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Ref: ADL/SE/2023-24/20
May 7, 2023

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 Q4 FY23 Earning Conference Call

Please find attached herewith transcript of Q4 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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COMPANY SECRETARY & COMPLIANCE OFFICER
ICSI M.No.: A54527

“Aarti Drugs Limited

Q4 FY ’23 Earnings Conference Call”

May 02, 2023

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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
SGA Investor Relations Advisors

Moderator: Ladies and gentlemen, good day and welcome to Aarti Drugs Limited Q4 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 the 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 this conference call, please signal an operator by pressing star and 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. Good morning, everyone. Hope everyone is doing well. On behalf of Aarti Drugs Limited, I extend a warm welcome to everyone joining us today, to discuss our financial results for year-ended March 31, 2023. 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 of Pinnacle Life Science Limited and SGA, our Investor Relations Advisor. I hope everyone had an opportunity to go through the financial results briefly and we'll be posting the investor presentation very soon for your very reference, on the stock exchange and also on the company's website. In the year gone by, we are pleased with our financial and operational performance amid a challenging business environment. API segment revenue grew 12% year-on-year for FY '23, with good volume off-take for chronic therapies.

Specialty chemicals in which, the company manufactures niche, high-margin Chloro-sulfonation products continued to witness a high growth. Specialty chemicals grew about 38%, year-on-year for FY '23. The company reported a good set of performance in Q4 FY '23, with a top-line growth of around 7% year-on-year on a consolidated basis. The company's performance improved considerably on a sequential basis due to ease in the input cost and efficient working capital management.

On a sequential basis, the EBITDA margins improved by around 190 basis points, due to operating leverage driven by improved capacity utilization. With high inventory cost of raw materials and finished goods almost getting over, we expect improvement in the margins in the upcoming quarters. The margin expansion would be further accelerated by the upcoming foray into dermatology product segment and backward integration in the second half of FY '24, and in addition to that, with stable input costs.

Our dermatology products are import substitute, and the company already has good inquiry inflow from the customers for this product. Once we take the validation measures, we are well capable to scale up this capacity immediately. The balance sheet position as on 31, March 2023, continued to remain healthy, with leverage remaining comfortably at around 0.51x. We recorded the highest ever monthly sales in the month of March 2023. As a result, the receivables as of 31, March 2023, have increased by some extent on a temporary basis. The receivables are expected to normalize by the end of Q1 FY '24.

Coming to overall standalone performance of the quarter, the revenue for Q4 FY ‘23 stood at INR697.2 crores as against INR642.1 crores, a growth of approximately 9% year-on-year. The standalone business contributed approximately 92% to the consolidated revenue for the quarter. Around 62% of the revenues came from the domestic market and 38% from the export market for Q4 FY ’23, for the standalone business. Domestic revenue grew approximately by 13%, while exports grew by around 7% year-on-year for Q4 FY ‘23.

With the API business, the antibiotic therapeutic category contributed around 45%, anti-diabetic around 15%, anti-protozoal around 16%, anti-inflammatory around 13%, anti-fungal around 8% and the rest contributed around 3% to the total API sales for Q4 FY ‘23. Formulation segment revenue stood at INR56.8 crores for the quarter. The formulation segment contributed around 8% to the consolidated revenue for the quarter. The company has substantially increased the share of exports on a year-on-year basis. The share of exports is expected to improve further going forward, driven by various filings the company has filed, especially in the semi-regulated and de-regulated markets.

The company will also continue to invest in new product launches, filings and capacity announcements. The company has incurred, on a consol basis, a capex of around INR315 crores in the last two years, which is approximately 50% of our INR600 crores capex target, mainly towards capacity expansion, backward integration and new product launches. As communicated earlier, the company will finish almost entire capex by the end of FY ‘24. The only remaining capex would be a Brownfield expansion of the anti-diabetic facility at Sarigam.

And as a result, the capex is expected to be in the range of INR250 crores to INR350 crores for FY ‘24. The capex will be funded through internal accruals as well as some long-term debt. Tarapur Greenfield capex for dermatology is expected to be completed by the end of Q2 FY ‘24. Tarapur specialty chemical capex is also expected to be completed well within time frame by the end of Q1 FY ‘24. The majority of the company's INR600 crores capex is expected to be completed by FY ‘24.

