you there. We don't need ethylene oxide for our ethylation capacities. We need ethylene, for which we have a pipeline supply. And we have security in terms of supply where we have a long-term contract with our suppliers.

Rohit Nagraj: That is it from my side. Thanks a lot for answering the questions and all the rest.

Suyog Kotecha: Thank you.

Moderator: Thank you. The next question is from Vivek Rajamani from Morgan Stanley. Please go ahead.

Vivek Rajamani: Thank you sir, for the presentation and the opportunity. Two questions from my end. Firstly, in terms of the pricing pressures that you mentioned, could you give some more color in terms of how it's moved if you compared to 2 quarters back and what you saw in 3Q and potentially what you're seeing quarter-to-date? That's the first question.

Suyog Kotecha: So overall, on the pricing pressure, frankly, I think things haven't evolved significantly. I think the overcapacity situation that we have in many of our product chains, especially in China, is a mid- to long-term problem and that will take some time to resolve, so no major incremental changes when it comes to quarter-on-quarter movement, especially in some chains like PDA, or even, for that matter, some of the chains which are linked to NCB and nitrotoluene, where Chinese capacity remains pretty robust. There we continue to face pricing pressure. As you go more downstream, on agrochemical intermediates, again where the overcapacity situation is quite significant, there also the pricing pressure remains quite robust. As I mentioned in our previous call, I think we've got used to the new reality. Based on our competitiveness, we are able to retain or increase market share in many of our value chains. And that's how we are addressing this pricing pressure. As the demand picks up and capacity utilization at a global level starts getting better, this will go off. And that should enable higher profitability percentage across the portfolio.

Vivek Rajamani: Thank you, sir. That was very clear. The second question was on MMA. I think you mentioned that you're focusing on customers in the U.S., EU, ME and these various regions. Could you just give some more color in terms of the progress being made in getting some of these larger refineries onboard? And just as an extension to that, you mentioned also that you have a bulk shipping capability that you've put in place, so I just wanted to better understand. Once you have these longer-term customers in place and you have these new capabilities, how would that affect your margin profile vis-à-vis the spot margins? And how quickly do you think you'll be able to kind of get some of these benefits going into fiscal '26? Thank you.

Suyog Kotecha: So I think, on the first part of the questions, we have had some successes during last quarter. Our exports to U.S. have gone up, where we have been able to develop a couple of strategic customers for this product. I think you guys would be able to see that through our export data, anyway. So that's one region where we've got success. I think Middle East continues to remain one of the markets, the first market which we have scaled up. And our efforts continue to develop European and Southeast Asian market for this particular product. That's on the overall geography as well as the customer diversification.

I think, from a pricing point of view, we have better understanding now in terms of what kind of pricing models and what kind of pricing strategies work, which are linked to ultimately downstream economics for refineries and oil and gas traders. And as we evolve those pricing models, the margin profile will also become more stable in a mid- to long-term kind of time frame. And in Q3, as I mentioned, despite a significantly lower gasoline-naphtha spread, we were able to produce and push out more material compared to Q2. And that is what is giving us confidence that the growth potential for this product remains pretty robust. However, at the same time, I do want to highlight that, given the nature of the business, it does take time to crack new markets and new customers. And that's where we are saying that the ramp-up in the overall volume will be gradual and not a one-off event.

Vivek Rajamani: Great, sir. Just one small clarification. The capability on the bulk shipping, that would come through from Q4, correct? It wasn't there significantly in Q3.

Suyog Kotecha: No. In Q3 itself, we have done some bulk shipments. So the capability got established. Of course, it's getting optimized, as we speak, as we do more and more such bulk shipments, our ability to optimize the overall supply chain cost. The product does require very special capability to enable sort of long-distance bulk shipments. And we are optimizing on that capability, which will reduce our operating costs of doing these bulk shipments. And that benefit might come in, in Q4 and onwards time frame, but the capability itself got established in the Q3 itself.

Vivek Rajamani: Sure, sir. Thank you so much and all the very best.

Suyog Kotecha: Thank you.

Moderator: Next question is from Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Yes, good morning and thank you so much. So sir, on the plastic recycling project we've announced a short while back, this 500 tons per day of peak capacity, could you please help us understand what sort of revenue and maybe EBITDA margin potential this might entail?

Suyog Kotecha: So overall on the Re Aarti private limited, a JV between RESL and Aarti Circularity, I think, let me do a step back first. In the last couple of calls, we had stated our intent from a long-term strategic point of view to focus on certain strategic bets. I think circularity was one such theme. And that's the context in which Aarti Circularity Limited got established. It's a 100% owned subsidiary of AIL. For Aarti Circularity Limited as an entity, we are looking at multiple opportunities in sustainability, circularity and recycling space. One of the most promising opportunities was advanced chemical recycling of plastic waste. And that is where we thought a partnership made a lot of sense, and the JV with RESL was established.

