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

BSE CODE – 524348

To,
Listing/ Compliance Department
National Stock Exchange of India Limited,
“Exchange Plaza”, Bandra - Kurla Complex,
Bandra (E), Mumbai – 400051

NSE SYMBOL: AARTIDRUGS

Dear Sir/Madam,

Sub: Transcript of Q3 FY23 Earning Conference Call

Please find attached herewith transcript of Q3 FY23 Earning Conference call.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR AARTI DRUGS LIMITED

RUSHIKESH VIVEK DEOLE

Digitally signed by RUSHIKESH VIVEK DEOLE
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ICSI M.No.: A54527

“Aarti Drugs Limited

Q3 FY '23 Earnings Conference Call”

January 30, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 30th January 2023 will prevail.

Management: Mr. Harshit M. Savla – Joint 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 Q3 FY '23 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 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 call, please signal an operator by pressing star then zero, on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Adhish Patil, CFO at Aarti Drugs Limited. Thank you, and over to you, sir.

Adhish Patil: Thank you very much. Good evening, everyone and wishing everyone a happy new year. On behalf of Aarti Drugs Limited, I extend a warm welcome to everyone joining us today to discuss our financial results for the quarter ended December 31st, 2022. On this call, we are joined by Mr. Harshit Savla, Joint Managing Director; Mr. Harit Shah, whole-time Director of Aarti Drugs Limited, and Mr. Vishwa Savla, Managing Director, Pinnacle Life Science Limited; and SGA, our Investor Relations advisor. I hope everyone had an opportunity to go through the financial results press release and investor presentation, which we have uploaded on the stock exchange and on our company's website.

In the quarter gone by, the pace of construction activity for the Gujarat capex was ramped up and the construction is expected to get over within scheduled timeline. Tarapur greenfield capex, the construction is expected to get over by the end of Q1 FY '24 which will be mainly used for dermatology-related APIs. The company is planning to launch products which would be import substitutes through this facility. Once the construction is ready, the company is well prepared to take up scale up batches immediately.

As far as Tarapur brownfield specialty chemicals capex is concerned, the company has taken scale up batches during H1 FY '23. The equipment required to fully scale up this plant are expected to arrive by April 2023. The total capex during nine-month FY '23 stood at INR 115 crores and is expected to be in the range of INR 200 crores to INR 250 crores for the entire FY '23.

Coming to our performance during the quarter, the company achieved API top line growth of 9% during the quarter. However, multiple factors were on the margin expansion. Firstly, the API prices corrected for the overall industry which was mainly on the account of fall in raw material prices. As communicated in the earlier earnings call, the company undertook some price cuts to maintain the market share. Though at the monthly order level, we are able to maintain the desired gross margins the opening stock for the December quarter was at higher rates.

To give you some more perspective, if we keep December quarter as a base, the equivalent raw material purchases would have cost INR 33 crores higher in the September quarter and INR 45 crores higher more in the June quarter compared to the December quarter, purely based on rate variance.

All these high-cost openings, raw material and finished good inventory is used in the December quarter's sale. Owing to API price correction, the company has taken inventory loss of approximately INR 6 crores, owing to the factors just explained above. Ideally, we would have brought down raw material inventory days but the company had to keep higher its raw material inventory due to an uncertain scenario of sudden spike in COVID-19 cases in December and New Year-related holidays in January 2023 in China. The low-cost raw material inventory will be utilized from Q4 FY '23 onwards, which is expected to improve the gross margins going forward, provided prices don't fall further down.

As far as the demand is concerned, the company is expecting volume off-take going forward, which has remained under pressure due to higher API prices and unavailability of the US dollar, in a lot of export markets, especially the emerging ones. With respect to our performance across all segments, first, API segment, the largest segment of the company, in terms of revenue contribution grew 9% year-on-year.

The growth was mainly driven due to increased share of chronic as well as acute therapies. While selling price remained under pressure due to the reasons mentioned earlier, we are witnessing improvement in the volume off-take from January 2023 onwards. Revenue from the formulation segment stood at INR 49.9 crores for the quarter. The formulation segment's share of the total revenue for the quarter was 8%. The formulation segment's core focus area continued to remain exports. During the quarter, exports contributed 39% of the total formulation revenue.