These initiatives are expected to reduce the cost along with expansion in the profit margins via backward integration and the top-line growth. The company is also investing in process improvement and R&D, to further reduce the cost along with improvement in efficiency. Company will be also investing in the renewable energy for the upcoming years. Over and above the capex undertaken, the company continues to evaluate multiple opportunities and will make strategic and tactical investments, if required. In the upcoming year, we plan to continue expanding our capabilities and enhancing our offerings to meet the ever-changing needs of our customers in terms of regulatory environment as well.

Recently, we got two of our key products from antifungal and antidiabetic therapy successfully audited by a regulatory body. One of our key goals for the ongoing financial year is to increase our production capacity, allowing us to better serve our growing exports as well as domestic customer base. We also plan to invest in new technologies and equipment that, will help us streamline our processes, improve efficiency, and also reduce the environmental burden of the manufacturing of these APIs. With new facility for dermatology coming up in FY ‘24 along with commencing operations of the expanded Brownfield facility of specialty chemicals at

Tarapur, the 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: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Yes. Thanks for the opportunity. So, on FY '23 basis, if you could now give, what is the Ciprofloxacin contribution to the total sales and your top 10 products contribution now stands at what and also your top 10 client contribution for your API business?

Adhish Patil: So, the Cipro remains our topmost product. So, contribution would be somewhere around 15% to 20% for the standalone business from this antibiotic product. And the top 10 would be more or less similar like last year in mid-70s to the standalone business. And overall consolidation would be slightly different.

Rashmi Shetty: Yes. I'm saying the top 10. Sorry, I was not able to hear. Top 10 product contributions on consolidated business. How much is it?

Adhish Patil: So, the top 10 products contribution remains to be in the mid-70s on a standalone basis and early 70s on a consolidated basis.

Rashmi Shetty: Okay. And what about your top 10 client contributions?

Adhish Patil: We will be posting our investor presentation very soon. So, there we will be giving the exact numbers. Right now, I don't want to make a mistake in telling that number to you..

Rashmi Shetty: Okay. Alright. And on this Derma API, if you could give more color on it, like, what is the capacity installation that, we are doing for the Salicylic acid? What kind of demand we are seeing in this product? Whether this would be more export-driven product or it would be more domestic focused in terms of potential sales also, if you can give some color on it, it would be great.

Adhish Patil: Okay. So, mainly this is an import-substitute product. So, domestic sales will be more for this particular product. But, derivatives of this product, then it has more export potential as well. Then overall domestic import for this product is anywhere in the range of INR300 crores to INR400 crores. So, that could be the overall domestic potential for this product. And we have already spoken with a lot of customers regarding Salicylic acid and they are pretty much interested in having an Indian source as compared to the Chinese source.

Rashmi Shetty: So, as of now, for this, there is no Indian source. A lot of the companies are dependent on the export for this particular product. And that is why, we have entered into this. Or, if you can give any rationale behind entering into this product.

Adhish Patil: Yes. So, one of the rationale is, it is an import-substitute product. And we had a good process for salicylic acid and we feel, we can very easily compete with the Chinese sources. Earlier, this product was manufactured in India. But over the last two decades, slowly, the Indian manufacturers had closed down and Chinese imports had increased substantially. So, we believe that, almost more than 80% to 90% of India's consumption was being imported. Probably, there might be some Salicylic manufacturers, who are using captively. But mainly, the entire product is being imported from China.

Moderator: Thank you. Sorry to interrupt you, Rashmi. I'll request you to join back the queue for a follow-up question. The next question is from the line of Chirag Dagli from DSP Blackrock. Please, go ahead.

Chirag Dagli: Yes, sir. Thank you for the opportunity. Sir, can you split the INR600 crores capex program in new products, capacity expansion for existing products and backward integration? Just ballpark numbers will do, sir.

Adhish Patil: Yes. So, going forward for this financial year, that is FY '24, we believe that apart from, say, INR40 crores to INR50 crores of de-bottlenecking, Brownfield expansions of the existing products and the maintenance capex as well, keeping aside that INR50 crores, the rest of the capex would be divided mainly, say, for example, 40%-40% into two Greenfield projects, which are happening, one in Tarapur and another in Sarigam.

So, one will be for the backward integration and intermediates, that 40%, and the other 40%, would be for the dermatology project, which we just talked about. And rest 20%, would be in some other product, some new fresh launches, say, for example, in antifungal or probably in a nutraceutical product.

Chirag Dagli: Okay. So, you know, the press release talks about 14% to 16% margin for FY '24 in that range. So, first of all, this range is for the full year, right, of FY '24? Or is it towards the end of FY '24?

