Aarti Drugs Limited
Manufacturers of : Bulk Drugs & Chemicals

Corporate Office : Mahendra Industrial Estate, Ground Floor, Plot No. 109-D, Road No. 29, Sion (East), Mumbai - 400 022. (India)
Tel .: 022-2407 2249 / 2401 9025 (30 Lines)
Fax.: 022-2407 3462 / 2407 0144
Email: admin@aartidrugs.com
website: www.aartidrugs.com
CIN No.:L37060MH1984PLC055433

Ref: ADL/SE/2021-22
November 15, 2021

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

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

BSE CODE: 524348

NSE CODE: AARTIDRUGS

Dear Sir/Madam,

Sub: Transcript of Q2 FY2022 Earning Conference Call

Please find attached herewith transcript of Q2 FY22 Earning Conference Call.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR AARTI DRUGS LIMITED

RUSHIKESH DEOLE
COMPANY SECRETARY & COMPLIANCE OFFICER
ICSI M.No.: A54527

"Aarti Drugs Limited
Q2 FY2022 Earnings Conference Call"

October 28, 2021

Management: Mr. Harshit Savla, Jt. Managing Director, Aarti Drugs Limited
Mr. Harit Shah – Whole-Time Director, Aarti Drugs Limited
Mr. Adhish Patil - Chief Financial Officer, Aarti Drugs Limited
Mr. Vishwa Savla – Managing Director, Pinnacle Life Science Private Limited

Moderator: Ladies and gentlemen, good day and welcome to Aarti Drugs Limited, Q2 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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, 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. Adhish Patil – CFO, Aarti Drugs Limited. Thank you and over to you Sir!

Adhish Patil: Thank you. Good afternoon everyone and seasons greetings to all of you present on the call to discuss our financial results for Q2 and H1 FY2022.

Aarti Drugs delivered a resilient performance despite continuous input cost pressures. Before I take you through the performance highlight let me remind you that as communicated in the earlier earnings call the financial performance on a year-on-year basis is not exactly comparable especially in terms of realizations and margins because of the elevated API prices driven by sudden supply disruptions due to COVID-19 related lockdowns during H1 FY2021 that is last year.

I will now take you through segment-wise performance. Standalone business performance: Standalone revenues for Q2 FY2022 stood at Rs.511.6 Crores. This contributed approximately 87% to the consolidated revenue. 63% of this revenue came from the domestic market and 37% from the export market.

Domestic revenue de-grew by approximately 4.5% and exports grew by around 7% on a year-on-year basis; however, contraction in domestic business is predominantly due to higher volume in Q2 FY2021 largely due to the reasons mentioned earlier.

API volume growth remained largely flattish on account of lower than anticipated volume growth in the antibiotics segment. Within the API segment, the antibiotic therapeutic category contributed around 46%, antiprotozoal around 17%, anti-inflammatory around 13%, anti-diabetic around 11%, anti-fungal around 10% and the rest contributed around 3%. The share of acute therapies remained subdued due to the second wave of COVID-19 lockdowns.

Now we will discuss formulation segment performance. For the quarter, revenue for formulations stood at Rs.75.7 Crores, a growth of 6.4% on a year-on-year basis. Approximately 26% of the formulation revenues came from exports during this quarter.

Now on a consolidated basis for Q2 FY2022 revenue stood at Rs.579.7 Crores, EBITDA at Rs.73.8 Crores and PAT Rs.42.6 Crores respectively. EBITDA margin came at about 12.7% as mentioned earlier EBITDA margins are not exactly comparable on a year-on-year basis though we were expecting much higher than the actual performance in this year as well.

For H1 FY2022 revenue from operations stood at Rs.1,161.3 Crores as against Rs.1,124.3 Crores up by 3.3% on a year-on-year basis. EBITDA stood at Rs.155.1 Crores, EBITDA margin came in at about 13.4%. PAT stood at Rs.91.4 Crores.

On a consolidated level, supply chain disruptions due to sudden power outages in China continued an upward trajectory in the key raw material prices. A sudden spike in the coal prices due to demand-supply gap, elevated freight costs due to shortage of shipping containers and one-off arrear expenses related to the revision in the wages kept the EBITDA margins suppressed for the current quarter; however, as a strategy the company continue to focus on maintaining the leadership position for its top revenue contribution products.