Third, revenue growth in specialty intermediate and others for nine months in FY '23 stood at 15% year-on-year basis. For Specialty Chemicals, the company has recently received commitments from the customers for the brownfield expansion products, as well as for a campaign-based product. The company is gearing up the capacities to meet this demand and should be able to start delivering the increased demand in next three to six months.

With this committed line of orders, the company can easily double the Specialty Chemicals revenue in next 12 months. Please note that this revenue growth will come only from the existing brownfield facilities, and the greenfield capex for Specialty Chemicals will drive further growth in the upcoming years.

Coming to overall stand-alone performance for the quarter, stand-alone revenue for Q3 FY '23 stood at INR 614.4 crores as against INR 579.9 crores with a year-on-year growth of 6%. The stand-alone business contributed tentatively 92% to the consolidated revenue for the quarter. According, around 61% of the revenues came from domestic market and 39% from the export market for Q3 FY '23 for a stand-alone business. Domestic revenue grew approximately by 8%, while exports grew only by 2% year-on-year for Q3 FY '23.

Within the API business, the antibiotic therapeutic category contributed approximately 45%, antidiabetic approximately 16%, antiprotozoal around 16% and anti-inflammatory around 12%, antifungal around 8%, and the rest contributed approximately 3% to the total API sales of Q3 FY '23.

The company has successfully steered through multiple challenges in the past 12 months in terms of supply chain disruptions, elevated raw material prices, correction in API prices, geopolitical uncertainties to name a few. We are confident that the worst is behind us, and we are witnessing a pickup in chronic, as well as acute therapies. The demand is steadily picking up and volume offtake is expected to return to the growth trajectory within next two to three months.

As far as the company's financial management is concerned, the company remains frugal and leverage stands comfortably at 0.53x as of December 31st, 2022. The company will optimally utilize the mix of debt as well as the internal accruals to fund the ongoing capex. The company will also strive to maintain pay-out to the shareholders while continuing to invest for the next leg of growth. With new facility for dermatology coming up in FY '24 along with operationalization of the expanded brownfield expansion of Specialty Chemicals facility at Tarapur, company expects growth in revenue as well as profitability in upcoming years.

With this, we can now begin question-and-answer session. Thank you.

Moderator: The first question is from the line of Chirag Dagli from DSP BlackRock.

Chirag Dagli: This specialty chemical piece, you talked about doubling of revenue even without the greenfield facility. This is currently about 8%, 9% of revenue. for us. So two questions there. First is that where are you seeing this number 8%, 9% of sales go over the next two to three years, including both greenfield and brownfield expansions that you have? And how different is the profitability of this business versus the rest of it?

Adhish Patil: 1 thing I would like to correct right now, the spec chem and intermediates, we are clubbing together, so spec-chem will be around 4% to 5%, and that we are expecting to double right now. And with the brownfield expansion only, the one of the recent brownfield expansion what we had done for chloro-sulphonation products.

That right now, we are just operating at 10%. We are waiting for one equipment, which will arrive in April. And after that, immediately, we can scale up the production. And plus we are also expanding one of the contract manufacturing products in this segment based on the customer's requirement and commitment.

So based on that, we can easily double our spec chem segment. And as far as the further greenfield expansion is concerned, we are hoping going forward, we can take this spec chem and intermediates to around 20%, 25% of the stand-alone revenue after two years-three years.

Chirag Dagli This includes both Specialty Chemicals and Intermediates.

Adhish Patil: Correct.

Chirag Dagli: This will roughly double the contribution effectively.

Adhish Patil: Yes, and the margin profile of the product is also slightly higher than our conventional API products.

Chirag Dagli: Margins are higher, understood, sir, okay. And the second question I had, sir, was on the API business. You talked about prices being under pressure. We've still grown 9% Y-o-Y. On a net basis, have volumes grown double digit and prices have come down a few percentage points is how we should think about this?

Adhish Patil: As of now, on a sequential basis, the prices have definitely come down. But on year-on-year basis, still for the December quarter, there was a bit of price growth, positive rate variance. So this time in the December quarter, the volume was quite flattish, actually. Export -- sorry, for the domestic market, there was some flattish marginal volume growth of 2% to 3%, but for the export, in fact, there was slight de-growth in the volume as far as volumes are concerned for the December quarter.

