May 20, 2024

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 Q4 FY24 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, May 13, 2024 on Audited Financial Results of the Company for the quarter and year ended March 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: 2024.05.20 15:48:09 +05'30'

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

Aarti Industries Limited
Q4 FY '24 Earnings Conference Call
May 13, 2024

Moderator: Ladies and gentlemen, good day, and welcome to Aarti Industries Limited Q4 FY'24 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 from CDR India. Thank you, and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone, and thank you for joining us on Aarti Industries' Q4 FY24 earnings conference call. Today, we are joined by senior members of the management team including Mr. Rajendra Gogri, Chairman and Managing Director, Mr. Rashesh Gogri, Vice Chairman and Managing Director and Mr. Chetan Gandhi, Chief Financial Officer

We will commence the call with opening thoughts from Mr. Rajendra Gogri. Post which, we shall open the forum for Q&A, where the management will be addressing queries of the participants.

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

I would now invite Mr. Rajendra Gogri to share his perspectives. Thank you, and over to you, sir.

Rajendra Gogri: Thank you. Good afternoon, everyone and welcome to our Q4 & FY24 earnings call. I will take you through our performance, insights on the industry dynamics and strategic initiatives.

Firstly, let me summarise our annual numbers For FY24, revenue came in at Rs. 7,012 crore, while EBITDA stood at Rs. 984 crore. Profit After Tax was at Rs. 416 crore. The Board has recommended a dividend of Rs 1/- share (i.e 20%) for FY24.

We delivered resilient performance during the year despite severe global pressures emanating from sluggish demand trends globally leading to slower exports trajectory as inventory adjustments. These challenges were further compounded by geopolitical crises impacting the global supply chain and logistics. Against this backdrop, we have demonstrated a stable performance anchored by our nuanced understanding of market dynamics combined with cost leadership and a differentiated product portfolio.

While the overall global macroeconomic environment remained subdued, we witnessed demand recovery in discretionary applications catering to dyes, pigments, speciality polymers and additives among others. Macro concerns related to Non-discretionary segments serving certain end-user industries still persist.

Let me now share the key performance highlights for the quarter under review. Our consolidated revenues increased by 3.5% to Rs. 1,955 crore in Q4 FY24 over previous quarter Q3 FY24. EBITDA including other income grew by 5.6% on Q-o-Q basis to Rs. 283 crore in Q4 FY24. EBITDA growth reflected an optimised cost structure, driven by higher volume resulting in improved operating efficiency and favourable product mix. As a result of this performance, we conclude the year with an annual EBITDA of about Rs.984 crore, consistent with the guidance provided in our previous quarters. Profit after tax stood at Rs. 132 crore in Q4 FY24, higher by 6.5% over previous quarter Q3 FY24. PAT performance was in-line with operational trajectory and benefited from favourable tax position. Build-up in interest costs and depreciation aligns with the launch of new capacities scheduled during this year.

Performance on Q-o-Q basis was steered by volume growth, planned ramp-up of long-term contracts and recovery in discretionary portfolio. Our domestic : exports mix stood at 52 : 48.

I will turn your attention to production highlights for Q4FY24. The production of Nitrochlorobenzene stood at 17,646 metric tons, as compared to 18,842 metric tons recorded in the same quarter last year and the 19,580 metric tons in Q3FY24. Meanwhile, Nitrotoluene saw a production of 6,675 metric tons, against 6,130 metric tons last year and 6,951 metric tons in Q3 FY24. Additionally, Hydrogenation output stood at 3,389 tonnes per month in the current period, compared to 3,315 tonnes per month in the corresponding period last year and 3,644 tonnes per month in Q3 FY24

I would like to now share some updates on our growth initiatives. We entailed a CAPEX of over Rs 1,280 crore in FY24 on project expansions, and plan to spend another Rs 1,500-1,800 crore in FY25. All our growth endeavours are advancing as scheduled, and we foresee the gradual commissioning of several projects within the coming year. This includes Acid Phase-2 Capacity Expansion, Specialty Chemicals Blocks, Ethylation, NT Capacities and Asset Upgradation among others. Our Chloro Toluene project is also advancing well, with the initial phase projected to commence by FY26. Upon completion, these projects will cement our distinctive position in the global chemical value chain and enhance our performance trajectory.

