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August 5, 2024

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 Q1 FY25 Earning Conference Call

Please find attached herewith transcript of Q1 FY25 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
Date: 2024.08.05 16:02:10 +05'30'

RUSHIKESH DEOLE
COMPANY SECRETARY & COMPLIANCE OFFICER
ICSI M.No.: F12932

"Aarti Drugs Limited

Q1 FY '25 Earnings Conference Call"

July 29, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 29th July 2024 will prevail

Management: Mr. Adhish Patil – Chief Operating Officer & Chief Financial Officer, Aarti Drugs Limited
Mr. Harshit M. Savla – Joint Managing Director – Aarti Drugs Limited
Mr. Harit Shah – Whole-Time Director, Aarti Drugs Limited
Mr. Vishwa Savla – Managing Director, Pinnacle Life Science Private Limited
SGA, Investor Relations Advisor – Aarti Drugs Limited

Moderator: Ladies and gentlemen, good day, and welcome to Aarti Drugs Limited Q1 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions, and expectations of the company as on the 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 then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Adhish Patil, CFO and COO of Aarti Drugs Limited. Thank you, and over to you.

Adhish Patil: Thank you. Good morning, everyone, and a very warm welcome on the behalf of Aarti Drugs Management for the earnings conference call of Aarti Drugs for the June quarter 2024. 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 the Pinnacle Life Science Private 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. Let me begin with the highlights of Q1 FY '25 financial performance. There has been a drop in revenue to INR557 crores. Despite the visible geopolitical uncertainty, supply chain hurdles and macroeconomic volatilities our business demonstrated resilient performance, though decline in top line is attributed to lower realization coming from negative rate variance and subdued export market demand in API business.

EBITDA stood at INR66 crores with EBITDA margin at 11.9%, PAT stood at INR33 crores. Going ahead in FY '25, we anticipate an increment in the margins mostly driven by an anticipated growth in export sales and backward integration. Formulation segment revenue stood at INR70.4 crores for the quarter a growth of 4.2% quarter-on-quarter basis. In the last quarter, we commenced our for dermatology products in Tarapur. - issue for the scale-up of the same which led to a negative impact of around INR6 crores at PBT level in the current quarter.

We expect to ramp up the production at this facility progressively in the next two quarters. The Greenfield project at Gujarat, Saykha for Specialty Chemicals and Intermediates is on track which we plan to commence by end of Q2 FY '25. With this, the operating leverage is expected to kick in from the second half of the year with improved capacity utilization of both the new Greenfield projects.

During Q1 FY '25, the company incurred capex of INR52 crores mainly towards capacity expansion, backward integration, and new product launches at the formulation side. We anticipate a total capex of INR200 crores for the full year, this capex will be mainly funded through internal accruals and partly through term loans.

In June 2024, a fire occurred at N-198 unit at Tarapur which manufactures certain API products for external customers. Production operation of the said unit had been temporarily disrupted which began operations in July 2024. So it was restored within a month's time. The unit was covered adequately by industrial all-risk policies, so it has adequate insurance cover. The pharma API manufacturing industry is in a constant state of evolution, and we are steadfast in our commitment to remain at the forefront of this stages.

In the year ahead, we plan to further expand our capabilities and enhance our offerings, also in the oncology therapeutic areas. As we navigate through short-term challenges, our commitment to overcoming these obstacles and achieving long-term success remains steadfast. Our journey may be marked by uncertainties, but it is also defined by collective ability to adapt, innovate, and emerge stronger. I reiterate on our positive outlook for both for API and non-API business.

Our ongoing projects coupled with optimized capabilities will serve as the cornerstone of steady growth in the coming years. Importantly, we anticipate continued growth in exports within the formulation business as well as the API business. 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 my first question is related to the API business. The kind of -- what is the reason that we are seeing such lower demand in the export APIs and what is the kind of growth that we have seen in domestic API plus the rate variance is negative, but what is happening on the volume side?

Adhish Patil: Okay. So first to answer the question related to volume. What we have seen is that the domestic volume was more or less not that impacted year-on-year basis, but the export volume was definitely affected by almost around 8% year-on-year basis. And this was the major reason even though -- major reason why our EBITDA margins went down.

Even though our gross contribution year-on-year has improved by more than 2% and even on Q-on-Q basis, even on -- with respect to previous quarter our gross contribution has improved by 0.3% for the standalone business that is API and spec chem business. However, it was mainly due to the lack in demand of the API and spec chem. That led to the lower overall EBITDA margins.

