Aarti Industries

Operator: Ladies and gentlemen, good day and welcome to Aarti Industries Ltd. Q1 FY27 earnings conference call. As a reminder, all participant lines will be in 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 the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishit Solanki from CDR India. Thank you, and over to you, sir.

Operator: Thank you. Good afternoon, everyone, and thank you for joining us on Aarti Industries Ltd. Q1 FY27 earnings conference call. Today, we are joined by senior members of the management team, including Mr. Suyog Kotecha, Executive Director and Chief Executive Officer, and Mr. Chetan Gandhi, Chief Financial Officer. We will commence the call with opening remarks from Mr. Kotecha, followed by a Q&A session during which management will address participant queries. To share our standard disclaimer, certain statements that may be made during today's conference call may be forward-looking in nature. A disclaimer to this effect has been included in the results presentation shared with you earlier and also uploaded on the stock exchange website. I would now like to invite Mr. Kotecha to share his perspective. Thank you, and over to you, sir.

Management: Thank you. Good afternoon, everyone. Welcome to Aarti Industries Ltd. earnings call for the first quarter of FY27. We will walk you through our financial and strategic performance for the quarter, along with the key milestones we have achieved across our growth initiatives.

The quarter was characterized by a challenging macroeconomic environment, with persistent geopolitical tensions in the Middle East disrupting global supply chains, increasing freight costs, and driving inflation in crude-linked raw material prices. Despite these headwinds, demand across our core products remained broadly stable, supported by our diversified customer base, operational resilience, and market development efforts. Our ability to optimize the product mix in such constrained macroeconomic conditions resulted in higher margins despite elevated prices.

The West Asia crisis had a direct impact on our energy business, temporarily halting exports to the region. The region's share of our revenues declined from about 15% to 2% in this quarter. We successfully redirected a significant portion of these volumes to other markets, limiting the overall business impact. We are working on opportunities to open new fronts for supply in the region, which we expect will help us regain the volumes in the upcoming quarters.

The quarter also witnessed elevated prices of key raw materials, particularly benzene, sulfur, methanol, and aniline, among others. High prices impacted purchasing power in specific end applications such as dyes, selected agrochemicals, and polymer compounds. This impacted our volumes during the quarter. However, our robust supply chain and efficient inventory management resulted in market share gains and inventory gains, which contributed to our overall EBITDA growth.

Management: Let me now take you through our financial performance for the quarter. Overall, the company reported revenue of Rs. 2,627 crores, representing growth of 41% year-on-year, primarily driven by higher input prices passed on to customers. EBITDA was Rs. 385 crores, growing 79% year-on-year, driven by a combination of product mix optimization and monetization of low-cost inventories. This was also supported by stable demand, improved realizations for select products,

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and resilient execution despite temporary disruptions. Profit after tax was Rs. 155 crores, registering growth of 266% year-on-year.

Working capital requirements expanded during the quarter, driven by higher feedstock prices and increased export volumes. Consequently, debt levels and finance costs rose to support this requirement.

Our business continues to be driven by 2 key segments: the energy business and the non-energy business. In the fuel additive/energy business, demand visibility remains robust. West Asia's contribution to revenues has declined, primarily due to the ongoing regional conflict, thereby impacting sequential volumes. Meanwhile, the other international markets continue to perform well.

While our efforts to develop other potential markets have strengthened our ability to diversify volumes across geographies, we have completed our fuel additives capacity expansion to 360 KTPA from 290 KTPA, providing additional flexibility to serve newer markets with new products as demand evolves. Against the volatile backdrop, we maintain an agile strategy, dynamically balancing our volume growth with spread optimization to safeguard overall profitability despite ongoing fluctuations in feedstock costs, refining margins, and gasoline-naphtha crack spreads.

Within the non-energy business, demand trends remained mixed. Polymer demand remained soft during Q1, primarily due to weak demand for downstream products in the US and China, with recovery expected in Q2. Dyes and pigments continue to face demand headwinds driven by subdued demand amid a high raw material price environment and seasonal factors. Pharma demand continued to remain stable, and agrochemical volumes were marginally lower, primarily owing to customer resistance to sourcing at elevated raw material prices. Volume recovery here is also expected in Q2, supported by underlying stable demand.

The suspension of export tax rebates in China has created favorable opportunities for NCB value-chain products. While short-term export headwinds may persist due to the West Asia conflict, we expect sustained volume growth supported by capacity expansion and deeper market penetration.

Overall, our business continues to demonstrate underlying strength anchored by steady volume growth, enhanced operational efficiencies, and disciplined execution of our strategic roadmap. Barring the 3-6-month delay due to labor constraints and war-related issues, our growth project expansion continues to progress. The project is being commissioned in a phased manner this year, FY27, with ramp-up expected over FY28 and FY29.

Our PEDRA project is progressing through market-seeding activities and is expected to commercialize very soon. We are also looking to debottleneck our DCB capacity to {? 140 KTPA ?}, backed by volume increases supported by PDCB and downstream demand. In line with our earlier guidance, FY27 CAPEX remains on track to be within the range of Rs. 700-800 crores, with about Rs. 180 crores already deployed in Q1 FY27.

With our major expansion programs nearing completion, CAPEX intensity is expected to reduce significantly starting next year. Going forward, our capital deployment will pivot toward high-growth, high-return niche projects.

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Aarti Industries Ltd. is also accelerating its long-term strategy through high-impact collaborative partnerships and ESG-led growth initiatives. Our JV with Superform for downstream amine derivatives crystallizes this approach, leveraging complementary commercial and manufacturing strengths to unlock significant market potential and reflecting a strategic model we intend to build upon.