With commissioning of several ongoing projects and anticipated volume ramp-ups in existing products, we continue to maintain our expected EBITDA guidance of Rs. 1,450-1,700 crore for FY25. This outlook is supported by sustained recovery in discretionary segments, emerging indications of revival in the non-discretionary portfolio and the operating leverage benefits expected to accrue with the increase in volume in FY25.

To conclude, Aarti Industries not only possesses cost competencies and global reach but also boasts an established R&D framework. As an integrated player and partner of choice, the Company's strategic positioning enables it to proactively navigate the dynamic landscape within the industry. We aim to leverage this extensive expertise, maintain a steadfast focus on our values of Care, integrity and excellence, and fortify our position to enhance value for all our stakeholders.

With that, I will now request the moderator to commence the Q&A session**.** Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We will take our first question from the line of Mr. Vivek Rajamani from Morgan Stanley.

Vivek Rajamani: Sir, two questions from my side. Firstly, if you could just give a little bit more color in terms of why the volume numbers were lower on a Q-on-Q basis? Which segments were, relatively weaker compared to the last quarter and what kind of trends you've been seeing in the quarter so far?

And the second question was with respect to your EBITDA guidance, which you've obviously maintained, but just wanted to get your sense in terms of the trends that you're seeing and in terms of the conversations that you're having with the customers, how confident are you of achieving something closer to the high end? Or do you think you would rather have to wait to see how the recovery shapes up before some of these things start to get a bit more clearer?

Rajendra Gogri: Yes. This agrochemical segment is under pressure. So volumes in that segment are getting impacted. Whereas on the discretionary side, dyes, pigments, and other segments, there we are seeing good traction as far as demand is concerned. For FY'25 guidance, there will be a lot of factors which will determine whether we will be on the higher end or lower end.

It will remain on how the volume grows up when this demand goes up as well as our commissioning of our projects and the stabilization of those facilities. So as of now, I think we are not able to narrow down the guidance. And as we move forward, I think we'll be able to do so in coming quarters as far as the next year's guidance is concerned.

Vivek Rajamani: Sure, sir. Just one quick clarification. The fact that agrochemicals is under pressure is well reflected in the lower Nitro Toluene volumes. If I could just clarify the lower NCB volumes is also purely accumulated? Or is there something else as well over here?

Rajendra Gogri: Yes. So nitric acid pressure was also there during this quarter, so that has also partially impacted volumes. And some of the NCB product also goes in agro and pharma. So that impact was also there.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Good to see the sequential recovery. So first question is again on the discretionary and nondiscretionary segments – which geographies are seeing positive traction and which in all geographies are still reeling under pressure, if you could just tell us from the exports perspective?

Rajendra Gogri: We make this intermediate going into a different geography and then the finished molecules are made in – mainly in U.S. and Europe as far as agrochemicals are concerned, and there is export across the globe from that. So it'd be difficult to know what will be the impact on geographical factor as far as agrochemicals are concerned. But overall, on an annualized basis, we had about 11% North America, 6% Europe and 4% in China, 3% Japan and rest of the world, 28%. So that was the geographical composition, which was given in our presentation also.

Rohit Nagraj: Sure. Sir, second question is in terms of the capex. So this year, we had a slightly lower capex of INR1,300 crores. We had expected INR 2,500 crores to INR 3,000 crores of capex for two years. Now we have raised it to INR 1,600 crores to INR 1,800 crores for FY'25. After that, the similar run rate will continue? And in FY'25, which in all will be the major projects which are what added to this capex?

Rajendra Gogri: Yes. This is in respect of our existing product line, which we see as zone 1, 2 and 3. All those projects, we expect to get fully commissioned in FY'25, such as acid phase2 then ethylation expansion at Dahej site and Nitro Toluene expansion at Jhagadia and some other specialty chemical debottlenecking some expansion will get commissioned during the FY'25. And other major spending will be in our new site at Jhagadia, where multipurpose plant and entire Chloro Toluene and downstream product plants are being put up.

Rohit Nagraj: Sure. And FY'26 similar run rate would be continued?

Rajendra Gogri: FY'26, no, we have not yet fully finalized the numbers. I think that will be maybe in the next couple of quarters, where we'll be able to give a clearer guidance on the capex for FY'26.

Moderator: Our next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: In this quarter, we have seen a significant increase in gross margins on a quarter-on-quarter basis sequentially, I'm saying. But at the same time, there is a significant increase in the other expenses also December quarter versus March quarter. So could you please just help us understand what might be driving that? Is it basically the freight cost increases that are being passed on?