For the first half year, the volume growth was excellent for the export, but for the December quarter, we could see that there was a slight lack of demand due to lack of government tenders in the export geography, and that has also to do something with the shortage of dollars -- US dollars in those emerging countries.

Chirag Dagli: Sir, any thoughts on margins where we are today? We are at significantly lower than history in terms of margins. How should we think about margins going forward? For the API business.

Adhish Patil: So the margins will definitely improve because see, we based this comment on the information that our current monthly orders which we are taking, they are at significantly higher gross margins, significantly means as compared to the financials. So they are where we typically want. They are there at the desired gross margin level. But then it is not reflected in the financials because of this sharp decline in the raw material prices. What happened was, we started this December quarter with very high inventory around 100 days.

And all this inventory was at a very high rate. As I was saying that, if we purchase December inventory with the September rates, then it will cost us 33 crores higher. And if we compare it with respect to June rates, it will cost 45 crores higher. So my point being, the prices have come down significantly. And the selling prices with, say, one month lag, they will follow the raw material prices, but our inventory was more than almost 100 days. And that had really put a squeeze on the gross margin.

In fact, we have also taken 6 crores of inventory loss for the December end for some of the finished goods, where we saw that the earlier purchases, the cost price was slightly higher than the selling price. But we have already taken that loss, which was contributing to around 1% in gross contribution. And in addition to that, this FIFO method has also squeezed margins quite a lot. So we definitely see that once the pricing stabilizes of the raw material, then we can see some healthy margin expansion in our gross contribution.

Chirag Dagli: So Q4 should be better than Q3 in terms of margins and that exit is what should probably -- will you improve on that exit margin for the full year of next year, FY '24?

Adhish Patil: So Q4, definitely, I believe should have been better. Only one concern is there that in Q4 also, our inventory was high and the reason being in the month of December, there was a lot of uncertainty related to the COVID-19 outbreak. Another wave and lockdowns. And because of those reasons we have kept the raw material inventory high so that we should not face any production losses.

So that is the only worry that we will be carrying some bit of inventory into this March quarter. But apart, but then the thing is still this inventory will be significantly lower than the opening rates of the December quarter. As I said, that almost 33 crores of difference is there of what we purchased in December versus had we purchased the same with the September rates.

Moderator: The next question is from the line of Pujan Shah from Congruence Advisors.

Pujan Shah: Sir, first question would be, can you just give a split on nine-month geographical split for our company?

Adhish Patil: I don't have it right now, but then tentatively, I can tell you. Based on last year, our Asia would be somewhere in 15. But we'll get back to you, though, with this correct numbers. And then Latin America would be somewhere in early 20s. And Europe will be late teens or something like that. And Africa might be another 10% or something like that. But I think we might have published this number in the investor presentation.

Pujan Shah: Yes, but details is for FY '22. I just want the nine months FY '22?

Adhish Patil We'll do one thing. We will update that slide and put it again.

Pujan Shah: Sir, one of the questions would be, as we are exporting the like semi-regulated like Turkey and some of the countries like Mexico. So how we are handling the currency crisis that we have been facing? Yes, we are net exporter to the country. So I understand that. So how -- like what are the steps we have taken for that part, and how we are looking for the countries to evolve in next two to three years for our company?

Adhish Patil: Yes. So that is a very relevant question because that is the reason why we have been facing some trouble as far as the export demand is concerned for in the latest quarter, not before that, but in the latest quarter. However, one point to note is that we do most of our export contracts in -- mostly in US dollars and a little bit in euros.

So that way, we are insulated from the currency variation of the individual country. So that particular forex risk is actually on the client side, but then definitely, if they don't manage it well, then they will go in financial trouble and that might cause some delays in payment per se, something like that.

Pujan Shah: My add-on question would be that only that if they have been getting into financial trouble, are we getting any difficulty on the recovery side for that like are we getting any delay for the debtor side?

Adhish Patil: Yes, as of now in December quarter, our numbers look okay. It was very much in line with the previous averages as far as credit days are concerned for export market. And moreover, we are slightly insulated because of this insurance also, which we have taken fees, the insurance we have for the exports. So that gives a bit of more comfort to -- for receivables.