Strengthening this collaborative approach, our partnership with Superform Chemicals through Organ Chemicals combines our deep chemistry expertise and raw material backward integration with their market application insights to build a differentiated specialty chemical platform. This joint venture remains firmly on track for commissioning in Q2 FY27. We are seeing demand headwinds in primary end-user applications, which provides opportunities for faster ramp-up.

In parallel, our commitment to sustainability and circularity is anchored by our plastic recycling initiative through Aarti Circularity, which is slated for commissioning in the second half of FY27 and utilizes advanced recycling technologies for hard-to-recycle waste streams. Reinforcing this ESG-led direction, we were pleased to achieve the EcoVadis Platinum rating 2026 during the quarter, with a score of 87 out of 100, placing Aarti Industries Ltd. among the top 1% of companies globally for sustainability performance.

Our business expansion through our subsidiaries globally, in the UAE, the UK, and the USA, is progressing well and supporting better growth trajectories in various markets. With an endeavor to expand our global footprint and be a step closer to potential markets, we have planned to set up a subsidiary in China. This entity shall facilitate our plans to expand our base in one of the largest global chemical markets, accounting for more than 45% of the global market. Our presence there will also enhance our sourcing capabilities for some of our key raw materials and support a cost- and time-efficient supply-chain arrangement.

Execution across all long-term contracts remains stable, continuing to underpin baseline volume growth and safeguard revenue visibility. Despite near-term uncertainties, we remain confident in our long-term growth prospects, supported by our diversified portfolio, expanded capacities, and strong customer relationships. Backed by disciplined capital allocation, continuous process optimization, and deeper integration with global key accounts, our focus on execution ensures that we maintain operational resilience in the near term while building long-term sustainable shareholder value.

Thank you for your continued trust and support. With that, I would now request the moderator to open the floor for the Q&A session.

Operator: Thank you so much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. Our first question comes from the line of Rohit Nagaraj with 361 Capital. Please go ahead.

Rohit Nagaraj – 361 Capital: Thanks for the opportunity. I have just one question regarding the Zone 4 CAPEX. Given that it has been delayed, while our FY28 guidance remains intact, how confident are we of reaching the lower end of the guidance, given that there has been at least a 6-month delay in this project? We were probably considering a decent amount of ramp-up happening in

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FY28, which would provide additional EBITDA. That is all from my side. Thank you.

Management: Hi, Rohit. That is one area where we continue to work. In our guidance, we had given the numbers that would come from the CAPEX-led programs, and Zone 4 was a significant contributor within the CAPEX-led section. The JVs are expected to remain on track. I think Origin and RSPL will be commissioned. Even the MPP multipurpose plant and the calcium chloride unit in Zone 4 are also expected to be commissioned now, so they should get ramped up.

The other blocks, which comprise 5 different chemistry blocks in Zone 4, are where we are seeing the delay. This might lead to a somewhat slower ramp-up compared to our original anticipation that we had given in our target aspirations for FY27-FY28. We continue to remain watchful while being fully transparent about where we stand against our strategy. As and when we commission these blocks and see the ramp-up phase of these units, we will come back and clarify the situation once we have a better understanding of the speed of ramp-up of these 5 different chemistry blocks.

Rohit Nagaraj – 361 Capital: Perfect. I have just one question on the numbers. What were the inventory gains during this quarter, although you have specified the forex gain in the press release?

Management: I think the FX and inventory gains are difficult to estimate correctly. The impact could be anywhere in the range of 50-60 crores, but it is difficult to estimate correctly.

Management: It is difficult to quantify that precisely because a lot of it also occurred within the quarter, during which we saw significant volatility. We had April and May, when raw material prices were elevated. Towards the end of May and during part of June, we saw the prices correct dramatically. Then, the restarting of the conflict in West Asia led to price increases toward the end of June and in July.

Therefore, I think that for this quarter specifically, it would be a bit unfair to quantify the exact amount of {? inventory plus effects ?}. Essentially, the same thing also happened with currency. I think the April currency versus the June currency looked {? phenomenally ?} different during the quarter, and there was a tremendous amount of volatility. However, by and large, given the timing of the raw material purchase and the timing of product placement, there was support to the overall EBITDA performance for this quarter.

Rohit Nagaraj – 361 Capital: Thanks a lot, and all the best, sir.

Operator: Thank you. Our next question comes from the line of Arun Prasad with Edelweiss Park. Please go ahead.

Arun Prasad – Edelweiss Park: Good morning. Thanks for the opportunity. My first question is on the MMA segment. We successfully diversified {? of our ?} baskets from the Middle East to new geographies, as you mentioned. How were the new geographies earlier fulfilling their {? requirements ?}? Was it from some other territory, or was it our own product? Is this sustainable? Can we continue to service both these new markets as well as the Middle East markets once the crisis is over? Would this mean that our current additional capacity that we have added will go back to, say, {? 90% to 100% ?} utilization in the near term? These are the first set of questions on the MMA markets from my side.

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Management: Our overall business, as I have very clearly stated in the previous quarters, is still in the market-development phase. We have not reached the true potential of this business, and it will remain in the market-development phase for some time to come. That is how the ability to divert the product from one region to another, as and when a new market opens up, gives us a lot of flexibility.

In general, our portfolio has become much better balanced in terms of the percentage of volume going to the US, Africa, Europe, the Middle East, and India. There is still a Southeast Asia region that we have not entered. Apart from that, in the rest of the global markets, we are fairly well diversified, and in that context, it gives us the ability to move volumes around.

Regarding your question on capacity utilization, from a customer and market-development point of view, significant efforts have been made. These efforts are also fundamentally supported by the fact that demand has been good. The gasoline-naphtha cracks were strong and continue to remain strong, which is why continued strong demand is also visible in Q2. That is giving us confidence that, irrespective of the Middle East situation, we should be able to ramp up utilization levels.