Chetan Gandhi: Yes. So you're right, Abhijit. The increase in the other expenses is majorly or primarily on account of the freight cost increase, which is passed on to the customer. But in addition to that, the product mix, and a bit of margin improvement across the existing businesses has also helped in terms of improving the gross margin.

Abhijit Akella: Okay. So this is a good run rate for operating expense or other expenses to trend off of for the year ahead?

Chetan Gandhi: So other expenses, I mean, if you look at the fixed overhead, the fixed overhead virtually would not increase substantially, barring some 5%, 7% of inflation increase, it will be virtually constant or similar. The other expenses also include a component of variable costs such as freight and production costs such as effluent treatment or power, labor also. So that would be linked with volume. But excluding those variable components, which are linked with volume, the fixed overhead will virtually be similar.

Abhijit Akella: Understood. And just on the volume front, one was just to understand the quarter-on-quarter revenue increase this quarter, has it come primarily from the long-term contract we've just signed because the production volumes are actually down across all categories? So that was one thing. And then if you could please just also share the PDA volumes for the quarter.

Rajendra Gogri: Yes, the volumes were our regular volumes as well as long-term contract volumes were also there.

Chetan Gandhi: PDA was at 523 tons per month.

Moderator: The next question is from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Sir, couple of questions. Sir, first is on the Q-on-Q sequential growth. Though it is encouraging to see the Q-on-Q growth, but what we have indicated earlier that there is a recovery across the segment and end user industry maybe only except agrochemical. However, it is still kind of muted in terms of volume growth also on Q-on-Q and even on -- revenue is also quite like Q3 number. So just wanted to understand that the sequential recovery which you were talking about and the indicated EBITDA target which we have earlier indicated, are we on track for that? Because it doesn't seem like the Q4 recovery for our company is so strong to achieve those numbers for FY'25.

Rajendra Gogri: I mentioned agrochemical has remained softer. So that has given the impact on the volumes as well as some nitric acid issue also had impacted the volumes in Q4. But now that is getting stabilized and as you know, more volume grew in discretionary segment and also stabilization on agrochemical side, we'll see that continuous quarter-on-quarter volume increase in FY'25.

Rohan Gupta: Sir, you mentioned that agrochemical still remains challenging and that's what you also mentioned in the recent interview, will we see that in first half, agrochemical still remains challenging. So despite that, you are confident about the volume growth overall for the company and also if you can restate your guidance what we are looking for FY'25?

Rajendra Gogri: Yes. Agrochemical first half will be challenging. But I think in the second half, I think we should see a good recovery in agrochemical. And also some of our expansion also will kick in Q2 and Q3 of this year. So that will also help us in increasing the volumes.

Rohan Gupta: Sir, in terms of capex number, you mentioned FY'25, you're looking some INR 1,700 crores, INR1,800 crores capex. Am I right on that?

Rajendra Gogri: Yes, it was INR1,500 crores to INR1,800 crores.

Rohan Gupta: Okay. Sir, if you can just give further breakup in terms of the overall capex INR 1,500 crores to INR1,800 crores? Also can you give some guidance for FY'26 capex number if it will be similar towards FY'25? And overall INR 3,000 crores to INR 3,500 crores which we are planning to invest in the next 2 years, the likely investment of it, in which segment we will be looking at, if you can share those numbers?

Rajendra Gogri: Yes. This year, a substantial portion will be going in our new site expansion and other Zone 1, 2, 3 expansions will be more on completion of that. So I think more than 50% will be going in our new site as far as FY'26 is concerned, the numbers have not been fine-tuned, but it will be upward of INR 1,000 crores for sure, but then exact number, we'll have to still fine tune.

Rohan Gupta: Sir, new site that, if I remember, that is mainly for Chloro Toluene, right? Or you have also identified some of the products to be manufactured on the new site also from the existing portfolio?

Rajendra Gogri: There will be a multipurpose plant also will be put up there. So there will be some of this multipurpose plant may be linked to some of the existing value chain or Chloro Toluene or some stand-alone product also. So we'll first time have multipurpose plant also on the ground at that location.

Rohan Gupta: Okay. So it's not like that the entire 50% expansion on new site will be only for the Chloro Toluene, some part of that will be existing product basket as well, including MPP?

Rajendra Gogri: Yes. The MPP will have product coming from various channels, products coming from existing lines or the Chloro Toluene or the new stand-alone.