Adhish Patil: So, mostly it is for the full year because we expect things to improve in Q1 FY '24 itself.

Already for Q4 FY '23, we had seen improvements in the margins for a lot of products, but the gross contribution was subdued for one factor because of the fact that in March 23, we had a lot of antibiotic sales in that particular quarter, and as of the end of December 22, that is the beginning of this quarter, we had a lot of high-cost inventory for antibiotic products, which has led to the squeeze in the gross margin because of the product mix. But across the board, we have seen that the gross contribution improvement has already started taking place.

Chirag Dagli: Understood. The point was that most of the capex that you are going to do for backward integration is still not getting baked into this 14% to 16%, right? The backward integration capex will kick in afterwards. Are you suggesting that FY '25, margins can improve on this 14% to 16% base?

Adhish Patil: Yes. So, if the backward integration projects go very smoothly, then definitely it can help us go beyond that 15% to 16% into the margins.

Chirag Dagli: Understood. And you suggested about 40% of the INR300 crores, or it was about INR120 crores odd kind of a number for backward integration, which is going to kick in into, which is going to be invested in FY '24. That number is right, sir. About INR120 crores odd?

Adhish Patil: Yes. Yes. Right.

Chirag Dagli: Understood. Okay. And the press release talks about a 9% volume growth for APIs. This is for fourth quarter or for the full year of FY '23?

Adhish Patil: This is for the fourth quarter only. Especially, we have seen a very high volume in domestic market for the fourth quarter, as I said, because of this antibiotic demand. And for the entire year, it has been low. It was approximately around 1.5%, but that was mainly because of the fact that we started with a lot of negative macro factors, like the Russian war, very high inflationary crude prices, and the raw materials had shot up very high. The selling prices of the APIs were very high.

And because of this, the formulation players also felt a squeeze in the margins for generic products, which we supply to them, because their final selling prices are capped by the NPPA. So, because of that, the demand was low in this. And now, since December quarter, the prices have started coming off, and that is why we have seen certain increase in the demand for antibiotic products again, for the domestic market.

Chirag Dagli: Understood, sir. And, sir, if you think about API prices, and I'm talking about general, you know, sort of a price index kind of a thing, what was this number, let's say, in the first quarter of FY '23, and what did we exit? Like you said, in March, prices were very high. What did we exit the FY '23 at, sir?

Adhish Patil: I understood. So, if we compare from March '22 versus March '23, the rate variance is not much. It is just below 2%. So, this Q4 growth is entirely, most entirely because of the volume growth. So, we are exiting, the exiting quarter is more or less the same like last year's March quarter rates.

Moderator: Thank you. Sorry to interrupt you, Chirag. I'll request to join back the queue for a follow-up question. A request to all the participants, please restrict to two questions per participant. If time permits, please come back in the question queue. The next question is from the line of Bharat Sheth, from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Hi. Congratulations, Rashesh bhai, Adhish bhai, and full management team. I have one question for Rashesh bhai if he is there on the line. May I go ahead?

Moderator: Please go ahead with your question.

Bharat Sheth: Yes. See, my question is like we have, say, in the whole Aarti group, we have separated one as Aarti Pharma and here Aarti Drugs also is having some pharma business. So, as an investor, we would like to understand what the rationale is and how the differentiation will be created between these two companies?

Adhish Patil: Yes. Hi, Rashesh bhai is not there on the call. So, see, the Aarti group, we started back in early 1980s. So, the two main flagship companies at that time were Aarti Industries and Aarti Drugs. And Aarti Industries, somewhere around in 2000, they had invested heavily into CRAMs business. Then, slowly, slowly, they started marketing very small volume but very high-value niche APIs into highly regulated markets because of that CRAMs business.

And that is how, slowly, slowly, that business expanded and then it resulted into Aarti Pharma Labs. And that is how the two businesses evolved. And Aarti Drugs is mainly into very bulk volume products, high-engineering products where you, along with chemistry, you also require very strong expertise in the engineering department, the way you manufacture the material, the way you handle the material at such high volumes. And that is Aarti Drugs' key focus area. So, that is how and right now, we do discuss which products are to be taken in which companies so that there is no unnecessary, you know, competition within the group.