Arun Prasad – Edelweiss Park: Given our success in this segment, are you worried that competition will also try to replicate it at some point? Right now, I believe competitive intensity is lower in this product—not as a fuel additive, but in this product. How are we going to handle the situation when the time comes? What would be our strategy to retain market share? Can we become more cost competitive? Can we increase our distribution? How are we going to retain this position once competition decides to enter to some extent?

Management: I would say that there is already significant competition in this product. There are more than 2 or 3 players in India that have entered this market, and there are more than 2 or 3 players in China that are currently participating in this market.

We continue to maintain our market leadership position, and we will continue to do so. The strategy involves multiple aspects. I would not go into the details, but it includes all aspects, including new products in the portfolio and differentiated products built for specific markets and specific customers. It also includes global supply-chain planning and footprint optimization. It further includes a unique distribution strategy linked to specific customers.

Cost remains part of our DNA. We can very confidently say that we will be in the top decile in terms of cost structure for the entire product portfolio that we are trying to develop as part of this segment. Therefore, it is a combination of multiple aspects. Competition already exists, and we try to do our best to retain our market leadership position.

Arun Prasad – Edelweiss Park: Understood. Now that we are close to commissioning our {? JV ?}, would you like to quantify any numbers? What are the steady-state expectations from this? How soon can we see it reflected in our quarterly numbers, and how long will it take to ramp up to the steady state?

Management: From an operational point of view, it will definitely be commissioned this month or next month. The commissioning activities are ongoing as we speak. The first sale of raw material to the joint venture has already happened. We are also seeing traction in terms of the order book for

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the product that we plan to produce in this joint venture.

Within this quarter, we should start seeing operations and ramp-up. Within the first 1-2 years, we should be able to reach a decent utilization level for the entire capacity that we have built. From a financial standpoint, being 50:50, it will consolidate at the PAT level. Therefore, the numbers at the PAT level will start becoming visible. The meaningful difference may come a few quarters down the line, or 2-4 quarters down the line. However, it should start becoming visible from this quarter onwards.

Arun Prasad – Edelweiss Park: Is there any revision to the steady-state revenue for the JV at current prices?

Management: We had projected 300-400 crores. We will maintain that range for the joint venture to start with. As and when we complete the ramp-up in this quarter and stabilize the plant operations, we will come back with a firmer estimate for the JV.

Arun Prasad – Edelweiss Park: Finally, regarding Zone 4, you said that a number of the chemistries are delayed. Is it in any way linked to the agriculture markets, and therefore will the recovery also track the agriculture markets turning around?

Management: I do not think the delay has anything to do with the market or is linked to a particular agriculture segment. It is purely a project execution challenge. It primarily started around the March-April timeframe, when there was a significant labor shortage driven by the LPG issue, followed by the elections, and then the monsoon triggered a few delays.

At the same time, the multipurpose plant is undergoing commissioning again as we speak. The product output is expected within the month of August, and we will announce commissioning after the first product is produced from the plant.

The other blocks of different chemistries will be gradually commissioned as we had indicated earlier. The product mix that we are currently starting with is very well diversified. It includes a mix of agrochemicals, pharmaceuticals, coatings, and polymers. We have different, segregated, and differentiated end-market exposure for the overall Zone 4 capability. It will not be heavily weighted toward one particular end market. That is the current strategy. Therefore, the ramp-up is linked to project execution and is not necessarily linked to the end market at this stage.

Arun Prasad – Edelweiss Park: Understood. Thank you very much for answering all the questions. All the best.

Operator: Thank you. Our next question comes from the line of Aditya Khetan with SMIFS Institutional Equities. Please go ahead.

Aditya Khetan – SMIFS Institutional Equities: Thank you, sir, for the opportunity. I have a couple of questions. Regarding the price hikes, when we look at this quarter, we would have taken price hikes across segments. However, when I look at the dyes and pigments and pharma segments, the price hike numbers look much higher compared to the energy segment or the polymer additives business. Are we expecting these price hikes to be rolled back going forward if base commodity prices reverse? What sustainable number can we work with going forward?

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Secondly, when we look at the overall volume performance, exports during the quarter have taken a sharp dip. How do you see domestic volumes picking up in the coming quarters, and how do you see this progressing for FY27 and FY28?

Management: The first point is that the increase you see in pharma and in dyes and pigments is a combination of 2 factors. One is raw material inflation and passing that on to customers. The second is that the NCB chain forms a significant part of these 2 end segments. In the NCB chain, China's VAT removal led to a change in the pricing regime for the product across the entire value chain.

You will definitely see volatility linked to raw materials. As raw material prices soften in the future, pricing will of course get corrected to some extent. However, there is also an element linked to the raw material-related actions taken by the Chinese government, which might sustain.

Regarding pharma and dyes and pigments, there are 2 factors. One is linked to raw materials, while the second is not linked to raw materials.

Regarding exports, exports for the quarter were actually very robust. 59% of revenue came from exports, and we are seeing good traction in exports. Volumes are expected to increase in Q2 for exports.

Our footprint and supply chain for exports are now changing quite dramatically toward longer-voyage destinations, especially places such as the US and America. In that context, revenue recognition is linked to the Incoterms. Many of the sales that are on DAP terms, especially in the US, will show quarter-on-quarter volatility in terms of production numbers and exports from India versus when the revenues are recognized. However, over the quarter, it should smooth out.

Aditya Khetan – SMIFS Institutional Equities: Understood. My second question is regarding the quarter. With EBITDA of around 380 crores and after stripping off the 47-crore forex benefit and some inventory gains, whatever that number may be, we are still at around 300-310 crores of EBITDA. That could be a base. How do you see us reaching 800 crores of EBITDA by FY28?