Rohan Gupta: Sir, is it possible for you to give a breakup in terms of end user industry for FY'24, which has just completed, I mean, segmental like how much from agrochemical and pharma or maybe polymers, if you can give a broad breakup?

Rajendra Gogri: This agro and pharma were around 35% and discretionary around 65%, and 35%, 65% kind of a number was there between discretionary and non-discretionary.

Rohan Gupta: And with discretionary, where we still continue to see the strong growth while agro only can see the recovery in second half.

Rajendra Gogri: Yes.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question on working capital side. If you can highlight while on receivables, we have seen an absolute reduction but inventory and overall working capital in terms of number of days remains slightly higher. So your thoughts there in terms of outlook?

Chetan Gandhi: So on the working capital on inventory, there were couple of products which were to be shipped out in March, and it just got shipped out in April. So some matter related to that. Otherwise, it should be higher. Secondly, when you're looking at the day comparisons, I would request you to look at the numbers vis-à-vis the quarterly revenues and not the annual revenues because the average pricing for the second half was a bit more than what was there in the first half on the input and a couple of other input cost components.

Ankur Periwal: Sure., sir. Secondly, on the capex side, while we did mention INR 1,500 crores to INR 1,800 crores and if I hear you right in the opening remarks, you did mention some bit of this capex will be for revamp of the existing project, so just any broad thoughts in terms of what could be the potential revenue that we are looking at here? And how much of this capex will be going into replenishment?

Rajendra Gogri: No, the capex basically is for, the second ethylation block and Nitro Toluene, which is an ongoing capex and Acid phase2 and some specialty chemical block. So there are ongoing expansion for our current product range that is where the major volume increase will happen in this year and also, further volume increase will happen in FY'26 from this existing product line at our current locations.

Ankur Periwal: Sure. sir, let me rephrase my question. Whatever capex we are doing, INR 1,500 crores to INR 1,800 crores FY'25, all of this will be productive capex either in terms of revenue or in terms of backward integration benefit?

Rajendra Gogri: Yes, virtually, I think, except some normal maintenance capex, but this is not significant.

Ankur Periwal: Sure and sir, lastly, on the nitric acid part, you alluded to a shortfall of the supplies there and hence slightly slower volume growth. If I remember it right, we had signed up a longer-term contract there, right, for nitric acid supplies. So if you can just share your comments why the disruption in supply and how do you see that playing out?

Rajendra Gogri: Actually, our supplier is putting up a larger facility, and that will come up in FY26. So currently, we are getting material from other existing sites. And we have contracts. So accordingly, we could get a good volume. But still, overall, there was some disruption, which had a partial impact.

Ankur Periwal: Okay. So FY'25 will further see disruption or possible disruption because of this supply issue? Or how do you put this at that?

Rajendra Gogri: Yes, the suppliers; our major expansion is going to come in FY'26. So in FY'25, some other nitric acid capacities may come up in India, that's what also is expected. So that kind of can mitigate some sort of any disruption happening.

Ankur Periwal: Sure. So '26 onwards, it should be fairly straightforward in terms of supply?

Rajendra Gogri: Yes.

Moderator: The next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: I have a couple of questions. So first one, just the way we have kind of given a guidance for FY'25, the lower end, and the higher end of the EBITDA guidance span – would you be able to venture a number with respect to the peak EBITDA that we can achieve from the existing assets that you have, excluding the upcoming capex in Chloro Toluene and the multipurpose plant? Could there be a range that you can guide?

Rajendra Gogri: Yes. I think another additional 10% to 15% should be possible. So more towards INR 2,000 crores kind of a number should be possible from ongoing existing location expansion.

Archit Joshi: Sure, Sir, my second one was with respect to the NT and ethylation plant. I think both of them are going to be key contributors to both the contracts that we have recently gotten into. Would you be able to share the highlights of what we did with those 2 contracts in FY'24 if you can substantiate that also with the commissioning of these two facilities in FY'25 for which the capex is ongoing, would the entire volume be assumed to be diverted towards these 2 new projects that we have signed? So I was just trying to understand how the volumes will shape up with the new facility commissioning.