Rashmi Shetty: So among the five to six top products where the demand was majorly impacted?

Adhish Patil: Yes. So mainly what we've seen is that antibiotic category was impacted mainly the cost structure thing. And to some extent we even saw a couple of anti-inflammatory and antidiarrheal products were impacted in terms of demand.

Rashmi Shetty: Got it. So for the full year how should we see your total API business excluding the specialty and excluding the intermediate business, how should we see the growth? As the derma facility also commercialized, do we still expect that for the full year we will be able to post high single-digital sort of growth?

Adhish Patil: Yes. Actually definitely the first quarter will be pulling down the averages for the entire year no doubt about that, but we do expect improvement especially from the second half of the year. Q2 -- I will ask Harit bhai to talk about how the demand in Q2 is looking. Harit bhai can you speak about the demand of Q2?

Harit Shah: Yes. Domestic demand looks okay like we are able to achieve performance, but export demand will still look little slow, and we expect demand to pick up from third quarter basically.

Rashmi Shetty: Okay. So for the full year there will be any growth, or we will see again a decline in FY '25?

Adhish Patil: So for the -- as far as the entire year is concerned, we had earlier stated that for the first half of the year, first half of FY '25 there will be a negative rate variance year-on-year basis. Whereas the second half of FY '25 the negative rate variance will go away because the prices have already fallen down in December and March quarter.

So the rate variance will keep on going down as we go ahead in the quarter. And hopefully with the help of dermatology products and the spec chem products which is coming online by the mid of this year, we will get additional benefits in terms of new products will be available. So volume growth would also be quite good for the second half of the year. So we should be able to post some growth.

Rashmi Shetty: Okay. And in terms of Specialty Chemicals, are we on track that from Q2 FY '25 if the plants get commercialized, there will be a very good supply. And what kind of the capacity utilization we can expect for this year? And what kind of growth we can expect in Specialty Chemicals for this year?

Adhish Patil: So this year, we feel that it is mainly in the second half of the year that spec chem segment will do well because the spec chem products and capacities will be available for the second half. Frankly speaking, if everything goes well, we can see a 50% growth for the second half of the year year-on-year business.

Rashmi Shetty: In the Specialty Chemicals, you're talking about high 5-0, 50%?

Adhish Patil: Yes. For the second half, year-on-year.

Rashmi Shetty: Understood. And my last question is on operating margins. Any guidance -- I mean I understand that there would be a good revival in the second half and there is 1 more quarter of pain. And this quarter, if you exclude that INR6 crores, which is sitting in the other expenses, your EBITDA margin is roughly at around 12.7%, 12.8%. Second quarter if I assume it's more or less similar to that, what the kind of margin can we expect in second half as well as for the full year?

Adhish Patil: So as far as EBITDA margins are concerned, now the gross margins may not improve too much from here because it has already improved. Right now, it is somewhere around 34.1%

for the stand-alone business. So probably by 1%, there's still a scope for improvement based on how the market demand is there because if the demand is less than it will be a little difficult to increase the gross contribution.

But if the demand is good then the gross margins can go up by 1% more. And with the better capacity utilization the other expenses will become lesser as compared to sales. Right now, in this June quarter, it is very high because of the lower sales. So we hope that in the second -- if you look at only the second half of the year, we still hope that around 13%, 14% EBITDA margin we should be able to achieve.

Moderator: Thank you. The next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan: Sir, my question is that if you see the molecule prices for ciprofloxacin, ofloxacin, levofloxacin in our antibiotic portfolio, so their prices are almost in the range of we can say that flat negative, negative realization in the range of 4% to 5% probably. But our top line is degrowth by 16%. So I mean to say that the API prices is that index is showing stability while our revenue has declined by 16%. So we could you throw some light on it, sir?

Adhish Patil: Yes. So when we say that negative 16% degrowth and in that around 11% is negative price growth that is the decline in selling price. That is when we compare June '23 with June '24 means, year-on-year quarter. But if you compare with the previous quarter that is March '24 quarter the domestic prices have almost been the same almost same. However, we did see some quite a big decline in the export prices.

But the reason for that is because in exports, we typically have 2.5 to 3 months of pending orders, order book is there. So basically, the export which happened in March quarter those are the orders taken in the December quarter when the prices were high. So those orders got executed in March quarter.

Whereas, in June quarter the orders taken in March quarter got executed and it was in the March quarter that the prices have fallen as compared to December quarter and that is the reason why you saw a decline in the prices as far as the exports is concerned. But as far as the domestic is concerned because the order book is lesser than 1 month, we didn't see much price impact quarter-on-quarter basis.