Ideally, this number should have been based on the base business, and without taking the inventory benefits, it should have been around 350 crores. However, we are still lower by around 20% than that. How do you see this trajectory moving, and what particular quarter could change that trajectory going forward?

Management: FX gains and losses, to some extent, are a combination of accounting and volatility during the quarter. That is part of routine business.

In the coming quarters, as volume recovery happens and potentially if there is a regime where pricing is maintained throughout the quarter without significant change, everyone should be able to see the underlying business performance in terms of the true potential of the existing assets. That itself should indicate the EBITDA trajectory that we are on.

Aditya Khetan – SMIFS Institutional Equities: Understood, sir. Just one last question. I missed your opening remark on the volume front. What were the volume numbers during the quarter?

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Management: Volumes in the energy business were down 17% on a quarter-on-quarter basis. In the non-energy business, they were down 7% on a quarter-on-quarter basis. At the overall organization level, they were roughly 12% down on a quarter-on-quarter basis.

Management: We have stopped giving the actual numbers, although we were mentioning them earlier in our presentations. We are giving numbers at 2 broad application levels, which are energy and non-energy, and we are also showing utilization numbers specific to the value chain in a relatively narrow range, which we feel provides a sufficiently good indication of where the assets are.

The actual sales numbers are something that we have removed from the slides because they were being utilized in a situation that was not favorable for the company. However, we feel that this gives a sufficiently good indication. At the overall company level, you have a volume trajectory. Within energy and non-energy, you have the exact volume growth numbers, and you also have utilization ranges for all the major value chains.

Aditya Khetan – SMIFS Institutional Equities: Understood, sir. Thank you.

Operator: Thank you. Our next question comes from the line of Viraj Vajratkar from Kotak AMC. Please go ahead.

Viraj Vajratkar – Kotak AMC: Thank you. First, regarding chlorotoluene, which is part of the chemistries in Zone 4, what exactly are the execution issues? Why is chlorotoluene delayed? We had started discussing it and had mentioned it in FY24 and FY25. I just wanted to get some sense of the situation.

Management: As I just said, we changed our strategy for Zone 4 around 1.5 years ago, when we made the entire chain capable of producing different chemistries. We have 5 different chemistry blocks. Chlorotoluene was the original intention and the original asset strength—the ability to manufacture the entire chlorotoluene chain if we want to. However, the assets are now designed in a way that allows them to produce multiple other chemistries, as long as the fundamental asset capabilities deliver the performance expected for the finished product.

Second, the exact status right now is that practically all the equipment has been erected. 97% of the equipment has been erected for the block. In terms of piping, 85% of the piping is complete. This is one area that requires a significant amount of manpower, both for piping and for the final instrumentation work. That is where we faced some challenges during the March-April-May timeframe, as I mentioned.

However, we are back to full manpower in Zone 4. Therefore, hopefully, there will be no further delays, and we should be able to commission it during this financial year itself, as we had indicated.

Viraj Vajratkar – Kotak AMC: Understood. In terms of the Oxo-alcohol JV, I think that is mainly for amine chemistry. Which end segments within amine chemistry are you targeting through the end products and the end-customer sectors? Roughly, would this amine chemistry have a higher margin than the benzene chemistry, which right now is probably at 15-16% at the overall group level?

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Management: There are 2 dominant end markets: coatings and agriculture. Coatings is typically a much larger market and is mostly an India-focused market for the chemistry targeted as part of that unit. It also gives us exposure to a very different end market, which is helpful. The profitability expectation is that it will typically deliver a higher margin profile compared to our existing product portfolio.

Viraj Vajratkar – Kotak AMC: Understood. One last question regarding MMA. How has the market been, especially the base market of the Middle East as well as the replacement market? How has the market been able to absorb your MMA products, particularly in terms of whether any price hikes had to be taken? Also, what are your slightly longer-term plans regarding going back to the Middle East? How fungible are the markets in terms of taking a significant shift back to the Middle East once things settle? What are your thoughts on that?

Management: We remain very active in the market. Overall, the market has been quite strong, as I said, linked to the end-market profile. Given the decent strength in gasoline-naphtha cracks, the demand for this fuel additives business remains very strong.

I am purposefully not referring only to MMA because we are trying to broaden the basket of products that we supply as part of this application. Going forward, you will increasingly hear us talk about fuel additives rather than specifically MMA.

Global market demand linked to the end-market characteristics remains very strong. As and when the market opens up, the idea is not necessarily to shift volumes, but to increase capacity utilization, which should be visible from this point onward.

Viraj Vajratkar – Kotak AMC: Thank you.

Operator: Thank you. Our next question comes from the line of Sanjay Jain with ICICI Securities. Please go ahead.

Sanjay Jain – ICICI Securities: Good afternoon. Thanks for taking my question. First, on the energy side, how are we seeing the gasoline-naphtha spread across the market? I know the Middle East has not been great, but what is the spread in Europe, the US, and Africa, the other 3 key regions for us?

Management: Overall, at the gasoline-naphtha level, cracks have averaged in the range of $15-18 per barrel, which is quite healthy. This is a global market, and at these levels of cracks, demand for the product is quite robust.

Sanjay Jain – ICICI Securities: Are we back to the pre-war type of spread in gasoline-naphtha? We were at around $15-20. Are we back in that range?

Management: It remains very volatile. We are living in a world where the daily price movement is plus or minus 5%. Therefore, generalizing it would be unfair. However, at an overall average level, cracks have remained at around $15-20 per barrel, which is healthy.