Rajendra Gogri: Yes. This second contract, which was announced out of the 2, which was INR 1,500 crores for the next 4 years is not connected to ethylation and those product lines. The first one, which was an agrochemical intermediate that is coming from that Nitro Toluene and ethylation line. So there, we expect increase in sales from this year partly and the next year onwards, it will give a full year impact. As the first one, INR 1,500 crores, I think, it is an ongoing, so in that already the ramp-up has taken place.

Archit Joshi: Sure, sir. Wherein, I was trying to understand how much from these 2 contracts, I mean the first contract size was close to INR 1,500 crores, your second contract and the first one was close to INR 330 crores. How much would have we done in FY'24?

Rajendra Gogri: FY'24, I think it was below INR100 crore as some agrochemical impact had taken place. But this year, we expect more around INR250 crore or so.

Archit Joshi: And sir, the second one, the INR 1,500 crores one?

Rajendra Gogri: So that is running on a regular basis.

Moderator: The next question is from the line of Rishi Kothari from Pi Square Investments.

Rishi Kothari: My question was more or less addressed on the segment front. But I just wanted to get an idea as to what exactly other industries that we are looking to diversify in places further in terms of chemical? Are there any some attractions in terms of other industries that you're looking at to diversify our product?

Rajendra Gogri: Other than the chemical industry?

Rishi Kothari: No, in chemicals industry itself in terms of segment, let's say, we are into agrochemicals and dye in the segment and all that, so in terms of segment bifurcations.

Rajendra Gogri: So basically, we are very well diversified on agro, pharma and dyes, pigments, energy sector and all. In addition to that, we are looking at the sunrise sectors, which are more also going in this battery storages and all that or circularity of chemicals or biochemistry and all that. So that is another sector which we are looking. But as of now, we have not started investing in any of them, yes, but they are on our radar and also at various developmental stages. So we'll be going into those product line also in the coming years.

Moderator: The next question is from the line of Surya Patra from Phillip Capital India Pvt. Ltd.

Surya Patra: Sir, my first question is on this MEA and the Nitro Toluene capacity, which is likely to be commissioning this year. So could you say what is the exact timeline that you're anticipating? and any progress on that in terms of the contract with any customer for those products that you have already signed or anything on that front, if you can give some clarity about it?

Rajendra Gogri: That will be looking at Q2 of FY'25, the commissioning for both Nitro Toluene and the downstream. And some of the volumes are tied up with those products.

Surya Patra: So that means the utilization and the demand visibility about those facilities are that is there and if it is, it is coming from which segment if you can share, sir?

Rajendra Gogri: It's mainly in agrochemical segment. This ethylation blocks are mainly going into agro.

Surya Patra: Okay and so these are also of the kind of a more downstream product where the margin visibility would be more than 25%?

Rajendra Gogri: Yes. If you take it from base molecule, yes, it will be of those kinds.

Surya Patra: Okay. My second question was about the margin trend for the value-added product, what you have been indicating, sir? So like 25% to 30% kind of margin for the downstream product that you have been talking. So from the initial time period when you have started talking about it, from that particular point, we have seen significant changes in the cycle. The prices, let's say, have moved down significantly and now started recovering and all that.

So the up-cycle, down-cycle both we have played out from that initial point. But still, you are maintaining your margin expectation in the similar rate. So from where is that confidence coming? Is it because of the spread generally, what you enjoy on those products? So that is why you are confident about maintaining the margins of beyond '25 for the downstream product or it is something else that you are getting confidence from?

Rajendra Gogri: No, we have a basket of products. So some of the products, there may be pressure. So on an average, this value-added product will give you a 25%, 30% range as EBITDA margin in that.

Surya Patra: Okay. Sir, just an extended question to this. These R&D initiatives, that you have taken, let's say, with a deeper focus on the product development and research and development. So you have set up your Navi Mumbai plant, Navi Mumbai R&D center in FY'21 and I think now already 2 to 3 years is already passed? So what is the kind of progress on that front? and what achievement that you have seen from those initiatives? And what is the current R&D spend per annum if you can give some clarity and some future visibility out of those initiatives, that would be really helpful?

Rajendra Gogri: Yes, this entire Chloro Toluene range that is all in-house because we'll be adding a lot of new chemistry in that photochemistry, nitrilation, hydrolysis and grignard chemistry. So a lot of different chemistries, the products will be coming up in this entire Chloro Toluene range and also in a multipurpose plant. So all those products R&D has been done in-house from this new R&D centre.

In addition to that also, I mentioned on this sunrise sector, there also we are in touch with the global major companies as well as start-ups for developing newer product back-end manufacturing and development for them also. So those R&D also is happening at new center.