Pujan Shah: Sir, my broad ask would be on the, like, let's say, we have sales of currently, our API sales is 84% and our revenue has been muted. So like what are the -- like what I can read is we have grown in the volumes, but due to price erosion, we can't get that value for the specific API?

Now the second question, like just the add-on would be that on the and the formulation as we have into greenfield and the brownfield, we are yet to expand much on that part. So are we saying that in the next 12 months or, let's say, two years in down the line, we had like not very low, but the dominance of API will start decreasing and the other will be start increasing.

And what are the broader margins we would recollect for it. Because in the last quarter, we can see that we are having the gross margin of 34%. Last year, December, we have a 34% gross margin. So what are the visions we have been taking to for the specific call that due to these APIs being somewhat commoditized, how we have been aiming to get into the two, three years of vision for our company?

Adhish Patil: So as far as margins are concerned, this 34% gross margin, we believe we can achieve in APIs as well as soon as your rate scenario, the input price rate scenario stabilizes. Then you're right, that API, our spec chem and formulation segment will grow at a little higher pace than the API segment. One of the reasons will also be because of APIs of higher base is almost, as we said that, in '80s, it is contributing to the revenues.

So percentage growth for spec chem and formulation will be slightly higher. In formulation also, we are targeting higher margins through more and more exports. Spec chem obviously have slightly higher margin as it is with compared to APIs, and the API margins should also grow because once this input rate scenario stabilizes, because what we are seeing in -- if you compare the monthly sales order contracts and the monthly purchase order contracts, what we are doing every month, we can clearly see that there is at least 3%, 4% improvement in the gross margins.

But the problem is in raw material, what happened is it takes around, say, 15 days to 30 days for the material to reach the factory, and then we have around 100 days of inventory. So there is that certain lag. So in the changing input prices scenario, we face squeeze in the gross margin. But then if it stabilizes, then definitely, it will improve is what we feel.

Pujan Shah: And do we see this API price erosion has been bottoming out? Or are there is still place to left for the erosion due to the market structure and market was been like before the COVID that was a spike -- due to COVID spike was being such a high? So are we seeing still a space to have some price erosion and then it start bottoming out? Or and the second question would be as we have said that we have decreased the inventory days.

And you are -- like we are also keeping the inventory due to the COVID-related issue, like if there is a sudden spike in China or something like that. So the question is, are we -- the working capital then it would be very like stringent because like as we are paying for the inventory and we are also keeping the inventory. How you are managing that specific change? So yes. So that's the two questions.

Adhish Patil: Yes. As far as -- you're right about the inventory. Now the problem with not keeping inventory was uncertainty. If we face production losses, then we might lose market share. Market might get stuck for that particular product, and we might lose clients to competition. So we took a conscious call but we don't want that means temporarily decline in margins is okay, but then the production should be at full scale. So that we don't lose any market share. And the natural downside of that was squeeze in the gross margin.

Definitely, in a stable scenario, we can easily improve, we feel that we can easily bring down total inventory days by around 20 -- at least 20 days, bare minimum. It's quite easy. So that will also put -- reduce pressure on the working capital requirement. I mean right now, our working capital debt would be around 360 crores and the long term will be around 240 crores. So definitely, the working capital debt will also go down if you bring down the inventory.

Moderator: We'll take the next question from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Can you please talk about how is the situation for inventory destocking in stocks, most of the geography that we are seeing in API companies, not just in our company but as well as other API companies across the globe. And when do you expect this situation to bottom out?

Adhish Patil: Are you asking that when the API prices will stop going further down?

Ankit Gupta: No, I'm asking about companies, across various companies, we have been hearing that there had been some surplus inventory built up during 2021 and 2022, which has actually impacted the demand during the past few quarters. So how is the situation currently? And when do you expect the situation to bottom out and improve from thereon?

Adhish Patil: I request Harit bhai to answer this question.

Harit Shah: Yes. Actually, the government price is -- as far as government prices are concerned, they are almost at pre-COVID level or lower than that. And as far as demand is concerned, we expect demand to pick up in the next two or three months, February, March onwards. We expect demand to further move up. So all inventory, which were in pipeline has come down to a very realistic level now. So we expect demand to go up by March, April onwards.