Bharat Sheth: Yes. Okay. So, we are spending, say, over large capex of approximately INR600 crores we'll get over in FY ’24, out of which several projects are for the growth-related and some of is, say, for a backward integration. So, and in FY ’23, also our anti-infective did not operate at full capacity. So, if things improve, and normalize at this level, so how much would be the additional, say on INR2,500 crores, these new capex as well as anti-infective can add on the top line on a standalone number? And in your estimate, if raw material price remains at the current level, what could be the EBITDA margin?

Adhish Patil: Yes. So, the prices have already gone down. If we compare with entire FY ’23, the prices for FY ’24 are expected to be lower than the outgoing financial year. So, at a full scale, means our current capacity, can give around INR2,800 crores to INR3,000 crores of revenues in terms of standalone capacity. That's the standalone company without including formulation. And with further capex, which we are having, we can go till INR4,000 crores of revenues with the current capex plans, what we have. And then formulation division will add extra on that.

Bharat Sheth: And what could be the standalone EBITDA that you expect with this backward integration and high margin product starts contributing?

Adhish Patil: So, last year was quite subdued in terms of margins and bottom line. Going forward, we do expect, you know, for FY ’24, we are aiming for around 25% to 35% jump in the bottom line from the standalone business.

Bharat Sheth: And going ahead for FY ’26, what kind of our budget, or your vision is, or inspiration?

Adhish Patil: Yes. So, historically, if we go back six years to eight years back, when we operated at a higher utilization of capacities, we were able to maintain this 15% to 16% EBITDA margins for a lot of quarters, a lot of financial years with the ROW markets. So, now, going forward with more backward integration and more presence in regulatory market, we definitely and also, more exposure towards spec-chem, specialty chemicals, which are slightly higher margin products. We do hope, to try to take our EBITDA margins to 18% in next three years, four years. But that would be our aspiration.

Moderator: Thank you. Sorry to interrupt you, Bharat. I'll request you to join back the queue for a follow-up question. The next question is from the line of Pujan Shah from Congruence Investment Advisers. Please go ahead.

Pujan Shah: Hello. Hi, sir. My question would be, first of all, in the formulation. So, as we have seen that we are getting attraction on filings and we have seen like, we have been making filings in regulated and unregulated. Can you just give the split between regulated and unregulated filings? Or what are the markets we are expecting to share for them? And plus, if you can share the formulation molecule size, if we are targeting that market?

Adhish Patil: Yes. I think Vishwa will answer your question.

Vishwa Savla: Yes. So, on the list of formulation sales, as of now, till the last few quarters, our majority sales were coming from the domestic contract manufacturing business, which has now gravitated more towards the semi-regulated or the emerging market business, where we have invested over the last few years in various registration. So, mainly in Latin America, Asia and Africa, we are getting majority of our sales.

Whereas in regulated markets is where all our new filings are going to. So, we are filing multiple products in Europe and North America and Latin America. And probably over the next 12 months to 18 months, those approvals would start coming in and the regulated market business would start contributing to a significant percent of the sales over the next 12 months to 18 months.

Pujan Shah: Yes. And, sir, the market size for individual, if you can say any formulation individual, like ballpark number would work for me.

Vishwa Savla: The market size? Which market size, sir?

Pujan Shah: About the formulation. So, we are filing that formulation. So, what can be the market size for that molecule?

Vishwa Savla: We are filing a lot of oncology as well as diabetic and cardiac products. And most of them would be kind of day one launches, post-patent expiry. So, the potential per molecule would be quite significant, but it will also depend on the competitive landscape. But with our new capacities increased, with the new plant that we have set up,at full potential, we can see from the new launches and new products, we can see about a INR150 crores to INR200 crores revenue increase once it's commercialized.

Pujan Shah: Okay. And my second question would be on the, we have seen a spike in the March 23 sales. So, what could be that reason? And are we seeing the same, are we expecting the same lines for April or you can say Q1 FY '24?

Adhish Patil: Yes. So, March, the thing is overall years, sales were subdued, especially for domestic market because of this very high inflationary pressure in input cost as well as the API selling prices. And because of which the off take, the push demand was less for last year. And since December quarter, the prices have been going down. And now they are like at a very reasonable level if you compare to historical numbers. And that is why we believe that with the upcoming monsoon season, now the formulation companies have really picked up their production volumes and hence the demand has gone up. So, we feel that whatever subdued demand was there in FY ’23, that might have, that might be a history and now going forward it will be back to the original numbers. So we feel that the demand will continue.

Pujan Shah: Okay, got it. Thank you so much.