Surya Patra: Okay. So this is the point that I wanted to understand. So basically, like the collaborative research aspects with the potential customer for the new product opportunities. So generally, when we are talking about multipurpose plants, UMPPs, customer manufacturing opportunities and the value-added products in the specialty chemical, all that, see generally, these projects are backed by ready contracts with the innovator or something like that. So here, as you are saying that you have already started working on those fronts. So any progress in terms of alliances that you have already seen, but possibly when the commercial opportunity will be fructifying then you'll be announcing. So anything on this front, sir?

Rajendra Gogri: Yes. Various products are at different levels. Some at R&D, somewhere near where we have supply pilot quantities and all that. So different projects are at different stages and we see good opportunities on those going forward. So those product lines, it will be not China plus One. It is India first because this newer product line, the customers might prefer India as a source, as a priority. So we see a good opportunity on tying up with those kinds of businesses.

Surya Patra: Sure, sir. Just last one question from my side, sir. In fact, if we see the FY'24 performance, in the domestic market, obviously, we have seen an 11% decline, while supported by the supply contract, exports are positive. But in terms of the volume, so I think if the prices, we know that large part of the domestic sales would be, may not be towards the downstream product, it could be the initial value chain-based product. Still, we are seeing revenue declining by 11% only, while prices have corrected significantly. So that means whether we have seen a volume growth in the domestic market for FY'24?

Rajendra Gogri: No, actually, the price also depends on the raw materials. If you see the second half, the raw material prices of benzene and all were higher. So that also kind of reduced impact, when we talk about the sales number. So some of that increase is because of the raw material price increase also.

Surya Patra: Okay. But whether any concern that is there about the domestic market in terms of volume progression or decline, sir?

Rajendra Gogri: No, ultimately, even sector-wise, it is basically a global impact because as we have mentioned earlier also, a lot of our products which are going in domestic ultimately end up being exported. So it is a global market on a back end, which is giving the impact. So domestic consumption for it will be only around 25%, rest will be direct or indirect export.

Surya Patra: Okay. So domestic may not have that relevancy then.

Moderator: The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv Asset Management Company.

Sabyasachi Mukerji: Sir, my first question is this morning on TV interview you mentioned about 20% to 30% volume growth for FY'25 versus, I believe, in the last call, Q3 earnings call, you mentioned somewhere around 20% volume growth. So question A is, what gives you confidence on, let's say, up in the range from 20% to 30%?

And second question is from which quarter do we see this growth coming? Because Q4, we saw weak tepid volumes, so Q1 is, again, I think, will be on the similar lines? Or do we see volume uptick from Q1 onwards only?

Rajendra Gogri: Yes. Actually, our earlier guidance was 20% to 25% in the last con-call, so that we have increased to 20% to 30% as a range. And the volume growth will happen from this Q1 FY'25 itself, we expect the volume to grow and quarter-on-quarter, we expect volume to grow this year.

Sabyasachi Mukerji: Oka, and Q2 onwards, and when the new projects get commissioned, the volume growth will be far superior than what we are witnessing now. Is that a right assumption?

Rajendra Gogri: Yes,. From Q2 onwards, this may project also. So second half volume growth will be substantially more.

Sabyasachi Mukerji: Okay. That's good to hear. Chetan bhai, I have a question for you. You mentioned in the presentation as well that the increased freight cost during quarter 4 due to Red Sea disruption had caused some effect. So if I look at Q3 to Q4, the other expenses have gone up by 19%, almost INR 268 crores to INR 319 crores and whereas we had a 7% decline on sequential volume decline, could you quantify what was the impact, the freight cost this quarter?

Chetan Gandhi: So the freight cost increase gets substantially passed on to the customer. The volume decline is only for those few select products, for certain products, for example, like Nitro Toluene also -- PDA, we do have volume increase. So we've got a very large product basket and there has been volume increase across some of the other products as well.

Sabyasachi Mukerji: No, but still, I mean, what kind of freight cost, I mean, increased freight cost that we ended up paying, I mean INR 50 crores is a large number, right? I mean, from Q3 to Q4, if I just look at the absolute delta in other expenses.