The JV just got incorporated one week back. I think JV is in the process of establishing its own business plan and coming up with concrete numbers. From an aspiration point of view, both partners have stated their aspiration to complete 100 TPD in first 18 month’s timeframe and 500 TPD by 2030. I think, the exact revenue potential and profitability potential, we will come back at a later stage. As the JV does its own business planning exercise.

The only point I will make is, from an opportunity size point of view, it's huge. If you look at the amount of plastic waste that gets generated in the country, we are talking about hundreds of KTs per month. At the Hyderabad facility which RESL operates, I think they handle anywhere between 8,000 to 10,000 tons per day of waste. And even if you take 10% or 12% conservative plastics in that, we are talking about 800 to 1,000 tons per day of plastic waste getting aggregated on a daily basis at one site. And they have the sites across the country, across international locations.

So from an opportunity point of view, we remain very excited. We are focused on making the technology work. Currently, there is no at-scale player today in the country which does plastic waste recycling using chemical recycling technology. And we are focused on getting that technology proven. And once it's proven, then the scale-up happens in a modular kind of fashion, so Abhijit, I'm not giving you the exact top line, bottom line number at this stage, but as the JV completes its business planning exercise over the course of next few months and fine tunes the technology, we'll come back with more details.

Abhijit Akella: Sure. Thank you. My other question was on the financials. The gross margin seemed to be significantly lower on a sequential basis but offset by a decline in other expenses, quite a sharp decline. And in that context, I was just wondering, you've articulated this cost optimization plan in your presentation of INR150 crore to INR200 crore. So just wondering, how much of that is already done? And how much is still left to be done in the context of the numbers we are seeing?

Suyog Kotecha: Yes. No, I think we continue to remain on track in terms of our overall fixed as well as variable cost reduction plans. I think we are kind of 30%-40% there in terms of that journey. I think there still remains a lot of what's to be done, but we are confident of completing that exercise, as I mentioned in the last call, in the next sort of 12 to 18 months kind of time frame. That's on the cost initiative.

On the gross margin, I just want to highlight that I think there are large-volume shipments now and some of them also get sort of slipped from one quarter to another quarter, so rather than looking at quarterly gross margin level, I would ideally encourage to look at sort of at least a 9-month or a longer-term time frame margin average numbers. They are better indicative of business performance. And one additional issue which was peculiar to Q3 was in Q2, because our MMA volumes had dropped quite significantly, there was certain build-up of aniline, which is a key raw material for MMA, which happened at a relatively higher cost which got liquidated in Q3. So that also had a partial impact on gross margins, but in overall sense I think, if you look at a 9-month gross margin levels, they are potentially a better indicator of company's business performance versus quarterly gross margin numbers.

Abhijit Akella: Thank you. Just one last thing, if I may, just on the specialty chemicals project and the Zone IV greenfield that you've been articulating. Is it possible to share any further color on these in terms of product category or addressable market size, how easy it is for us to capture that market? That would really help us understand or appreciate the opportunity a little bit better.

Suyog Kotecha: Zone IV, as we mentioned, this is now in the advanced stages of execution and will get commissioned. There are multiple blocks within Zone IV, and they will get gradually commissioned over the course of next 12 to 15 months. The first block of pilot plant already got commissioned. The next block which will get commissioned is actually a multi-purpose plant and a calcium chloride plant. And then the remaining blocks, which are dominantly in chlorotoluene value chain, will get commissioned in the sort of Q1 FY '27 kind of time frame.

If you look at the potential product portfolio in that zone, it's broadly focusing on 3 value chains. One is the chlorotoluene value chain, dichlorotoluene value chain and toluene photochlorination value chain. I think in these 3 value chains roughly, we have a product portfolio of anywhere between 25 to 30 products because we will go significantly downstream compared to restricting ourselves at a base molecule level itself. So we have a product portfolio of roughly 25 to 30 products which will cater to predominantly, I think, 3 end markets: agro, pharma and dyes. These are the 3 large end markets which we are targeting through these 25 to 30 products. We have rigid product mix significantly compared to what was originally envisaged 2 years back.

And in that context now, the domestic-export split of that product portfolio is expected to get revised. They have a higher domestic targeted; sort of 60-40 kind of a split when it comes to domestic-export, because many of these products are currently imported in the country. There is no other large player who manufactures these products, especially as you go more downstream of chlorotoluene and dichlorotoluenes.

The overall configuration of that zone itself, we have made it in such a way where it's kind of fungible and flexible, so our total capability to produce in terms of number of products would be far higher, but we could select the products depending on the margin profile and the demand profile at a particular given time frame. So the overall zone kind of becomes a little bit multi-purpose kind of an asset. So the product end market and the domestic export ratio will keep varying, but broadly speaking given all the changes made in the configuration of the zone, we feel pretty confident of achieving commercial utilization in the first 1, 1.5 years kind of time frame.

Abhijit Akella: Thank you. That's very helpful. I'll come back in the queue for more.

Moderator: Thank you. Next question is from Aditya Khetan from SMIFS Institutional Equities. Please go ahead.