Sanjay Jain – ICICI Securities: When we talk about fuel additives, what else apart from MMA are we looking at? We are now talking about a portfolio approach. What are the other products that we

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have identified or are working on through R&D within the fuel additive space?

Management: We have discussed this in the past and in previous investor calls. The expansion of the product portfolio in this segment started some time ago. We have recently initiated some of the development efforts and sales efforts for the new products being added, which will help us expand the fuel additive business going forward.

Of course, they are not currently at significant volume levels. However, the idea is to scale up these new products as well and then broaden from dependence on a single product to a multiproduct fuel additive portfolio over the course of the next 12 months.

Sanjay Jain – ICICI Securities: Can you name the product?

Management: At this stage, we will not name the product.

Sanjay Jain – ICICI Securities: How many products will there be in terms of count?

Management: At any point in time, there are 3–5 products in our pipeline.

Sanjay Jain – ICICI Securities: Three to five products. Understood. Will they all be in the octane-booster category, or are you also looking at other end-use applications?

Management: They will broadly fall into the category of fuel additives.

Sanjay Jain – ICICI Securities: Not necessarily an octane booster.

Management: Yes.

Sanjay Jain – ICICI Securities: Understood. Regarding the overall situation, with crude coming down and raw material prices eventually coming down, are we seeing behavior from customers where they are looking to destock in a falling-price scenario? Could there be a period when some of the gains may also reverse, or when we may have an inventory loss, as we had an inventory gain this time? Are we expecting such a scenario in the immediate term because crude has sharply reversed? I know it is highly volatile.

Management: The risk always remains in a business when you are operating with crude-linked raw materials and products. That risk will always remain. What we can do as a company is remain very agile.

Most of our domestic raw material procurement has a relatively quick pricing pass-through. We typically do not have more than 7–15 days of inventory wherever we purchase raw materials in the domestic market. For imported raw materials, where we tend to have 1–1.5 months of inventory either in stock or on water, price fluctuations can sometimes impact us.

We have put strategies in place, including a combination of forward booking of customer orders and certain hedging strategies, to minimize that loss. However, that risk will always remain, and we actively manage it.

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Sanjay Jain – ICICI Securities: Understood. You made one interesting comment that if margins remain at this level, we will see the actual potential of the business. Are we seeing these margins improving across the isomers of benzene, and is that where the group profitability of Aarti Industries Ltd. will emerge? Is that the correct way to interpret that statement?

Management: Different value chains will have different stories. The NTB value chain, which had suppressed margins for a very long time, recovered its margins in the last quarter. The DCB chain has always had decent margins, and DCB chlorination has always had decent margins.

NP has remained suppressed for some time, and this is linked to an isomer imbalance that we have faced over the course of the last 2–3 years. We have put in place some innovative strategies to rebalance that portfolio. In that context, we hope to achieve a better margin profile in that chain going forward.

In the overall fuel additive segment, we hope to gain somewhat on the margin profile by broadening our market, customer, and product footprint.

PDCB is one area where we structurally remain weak because of our technological disadvantage. There, we are trying to work on cost efficiencies to see how we can improve the process. The nature of improvement or strategic initiatives across the value chains and their characteristics is slightly different. However, the overall effort remains to expand both the volume and margin profile across all these chains.

Sanjay Jain – ICICI Securities: One last question on Zone 4, particularly chlorotoluene and the MPP. Where are we in the product-approval cycle with customers now that the project is slightly delayed? From an approval and product-development perspective, do we have a line of sight on which products we will produce first and whom we will sell to?

Management: In most cases, we already have target customers identified. The qualification of the product from our pilot facility has also been completed with most customers. However, customers will also ask for commercial-batch qualification. Whenever the unit is commissioned, a commercial batch will be produced and requalification will be carried out based on that commercial batch. That will happen only when the assets are commissioned.

However, relatively speaking, for most of these cases, the initial demonstration of the technology in the pilot plant and qualification of the product through our pilot plant have already been achieved.

Sanjay Jain – ICICI Securities: How many products are we looking to start with by the end of FY28?

Management: By FY28, we are talking about anywhere in the range of 25–30 products. Within this year, we are looking at anywhere between 5 and 10 products.

Sanjay Jain – ICICI Securities: That is clear. Thanks, sir, for answering all those questions, and best of luck for the coming quarters.

Management: Thank you.

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Operator: Thank you. Our next question comes from the line of Archit Joshi with Nuama Asset Management. Please go ahead.

Archit Joshi – Nuama Asset Management: Thanks for the opportunity, sir. My first question is on the NCB chain. We have consistently seen healthy utilization levels in the last couple of years. We are also speaking of a possible tailwind that we are witnessing today because of the tax rebate issue. The common factor here that I find is the hydrogenation chain. Since we have already started witnessing a healthy margin profile, should that warrant capacity expansion in the coming years, given that this portfolio is lifting our margins at this point in time?

Management: The assets are actually capable of delivering slightly higher volumes. We are evaluating minor debottlenecking projects to increase the capacity in that chain.

At the same time, the dominant end market there is pharmaceuticals. Typically, paracetamol is one of the largest end users of this product. In that context, we are also watching the consumption potential within the Indian market for this particular chain.

We will be quite aggressive as soon as we see the potential to sell more in India, and we will proceed with the debottlenecking effort. That is very much possible within the existing assets. This remains on our radar, but at this point in time, we feel that it will take some time for demand to reach a level where we need asset expansion.

Archit Joshi – Nuama Asset Management: Understood. Over the last 12 months, we have seen multiple closures or capacity being idled on the petrochemical side, whether in ethylene or naphtha. Global majors such as ExxonMobil and South Korean companies have also reshaped their entire capacities, including steam crackers and naphtha-ethylene operations.