The company will continue to follow the same strategy going forward as well. In order to mitigate the impact of higher input costs, the company proactively undertook price hikes from time to time across the therapeutic areas to sustain the EBITDA margins; however, EBITDA margins and profitability did not commensurate with the input price hike growth due to the lag in passing on the price hikes as many of the events that led to sudden upward movement in the input cost were due to unforeseen events such as China power outage, coal price hikes, port congestions across the globe etc., and hence there was some lag in passing on this increased cost. We believe that the coal prices, high freight costs are short-term in nature and raw material prices are expected to taper off by the end of FY2022.

The company is considering further price hikes in the coming days if the raw material price momentum sustains. As a result EBITDA margins are expected to come back to the normal levels within the next couple of quarters. Looking beyond the short-term challenges the company is confident of achieving EBITDA margins in the range of 18% over the next two to three years driven by the ongoing transition towards lifestyle and chronic therapies backward integration and operating leverage.

The investing cash flow for H1 FY2022 stood at Rs.77 Crores and is expected to remain in the range of about Rs. 100 Crores to 125 Crores for the remaining part of FY2022.

Funded through a mix of internal accruals and debt the base of capex was impacted to some extent due to incessant range in Gujarat and Maharashtra state during the quarter and the second COVID wave during the start of this year.

The balance sheet continues to remain strong with a comfortable net debt to equity of about 0.5x as of September end 2021. The company is well on track of growing the contribution from high-value lifestyle and chronic therapeutic areas and reducing share from acute therapies from the API business segment.

Similarly, specialty chemicals and intermediate business are expected to grow at a robust pace driven by the niche value proposition and multiple industry and geopolitical tailwinds.

On the formulations business front, the company has a robust pipeline of products under development with multiple therapeutic areas. The company remains confident about the opportunities across all the businesses.

We can now begin the Q&A session. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer, session. We have a first question from the line of Rashmi Sancheti from InCred Capital. Please go ahead.

Rashmi Sancheti: Thank you for the opportunity. Just want to have a query on the gross margin. How many other products apart from Metformin are we dependent on China, and which are major products we are facing high input costs?

Adhish Patil: To answer this question, out of the total RM purchases around 55% come from imports and that is spread across the products that way and recently also there are two factors where the prices went up one was because of the power outages which created a shortage in supply and second was the freight which got increased and hence the RM prices were revised upwards. So the thing is we do have the option of procuring these raw materials from alternate sources but then the thing is once the supply shortage is created this particular RMs even if we procure from other parts of the world the prices are still high. So that is the reason why across the board if I can tell you that 17 out of top 23 RM products which we procure both import and domestic both included, we saw that in the September month the prices were maximum out of all the six months for this year.

Rashmi Sancheti: But in the antibiotic segment what I understand for all the major products which pass with significantly to the overall revenue that is backward integrated so is there something called basic chemicals or something which is using even those products we are seeing some sort of price pressure?

Adhish Patil: Yes we do.

Rashmi Sancheti: And what is the, on your Metformin product is it something that we have underutilized the capacity because of the higher high RM cost for this quarter or how is it?

Adhish Patil: Right now we are taking, we are having good orders of Metformin. The capacity utilization has been fairly okay though not fully utilized but fairly okay. Your point is quite valid in the same side because this September quarter the prices were so volatile and the situation was so dynamic and fluid that openly taking a lot of orders for our finished good was little of a challenge because we were not sure that how the RM prices are going to react in future so in such scenario taking orders in bulk is also a challenge and that is why we also went slow and perhaps that is also one of the reasons why a lot of volume growth have not seen in this particular quarter.

Rashmi Sancheti: It is only in this product, or it is across other products also we have seen the same challenges and that is why the volume growth was low.

Adhish Patil: This is for across all the products this was a challenge.

Rashmi Sancheti: If you can just guide like you have commented that the demands of antibiotics have come down, is it because of the challenges in higher input cost or what exactly if you can throw some light why the demand has come down?