Ankit Gupta: Sir, how are the API prices compared to the pre-COVID levels? How are they currently are -- like as you were saying, the raw material prices have come down to pre-COVID levels, but how are the final API plans?

Harit Shah: Yes, it follows, like we are also almost coming down to pre COVID level for most of the APIs. Case to case is different, but more or less, we are at pre COVID levels.

Ankit Gupta: And sir, on the capex of 600 crores that we are implementing over the next three or four-five years, can you talk about for any of given product-wise capex? So when each of these capex are expected -- is expected to be completed? And how do you see the growth panning out for us in during FY '24 and '25 post completion of the phase-wise capex?

Adhish Patil: So as I was saying that one brownfield expansion, which will be meaningfully scaled up in the first -- coming first quarter, that is June FY '23, '24. And then in the same quarter and towards the end of that quarter, we are expecting our another greenfield facility at Tarapur to be operationalized then we will start taking the scale-up batches. The pilot batches of the same of the scaled up pilot batches at another location are being taken right now as we speak.

And as far as the spec chem greenfield project is concerned, which is coming up in Gujarat, that we expect by the end of first half, that is towards the end of September, that particular facility will be operationalized. And then it might take around a one month or two month troubleshooting problems like scaling up and on. So those are the tentative timelines as of now.

Ankit Gupta: And how much revenue will this both brownfield and greenfield API could get it to us. The specialty chemical capex, what kind can be the asset turn or revenue that we can generate from them?

Adhish Patil: So the revenues after completion of this -- both these projects, plus we had also planned an expansion of antidiabetic facility. When all these put together, our revenue potential can go until around 4,500 or something like that, all put together, brownfield and greenfield all put together.

Ankit Gupta: And all this will be completed by end of FY '24 in worst case?

Adhish Patil: Yes.

Ankit Gupta: And will also, given the kind of slowdown that we are seeing across our existing product portfolio – we still will also have some room for increasing capacity utilization at the existing plants as well. So this will also -- that will also contribute to higher revenue, INR 4,500 crores includes everything, like new capex and existing?

Adhish Patil: Correct.

Ankit Gupta: And sir, on the Specialty Chemicals side, we have seen that a lot of companies which are into intermediate specialty chemicals and especially the one focusing on China substitute products, we have seen a lot of dumping happening from China in the past two, three quarters, especially with the demand slowing down in the domestic economy because of COVID.

And that has impacted and impacting the prices of the finished good products to certain level that the cost of production for many of the companies has increased considerably comparable to the finished goods products. So are we seeing the same thing in our specialty chemicals? Or how is the scenario because of China dumping a lot of products in India?

Adhish Patil: So see, over the last one decade, I would say, from 2011 till 2020, that decade it was very much evident, many of the spec chem industry and pollution norms basically has become very strict in China, which are little relax and because of that, even the level laws where it become a little more strict.

And their operating costs went up because of all these factors. Because they started coming -- they started complying, to adhering to these strict norms. So that gave us a lot of opportunity to come into this spec chem space, intermediate space and also the API space.

Obviously, government -- our Indian government is promoting through various schemes wherever possible. definitely, if not directly, at least indirectly, it will help the industry. And we feel that China Plus 1 strategy also playing in some of the cases, because more and more export markets, they do want to have an alternate supplier from India. Earlier when they were focusing only from China, at least 20%, 30%, they will start moving to another geography. But in this particular space, other than China, India is another country which is very strong as far as manufacturing capabilities are concerned.

Ankit Gupta: So what we have seen -- sorry to interrupt you, but what we have seen is in the prices of the Chinese manufacturer go down below the Indian manufacturer, people still shift back to the Chinese players because the prices are lower. So do we see that across our product sale side?

Adhish Patil: Yes. So the products in which we are there, because the fact that our capacities are as big as Chinese, if not bigger than them in many of the cases, in the top 15 products which we manufacture, that is the reason why we are able to market our products at par with China. In fact, there are three, four products which we are already exporting, and we are adding also a couple of products to China, to for the Chinese market.