Chetan Gandhi: Yes. So that freight cost increase is something which we have to bear, and we pass it on to the customer.So on a value basis, the component is relatively smaller. If I look at comparing it to a turnover and it gets passed on to the customer as a part of; like similar to other input costs, this also gets passed on to the customer

Sabyasachi Mukerji: Okay and you also mentioned there is some; if I look at the other expense bucket, the fixed overheads generally quarter-on-quarter basis should remain largely similar and on a year-on-year basis, it will follow some inflationary growth. So out of this total, let's say, INR 260 crores to INR 300 crores of quarterly other expense, What portion would be fixed and what portion is variable broadly?

Chetan Gandhi: So the variable component would be somewhere in the range of around 40%-50%. I still have to see down some numbers, but yes, beyond that, 40% to 50% could be variable. So it's not just the freight, there will be a lot of other components which is linked to production, which could be there like effluent treatment and other things.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: Two questions. One is, a, on the newer projects which are there that we're talking about launching FY'26 onwards. So these are largely oriented for the import substitution or are these going to be primarily export products?

Rajendra Gogri: Yes, it will both import substitution as well as export. So more towards a 50-50 kind of a mix.

Nitin Agarwal: Okay. And sir, with respect to whatever has been happening in China in terms of increased capacity, especially on the agrochem side of intermediates and AIs, I mean, does any of these calculations change for you or any of the business case has changed for any of these products, especially from export perspective?

Rajendra Gogri: Not significantly.

Nitin Agarwal: Okay. And sir, lastly, although you touched upon it, for the INR 1,450 crores, INR 1,700 crores EBITDA guidance that you gave for next year, this should be what a back-ended guidance in a sense, we'll see much, much stronger H2 and H1? And what would the split be like 40-60, 30-70? How should we look at that?

Rajendra Gogri: Yes, I think it will be more 40%-45% and 55%-60%.

Moderator: The next question is from the line of Aditya Khetan from SMIFS Institutional Equities.

Aditya Khetan: Sir, first question is on to the agrochemical demand outlook. As you have mentioned that for this quarter also, the demand has been lower only and we are standing into like May and June of this calendar year, so you are expecting like demand will remain muted for this calendar year complete or like improvement is expected from next quarter?

Rajendra Gogri: Yes. Basically, it will be generally, this will be always product specifics. So somewhere the demand will pick up in this quarter, next quarter, and all. And some of them which are annual bases, where the demand pickup will be more happening in calendar year '25. So it will a bit more product specific, but by end of the year, things would get normal. So calendar year '25 should be near normal for all the products.

Aditya Khetan: Okay. Sir, on to the nitric acid supply disruption issue, sir, is it possible to quantify how much volumes have been impacted because of this nitric acid issue?

Rajendra Gogri: Absolutely it will be difficult. But the Nitro Chloro Benzene and all, we have seen some decline, so that is where some impact was seen.

Aditya Khetan: Okay. Sir, my last question is on to the dicamba intermediate. Sir, is it possible to give out the revenue figure for FY '24? And what is the utilization level this operated on?

Rajendra Gogri: So say that demand for that agro is struggling. So the hydrogenation part is where we can utilize, but the last part, which is more of a dedicated plant, there has not been a very significant volume for this quarter.

Moderator: The next question is from the line of Siddharth Gadekar from Equirus.

Siddharth Gadekar: Sir, first on the MMA contract, which we had announced in Jan, the INR 6,000 crores contract. Can you just quantify how much revenues have been booked in FY'24? And how much incremental revenue we are expecting in FY'25?

Rajendra Gogri: It has started from the quarter. So the entire FY'24 will be difficult to get the number in that sense. But first quarter, the impact has started coming in.

Siddharth Gadekar: So incrementally, how much revenue should we expect from this contract on a Y-o-Y basis?

Rajendra Gogri: Y-o-Y, this is 50% to 60% at least.

Siddharth Gadekar: Okay and sir, from the second contract, what was the contribution in FY'24?

Rajendra Gogri: Below INR100 crores because the subsequent impact of the demand came up.

Siddharth Gadekar: And in FY'25, do we expect it to go to INR 300 crores or it will be below INR 300 crores?

Rajendra Gogri: I think it will be more towards around INR 250 crores for FY'25.

Siddharth Gadekar: Okay. Sir got it and then lastly for Chetan bhai. So what should be the tax rate that we should work with for FY'25 and '26?

Chetan Gandhi: Our tax rate for FY'25, FY'26, I believe it should be around 15%, maybe around 12% to 15% or 12% to 16%.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities.