Adhish Patil: So the overall so there are two things to it we also went slow in taking the orders that is one reason while we might have temporarily lost on few orders but overall also see there are few antibiotic products where the demand was very strong as per the numbers published but as we consider here is that for one and a half years there was almost because of the COVID people were afraid to go to hospital so the people who were about to get operated now the hospitals are quite full in terms of operations but then the kind of antibiotics which are used in those kind of applications are different and the ones in which we are chloroquinolones are different and the one the application area for our antibiotics is more related to the respiratory infection or stomach infection or UTIs which mostly happen when people are going out and eating outside now that has picked up and the situation is much better and with this complete second vaccination I think the demand will be back very soon.

Rashmi Sancheti: Sir one last question what is the aftersales in terms of gross margins what kind of gross margins are we seeing for the entire FY2022?

Adhish Patil: The thing is this first two quarters more or less it remained similar though we were expecting an improvement in this quarter and frankly speaking we were seeing in the middle of the quarter we were seeing an improvement but then again because of the new factor, I think the gross margins slid down further so we expect December quarter to be choppy, but March quarter should ideally we should be improving on the gross margins and once the situation stabilizes means there are no more further hikes in the raw material prices then the improvement in the gross margin should start coming in.

Rashmi Sancheti: So from the first quarter something you expect your regular gross margins of around 35% to 36%?

Adhish Patil: We can definitely target that, provided there are no further price hikes or no further changes in the market conditions.

Rashmi Sancheti: Sir I have more questions. I will get back in the queue. Thank you.

Moderator: Thank you. We have the next question from the line of Abdulkader Puranwala from Elara Capital. Please go ahead.

Abdulkader Puranwala: Thank you for the opportunity. Sir in your opening remarks you mentioned that you have taken a price hike this quarter would you be able to quantify the quantum of the price hikes which has been taken?

Adhish Patil: That is a little difficult to say, but if we see at a top ten products I can see that if we look at the last five quarters that is September 2020, till September 2021 quarter last five quarters in the top 10 almost for 80% of the products the prices are maximum in the last five quarters as of September 2021 quarter but then the problem was the increase in the raw material prices have even sharper and that is the reason why the gross contribution shrunk a little.

Abdulkader Puranwala: Sir next question is on the inventory so sir what is the typical raw material inventory which we have on at a glance considering now but the raw material prices are up, so are we at the same level itself what we were a year ago or we are trying to be a little conservative and hopeful of the prices coming back?

Adhish Patil: Yes, so actually the situation is very, very challenging so more from the prices we are more worried from the shortages point of view, but we are carrying about somewhere in the late 40s in terms of days of RM inventory.

Abdulkader Puranwala: Just final question if I may on the formulation side sir the export though it is growing but in the overall pie if you see domestic is again quite high the 72% as compared to exports which is 26% so any reason why there is low traction in export in the last two quarters?

Adhish Patil: For formulations right. Yes, Vishwa can you elaborate on that.

Vishwa Savla: Yes, so acutely there are two reasons one is in the formulations we are also slightly dependent on some of our tender orders which in this particular quarter we had a lower execution of tender orders and also some of the shipments because of logistical issues export consignment shipments have been lower and due to that export execution was low and this domestic business has been steady and growing and that is why the percentage in the domestic is higher however with more and more registrations coming in and more product list expanding and also markets expanding, we are quite confident over the next couple of quarters export business will be contributing much higher percentage in our overall sales.

Abdulkader Puranwala: Just final if I may so what would be the current capacity utilization on the API and formulation side?

Adhish Patil: For the API side it will be so far last quarter it was near about 70% about that much and for the formulations also Vishwa.

Vishwa Savla: Yes, for formulations also it will be between 70% to 75%.

Abdulkader Puranwala: That would be helpful. Thank you for answering my questions.

Moderator: Thank you. We have the next question from the line of Chirag Dagli from DSP Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. So you mentioned 55% of raw material purchased is imports?

Adhish Patil: Correct.

Chirag Dagli: How much of this is China Sir, from China?

Adhish Patil: Around 80% of the imports would be from China as of now.

Chirag Dagli: Also you mentioned so would there be final API products also where you compete with China and there also there could be some supply challenges and hence it will be easier for you to take a price hike so is there a set of products which fall into this bucket?