Moderator: Thank you. The next question is from the line of Pramod Dangi from Unifi Investments Management LLP. Please go ahead.

Pramod Dangi: Yes. So, Adhish, a couple of questions. One on the export. You said that the volume was down 8% year-on-year. What would be the price variance for domestic and the export year-on-year in the API?

Adhish Patil: So year-on-year, it's almost around 10%, means export was around 9% and in fact domestic was around a little upwards of 12%.

Pramod Dangi: Okay. So domestic was down much more than the export?

Adhish Patil: Right, as far as the rate is concerned year-on-year basis.

Pramod Dangi: Correct. And in the domestic, you said that the volumes were flat right, while export was down 8%?

Adhish Patil: Yes. More or less flat. Yes.

Pramod Dangi: And export any particular reason or any particular -- you said about the antibiotic and the anti-inflammatory drugs had some demand sluggishness, any particular reason or any other issues which impacted the export revenue?

Adhish Patil: See, there were multiple products that got impacted. As far as 1 product is concerned, ofloxacin, there was a change in IP regulations but that is to do with the domestic -- I'm talking about domestic here -- domestic market for ofloxacin.

There was a change in IP regulation. So there was a slight disruption in the production because we had to change the quality parameters of the product at the plant scale but that was a temporary setback. Then because of the fire incident, our one of the anti-inflammatory product got impacted in terms of dispatches in the June quarter. So there we got impacted at export side. And overall, for the antibiotic for both export and domestic, ciprofloxacin, levofloxacin are major drivers for this particular quarter.

Pramod Dangi: Okay. But there was not any particular reason that a few other regions is impacted more because of the currency. Earlier, we used to have that currency issues in the -- and other issues. Was it more competition from the China or any particular thing?

Adhish Patil: So in exports thing, a lot of -- a lot of countries means the elections, the change in government in this particular year. Dollar shortages that issue has slightly improved as compared to past no doubt about that. But the political uncertainty the change of government and many of the export countries they work on you know government tenders, which creates the demand for the API for exports. So probably that might also be the reason why it was slightly slower at the exports side.

Pramod Dangi: Okay. And on the formulation side, we have seen the significant growth in the formulation when it comes to export. So if you can throw some light on that?

Adhish Patil: Yes, Vishwa can you take the question?

Moderator: Vishwa sir, has actually got disconnected. We're trying to connect him again.

Adhish Patil: Okay. So see, in the formulation, overall the export margins have been good means we were able to achieve around 57% of our total formulations through exports. So exports is doing very well and that is the main focus area for us because that is the margin driver in the formulation business for us as of now.

In the domestic market, we are doing toll manufacturing. So it is like a value-add kind of to but not major of the profits come from this. And probably that might be the reason. Plus we also had a couple of audits on the formulation side. We had a U.S. FDA audit for the oncology block and then we had U.K. MHRA audit also for the regular OSD block. So probably that was also one of the factors why the domestic production was not that high During the June quarter.

Moderator: Vishwa sir, is now in the conference.

Pramod Dangi: Okay. So if I can repeat my question, we have seen growth of 33% in the formulation export, so I think if you can throw some light on that? Was it driven by the price variance was it driven by any particular region or any particular reason? Because the 33% year-on-year was significant.

Vishwa Savla: So majorly, the reason for growth in formulation exports is as we are strategically reducing our domestic business and increasing our international business. So it's driven by both addition of products as we have had some new registrations in our existing markets and also because of some market additions, as we have entered into some new geographies and new territories.

So it's a combination factor of both new products and new markets. And that we continue doing it, we are investing heavily into new product developments and new launches. So over the coming quarters and coming years, we plan to continue having new launches as well as new markets opening up. Which will significantly keep increasing our international formulation business.

Pramod Dangi: Okay. No, but what I'm asking is if I look at the export revenue -- last year, in the June quarter, we have done INR60 crores of export revenue, if I'm not mistaken. And this year, we have done INR40 crores of export revenue. Is that number right or am I missing something over there? June to June, I'm talking about.

Vishwa Savla: Okay, from previous one. So like Adhish said, one of the reasons for this quarter is, in general, the sales have been low because of lower volumes because we had major audits also. And we are also -- we had a shutdown in one of the blocks for almost a month because we are doing some brownfield expansion to increase capacities. So it was more of a temporary short-term shutdown and because of the audits, again, the volumes were a bit low. So June to June, the lower sales is mainly driven because of lower volumes.