Aditya Khetan: Yes, thank you, sir, for the opportunity. A couple of questions. First is on to the nitrotoluene. Sir, volumes have declined both on Y-o-Y and on quarter-on-quarter basis. Any particular reason?

Suyog Kotecha: So we've been going through the commissioning exercise. And that, because this was a brownfield expansion and not a greenfield expansion, we had to manage the shutdown of the asset accordingly. And that had some impact on the capacity utilization number that you are seeing for Q3 specifically. As we move forward into Q4, you will definitely see ramp-up in the NT chain capacity utilization numbers.

Aditya Khetan: Okay. And sir, on to the agrochemicals side, you had mentioned that the pricing pressure still persists. If you can highlight, sir, how much percentage of the product portfolio we are having competition from China, or which segment. Like, in agrochemicals only, we are witnessing erosion of margins?

Suyog Kotecha: So look. I think, agrochemical, the situation is potentially aggravated, but I think in our segmental portfolio you also have now domestic-export split across most of our business segments. And in that context, if you see energy business, for example, it's more of a market development exercise rather than a competition with China. So in that part of the portfolio, it's a different challenge compared to pricing pressure from China. Agrochem, yes, especially both global as well as the domestic market, we do end up competing with China given their significant capacity over there. I think, in the dye, pigments, printing inks market, 75% of our market actually comes in the domestic market. Only 25% is export. Even within that now, with Heubach getting acquired by an Indian entity, we expect our share of domestic market to go up for that particular end market, where our ability to compete with China is much, much better.
Pharmaceuticals, 99% is domestic, though the pricing sometimes does get linked to import parity pricing from China, but still from a management of customers and an overall market dynamic point of view, we are relatively better positioned. Polymer and additives is one segment where we do end up competing with China head on because 85% of our business in that segment comes from exports. So the entire dichlorobenzene chain and PDA chain, where bulk of the volume ends up going to Western markets, especially in U.S. and Japan, that's where we do face pressure from China, but there also we have established certain strategies to counter that pressure. But that is one segment where we are exposed to Chinese competition quite significantly. I hope that covers broadly the 5 segments, which covers more than 90% of our product portfolio.

Aditya Khetan: Got it, sir, got it. Sir, on to the capex figures also, we have reduced it from INR1,200 crore to around INR1,000 crore. Sir, which are the areas, like, we had so cut the capex?

Suyog Kotecha: We haven't reduced the capex number, so INR 1,000 crore number that I talked about, INR1,020 crore, is for 9 months. I think overall here we are retaining exactly the same guidance as we had talked about last time, which is INR1,300 crore to INR1,500 crore. We will end up spending that amount of capex. So there is no one particular area where we have optimized on the capex.

I think, Zone IV, on reconfiguration that we have done. We still maintain the overall capex guidance for Zone IV. There are certain debottlenecking initiatives internally within our existing manufacturing sites where we have put relatively higher hurdle rates right now. And because of that, there might be some optimization on the capex front, but broadly, the number remains what we had committed to in the earlier quarter’s conference call, which is INR1,300 crore to INR1,500 crore for this financial year.

Aditya Khetan: Got it, got it. On the PNCB business segment, Sir, we have heard from the government that they have banned low-quality imports and domestic low quality also of paracetamol. So does this give fillip to our PNCB business, higher volume growth or higher margins in any sense?

Suyog Kotecha: Well, look. I think it's a very robust domestic market which is continuing to grow in sort of strong double digits. Well, as I said, in that segment, 99% of our product goes into domestic market. And any initiatives that government takes to strengthen our downstream customers will definitely help us both from the demand and margin standpoint. It's a globally on a net basis, as a country, we are importer in PNCB. Country does import decent quantity of PNCB every year. And in that context, the pricing does get set, to some extent linked to import parity, but as a segment: Your initial hypothesis is right, that both the demand as well as margin profile remains quite robust in that segment.

Aditya Khetan: Okay, but sir, so banning of imports of paracetamol. So that should definitely benefit PNCB. So we are expecting like some higher volume growth. Like, earlier, we had grown by almost around 10% to 12%, so with this move, do you think like this growth can accelerate to 15%, 20%?

Suyog Kotecha: Look. I think India, again as a country, is also net exporter for not only PNCB but also for downstream chain, right, so the likes of PAP and paracetamol. So I think maybe what you are characterizing there may not fully reflect into that story. If we had been import dependent on a downstream chain, then that would have given significant boost, but as a country, because we have significant downstream capacity. And we also do decent amount of exports for both PAP and paracetamol, that will not have very significant impact. From our point of view, I think, if you look at our capacity utilization levels, then we are roughly around 75-odd percent kind of capacity utilization numbers for NCB. And in the coming financial year, we expect to ramp that up to 80%-plus kind of level. That's the kind of volume growth we are seeing in that value chain.