Harit Shah: Yes, there are many products particularly antibiotics we are competing with China, so we are revising the rates and the Chinese companies have revised as it and we also getting better price realization in exports now.

Chirag Dagli: Can you quantify sir what percentage of our product mix?

Harit Shah: It depends on the product-to-product basically see the situation is so volatile for example coal prices which went to $200 a ton now it is today it is $150 and the Chinese government target is to do at $83 so there is so much volatility so the power cost also has gone up then it will come down so as of now whatever raw material increase percentage-wise whatever India have increased so that much increase we have done in sales price basically also the cost of UDD has gone up so we are also taking with that account so overall we want to have that the stable margin basically. We hope that in exports we will be getting better margins whatever old contracts we have but besides that, we will try to get better pricing.

Chirag Dagli: And you mentioned about some onetime staff costs for the quarter which would not be recurring can you quantify what this number is?

Adhish Patil: It was slightly less than 1 Crore.

Chirag Dagli: Not much basically and the last question was you mentioned the capacity utilization in APIs is 70% for which products is it lower and for which products is it higher just broadly some sense. Some extreme wherever you are seeing dramatically lower utilization.

Adhish Patil: No, there is no such product that is extremely lower utilization it is more or less across the board.

Chirag Dagli: This should normally scale back to how much over a very short period?

Adhish Patil: It should scale back to at least the late 70s, 75% to 80%.

Chirag Dagli: Thank you Adhish. Thank you.

Moderator: Thank you. We have the next question from the line of Nilesh Joshi from GL Capital. Please go ahead.

Nilesh Joshi: The question again relates to gross margin reduction on a YoY basis you alluded that the largely it is because of the raw material price increase and that is from China and that to because of some power shortage and the cost of power has gone up but if I remember and what we read from the newspaper and understand is that the real power shortage that the cost of power has happened from August, September whereas the supply chain would have forced you to buy this raw material at least three months in advance so am I missing something in the process so the impact of this power shortage and the price increase should actually happen in Q3 and not in Q2 am I missing something in the in-between?

Adhish Patil: See the logic what you are pointing out is the sort of way it is correct but then what happens is there are some prices or some materials which we are also buying locally but whenever such thing happens some news come out immediately those prices are revised so the local purchases at, so the lead time is very short.

Nilesh Joshi: Sir that could not be a very high percentage right because the impact 7% on the overall revenue, the local purchase would not be to that extent would have impacted or the other way to understand Sir is that what kind of price increase actually has happened for those intermediates and raw materials on a YoY basis if you can just quantify in a percentage terms what kind of actual price increase have we seen?

Adhish Patil: Actually I do not have that number you mean but I will try to find out and then release it.

Harit Shah: I will just add one thing like what has happened today is a power shortage and outage is started in August and what has happened immediately Indian producers are basic chemicals to give you an example formic acid which was available at Rs.45 they have increased the price to Rs.125 so it is more than 100% so there I can give you an example of at least 10, 15 chemicals which price they have made almost two times three times price although the Chinese shipments were still coming at an old price but the domestic price in China went up so they immediately increase the price here that too government company also like caustic flakes which were available at Rs.30 a kilo now it is available at Rs.60 a kilo so it is a commodity-driven basically it requires in all the APIs these chemicals. So these local chemical producer also increase the rate and that has also cause a lot of disturbance.

Nilesh Joshi: So those have not been purchased on some monthly basis?

Harit Shah: Now there are spot purchases there we have a contract, but they got decent they have done every seven days they revise their price.

Nilesh Joshi: Sir but during these quarters whether the product prices have fallen I mean if I look at last year versus current year is there any change downwards division in the product prices for example Metformin?

Harit Shah: No except Metformin otherwise no, yes.

Nilesh Joshi: So more or less the product prices have remained the same?

Adhish Patil: Yes, it has gone up. To answer your question the selling prices you are asking so September 2020 that is the last September quarter the prices were high but then the prices had come off in December and March quarter and then again in June quarter and September quarter it will went up and current September quarter prices are as high or in some cases higher than the September 2020 quarter.

Nilesh Joshi: But in that case Sir what has happened that why our revenue is flat YoY?