Rohit Sinha: As we are seeing price realizations are down significantly. So once we see any significant improvement there. So how we will be seeing the price negotiation with our customers basically, how are the contracts aligned, including our long-term as well as the short-term contracts?

Rajendra Gogri: Certainly, in all the long-term contract we have structured pricing in place, whereas contracts which are more of a quarterly; orders which are more on a quarterly basis, there the prices may have some inherent movement also, up and downside. But on long-term contract are more generally on a raw material-plus basis.

Rohit Sinha: Okay. And on all these short-term contracts, basically, when they are due for negotiations?

Rajendra Gogri: They're quarterly basis. Generally, short term will be quarterly basis and long term will be multiyear. Some contract may happen on an annual basis also, but they are very limited relatively.

Rohit Sinha: Okay. And secondly, just a clarification on this Deepak Fertilizers contract. So I think that was close to INR 8,000 crores contract for a span of 20 years when it was announced. So which I guess we're assuming that it will be equally distributed to these 20 years or maybe you can say, INR 400 crores kind of annual revenue.

Since you are mentioning that there is some disruption and only after FY'26, we will see smooth volume there. So does that mean that there could be more than, say, INR 400-plus crores kind of annual revenue only post FY'26 or it would be a max kind of revenue and only you that INR 400 crores or INR 450 crores, it can be fluctuated as per our demand also?

Rajendra Gogri: Yes, obviously, it will be fluctuating with demand. The supply side, there is major expansion, is expected. The nitric acid also once their capacity comes up and it will also help us in whenever our ramp-up takes place. So it will be kind of a ramp up also in the turnover for that side also.

Moderator: The next question is from the line of SimranJeet Singh Bhatia from Almondz Global Securities.

SimranJeet Singh Bhatia: Sir, I just want to understand what will be your debt profile? I mean what will be the debt reduction going forward in the upcoming years? And second, how you see the EBITDA margin trend, not for FY'25, but for next couple of years, like '26, '27 or next till '26, '27? Will we see the margins coming back to 20%-plus in the upcoming years?

Chetan Gandhi: So on the debt, as you're aware, there has been significant capex projects which are underway. So debt reduction from the overall basis, I don't think so will be there. We are trying to optimize the working capital. I guess that is also visible over the last couple of years' performance where the working capital days have been reducing, plus debt as a number is also a function as to how the working capital and the cost related to working capital such as the input and other cost prevail.

So on an absolute basis, I'm not expecting debt numbers to reduce, but there will be efforts in terms of optimizing the working capital days, which could potentially provide some optimization of debt, but the debt will be a bit higher than what it is currently right now.

SimranJeet Singh Bhatia: Okay. And sir, when we are seeing the margins coming back to 20% or 22% plus, not in FY'25, it's not possible to see but any guidance for the upcoming 2 or 3 years down the line?

Rajendra Gogri: As we had mentioned earlier that Chloro Toluene range these are more value-added products, so structurally, there the EBITDA margin is higher. So with those products coming in line on a weighted average basis, combined EBITDA also as a percentage will increase from FY '26-'27 onwards.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: Sir, just on the clarification on the MMA long-term contract. So if I recall correctly, last quarter, you had indicated we expected about INR 900 crores for FY'24 from that contract ramping up to INR 1,500 crore in FY'25. So just to check whether that they were still the number we should work with or has there been any deviation on that?

Rajendra Gogri: I think that's what kind of number matched also. We say 50% to 60% increase. I think that's what is mentioned here.

Abhijit Akella: Okay. This is only under the contract, is it? Or we are doing some sales of the product outside of the contract also, which is not included within this INR 900 crores?

Rajendra Gogri: Yes. We sell to the other customers also. So there will be volume increases for other customers also.

Moderator: Next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Just one question. What would be the cost of debt currently and next year is it expected to be on similar lines?

Chetan Gandhi: The cost of debt should be around 7.5%, 8%. It depends on the combination of different products. From next year perspective, I believe the interest rates have largely peaked out while I'm not expecting interest rate to sharpen down or reduce significantly, sharply in this year. I believe, the cost of debt should fairly remain similar.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Rajendra Gogri: Thank you everyone for taking out the time to join us on our Q4 FY24 earnings conference call. Hope we have addressed all your queries. If you have any further questions, please feel free to contact our Investor Relations team, and we will address them. We look forward to connecting with all of you again in the next quarter. Thank you once again.

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