Moderator: Next question is from the line of Tushar Manudhane.from Motilal Oswal. Please go ahead.

Tushar Manudhane: Right. So, thanks for the opportunity. While you've already highlighted on, let's say, the pricing with respect to, say, the start of FY ‘23 till now, but now with this volume getting normalized and to some extent boosted with the seasonality factor, how do you see the price trend, let's say, for next 12 months to 15 months? Is there a scope for increase in prices or there is more scope for growth through volumes rather than prices?

Adhish Patil: So, whatever budget we are building in for the upcoming financial year, that is purely based on the volumes. In fact, we have factored in negative price growth. What we have seen, observed, that the April month, for example, the Q1 selling prices might be slightly lower, not much. I would say, around maybe 5%, not more than that, slightly lower as compared to the Q4. So, that would be the bottom because the raw material prices have stopped going down since the month of February. So, because of that lag, now by April month, the prices will stabilize on the sales side, as well.

Tushar Manudhane: Understood. So, subsequently, but you don't see scope of price increase, so to say, but at least it will get stable now?

Adhish Patil: Yes, correct.

Tushar Manudhane: And these stable prices, maybe product to product, it would vary subject to their own supply demand, but where do they stand, like in the overall life cycle, say historical prices, where would they be lying compared to, say, two years, three years or five-year prices? Are we more or less at that range, let's say three-year average or it will be, there is still scope to go down?

Adhish Patil: Okay, Slightly difficult to answer in current times, the reason being, in FY ‘20, the prices shot up because of COVID, then it came down and then again because of coal and other factors, again it went up, then it came down and again went up because of this Russian war and crude and again came down.

But just to, before COVID, the prices of ciprofloxacin were somewhere in the range of, say, 1800 to 1950 or something like that, and even now, as of today, they are in the same range. So we don't feel that it will go down, since it is as per the pre-COVID levels. So, but generally, the prices stabilize based on the input cost. So it will all depend on the basic raw materials and on those factors.

Tushar Manudhane: Understood, this is helpful, thanks a lot.

Adhish Patil: Okay.

Moderator: The next question is from the line of Ronak Chheda from Awriga Capital Advisors. Please go ahead.

Ronak Chheda: Hi, Adhish. I have two sets of questions. One is on the capex itself, being on the Derma side. You said there, we should complete it by the first half and then, so can you give tentative timeline on ramp-up of the capacity, let's say, in your estimates, when do you see the ramp-up in the capacity going forward, on this capex?

Adhish Patil: Yes. So, the way, we have planned, we'll be ramping up every 15 days, based on the equipment delivery, and that will go hand-in-hand, with the gestation period as far as demand and capacity utilization, it's in a regular way also. When we expand capacity, it takes time for sales, for demand to pick up. So, it will go hand-in-hand with that. What we feel is that, around March '24 or April '24, the entire, the full 100% capex, the capacity will come in. But anyways, whatever we will need for the initial sales, initial demand that would be operational mostly by, towards the end of second quarter.

Ronak Chheda: Okay. And my second question is on the exports market. So, basically, now we hear a lot of Chinese competition has come back, in a lot of other products. So, can you talk about the competitive scenario in your products in the exports market and whether, we are at par in terms of pricing? Can you just talk about the environment?

Adhish Patil: Harit bhai, would you like to answer this?

Harit Shah: Yes. Most of the products, we are competing with China, and we are able to compete them in the export markets. So, we are not unduly worried. And the cost of raw material for Chinese source as well as us is more or less same. Efficiency-wise also, we are more or less good, compared to China. So, we don't expect any price pressure on that front.

Ronak Chheda: So, Harit bhai, my question is, what we hear is Chinese players are dumping a lot of the products as they had capacity on hand, which was already in built up. So, are we seeing any signs of that?

Harit Shah: No. As far as our products are concerned, we are not seeing a similar situation in our range of products, actually.

Ronak Chheda: Okay. Thank you so much for answering my questions.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Hi, Adhish. Good morning. So, the first question is, we had a low volume growth last year. So, we had a low base and a lot of capacity is coming in this year. So, are we expecting mid-teens or high-teens kind of a volume growth on the FY '23 base? And to tie in with that, I think Q1 FY '23, Q2 FY '23, the prices were quite high. So, on a Y-o-Y basis, the realization would be lower. So, in terms of revenue, how are we looking at? Are we looking at flattish revenue or are we looking at revenue growth of double-digit kind of a number?