So we are selling our product, which is manufactured in India to China. But what we have seen the Chinese government protect their industry quite a lot by putting a lot of registrations into place. It is not like easy from a regulatory standpoint to export our product to China. It is not just about quality and price. It has also to do with the regulatory aspect, if you want to export to China. But other way around, it is very easy for a Chinese manufacturer to export into India.

Another good indicator is that in last six, seven years, Southeast Asian market, which was predominantly occupied by Chinese manufacturers, they had a stronghold in that market. But we were able to penetrate and that is the reason why our Asian market share has gone up significantly higher over the last seven, eight years.

So as far as cost is concern, we are able to compete with China. So it is more to do with other macro factors and other regulatory environment.

Ankit Gupta: But my question was more to do with the specialty chemicals side. APIs, we have a stronghold. We are our Top 5 or Top 3 player in many of our molecules, but the specialty chemicals will be some of the products in those will be a new entry for us. And so how will be the situation there, specifically?

Adhish Patil: The product, if we take our two, three specialty chemicals, those products also, that particular business, which we are getting more and more market share from a particular contract manufacturer. So earlier, they were procuring from China, that particular product. And recently, we got 30% bump in that particular contract as well. So we are getting market share from China, even in spec chem products.

And in some of the cases, in fact, there are even Chinese counterparts, who are talking with us to manufacture certain products over here, and they will then focus further on the -- further higher end of the value chain. So there is collaboration right now.

Ankit Gupta: And last question on the margin side. There is the new ramp-up up to, let's say, 80%, 90% of the capacity, including the incremental capex that we are doing, and it's let's say, around INR 3,800 crores, INR 4,000 crores kind of revenue. What can be the steady sales margin that we can expect from the company?

Adhish Patil: So the current business can go current means not the -- I'm not talking about greenfield expansion. But the current business, once we achieve higher utilization, that can fetch us around, say, 15%, 16% EBITDA margin, plus because of the higher exposure to spec chem and export formulation. Slightly, we can at least try. Our target should be to reach towards 18%.

Ankit Gupta: At least in a normal rate, 16% to 18% is what we can aspire to achieve both. In fact, 18% is what you're saying.

Adhish Patil: Yes, after all the expansions are complete.

Moderator: The next question is from the line of Prerit Choudhary from Green Portfolio.

Prerit Choudhary: So in the previous call, the company mentioned that there had been some delay in orders for high value, high margin products which have affected the margin. So are there any changes in the current quarter? Are those products delivered?

Adhish Patil: Frankly speaking, I don't recollect to which particular products you are referring to as of now. But the thing is those products will be delivered if it was API or spec chem kind of product, typically orders don't get delayed this much means if not in that particular month by next month, they are delivered. So I'm assuming that these products will be delivered. But the main reason for the squeeze in the margin for this quarter was because of the inventory, which I was explaining earlier.

Prerit Choudhary: So those products, you don't know which all the products were, I mean, if you can some data, what was the order sizes?

Adhish Patil: I pull up that data, then I will come to know.

Moderator: The next question is from the line of Bhagwan Chodhary from Sunidhi Securities and Finance.

Bhagwan Chodhary: Just a few clarifications from your starting comments. You said that we lost INR 30 crores kind of the revenue because of the pricing. Is that right?

Adhish Patil: No, actually, what I was trying to tell that the opening inventory as of 1st October, typically, all those purchases were done in the month of September, if we take around, say, 90 days to 100 days of inventory cycle. So whatever was purchased in that particular quarter -- September quarter would have been sitting in the -- by the end of that quarter.

Now if we use the September quarter rates and check the rate variance with respect to the December quarter rate, then we saw that there is INR 33 crores of negative rate variance means the raw material purchases have actually come down by INR 33 crores for a quarter, purely because of the rate variance. But when we -- but we were carrying the stock that much expensive stock to start the quarter of December. So all that particular stock which we purchased in December must be sitting at the 31st December stock value.

Bhagwan Chodhary: From the other way, you said that we have the INR 6 crores loss of inventory.

Adhish Patil: That is another thing. In addition to this factor, there was INR 6 crores of inventory markdown, what we have done for finished goods, wherein the prices have collapsed so much because of this 100-day cycle, the cost price is actually higher than the selling price. So we have marked on the inventory to the selling prices. And there, we further suffered that INR 6 crores of inventory loss.