Pramod Dangi: Okay. And the last question on that INR6 crores impact on the dermatology thing. Where it is adjusted? Is it adjusted in the operating cost or is it adjusted in the COGS or where does it impact?

Adhish Patil: Yes. So around INR3.5 crores would be that impact would come at EBITDA and around INR2.5 crores would be post EBITDA, that is the interest and depreciation.

Pramod Dangi: Thank you.

Moderator: Thank you. The next question is from the line of Pradeep Rawat from Yogya Capital. Please go ahead.

Pradeep Rawat: So I am new to the company, and I need a clarification on the export side. So at 1 slide, there is written 33% of revenues from export and then we have the revenue out of Asia more than 33%. So can you clarify on that?

Adhish Patil: Okay. One is regarding the overall split of the company's sale. And when we are talking about vision, it is generally a percentage of the exports sales. And when we say about Asia, in export, it doesn't include India, it is excluding India.

Pradeep Rawat: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Shah from Nova Capital. Please go ahead.

Kunal Shah: I want to ask, are the prices for APIs stable or still reducing? And if so, why are these prices continuously falling? Do we see prices increasing during the year?

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

Harit Pragji Shah: No. more or less prices are stable, normally if prices are at bottom when even API prices are at the bottom level. So prices are stable since last 1 quarter and we expect price to remain stable for another -- the second quarter also, for this quarter.

Moderator: Thank you. The next question is from the line of Yug Modi from AB Capital Please go ahead.

Yug Modi: Could you give some guidance on revenue and profitability for the next 2 years?

Adhish Patil: Yes. So definitely, means, for the FY'27, we have given a guidance that in next 3 years to 4 years, we wanted to achieve upwards of INR4,000 crores of revenue, we did not start wellwith in the first quarter of current year. But nevertheless, when the demand picks up and all this capacities will be online in the second half, we will definitely be on the right track to achieve that upwards of INR4,000 crores turnover, that is assuming the current prices.

Means, I'm not considering any price hikes. So more or less, current price hike due to volume growth, we hope to reach to that level. And as far as the profitability is concerned, we would definitely eye EBITDA margins anywhere between 14% to 15% on a long-term basis.

Yug Modi: Lastly, we plan to do INR400 crores of capex this year, what capacities are we expanding in this capex?

Adhish Patil: Sorry, you're asking about current year's capex?

Yug Modi: Yes.

Adhish Patil: Okay. So current year, the 2 Greenfield projects, means, which just completed and 1 almost on the verge of completion, so the partial remaining capex on those projects, they will be completed in this year. Plus, we'll be doing some brownfield expansions for the API block, plus we are doing a lot of R&D on the formulation side. So probably on that part, Vishwa can explain better. Vishwa, would you like to answer that question?

Vishwa Savla: Yes. So in terms of formulation, R&D, basically, we are working on new product development for about 15 products for the various regulated markets. This is a combination of oncology as well as cardiac, diabetic products and all these products are planned for launches in the coming 2 to 3 financial years.

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

Rashmi Shetty: Thanks for the opportunity again, are we Just on formulation business, you mentioned that all manufacturing business you're rationalizing and you're just focusing on the export business? So are we expecting that sales for the formulation business to decline this year?

Adhish Patil: Vishwa, would you like to answer that?

Vishwa Savla: Yes, I'll answer that. So no, we are not expecting sales to decline. What you're trying to do is utilization -- keeping our maximum utilization for the export business. Having said that, the toll manufacturing, we are continuing, which is doing it in for more strategic products. And at the same time, we are also undergoing a brownfield expansion in our Baddi facility, which will in the next quarter increase our capacity by about 15% to 20% and over the next 12 months almost double our capacity, 12 months to 15 months. So we are building up additional capacity to be geared up to handle both the existing toll manufacturing business as well as the increase in the international business that we are forecasting.

Rashmi Shetty: So you mean to say the increase in the international business will offset the decline in the domestic business, so therefore, is it possible that domestic formulation will be giving the double-digit growth of similar growth what we have posted in FY'24?

Vishwa Savla: Yes.

Rashmi Shetty: Okay. And 1 more question on oncology formulation. When can we expect unit sales contributing from oncology?

Vishwa Savla: So we are expecting initial sales to kick in from FY'26 -- yes. And the majority of the sales from FY'27.

Rashmi Shetty: Thank you.

Moderator: The next question is from the line of Chirag Dagli from DSP Mutual Funds. Please go ahead.