Adhish Patil: Yes. So, internally, we are keeping targets high. So, in spite of all this negative price variation, we still hope that we want to touch this double-digit value growth. So, definitely, as you suggested that, for achieving that, we will require high-teens kind of a volume growth in upcoming year. And we feel that, it is quite possible because last year was exceptionally dull in terms of volumes, in few of the acute therapies in domestic markets.

Dhwanil Desai: Okay. And second thing, Adhish, this US FDA thing has been lingering for a very long time. So, we had appointed consultant and done modification. So, any idea,what is hindering the resolution of this? Any update from there?

Adhish Patil: Yes. So, the last response, what we had given to final response to FDA was back in September 2022. And then in February '23, couple of months back, US FDA wrote a letter back to us, highlighting that, they need certain clarification on the response in certain aspects and some additional information as well. And for that, they had given one month's timeline. So, that also we worked upon and that also we have sent. We also, obviously, we took help of US consultants as well, for this. And then, by the mid-March, we had submitted furnished additional information to US FDA.

So, now it is like, I don't think, it will take time for them to go through that reply. And as of now, we are planning to send a reminder to them for the follow-up inspection or action. Because we feel that, we are hoping that there might be unannounced audit anytime because we have submitted the final response as well. And the good part is the file is active because they wrote from their end to us, in February itself. So, that means that, they are actively looking into it right now.

Dhwanil Desai: And last question. So on this, I saw INR50 crores, addition WIP on the formulation side. And I assume that, we had enough capacity to kind of grow in that segment. So can you elaborate on that? What is that capex regarding?

Adhish Patil: Vishwa, would you like to answer?

Vishwa Savla: Yes. We have added capex. We have added a new manufacturing facility in Baddi for an oral oncology manufacturing site. Basically, which will cater to regulated markets as well as emerging markets. So that capex project has just very recently been completed. And at the same time, we are investing into building a portfolio. So a lot of product development investment, for this site will operate duly as we will be marketing our own developed products as well as other contract manufacturers. And we expect revenues to kick in from this project in the next 12 months.

Dhwanil Desai: Together, current formulation capacity that you have with this capex, we should be able to go to INR500 crores kind of a revenue?

Vishwa Savla: Correct. Yes, we can expect about an INR200 crores growth from new capex. So we can look at an INR500 crores plus revenue with all the capex for the utilization.

Dhwanil Desai: Got it. Thanks.

Moderator: Thank you. Next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thanks for the opportunity. On the Greenfield capex that we will be completing largely by end of FY '24 or in fact Q1 and Q2 of FY '24, how do you see the ramp up of this project happening? When are we expected to reach optimal 70%, 80% capacity utilization in both API and speciality chemicals side?

Adhish Patil: So**,** as far as the API is concerned, because our full 100% capacity will be online by next financial year that is FY '25. So, towards the end of FY '25, we definitely hope in the second half of FY '25 that we should cross that 70% mark in terms of utilization. And as far as the spec-chem, speciality chemicals and intermediates are concerned, because we have our own captive consumption, we expect that ramp up to happen very fast. So, 50% in fact we are hoping to achieve in the second half of this year itself. And then 100% that will also depend on further expansion of our own API products, which will further increase the demand of this intermediate.

Ankit Gupta: Sure. And the combined revenue potential from post expansion from our API and speciality chemicals, specialties will be INR4,000 crores, is what you are saying?

Adhish Patil: Yes, for the standalone business.

Ankit Gupta: The standalone business. Yes. And on the speciality chemicals side or the intermediate side, the new product that will be launching post the commercialization of our new greenfield plant, so how has been the competition from China? Existing products, as sir said, there hasn't been much competition, but for the new product that will be launching from our Greenfield facility, how is the competition from China? Because we have been hearing that there has been a lot of dumping which is happening on the intermediate and speciality chemicals side from China over the past few months. So, how is the situation with our product, which we plan to launch?

Adhish Patil: So, the thing is, right now we feel that, because right now they don't have any competition for that particular product in India, so there was no reason for them to dump as such. Though the prices have gone down for that product as well, which we are planning, but then even with those selling prices, we can compete with China pretty well.

Ankit Gupta: So, how many products will we be launching from our Greenfield facility post its commercialization?

Adhish Patil: So, around one API and around three to five intermediates and spec-chem.

Ankit Gupta: Okay. Thank you and wish you all the best.

Moderator: Thank you. Next question is from the line of Zain from Dolat Capital. Please go ahead.