Adhish Patil: That maybe because of the fact that as I was saying in this volatile situation it is very difficult to go aggressive in taking orders if you take long-term because in such situation customer comes and just asking that you want to fix price for three months down the line and we want to give you order something like that but then that is risky for us, so we took it little slow in this particular situation volatile which we have.

Nilesh Joshi: But Sir then what kind of our revenue is on a spot basis we sell and what could be on a long-term especially on the volume side I can understand pricing would depend on the formula or something?

Adhish Patil: Difficult but I can give you some sense like for example the 65% is domestic 35% is exports in API at least I am talking about so in that in the export market usually the pending order is two and a half to three months and domestic markets come there are still customers like MNCs operating in India they are trying to fix price for three months and all but then there are few B and C type of customers who order like 10, 15 days we think for that much period.

Nilesh Joshi: But do they not give us Sir some kind of planning or some kind of advance intimation that it is really a spot basis?

Adhish Patil: No. the organic players they do but then there are sort of kind of formulation sales in the market.

Nilesh Joshi: So out of our business what kind of domestic sales do we do through dealers and the traders in this, or everything is sold directly to the formulator?

Harit Shah: Most of our sales is directly the formulator is coming most of the sales yes except for some companies where we are not assured of about payments of such issues.

Nilesh Joshi: Thank you for answering my questions.

Moderator: Thank you. We have the next question from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: Thanks. Adhish, could you help us understand out of the top ten products if we look at, where are we seeing the demand weakness and what is the outlook that we have. Any sense that you can provide on and just to support that if we look at the demand scenario simultaneously if you can highlight out of the top products where we see EBITDA level pressure more and what is the view on that?

Adhish Patil: EBITDA level pressure?

Cyndrella Carvalho: Which are the products you are seeing the impact of the higher raw materials or the volatility we see in the market leading to the kind of pressure that we are seeing in our P&L so if you could relate the demand with the EBITDA and explain to us would be very helpful?

Adhish Patil: As far as because this raw material prices went across the board typically all the products face that pressure but especially even the antidiabetic product a lot of new capacities came up and plus the raw material prices were also going up for that product sharply so the market was quite volatile. So in last six months we have seen that even antidiabetic segment the profitability had gone down as compared to previous years but then we are seeing signs of recovery based on the orders which we took in September month and October. It is dynamic because the prices were changing so drastically it is difficult to pinpoint once the raw material prices stabilizes and after that in two months' time it will be very much clear that whether the sliding margin is slightly on permanent basis or it is very temporary and as far as demand is concerned there is no specific category where we feel that it is a matter of concern it is just matter of time. For antibiotics yes as I said that the kind of application saying which we operate stomach infection, respiratory infection and UTI so those kind of for that therapy the demand was slightly lower because of this second wave.

Cyndrella Carvalho: But apart from that the new launches also in the cardio segment that we have done we have not created any support what is the outlook there and when we are talking only about anti-infective and anti-diabetic what about the other key therapies of those that we have what is happening there exactly and how should we see these things because anti-infective when you say even in the base year we have a complete miss on that segment as such so where do we see this coming back and do we have any sense around the demand per se?

Adhish Patil: Yes, so if we compare our half-yearly basis so we have lost mainly in this only as an antibiotic and antiprotozoal and mainly the products which are going in the application areas which were highlighted so it will come back so we are not much worried about that and once the demand is back the margins ideally should also be slightly better because now what happens is then it is like a temporary exit supply for reduced demand so the margins also contract in that.

Cyndrella Carvalho: One more on the scenario the way we have described raw material and our contracts with our suppliers or our buyers, do you envisage any strategy to protect our self in a better way going ahead? Is there any possible solution or strategy that you guys are working on or is it on cards or do you think this scenario will continue?

Adhish Patil: There are two things. There is a limit also means how much a formulation company can absorb or increase the prices because for them also it is a pressure situation because ultimately the prices need to be paid by the consumer in the MRP. So once this situation stabilizes only then we will be able to really forecast something but the thing is in past also what we have seen that most of the time the situations are temporary in nature and ultimately a new norm is formed and when that will be formed then again the margins will be like before.