The numbers that are being reported in terms of closures are disproportionate. We are talking about 10-15 million tons of capacities either being idled or removed from the system. Knowing that this directly impacts, in a way, the spread of naphtha and gasoline because naphtha is also used significantly in making ethylene, do we see a sustainable shift—not during this period of volatility—that could materially benefit our MMA portfolio as spreads could potentially become more sustainable? Do we see that on a mid- to long-term basis?

Management: This is difficult to predict at this stage from a long-term point of view. I would answer the question more broadly for the chemical industry.

The chemical industry has gone through somewhat turbulent times over the last 3-4 years. Especially after the strong COVID years, there was an extended phase during which margins were squeezed across most of the chemical industry.

As a consequence of that, today we are seeing what you described: significant capacity rationalization, especially in Europe and Northeast Asia. To some extent, the pace of expansion in China has also slowed across many value chains.

If this behavior continues, we could potentially see, post-'25-'26, a much better margin profile and profitability across the chemical industry. As a global player in these value chains, we would expect to gain both in terms of volume and margin profile across all these chains.

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Management: By the 2029 timeframe, when demand picks up pace and starts reaching closer to capacity, and utilization levels start becoming healthy at a global level, we could fundamentally see a restructuring of the margin profile at an industry level. That is a personal hypothesis, and I guess we are at least 2 or 3 more years away from seeing whether it plays out.

Archit Joshi – Nuama Asset Management: Right, sir. Thank you very much, and all the best.

Operator: Thank you. Ladies and gentlemen, in order to ensure that management is able to address all the questions from participants, we request you to kindly limit your questions to 2–3 per participant. If you have a follow-up question, please rejoin the queue. Thank you. Our next question comes from the line of Abhijit Akela with KIE. Please go ahead.

Abhijit Akela – KIE: Good afternoon. Thank you very much. My first question is on the quarterly EBITDA run rate. Given that this quarter included significant benefits from inventory as well as forex, what would be a reasonable number to expect for the upcoming quarter? I am looking at the very short term, given the highly volatile environment. Should we expect things to revert to the Q4 run rate, or do we think that this Q1 run rate could still be more or less sustainable?

Management: I would say that it is not far away. Given the kind of volatility that we have seen, with plus or minus 15–20% corrections occurring on a monthly basis, I would again hesitate to hazard a guess.

However, some of the gains that we may not receive, which are linked to inventory, could potentially be compensated by volume growth. That is how we are looking at the near-term quarter.

Abhijit Akela – KIE: Understood. Just to clarify, the JVs, Origin and TRP, will not be part of the EBITDA number, correct? Therefore, your guidance of 1,800 crores is excluding these JVs, is that correct?

Management: No. The 1,800-crore guidance included EBITDA, particularly from the Origin JV, because we expected it to start contributing by that horizon. We did not anticipate that the other JV would start contributing meaningfully before the FY27–FY28 timeframe. Therefore, that guidance did include Origin's EBITDA.

We will come up with a plan for how to report that going forward, but that profitability was included in our guidance.

Abhijit Akela – KIE: Understood. The last point from me is regarding the non-energy volumes. Is the quarter-on-quarter softness we have seen again impacted by the Middle East, or is it due to something else? Also, regarding the 360,000-ton expansion of fuel additives, how long do you expect it will take to fully utilize that expanded capacity?

Management: In the non-energy business, the volume drop was a combination of supply-chain issues and, in some cases, delayed purchasing behavior. Because of the high-price environment in segments where there is some inventory flexibility, people tend to delay their purchase decisions. Therefore, it was a combination of the 2 factors.

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We expect non-energy volumes to pick up during the quarter. Given that end-consumption demand remains quite stable, we are not seeing any change on that front. That business is not significantly impacted by the Middle East in general because its exposure to the Middle East is quite low.

Regarding capacity utilization for fuel additives, we are ramping up the capacity as we speak, and we feel we might be able to reach high levels of utilization in this quarter itself.

Abhijit Akela – KIE: Great. Thank you very much, and all the best.

Operator: Thank you. Our next question comes from the line of Suryanarayan Patra with PhillipCapital India. Please go ahead.

Suryanarayan Patra – PhillipCapital India: Thank you, sir. Thanks for the opportunity, and congratulations on the strongest-ever sales number that we have reported for the quarter. My first question is about gross margin. Despite the inventory markup benefit and the INR depreciation benefit, we have seen a sequential decline in gross margins. What factor can be attributed to this sequential decline?

Management: As I just said, Suryanarayan, at this point in time, I would assess this quarterly gross margin number at the overall EBITDA percentage level. We remain broadly on track in terms of what we need to deliver.

It is a combination of multiple things. As I said, within a quarter and within each month, when we have seen plus or minus 15% price volatility, taking the gross margin level for that quarter can sometimes give a wrong picture.

There were multiple factors in play, including the timing of raw material purchases, the timing of product placement, the way forex moved within the quarter, freight expenses, and lower volumes leading to other consequences, including higher operating costs in some cases, but lower freight costs at the overall level.

When you put together all these factors, they lead to the result we have reported. However, we would say that it is not reflective of a finished-state performance.

Suryanarayan Patra – PhillipCapital India: One should not interpret this as meaning that the increase in product prices was lower than the increase in input prices. That may not be the reason, correct?

Management: Typically, the deltas are relatively absolute numbers. The chemical business runs on absolute deltas and not on a percentage-margin basis as such. That is the behavior we anticipate will continue going forward.

Suryanarayan Patra – PhillipCapital India: The second point is on the MMA side. Since we are entering a seasonally weak period, what is the market outlook that you currently have? You are quite optimistic about the expansion and achieving adequate utilization levels, but with a weak season approaching, do you have any sense of the near-term outlook?