Aditya Khetan: Got it. Sir, on the MMA business. We know that the spreads have fallen to some depressed levels. So we are witnessing a recovery. Sir, post the normalization, whenever the spreads will come by, first half of '26, do you see any further levers or fundamental changes which are happening which could improve the spreads? Or like it will only come to the normalized level.

Suyog Kotecha: Look. I think the spread of downstream sectors are linked to variety of factors which are, frankly, beyond AIL's domain. We are talking about gasoline-naphtha spread, which have its own dynamics linked to refinery market globally and to large extent geopolitics as well, right. What we remain focused on is to ensure that we are able to place the volumes irrespective of the market situation. Of course, market situation does have significant impact on both demand and margin, but given our penetration levels when it comes to overall octane booster market globally, especially compared to some of other octane booster, our penetration levels are significantly low, so our first and primary focus remains on how do we get more customers. How do we penetrate into more regions?

And how do we create multiple business models to serve these new customers and new geographies? That will remain our primary focus. What is giving us confidence increasingly is that even in suppressed market we are able to place volumes to a decent degree. And that's what is giving us optimism that we should be able to ramp up our capacity utilization numbers over the course of next few quarters.

Aditya Khetan: **One clarification on capex. Sir, you said that INR1,200 crore, but in the presentation, I believe, sir, it is mentioned INR1,000 crore for '26 complete, versus for FY '25 it is around INR1,300 crore. Just a clarification: You mentioned INR1,200 crore for '26 also.**

Chetan Gandhi: The 9-month capex is around INR1,020 crore for FY'25. We are on track in terms of guidance given of around INR1,300 crore to INR1,500 crore of capex in this financial year FY25. As regards FY '26, the capex would be a number which will be a bit lower than INR1,000 crore. So that is how the capex numbers are going to be there. I guess this clarifies the question.

Aditya Khetan: Okay, sir. Thank you.

Moderator: Next question is from Arun Prasath from Avendus Spark. Please go ahead.

Arun Prasath: Good morning. Thanks for the opportunity. Sir, my first question is on your long-term guidance of INR1,800 crore EBITDA. Can you just approximately indicate, what is the equivalent revenue for this INR1,800 crore EBITDA? Top line for this, corresponding to this EBITDA.

Suyog Kotecha: So that number of EBITDA is based on EBITDA assumption of 14% to 15%, right, so you can back calculate the revenue on the basis of that and Arun, as I had mentioned previously, we like to focus on absolute EBITDA and not necessarily give revenue guidance because bulk of our raw materials are linked to crude, right, benzene, aniline, which are 2 of our largest raw materials. The pricing is linked to crude, and depending on how crude behaves, I think our top line can vary significantly. And that's where; I think, our intention always is to talk about absolute EBITDA rupees in crore, when we have a lot more control versus talking about top line.

Arun Prasath: No, the reason I'm asking is for this is, I mean, 15% EBITDA margin and obviously our overall gross fixed assets will be close to INR9,000 crore, INR10,000 crore, so the asset turns comes to be around 1x to 1.2x. So is this the normalized asset turns on which we'll be working for the future projects as well?

Suyog Kotecha: I think, as a management, we are focused on improved ROIC, not necessarily asset turn is one of the metrics, but I think what we look at more and continue to sort of initiatives to improve our ROIC number and ROCE numbers. And as we have indicated in our mid-term guidance, our objective is to hit 14%, 15% kind of ROCE and ROIC numbers. And I think we remain quite confident of hitting those numbers in our 3-year plan.

Arun Prasath: Okay, because if asset turns remain same and margins also remain same, then expansion in the ROCE won't be coming. So something has to give in, right, to get better ROCEs?

Suyog Kotecha: No. If you look at the overall asset block point of view, I think, after the Zone IV commissioning, from next year, onwards, our actual capex, will see tapering of numbers. We are at INR1,300 crore to INR1,500 crore right now. We'll go down to INR1,000 crore next year. And capex subsequent to that will be linked to the growth opportunities that we are pursuing, but on existing product portfolio, there is a tapering of capex.

At the same time, a lot of the growth both in top line and bottom line, significant chunk of that, is coming from existing assets. So if you put all of that together, we feel, based on our bottom-up plan that we have put together for the next 3 years, 14% to 15% kind of ROCE numbers on EBITDA of INR1,800 crore to INR2,200 crore is doable.

Arun Prasath: Understood. My second question is more on the near term. So on the tariffs, sorry I joined late, if I missed, can you please help explain? Within our portfolio, which category or which products or which chemistry will be the winners or losers when you account for these tariffs? Because there will be winners because we will be more competitive against these countries against which is putting tariffs. There will be losers because these countries will be dumping those products which they couldn't sell to U.S. And they will be dumping somewhere in the other export markets. So how should we look at this overall scenario with respect to our portfolio?

Suyog Kotecha: So as you yourself answered this question, Arun, partially, I think the scenario is mixed and I think it's very early to have a definitive perspective. I think we are still looking at evolving market landscape and how these tariffs play out in the global market. At a very superficial level, if you look at it, I think broadly two of our segments. Polymer and additives is a segment where we have significant exposure to U.S. market; I think, could ideally see tailwind because there we compete against China for most of our products going into U.S. market.