Cyndrella Carvalho: Sir it is not just the margin front, I am trying to understand that from a raw material exposure and the volatility that we are experiencing, do we have any strategy in mind like we have said in past that we have backward integrated in most of the products but still we are facing these kind of volatility because of basic solvents and at large on a basket level inflation in terms of raw material, so do we have any strategy here which can protect us going ahead or are you guys working on it and the supply side what I mean is when you look at contracting when you talk about your contracts domestically or in the export term, could there be any provision take care of such volatility which will help us to have a more sustainable P&L going forward?

Adhish Patil: So the thing is there were few contracts which are cost base so there the impact is not much but then there is few contracts which we take like three months or four months basis so anyways the prices are revised for three months but within that three months then there would be any it is very difficult for us to go back to the customer and say that we want to increase the price of the existing three-month contracts because that we are anyways in short-term nature so we may not be able to do that. But for a longer contract definitely we have that clause in writing. As far as backward integration is concerned the thing is this particular situation what we are seeing is not structural in nature as such so if it is like so in past also whenever we see that there is very high profit to be made on a long-term basis for any particular case and something when we definitely do backward integration but right now based on the current scenario I do not think we have any new plans though we do have a line of products where we have already done R&D where we can put the plant if we want but we do not want to do it right now because we want to let the situation stabilize and then make a decision on it.

Cyndrella Carvalho: Any quick update on the USFDA side and on the capex where we are in terms of our expected timelines?

Adhish Patil: Yes, first capex is concerned right now the speed is very fast, though the first half of the year had suffered a little because of the two factors which I highlighted something like that is the second wave and because the rainy season the civil work are got delayed a little bit but otherwise all the projects have started and couple of Greenfield sites we are planning to start the production by the end of next calendar year that is calendar year 2022 and USFDA side we are at a very advanced stage, we are getting mock audit done, but then the thing is we recently got Australian audit done for the same plant and that will go through since it will be cleared.

Cyndrella Carvalho: Thanks all the best.

Moderator: Thank you. We have the next question from the line of Manish Poddar from Nippon India. Please go ahead.

Manish Poddar: Sir just a few questions first on this freight, has it now stabilized and how is that?

Adhish Patil: Harit bhai would you like to take?

Harit Shah: From China point of view there are a lot of containers because of their power shortage we are getting shipments on time now at least as far as timing is concerned otherwise there was a delay of shipment from China and freights have come down from peak level around 20% to 30% correction is there from China point of view. From India the situation is getting normalized but there is still delay and in some countries where we want to export but the things I think will get streamlined in next two quarters, more or less.

Manish Poddar: Sir could you also talk about the future power supply at your facility? The power as a percentage of sales should be 4-5% of sales, right?

Adhish Patil: The power and fuel have gone up because of the coal is that what you are asking for the quarter.

Manish Poddar: For the quarter it has been down for 2022-2023?

Adhish Patil: So there was a rate variance there was 50% hike in the coal prices for the last quarter so that is the reason why the power and fuel segment has gone up for us but as soon as these prices come off then it will again go down.

Manish Poddar: Just last one Sir could you probably talk about the surprise from China do you think could the future raw material and also compliments in terms of finished products how is that?

Adhish Patil: Yes, so the thing is in a lot of therapies especially antibiotic therapy and in some cases antiprotozoal also in some cases we do compete with China as far as the finished product is concerned, so there definitely we will get benefit and as far as the raw material as we said that 55% of our total purchases is around imports and of that around 80% comes from China so there situation means still it is very volatile so we will come to know in a month or two how it stabilizes.

Manish Poddar: Thank you.

Moderator: Thank you. We have the next question from the line of Rashmi Sancheti from InCred Capital. Please go ahead.

Rashmi Sancheti: Thanks for the follow-up again. Just to get a better sense again on gross margins. Usually our revenues majorly come from the domestic business and that I understand that the price hike the transferring the price to the customers is a bit faster than the export business so is it something that we are already started doing that or we expect that the price or we expect that the price hike on the product which will be passed on to the customer could be taken care from the third quarter?

Adhish Patil: As I was saying that we are taking price hikes, but the problem was the back to back RM was also increasing so whatever hikes we took for say for the month of April, May, June that is but again the RM side is kept on increasing till the month of September. So it is a continuous process definitely we are getting better realization now for the products for the finished products. But we need to see how it pans out how much we are able to pass out and how much further price hikes will take place at the input side or where they will taper off that is yet to be seen.