Zain: So, I want to know, what is the demand right now for the API prices and KSM prices, and how they are affecting the gross margins?

Adhish Patil: API prices right now?

Zain: Yes.

Adhish Patil: Okay. So, the API prices, we have seen quarter-on-quarter there was a decline in the prices, which was obvious because the raw material cost was coming down. What we have seen is for Q1, Q means the current ongoing quarter that is Q1 FY '24, there might be slight decline, say for 2.5% to 5% as compared to the March quarter prices. But then more or less we have seen that now the fall in both input as well as the selling prices has stopped.

Zain: Okay. So, do you see gross margin improvement from the current level?

Adhish Patil: Yes, we definitely hope that the gross margin will improve. So, let's see for this Q1 FY '24. Let's see how the numbers pan out, but we definitely are very hopeful for that.

Zain: Any ballpark number or any guidelines?

Adhish Patil: That way, ideally we believe that it should come back to historical numbers. So, obviously it should, when everything is played out, we feel that around 2% to 3% definitely it should improve very easily. But in Q4, what that number would be, we are slightly hesitant to comment right now, but it should definitely be in a positive manner.

Zain: Okay. And the second thing is, you utilized the high-cost RM in Q4 you said, which you will utilize it completely, but you have not utilized it completely. So, can I have the number for that? Any approximate number? How much you utilized for this quarter and how much is remaining?

Adhish Patil: That we will see. I will roughly tell you. Not exactly what you are asking, but our raw material inventory, which was in early 50s, back in December end, it has gone down by 10 days. And then even our FG inventory has gone down by around eight days, finished good inventory. WIP is more or less similar because that depends on the operations. So overall, around 15 to 20 days reduction is already there in the inventory days. So, that definitely help us, means puts us in a better position as compared to what we were in as of March quarter.

Zain: Okay. Thank you.

Adhish Patil: Okay.

Moderator: Thank you. Next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: Hello, sir. Congrats for a good set of numbers.

Adhish Patil: Thank you.

Ankur Kumar: Sir, my first question is as you are talking about the price decrease and we will be passing that on some. To think more in terms of first half, how should we think? Will it be like 20% volume growth kind of and how much will be the realization decrease?

Adhish Patil: Okay. So, realization decrease overall. Last year, we had around 10% to 11% positive rate variance, means FY '23 versus FY '22. 10% to 11% positive rate variation. Now, as we are exiting the March quarter, the selling prices are more or less similar as compared to March '22.

So, we feel that anywhere between 8% to 10%, might be the decline in the rate growth, rate variation.

Ankur Kumar: Okay. And sir, in terms of volume, as in press release also talked about some good things and things are improving. So, what kind of volume growth can we expect like 20% or 25% or will it be like lower in terms of volume growth?

Adhish Patil: So, we are hoping at least, internally we are targeting around 15% to 20% volume growth. That is what we will be trying to achieve. But let's see, how it pans out.

Ankur Kumar: Sure, sir. And, sir, we used to do buyback earlier, but now we are talking about capex also. So, any plans on buy-back? Do we has that been postponed or like companies has decided that they will not go for buy-backs? Because we have done four buybacks in the last seven years, eight years?

Adhish Patil: So, as a company policy, we have a company policy of having a shareholder payout, means either through the way of buy-back or dividend, at around 25% of the PAT. And so, if at all, means we have missed anything in last year, we will definitely cover up. So, that you don't worry about. So, we do check, means how much shareholder payout, we have done. And we might complete that, whatever is remaining in the current financial year.

Ankur Kumar: Because, sir, in dividend has been lower in last two?

Adhish Patil: So, whatever is the balance, we will cover.

Ankur Kumar: So, that means that we can expect some buy-back?

Adhish Patil: Some sort of shareholder payout, yes.

Ankur Kumar: Sure, sir. Thank you and all the best.

Adhish Patil: Thank you.

Moderator: Thank you. The next follow-up question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: Yes, thanks for the opportunity again. Adhish, if you can update on Metformin, what is the current capacity? Because we had added some capacity, in that molecule. So, what is the current capacity it looks like, the utilization and all? And whether, we have launched into the European market or we are still yet to do that?

Adhish Patil: As far as numbers are concerned, we are already, means, capacity is almost utilized. Whatever we are manufacturing. So, we are coming up with a very small incremental expansion. Though small means, it will be around 40% increase, but still small from what we are targeting. So, that expansion will complete in this quarter itself, the current ongoing quarter that is Q1. And then definitely, we will plan a bigger jump later on, towards the end of the financial year. And you had another question regarding Metformin, what was that?