And the second is agrochem, where you have some of the intermediates like S-Metachlor and Dicamba, where we are a major supplier of those agrochem intermediates; could see some tailwind because there also one of the prominent end market is U.S.

And not only tariffs but also regulatory levers could also play a role in terms of growth of this end agrochem molecules, but as we say that, if you do sort of peel the onion 2-3 levels deeper, I think there will be repercussions of these tariff barriers on to other markets. The competition intensity in other markets may increase as people try to push their capacities and that could have an implication when it comes to pricing and margins in some of the other markets. Also how people react to U.S. tariff itself could have an impact on the overall demand profile within the U.S. market. So on a superficial level, that's what I could answer at this stage, but I think all of us need to wait and watch to see how overall scenario plays out, to really ascertain the impact of the latest initiatives taken by U.S. government.

Arun Prasath: Okay, understood. On rupee depreciation, if rupee were to depreciate further, we should be, on a rupee basis, we should be seeing higher realization. Or this will get somehow discounted on the pricing itself. Is the demand good enough to realize this dollar strengthening now?

Suyog Kotecha: So I think I'll answer the question on 2 fronts. One, in general, rupee depreciation, from a long-term business growth point of view, is beneficial for AIL given we have a significant export exposure. From a business standpoint, rupee depreciation definitely helps us. The second part of that question is what's also important is the relative depreciation against China. I think we don't have to necessarily look at only INR-USD depreciation, but we also have to look at relatively Chinese currency depreciation versus INR. And that is where the real competitive advantage comes around.

We are sort of closely evaluating both. I think, from a USD point of view, we have actually depreciated and that will help the business going forward, but if you look at relative depreciation of Chinese currency, then the depreciation quantity is actually a lot smaller, which means the Chinese have also depreciated their currency. And given especially now the tariff issues that have got launched into last few days, we have to closely look out for how Chinese currency behaves over the course of next few months and that will potentially ascertain how much it will sort of benefit or not benefit AIL.

Arun Prasath: Thanks for answering all the questions on this. Thank you.

Moderator: Thank you. The next question is from Surya Narayan Patra from PhillipCapital India. Please go ahead.

Surya Narayan Patra: Yes, okay. So in the base business, we have seen obviously there is a kind of a pricing pressure and all that and a consistent drag in the recent quarters, but the recent month data point is indicating obviously there is improvement. But if you can give some sense of what is happening there in the base business: What is the kind of volume-value mix changing? And also within that, how qualitatively the product mix changing. And how should one think, going ahead, about it? So if you can give some sense, that would be helpful, sir.

Suyog Kotecha: So on the base business, Surya, the pricing levels have stabilized. As I'd mentioned in the last quarter, potentially, they'll obviously remain at a level which we do not like, but at least they have stabilized. And now what we are doing is trying to get the volume gains back, which is helping improve the base business portfolio. As we get our asset utilizations up and volumes back, we are also able to optimize the product mix to ensure that we are diverting capacity where we are expecting better margin profiles and that will start to play out in the next few months. For example, in ethylation where we have 25 to 30 KTPA capacity, we have ability to produce a variety of ethylation- and propylation-based products. So as the base utilization levels, once we are able to reach certain levels, then we start playing the product mix game, which is where we are able to optimize profitability much better.

And that same scenario will get repeated across value chains. Our first priority is to get the utilization to certain respectable levels. Once we start hitting that, then try and optimize product mix to ensure that we are further able to optimize on the margins from a product mix point of view. The base pricing upgrades itself, I think they will come when they come. As the demand in the overall global market catches up with the capacity, at that point in time, the base pricing upgrades itself will come, but we are not banking on it right now.

Surya Narayan Patra: Okay, so that means, in a way, the gross margin pressure, what we have been seeing, so far, even if the price remains at these levels, because of the improving product mix, we are going to see uptick definitely in the subsequent quarters?

Suyog Kotecha: Ideally, yes.

Surya Narayan Patra: Okay. Second point is on the MMA business, sir. So you have said a couple of things. You said that there was a bulk shipment that has been delayed and deferred to the following quarter. That is one and despite that, this quarter number, our volume number, is one of the best, so far

MMA export is concerned. And also, simultaneously, you have indicated about new customers getting added to this business, and this quarter also witnessed the spreads, lower spreads between the naphtha and the gasoline.

So given all these things, it looks like that, I mean, next following quarters, obviously there is a seasonal uptick that we will see but much beyond that seasonal uptick that we should see in terms of the volume and the overall business in MMA. Am I right saying, sir?