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Management: In general, for fuel additives as a basket and as a segment, the winter seasons are somewhat weak. Typically, we start seeing cracks tapering down and demand starting to be impacted around the end of October and during the November-December timeframe.

At this point in time, traction remains quite strong. We are prepared for that winter downturn. In that context, we are also evaluating the entire mitigation strategy regarding how we should think about volume placements during the lean season. However, there will be some seasonality in this particular business.

Suryanarayan Patra – PhillipCapital India: One last point from my side regarding polymer supply, where the volume looks quite low. Is it because supply to the Middle East has been impacted, resulting in the low volume, or is it due to something else?

Management: That business has very limited exposure to the Middle East. Therefore, I do not think there is any impact from the Middle East issues on that segment.

In general, in Q4 of the last financial year, there were many bulk shipments to customers, especially in the US. In that context, the extent of shipments in that segment during the first quarter was low. We expect it to pick up in the second quarter, and on an overall yearly basis, we think we should be able to see growth in the polymer segment.

Suryanarayan Patra – PhillipCapital India: Thank you, sir. I wish you all the best.

Operator: Thank you. Our next question comes from the line of Tushar Raghatate with Omega Portfolio Advisors. Please go ahead.

Tushar Raghatate – Omega Portfolio Advisors: Good afternoon. Thanks for the opportunity. I wanted to understand the geographical distribution in the energy business, specifically the average distribution.

Management: I would not give exact numbers. I would say that we are well balanced across geographies. The US, Europe, the Middle East, Africa, and India are all well balanced. The business is not tilted toward one particular geography.

Quarter-on-quarter, we do see volatility, where one geography tends to account for a significant share. However, if you take the yearly average numbers, we are quite well balanced across all the geographies.

Tushar Raghatate – Omega Portfolio Advisors: Has the increase in voyage time impacted the margin profile in the energy business?

Management: Voyage time does not impact the margin profile of the business as such, but it does impact the accounting of the overall business. As I said, in many cases, the business is conducted on DAP terms. In that context, given the 2-3-month voyage time, especially for material going to the US, there is delayed revenue recognition for some of the volumes.

Tushar Raghatate – Omega Portfolio Advisors: Fair enough, sir. As you mentioned, the EBITDA run rate would be maintained, and considering that the guided numbers appear achievable, I wanted to

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understand whether this run rate of around 16% EBITDA margin, considering the volatility in the energy business, is the new normal for the business.

Management: We did not say that the EBITDA run rate can be maintained. At this point in time, we feel there are 2 factors. There is volume growth, which we are confident of and which is visible.

The pricing, margin, and inventory outlook is anybody's guess at this point in time. Frankly, at the management level, it would be difficult to hazard a guess. It is ultimately linked to how the West Asia situation settles and how rapidly pricing changes.

If the change is gradual, the impact will come over time. If it is sharp, then depending on when it happens, we might have to account for some of the inventory costs. That is one factor.

We are confident about volume growth. However, inventory and margins will be somewhat dependent on the macroeconomic situation. I am sorry, I missed the second part of your question.

Tushar Raghatate – Omega Portfolio Advisors: Fair enough, sir. I understand. Thank you.

Operator: Thank you. Ladies and gentlemen, in order to ensure that management is able to address all the questions from participants, we request you to kindly limit your questions to 2 per participant. If you have a follow-up question, please rejoin the queue. Our next question comes from the line of Gagan Dixit with Elara Capital. Please go ahead.

Gagan Dixit – Elara Capital: Thank you for taking my question, sir. I have questions regarding MMA. Given that the US is the largest gasoline user in the world, in the event of favorable ties between India and the US, what is the target addressable market for MMA in the US, according to your estimate? That is my first question.

Management: We will not provide that number, Gagan. We have described this multiple times. The overall fuel additive market is measured in millions of tons. Therefore, it is not fair to state the market potential for a particular product.

As I said, we are going through a market-development journey, and there is a phase of customer adoption for this specific, unique product, which can potentially either augment or replace some of the existing fuel additives that customers are using. The upside potential is in millions of tons, and we do not think it is realistic to discuss it given that we are at a relatively early stage of the market-development journey.

Trade flows are also quite dynamic. The overall oil and gas industry in the world is one of the most highly traded industries. The physical flows from the Middle East to Africa, Europe to Africa, or North America to Latin America, and the locations where our product is consumed versus where the end gasoline is consumed, can also be significantly disconnected. That is where this analysis can sometimes give a wrong picture.

At this point in time, the only thing we can say is that we have a well-balanced customer and market portfolio. We have potential upside in terms of discovering newer customers and newer markets.

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Gagan Dixit – Elara Capital: My follow-up question is regarding your advantage in MMA versus typical Chinese players. Is it related to chemistry, quality, logistics, or anything else? Also, we have seen that you are continuously increasing MMA capacity through brownfield expansion. What is the maximum capacity that you can potentially add for MMA without undertaking a new greenfield project?

Management: We recently completed our capacity expansion to 360 KTPA. Again, I would emphasize that the capacity of the overall fuel additives block is not necessarily linked to one particular product. That is the capacity that we intend to stabilize over the course of the next 12 months.

There is no restriction or limit on how much capacity we can increase. However, the idea is to demonstrate good capacity utilization for this recent expansion over the next 12 months and then take a decision going forward.

Gagan Dixit – Elara Capital: My second question is about demand visibility across the end markets, as we are now serving fuel additives, agrochemicals, pharma, polymers, and new platforms such as battery chemicals and defense. Which end markets are showing the strongest long-term demand visibility for you, and how is Aarti Industries Ltd. choosing where to allocate future CAPEX? I want to understand the rationale behind that.