Chirag Dagli: Adhish, you had capital work in progress of INR265 crores as on March 2024. What is that value as of now or as of June? And how much have you capitalized -- does that include the derma facility as well?

Adhish Patil: So once -- I don't have exact numbers, but then the thing is our net working capital...

Chirag Dagli: I mean capital work in progress, Adhish, the hard assets?

Adhish Patil: Okay. You're talking about fixed assets. Okay, sorry -- so capital -- whatever CWIP we had, mainly was to do with 1 Greenfield project going on in Saykha. So that will be put to use by the September quarter, most probably, by the end of that. And the risk would be slightly -- there are some aspects which are ongoing on the salicylic acid part too, like plot development, etc., but that will be the minor component, the majority would be the Saykha one.

Chirag Dagli: Correct. So that is still sitting in the book, that is not yet capitalized. The Saykha capacity is still not operationalized?

Adhish Patil: Correct.

Chirag Dagli: And when that comes on stream, how are you thinking about when that comes on stream?

Adhish Patil: Yes. So when that comes on stream, it can help us in increasing our spec chem product, production capacity and another thing is it will lead to backward integration for our diabetic products. So that will also help us improve our margins in the second half.

Chirag Dagli: And I also remember that you were putting additional metformin capacity. Has that come of...

Adhish Patil: So right now, we are still at around 1,400 to 1,500 tons per month. We are in the process of increasing that to around 1,700 to 1,800 tons per month shortly, but that will require some environmental approvals that we may see. We are doing that with the help of slight process change. So it is in the work is going on. We obviously have taken validation batches as well. So -- but then we'll have to move all the customers to the newer process so that might take a little bit time.

Chirag Dagli: And do you have a guidance for volumes in FY'25 and '26 for the API business?

Adhish Patil: See, Ideally we were looking -- means, we started the year. We thought that the salicylic acid plant will also start contributing right away from the Q1. So that has not happened, plus there was some good export demand in the API space. But if that had not taken place, we were expecting about 14%, 15%, means, around that, targeting at least. But let's say, for the second half, we will still try to achieve that, at least for the half of the year, year-on-year basis.

Chirag Dagli: The second half, you're saying you'd come back to that mid-teens volume growth? First half?

Adhish Patil: Yes. First half would be like almost flattish because we had bad first quarter, but second half, so we should be able to get that growth.

Chirag Dagli: And for the full year, high single-digit volume growth is what?

Adhish Patil: Yes. Correct, for the entire year.

Chirag Dagli: And like you mentioned, Harit bhai mentioned earlier in the call that API prices are today at bottom or closer to bottom. Would you say the same about your spreads as well?

Adhish Patil: Spreads in the sense of gross contribution?

Chirag Dagli: Correct.

Adhish Patil: Yes. So because the API prices are lower – ideally gross contribution margins should be highest. So that is the reason why our gross contribution margin has been improving quarter-on-quarter basis. In fact, we expect of lower EBITDA margins our -- for the stand-alone business where gross margin has actually improved with respect to March '24 quarter. So it is now reached almost 34.1% and our target would be around 35% for the stand-alone business as for the gross margin is concerned.

Chirag Dagli: But we should look at it on a per unit basis and there, would you say that our per unit profitability, whatever per ton...

Adhish Patil: That should not change on the composite level.

Chirag Dagli: But no, would you say that, that number is at low cyclical low?

Adhish Patil: If I look at the data -- it is not some products, it is actually better in last 5 quarters put together, actually. But in some products, it is little bit, actually. In some products, it is good. It is, in fact one of the best in the last 5 quarters in some products, in fact 5 – 6 products, were In some products, it is like in the average region. I would say from the end standpoint it will be right in the middle of five quarters. It will be the second or third in terms of absolute gross contribution per kg. So that is not impacted. So that is actually we're on track. The main problem what happened this particular quarter was lack in volumes.

Moderator: The next question is from the line of Pramod Dangi from Unifi Investment Management LLC. Please go ahead.

Pramod Dangi: Yes. Just on the Specialty Chemicals. You said that H2 should have 50% year-on-year growth in Specialty Chemicals. I believe dermatology and the new salicylic acid revenue is a part of this, right?

Adhish Patil: So the thing is salicylic acid has multiple uses. So in some cases, it goes for Nutraceutical in some cases it goes as an intermediate for Pharma, for aspirin. In some cases it will go for as a you can say chemical to manufacture another cosmetic products. So it will be mixed back but majority will be banking on the Saykha project.

Pramod Dangi: And dermatology will be part of which segment API specifically chemical?