Suyog Kotecha: So I think 2 clarifications. One, if you are looking at the capacity and utilization trend chart that we now provide as part of our analyst presentation, it talks about production number, not about sales numbers. So then we said that one of the bulk shipment got delayed from late December to early Jan. However, that volume will be captured in the production numbers shown in that slide because they are production number, not sales numbers. That's one clarification. The second part of your question: Yes. I think, as we see stabilization or improvement in gasoline-naphtha trend, ideally it should encourage more and more customers to try out our product. So people who are sort of using our product increase the volume in terms of usage of this product. That remains our focus area. At the same time, we want to be transparent in communicating that the gasoline-naphtha spreads that we saw, post starting of Russia-Ukraine war, for 18- to 24-month kind of time frame, they're unusually high. I think we don't expect the market to go back to these levels of gasoline-naphtha spread. If you look at last-10-year, last-15-year historical average gasoline-naphtha spread numbers, then that is potentially more indicative of where market could stabilize. And our objective is to make this business work and thrive at those gasoline-naphtha differentials as well.

Surya Narayan Patra: Sure, sir. One last book keeping data point, the same question. Can you give the overall export number for the quarter and in the previous quarter, sir?

Chetan Gandhi: Do you want the export number for the company as a whole?

Surya Narayan Patra: Yes. So that is a data point that we have been sharing. So last quarter also, that, I missed it. So if you can share last 2 quarters.

Chetan Gandhi: Yes. So export for this quarter was roughly around INR1,000-odd crore.

Surya Narayan Patra: Okay. This is INR1,000 crore that I should take, sir?

Chetan Gandhi: Yes, for the quarter. And for previous quarter, it was fairly a similar number.

Surya Narayan Patra: Okay, so despite the MMA seeing a kind of quite spike this quarter, our export numbers are remaining same. Is that right?

Chetan Gandhi: Yes.

Surya Narayan Patra: Okay, sure, sir, yes.

Suyog Kotecha: But Surya, I think I will just again reiterate that I think the kind of shipments we are doing on MMA front are very large-value shipments. And that's why I'm again highlighting that the bulk parcel shifting from December to Jan does tweak this number quite significantly.

Chetan Gandhi: Surya, I just want to recorrect one number. On last quarter, the export numbers were roughly around INR900 crore; and this quarter, around INR1,009 crore. Just to be clear.

Surya Narayan Patra: Okay. Sure, sir. Thank you. Thanks a lot. Wish you all the best.

Moderator: Next question is from Kumar Saumya from Ambit Capital. Please go ahead.

Kumar Saumya: Yes. So is there any indication of what is the capital commitment that we will be putting in, in that JV with our JV partner?

Suyog Kotecha: So for the first year, both partners put together have committed INR100 crore, INR50 crore each, into the joint venture.

Kumar Saumya: Okay. And this will be the capacity that you are indicating that you will be doing in next 18 months.

Suyog Kotecha: Yes.

Kumar Saumya: Okay, and secondly, the Zone IV expansion. Are we sticking with the similar outlay of INR15 billion for Phase 1? And then we will be coming up with the 45 kt capacity. So are we holding onto that earlier guidance, or have we changed that internally?

Suyog Kotecha: No. So I think I answered this partly in one of the previous questions. I think the entire Zone I reconfiguration that we have done, I think we have built ability to produce; in the earlier presentations, you will have seen we had a Phase 1 product and Phase 2 products. Phase 1, we are mostly chlorotoluene and downstream and Phase 2, we're actually dichlorotoluenes and downstream products. What we have done is, within the existing capex, we have built in flexibility and ability to produce both of these chains in one go. So that means the absolute capacity of individual molecules might go down, but our flexibility to produce any of the OCT, PCT downstream or DCT downstream products is there in the existing capex itself, which allows us to select the products where the margin profile is best. That's how I think we are planning to scale up and commercialize Zone IV, treat it more like a flexible, multi-purpose block versus a dedicated chemistry block. Because given the market volatility, it gives us a lot of flexibility to optimize the utilization levels as well as margins.

Kumar Saumya: Got it. Sir, lastly, a book keeping question. How much of our ECB loan is unhedged?

Chetan Gandhi: So I would have an exposure of around $140 million which will be majorly unhedged, but this is something which will have a repayment of almost, around 9 years.

Kumar Saumya: Thank you, sir. That is the answer.

Moderator: Thank you. Next question is from Jignesh Kamani from Nippon Mutual Fund. Please go ahead.

Jignesh Kamani: Just on the MMA side. As you mentioned a little bit, our Q-o-Q revenue, our volume growth is around 10%, while if you take out production data, volume growth was close to around 78 %.

So around 65% to 70% deviation is purely because of the bulk shipment which moved in early January. Or we are building up inventory also for the upcoming good demand?

Suyog Kotecha: No, we are building inventory as well, so it's a combination of delay in shipment as well as build-up of inventory of final products.

Jignesh Kamani: Understood. So can you help, how is the, production volume growth Y-o-Y for 9 months?

Suyog Kotecha: So I think, on a 9-month basis if you look at MMA, at least at the production level, we were roughly at 59 kt for the previous financial year; versus this year, first 9 months, we are roughly at 88 kt. So that is the kind of growth we are seeing from production point of view.