Management: In most end markets, we are seeing fairly steady demand. In agrochemicals, demand growth is relatively stable. In polymers, we are seeing very strong demand, particularly in end markets linked to EVs and automotive.

In pharma, demand growth continues to remain quite robust. Dyes and pigments are one area where there has been an overall softening of the global demand trend, and that is reflected in the growth that this segment has seen over the course of the last 3-4 years.

Energy as a segment has significant growth potential, but demand can be volatile given the nature of the business. Therefore, different end markets are exhibiting different trends.

Our selection of opportunities is ultimately linked to our capability to deliver value to customers and the return profile of the particular opportunity. That is how we are selecting our growth areas.

Some of the forward-looking molecules that we are pursuing, for example in battery applications or defense, are driven by whether we can add significant value, build a differentiated value proposition, remain globally cost competitive, and scale the business in terms of its size while generating relatively attractive returns on capital. That drives our decision-making when shortlisting future growth areas.

Gagan Dixit – Elara Capital: Thanks for the elaborate answer, sir. That is all from my end.

Operator: Thank you. Our next question comes from the line of Ojas Savant with Haitong Securities. Please go ahead.

Ojas Savant – Haitong Securities: Thank you for the opportunity, sir. My question is about the forex gain that we saw this quarter, which was significantly higher than in previous quarters. First, what

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was the reason for this, and how do we see this progressing into Q2?

Management: Chetan, would you like to take that?

Management: It is a combination of multiple factors. If you look at it, there was volatility in both Q4 and Q1 in the currency.

There were instances in which we sourced imported material at a higher price, but the rupee appreciated and corrected significantly in April, giving us an opportunity to square up those positions at a lower rate, which resulted in the forex gain.

In addition, for exports that took place during the quarter, the rupee ranged from 92 to 97 during the quarter. Wherever opportunities arose, we sought to capitalize on them. I am not saying that we can always continue doing this, but we were able to get some of the right factors in place in terms of covering it.

That broadly explains the forex gain. There is an element of inventory benefit blended into the forex related to the import transaction. Going forward, any commitment regarding a gain or loss will be driven by many other factors.

Ojas Savant – Haitong Securities: Should we view this more from an operational perspective only?

Management: You should consider this as part of the operational element, and there is also an accounting treatment in terms of the rate at which transactions are recorded in the books and the closing rate. Therefore, there is also a mark-to-market element.

I would say that the better way to look at it is to consider it as more of a part of operating profit.

Ojas Savant – Haitong Securities: Understood. That is all from my end. Thank you, sir.

Operator: Thank you. Our next question comes from the line of Pratik Duggar with IntelSense. Please go ahead.

Pratik Duggar – IntelSense: Thank you for the opportunity, sir. My question is about a macro development taking place in Southeast Asia. We are seeing structural rationalization of naphtha-based steam crackers, particularly in Japan and South Korea. This is expected to persist through approximately 2028-2030. Based on that, ethylene prices in the international markets have also increased significantly.

Given our own ethoxylation unit at Dahej, do we see this as a long-term opportunity to leverage our contracts with customers, such as the $150 million contract that we had with an innovator, and another long-term opportunity for ethoxylated intermediates such as OEA and the {? 26 MEA ?} that we produce?

Management: These products are part of our strategic focus areas. In most cases, our contracts are pass-through contracts as far as ethylene pricing is concerned. In that context, our margin profile for this product portfolio is relatively secure.

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Volatility in ethylene prices can sometimes affect us on a quarterly basis because, depending on the type of contract, we sometimes have quarterly price pass-through and sometimes monthly price pass-through. Therefore, that near-term volatility may be present.

However, on a long-term basis, for most of the products you mentioned, ethylene prices are typically passed through in a significant number of cases. Therefore, it does not impact us directly as such. In fact, it gives us a somewhat more robust volume and margin opportunity.

Pratik Duggar – IntelSense: Apart from pricing, since crackers are being shut down in Japan and South Korea and their capacity is coming down, do we see this as an opportunity for us? That was my actual question.

Management: These products are not produced in that region. The products you are mentioning are predominantly produced either in India, China, or Europe. These are the only 3 regions where these products are produced. Korea, Japan, and Thailand, for that matter, do not have any capacity for these products.

Pratik Duggar – IntelSense: Understood. Thank you, sir.

Operator: Thank you. Our next question comes from the line of Arshit Joshi with Nomura Asset Management. Please go ahead.

Management: Hi, Arshit. Welcome.

Operator: Arshit, you may proceed with the question.

Management: Arshit, let us start.

Arshit Joshi – Nomura Asset Management: I have one question regarding the SABIC backward integration. Where are we in that journey? Could you provide some color on that, and when do we expect the benefits from the backward integration that we are planning to start accruing?

Management: We do not discuss a specific customer name linked to a specific contract. If your question refers to the long-term contract that we announced in the last quarter, which was linked to backward integration, we are in the project-execution phase.

The civil and building work is currently ongoing. Commissioning of that project is expected around the September-October 2027 timeframe.

Arshit Joshi – Nomura Asset Management: Understood. Thank you. That is all from my side.

Operator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for the closing remarks. Thank you, and over to you.

Management: Thank you. We appreciate your ongoing support and participation in today's call. Despite the prevailing headwinds in the global macroeconomic environment, our disciplined approach allows us to manage through them effectively. We remain committed to our overall growth trajectory and look forward to engaging with you again. Please feel free to connect with us for any follow-up queries. Thank you once again.

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Operator: Thank you so much, sir. Ladies and gentlemen, on behalf of Aarti Industries Ltd., that concludes today's conference. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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