Adhish Patil: So a part of phallic mixes would be API.

Pramod Dangi: And then the new plant, which we are starting in September, that will also contribute to this growth, right?

Adhish Patil: Yes, correct, that will contribute to spec chem growth.

Pramod Dangi: And then what is the -- you just said that the growth in the H1 volume was a bit flat in the quarter 1, it already 5% down year-on-year, but H1 you are saying overall the growth will be flat. What will the price -- any guidance on the price variance in the H2 or, say, H1 or the second quarter outlook?

Adhish Patil: So when we started the year, we were expecting around roughly 8% to 10% price growth for the first quarter -- for the first half of the year, H1 -- not quarter, for the H1. It was...

Pramod Dangi: Correct. And then just slightly ahead of that, actually, right, the 10%, 11% or 12% kind of the...

Adhish Patil: Yes. For Q2, it will go down, actually. Means, Q1, the impact was maximum -- we were estimating maximum impact because the prices has released on sequential basis quarter-on-quarter. So the September '23 prices were lower than the June '23 prices. So that is why September '24 versus September '23, the variation will go down...

Pramod Dangi: Got it. And just API, as we have seen a significant drop in the volume for the export, almost 9%, what you said. Is it now recovered in the Q2 or is still the Q2 may also have similar kind of the -- because my question is guided towards the contribution margin. After 6-7 quarters where you were making more than INR210 crores contribution per quarter. This quarter, it was like, I think, lowest in the last 7-8 quarters.

Adhish Patil: This quarter, we will be around INR197 crores, I think.

Pramod Dangi: Correct. Would you like, will that export volume will impact the Q2 also? Or it -- we will see some improvement over there in terms of the volume for the export?

Adhish Patil: Harit bhai, would you like to answer exports for Q2?

Harit Pragji Shah: Export for the Q2 also we subdued demand as of now. And moreover, there is freight rates have just moved up again like COVID levels -- some containers are not available, and all that situation is there. So it's not related to Red Sea actually, but some other things. So overall, we feel Q2 will be similar to Q1 in exports and the demand will start coming up from Q3, it looks like as of now.

Pramod Dangi: Thanks. That's from my side.

Moderator: Thank you. The next question is from the line of Pradeep Rawat from Yogya Capital. Please go ahead.

Pradeep Rawat: So, I have a question on margins. So before COVID, our EBITDA margin was used to be in the range of 15% and 16%. And right now, it is around 11% to 12%. So what is the reason behind that?

Adhish Patil: See, the most important reason for last 2 -- if we talk about last 2-3 years, in COVID, it has gone up. It was phenomenally high, but that was exceptional. But if you compare with respect to pre-COVID era, like you said 15% to 16% EBITDA margins were there. What had impacted the EBITDA margin for the last 2 years was that the raw material prices had gone up sharply.

Because of that -- and it kept going up. And after reaching a certain point, then it started crashing as well. So there was a lot of volatility. And because of that volatility, we were not able to keep sustainable gross contribution margin. Right now, our gross contribution margins are reaching to a certain -- means, you can say our targeted levels.

We are still 1% away from that. However, for this current quarter, our volumes were quite low. And because of lower operating leverage, the EBITDA margins were lower. What we feel, had our volumes being decently good, probably we would have achieved around -- at least 14% EBITDA margin for this quarter, if our volumes were good.

So that is right, now we feel -- and obviously, the industry has also changed quite a lot since pre-COVID era to now. However, we are trying to register more and more products in the European market and try to increase our European sales because one of the important, you can say, differentiation of today's sales versus 5 years to 7 years back sale is that our export was almost 38%, 40% at that time, which is right now around 31%, 32%, 33% to the total stand-alone sales. And in export, generally, we get higher gross contribution. So that is also one of the reason why the margins have got impacted.

Pradeep Rawat: Yes. And my next question is regarding our new product development. So what could be the potential of these products, especially that oncology product that we are developing?

Adhish Patil: Yes, so Vishwa, would you like answer that question?

Vishwa Savla: Yes. Sure. We are developing about 15 oncology products over the next 2 years. And our total budgeted revenue at peak revenue for the oncology segment is about anywhere between INR300 crores to INR400 crores depending on launches and market share that we get. So yes, hope that answers.

Pradeep Rawat: Thank you.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Adhish Patil: I would like to thank everyone for joining us today on this earnings call. We appreciate for your interest in Aarti Drugs Limited. If you have any further queries, please contact us directly or SGA our Investor Relations Advisors. Thank you and have a nice day.

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

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