Jignesh Kamani: Okay, understood. Thanks a lot.

Moderator: Thank you. Next question is from Nitesh Dhoot from Dolat Capital. Please go ahead.

Nitesh Dhoot: Hello. Thanks for the opportunity. So with regards to your Prozeal SPV investment. So here Aarti Industries is transacting with a company where Mr. Gogri, the promoter of Aarti Industries, has a pre-existing interest. So if you could just clarify, how much is the promoter stake in Prozeal Green Energy? And any specific reasons why Aarti Industries couldn't directly have an investment in Prozeal Green Energy instead of Mr. Gogri having an investment?

Suyog Kotecha: Yes. I think these two are separate matters. I think what we are doing as Aarti Industries Limited is we are looking at group captive opportunities to purchase renewable power compared to the power that we are currently purchasing from the grid. And for that, a formal process was run for both solar as well as hybrid.

And both parties, Clean Max and Prozeal, were selected based on that formal process, wherever we got the least rate in terms of rupees per kilowatt hour over a 15- to 20-year kind of supply agreements. I would not comment on Mr. Gogri's personal investments at this stage, but the only thing I can tell at this point in time, it's a competitive process run to select the partners for group captive projects. And that's the outcome of it.

The supply that is going to come from Clean Max hybrid group captive is going to be significantly larger. I think the supply that's going to come from Prozeal is dominantly solar, which will also come in a much faster time frame within this calendar year itself. And both projects put together will deliver significant cost savings to AIL as part of their power cost saving initiatives.

Nitesh Dhoot: All right. Thank you.

Moderator: Thank you. Next question is from Pratik Oza from Systematix. Please go ahead.

Pratik Oza: Yes. Thank you for the opportunity. I just wanted to understand. What's our hedging policy? And given that the rupee is depreciating and it might depreciate further, so the MTM loss which we saw of INR23 crore, can we expect the same amount, number in Q4?

Chetan Gandhi: So, on the hedging policy. I mean, if you look at it, we are a net exporter. So our exports is almost, around INR4,000-plus crore every year. So one of the way to look at hedges from a long-term perspective is that you keep some part of the liability open. Unfortunately, the accounting principle prevails, which says that the benefit which you get on the exports over a longer period of time is not to be recognized.

However, in case of the liabilities, the variation has to be accounted on the day it happens or it prevails, so which is where it is. So from a structural perspective, the rupee depreciation, despite keeping an ECB open, will benefit us over a long-term perspective. There will be a quarter-on-quarter, depending on how the rupee depreciates, there will be some benefit available in the top line and which could be visible.

As regards your second question, in terms of the impact which would come in the subsequent quarter, yes. I mean we've seen December quarter ending at a rate of 85-60 to 65 or something. We'll have to see in terms of at what rate the March quarter will end. So the open exposure of around $130 million will be kind of re-evaluated or revalued, basis the delta differential between the December and March quarter. And the appropriate accounting treatment for that will be done. It's more of a practice which will be followed, which has been followed year after year and which continue to be there.

Moderator: Okay. Thank you. Next question is from Bhavin Soni from Anand Rathi. Please go ahead.

Bhavin Soni: Sir, I just wanted some more light on the gross margin. So how much will be the effect of aniline build-up? And how much will be the effect of if you have taken any pricing hit on MMAs for pushing volume? Because there is some pricing adjustment strategy mentioned in the PPT.

Suyog Kotecha: Yes. So I think both of these are linked to each other. I think more representative gross margin number is potentially in the range of, I think, 13%-odd kind of a range. EBITDA margin and that correspondingly sort of getting converted into gross margin numbers. But difficult to segregate the impact because, both are linked with each other. I guess, in Q4, you will get a much better handle of the gross margin numbers, as the inventory impact of aniline is taken care in the Q3.

Bhavin Soni: Okay. And lastly, just from an industry perspective, like, if you could just highlight on global capacities in MMA and MTBE and would MMA going forward take much share from MTBE, or no?

Suyog Kotecha: I think both are, frankly, not comparable. MTBE, we are talking about, if my understanding is right, more than 30 million tons of global capacity, versus MMA global capacity remains significantly less than 1 million tons, right? So I think difficult to compare them. MTBE has been around for decades and very well-established product to be used as octane booster, versus MMA is a challenger and recently started in last few years. Both have their own pros and cons, but given the penetration level and the recency that we have on the MMA, we feel confident of scaling up that business over the next few years.

Bhavin Soni: Okay. Thank you.

Moderator: Next question is from the line of Ankur Bhadekar from ULJK Financial Services. Please go ahead.

Ankur Bhadekar: Hi, sir. Thank you for the opportunity. So a couple of questions from my side. My first question is, we are seeing a good volume growth in nitrochlorobenzene. So is this volume improvement mainly due to better nitric acid availability? Or is it the result of a structural increase in demand?