Rashmi Sancheti: So are the export price hike we have taken now for the export contract?

Adhish Patil: For export contracts, the contracts are usually for two and a half to three months that is the pending order so there will always be a lag of two and a half to three months for increasing the prices.

Rashmi Sancheti: How many months inventory we usually keep because of the headwinds which are coming from China?

Adhish Patil: Which inventory raw material inventory?

Rashmi Sancheti: Yes, raw material inventory.

Adhish Patil: Raw material inventory it is in late 40s in terms of the overall.

Rashmi Sancheti: Sorry I did not get you raw material inventory.

Adhish Patil: It is around 45 to 50 days.

Rashmi Sancheti: We normally do it on a FIFO basis?

Adhish Patil: Yes.

Rashmi Sancheti: If we doing it on a FIFO basis if you feel that whatever inventory that you are purchasing say late second quarter as well as even at the beginning of the first quarter we also impact on fourth quarter gross margins?

Adhish Patil: Typically yes, but then we are also taking tariff hikes so to some extent it should offset that.

Rashmi Sancheti: What is the reason behind de-growth in the intermediate and bulk for us, it is also because there also we have lost volume growth. In the past, if you combine with your specialty chemicals, intermediate and bulk, I think there we have shown a drastic decline in sales on a YoY basis?

Adhish Patil: If you look at our half-yearly performance half-yearly numbers in that the only culprit looks to be like this antibiotic couple of antibiotic and antiprotozoal product frankly speaking the rest of the products are positive or flat.

Rashmi Sancheti: What I am trying to understand I am not talking about the API segment I am talking about the intermediate as well as these specialty chemicals whatever breakup you have given in the presentation?

Adhish Patil: No. I am talking from half-yearly basis so quarterly basis I am not talking about because sometimes the order flow from one quarter to another quarter so that can happen but on the half-yearly basis there is no decline.

Rashmi Sancheti: Finally, on the gliptins plant has it commercialized such plan?

Adhish Patil: Yes gliptins recently we have commissioned two commercial batches also in that plant so it got commissioned recently a month back and we have already taken validation batches for the new gliptins so a couple of gliptins so it will be a new launch for us.

Rashmi Sancheti: Lastly one question on the export side in formulation business you have mentioned that shipments and everything got delayed and they have lost the sales in the export formulation business so is it something that this is just deferred and going to come back in the third quarter or the sales because loss is now going to come back on the export formulation side.

Adhish Patil: It will come back. The only thing is dispatches are delayed so it will flow into the next quarter.

Rashmi Sancheti: Third quarter is expected to be better in terms of export formulation?

Vishwa Savla: Yes, as of now it is slightly better than the second quarter.

Rashmi Sancheti: Thank you, Sir. That is it from my side.

Moderator: Thank you. We have the next question from the line of Chirag Dagli from DSP Mutual Fund. Please go ahead.

Chirag Dagli: Just a quick one. You said EBITDA margin should be back to normal levels in two quarters what is that normal level?

Adhish Patil: We are targeting in the short-term around 17% to 18% of EBITDA margins.

Chirag Dagli: But that is what you are targeting long-term also know, Adhish?

Adhish Patil: When I say long-term the long-term once we launch all those products Greenfield products also and the inflation goes up then ideally it should go up.

Chirag Dagli: You are saying that fourth quarter we will start seeing this 17%.

Adhish Patil: For the next one or two years we are keeping a target of 17% to 18%.

Chirag Dagli: In the initial comment you said that EBITDA margin should be back to normal levels in the next couple of quarters and then through the quarter you have been talking about price hikes etc., so in the fourth quarter is that what you are guiding to that fourth quarter one will start seeing a 17% to 18% margin that is the question?

Adhish Patil: Yes, so if no further changes in the market conditions then we should start reaching that..

Chirag Dagli: Thank you, Adhish.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Adhish Patil for closing comments. Over to you Sir!

Adhish Patil: Thank you everyone for joining us on this call. Please reach out to our IR Consultants, Strategic Growth Advisors or us directly should you have any further queries. Wish you a very Happy and Safe Diwali. We can now close the call. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Aarti Drugs Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

****