Bhagwan Chodhary: So on the other side, when you say the growth was 6% on a standalone basis, I'm saying that again, there the volume was flat in domestic and negative in exports, and there was a growth on the pricing. So that's you comparing on a Y-o-Y basis. And the other two things, INR 33 crores and INR 6 crores, this was the Q-o-Q basis?

Adhish Patil: Correct. So the margin squeeze, I was explaining because that is related to what we purchased in the previous quarter, but then we had to sell the inventory at lower prices because the prices collapsed significantly.

Bhagwan Chodhary: So my next question, now if the pricing are the same, and we are carrying some inventory of the earlier quarters as well. So what would be the impact in this quarter this impact scenario?

Adhish Patil: So this quarter, definitely it should be better provided. Right now, still we can see -- we can -- in the January month, January month itself, there was a price reduction if we compare with the average realization of the December quarter, there is still further price reduction. But if these prices.

Bhagwan Chodhary: On final products.

Adhish Patil: Of final products. So if this price reduction stops here. And that final product is basically based on the raw material because the raw material prices are also going down, and that is the reason why the final products are going down. So -- and at the order level, we are still making decent margins, but the problem is we're carrying this 100 days of inventory.

So if it stops here, then definitely, March quarter will look much better than the December quarter. But if month-on-month -- if the raw material prices keeps going down and so will the selling prices, then again, something like December quarter might repeat. But then it looks difficult for the prices to go down further from here.

Bhagwan Chodhary: And what is the update on this US FDA inspection part?

Adhish Patil: So we furnished the final response in the month of September. And then in October, for the same plant, we got EDQM audit. In fact, we had a Canadian audit schedule for the same plant in January end. But then we got information from Canadian authorities that because we have already been inspected by the EDQM authorities recently. So they won't be coming for the audit.

And this EDQM thing certification and all should be out by 27th of February. So once we get that in hand -- with that, we will send a further reminder to the US FDA officials that after our last communication, another regulatory audit has taken place, and these are the results. So we invite you to the plant.

Bhagwan Chodhary: My understanding is we were already approved by EDQM?

Adhish Patil: We were already approved. But after that, we are approved in 2016, then 2017, we had US FDA audit, where which because of the previous points, the import alert point lifted. But now after that US audit, the Australian audit has taken place last year and fresh EDQM audit has taken place this October.

Bhagwan Chodhary: But we were supplying to Europe from the same facility?

Adhish Patil: We were supplying, but the problem in some of the cases, in some of the multinationals, who are procuring APIs in their formulation plant for both US as well as European market, they refrain procuring from us because their product is going to both the markets, and we are approved only for Europe and not for US. So that is challenging sometimes. In some cases, we were supplying, but you can say if we clear US FDA, then even the Europe market will open up fully for us from that facility.

Bhagwan Chodhary: I was just trying to understand the significance of current EDQM. Is it going to add something to our kitty in terms of value…?

Adhish Patil: It should because that will be the latest audit. So that is why we feel that it will add to that…

Moderator: The next question is from the line of Zain from Dolat Capital.

Zain: I just want to know the one question, which is about for formulation. It is a 9% decline Y-o-Y. So I want to know the reason for that.

Adhish Patil: So formulation what has happened, we have won a tender in Latin American market and we manufactured in our local plant -- local formulation plant for this tender and we moved our product to our subsidiary, in that country. So because it was internal sale, the product has reached the export market. But from there, now it will be sold in March quarter in this quarter to the final authorities in that country.

So that is the reason why we had to remove INR 10 crores of sales and INR 2 crores of profit from -- because it was under consolidation, it got netted off. But it will come in March quarter. So there were some deferred sales. This time, we did not sell more into domestic market for formulations, and that is the reason why the sales look low. And even the profit is looking low because it got netted off in the consolidation, but it will come in the March quarter.

Moderator: As there are no further questions from the participants, I now hand the conference over to Mr. Adhish Patil for closing comments. Thank you, and over to you, sir.

Adhish Patil: So thank you, everyone, for joining us today on this earnings call. We appreciate your interest in Aarti Drugs Limited. If you have any further queries, please contact SGA, our Investor Relations adviser, or us directly. Thank you. Bye.

Management: Thank you, thank you everyone.

Moderator: 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.