Suyog Kotecha: No, it's a combination of both. I think, yes, we do face nitric acid supply challenges given the kind of supplier portfolio that we have in the country, but I will say the increase that you are seeing is a combination of both increased reliability as well as increased demand from downstream segments. I think we discussed this in some of the previous questions. One of the major downstream use of NCB, especially PNCB, is into paracetamol and as the consumption in that segment goes up, the demand for PNCB in the domestic market also goes up.

Ankur Bhadekar: Okay. So my second question was how complex are the products that we are going to manufacture in the fluorochemical space in terms of, number of reactions or process chemistry or R&D, like if you could provide some light on that part.

Suyog Kotecha: So difficult to answer the question at a generic level. I think the only thing I can say is that, all of our new product developments that are happening, they are relatively complex, which involve at least 4 to 6 chemistry steps before we reach the final product step, right? So from starting with a bulk product like NCB or DCB or a PDA or NT, which is what we call sort of bulk chemicals. From that 4 to 5 reaction steps downstream is where we are doing most of our new product developments.

Ankur Bhadekar: And what will be the margin profile of those products, like, on an average? Can you give some, like, ballpark number?

Suyog Kotecha: Again, it would vary product by product, and the multiple. We're talking about 25, 30 different products, so it is difficult to generalize the answer, but in general, as you have more steps in terms of reaction steps as we go through the manufacturing process, the margin profile should ideally improve and look better than bulk chemicals.

Ankur Bhadekar: Right, and that's it from me. Thank you so much.

Moderator: Thank you. Next question is from Kushal from Shah Securities.

Kushal: Thank you for the opportunity. My question is in terms of what is the pollution profile of monomethyl aniline, firstly? And secondly, in the last con call, we said that we are also providing a solution-oriented business for this particular molecule, so could you explain what kind of solution we provide to our customer and how difficult it is to replicate that solution for someone, some other player?

Suyog Kotecha: I think the solution varies, depending on the nature of the customer. In some cases, it could be supply chain complexities, ability to handle large-volume cargoes over a large distance while maintaining the quality of the product. In some cases, it could be a formulation for a specific customer, depending on their sort of product portfolio available and what properties they are looking to meet in their end cargoes. So I think the nature of the solution we provide varies, depending on the customers that we are targeting.

Kushal: Thank you for the answer. And my second question was on what kind of pollution profile does monomethyl aniline have? Does it increase the pollution of the fuel? And also, could you compare it with other kind of octane boosters that are available in the market? Like, as a customer, why would I use monomethyl aniline over some other octane boosters? What are the benefits of it?

Suyog Kotecha: So I think, from a pollution profile, there is no adverse impact on our customer. And usually this product is blended at less than 1% to 2% in the final fuel component, so the overall impact, it's significantly lower. The true USP of this product is the higher octane number, right? So we are talking about an octane number which is 400-plus kind of a range, versus a conventional gasoline will typically have around in the range of 90-odd numbers. And that is the USP of this product, because of which we are able to create different solution profiles for our customers.

Kushal: I have heard that certain geographies have banned this kind of product. So do we anticipate that the current positions where we export it can be banned it in future?

Suyog Kotecha: No, we do not anticipate that. I think that it's also a little bit misunderstood in the global market. Sometimes the ban is also linked to ability to handle the products, right? So as we educate more and more countries' port operators and customers on how to handle these products, we are able to scale up usage of these products. The fact is, the countries like U.S. or the countries like in the Middle East are able to use this product suggests that the product is commercially deployable in most of the gasoline cargos globally.

Kushal: I'm thankful for the answers. That was very deep explanation. Thank you.

Moderator: Thank you. Next question is from Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Thank you so much for the follow-up. Just a couple of quick book keeping questions. One is on the net debt number for the end of the December quarter, if you could please share that. And second, on the tax rate, given that we've had a kind of a tax benefit throughout the year, what sort of numbers should we work with for fiscal '25 as well as '26?

Chetan Gandhi: I'll take the tax rate question first. The tax rate in this year, considering that a lot of projects are getting commercialized and there will be some IT depreciation benefits; will continue to remain the way it is currently. So it will be marginally negative and or about closer to 0. Next year, it should be in a more like a low single-digit kind of range, at least at this point of time. That is what I've been saying. On the debt number, we are fairly similar to around INR3,600 crore of debt broadly on that, on net debt basis.

Abhijit Akella: That was INR3,300 crore, right?

Chetan Gandhi: Currently at INR3,600 crore.

Abhijit Akella: INR3,600 crore. Thank you so much, sir. All the best.

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

Suyog Kotecha: Thank you, everyone, for taking your time to join us on this conference call. I think the company is much stronger with renewed vigor on excellence, innovation, passion and determination. As a global partner of choice, which is our vision, we will continue to serve and expand our robust client base while ensuring sustained value creation for our shareholders by optimizing our assets and venturing into newer business opportunities.

I hope we have been able to address all of your queries. If you have any further question, feel free to contact our investor relations team; and we will do our best to address them. We look forward to connecting with all of you again in the next quarter. Thank you. Thank you once again.

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