Rashmi Shetty: Yes, so Metformin, as of now, total capacity stands at?

Adhish Patil: As of now, we are manufacturing around 1,000 to 1050.

Rashmi Shetty: 1,000 to 1,050. Okay, and we have around 1,100 installed capacity, right?

Adhish Patil: Yes. We are planning to expand it by 40%, in the current quarter itself.

Rashmi Shetty: Okay, so my another question on Metformin was that 70% - 75% we were catering to the domestic market only. So, with the increase in the capacity, have the export share increased and what about our European launch?

Adhish Patil: Yes, So Harit bhai, would you like to answer that? About the European launch?

Harit Shah: Yes, our current volume in export as a domestic is about 50% - 50%, not 75% in domestic. It is 50% export and 50% domestic. And we expect the same ratio once we expand the capacity to 1,400 or 1,500 tons in percentage of export as well as domestic market. As far as Europe is concerned, we are talking to three, four big companies and our approval process is going on, but it will take some more time.

Rashmi Shetty: Okay sir, understood. Thank you. That's it from my side.

Moderator: Thank you. Next question is from the line of Nikhil from Securities Investment Management. Please go ahead.

Nikhil: Hi, good morning. I hope I am audible?

Adhish Patil: Yes.

Nikhil: Three questions, Adhish. One is on, you mentioned that the end prices for so in one of the questions you mentioned that ciprofloxacin end prices are back to what it was pre-COVID. But if you have to generalize for our top 10 products, would it be like 70%, 80% of the product, the pricing would be back to pre-COVID? Or what would that percentage be where prices are completely normalized?

Adhish Patil: See there are few products like in anti-diarrheal space, where you know the inflationary part means that has factored in. So the new, so those prices are high, but then high means they're quite stable as in, they're not fluctuating much. So that is built in. What happens is, in the API business, usually it is a cost-plus formula. So, as see the overhead part that has also a certain inflationary pressure built into it, like salaries and like power and fuel, etc.

So whatever gross contribution gap means all the API manufacturers expect, say for four years back. Now that gap, that expectation must have definitely increased as of today. So that will be covered. So typically it happens that in long term, the mean, in terms of percentage margins, the long-term mean, it comes back to that. So that is the reason, why we feel that once everything is stable, it is not moving for three months, four months, five months, then definitely we feel that our EBITDA margin should come back to 14% to 16%.

Nikhil: Okay. So for our portfolio of products, that mean, inflation adjusted mean is stable now. And that is why we are saying that our 11% should be around 14% to 16% or 24%.

Adhish Patil: Yes. So right now, means for the last outgoing quarter, as far as our standalone performance is concerned now, so we already neared that 13% mark, 12.84% on a standalone basis EBITDA margin. So we are inching towards that. Means in the December quarter, it was lower, by almost 1.8%.

Nikhil: Okay. Second question was, you mentioned that, in March quarter, we had a high sales of antibiotics. And over the last two years, because of COVID, the inventory at the customer or the formulator side and even in the market has been fluctuating. If you have to look at now, would you say that the inventories in the marketplace at the customer level, the formulators and even in the end channel is largely stable? Or do you think, there is some more pain on the inventory side, which can happen? Broadly for the whole portfolio, not for some specific products.

Adhish Patil: Okay. So this kind of pinch, we did not suffer in anti-diabetic space. So that remains stable throughout the last financial year as well. And even now, it is okay. In anti-diarrheal space also, we saw that the demand was quite good for the entire year. It was mainly the antibiotic space, which suffered a lot in last year. And at least for our product portfolio, that is. And what we feel is that, because March quarter itself was so good, which means that, that issue of inventory pileup should be gone away. Otherwise, they would not have bought so much in the March quarter. So it seems like the things are stabilized right now.

Nikhil Okay.

Moderator: Thank you. And sorry to interrupt you, Nikhil. Due to time constraint, ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Adhish Patil for closing comments.

Adhish Patil: Okay. Thank you everyone for joining us today on this earnings call. We appreciate your interest and all the questions you asked regarding the financial results of Aarti drugs and about our future. If you have any further queries, please contact SGA, our investor relations advisor, or you can reach us to us directly as well. Thank you.

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

Management Thank you.

Adhish Patil: Thank you.