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May 10, 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 Q4 FY24 Earning Conference Call

Please find attached herewith transcript of Q4 FY24 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: 2024.05.10 19:51:00 +05'30'

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

“Aarti Drugs Limited

Q4 FY '24 Earnings Conference Call”

May 06, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 6th May, 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 Q4 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity, for you to ask questions, after the presentation concludes. Should you need assistance, during the conference 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. Thank you, and over to you, sir.

Adhish Patil: Thank you. Good morning to everyone present on the earnings conference call of Aarti Drugs Limited. I extend a warm welcome to everyone joining us today to discuss our financial results for the quarter and full year ended 31st March 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 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 the company's website.

Let me begin with the highlights of the quarterly financial performance followed by full year FY '24. Our revenue for quarter four FY '24 stood at INR621 crores as against INR743 crores, a decline of 16.4%. The decline is majorly on part of negative rates variance across our product stream. EBITDA stood at INR87 crores. EBITDA margin at 14%, improved by 130 basis points year-on-year. PAT stood at INR47 crores and PAT margins at 7.6%.

For the full year FY '24, our revenue stood at around INR2,533 crores as against INR2,718 crores, a decline of 6.8% on account of negative rate variance along with sluggish demand in export market for the API and Specialty Chemicals segment. However, there was very good volume growth in domestic market for the same segment. EBITDA stood at around INR321 crores as against INR308 crores. EBITDA margin stood at 12.7% improved by 140 basis points. PAT stood at INR172 crores and PAT margin at 6.8% improved by 70 basis points.

Now coming to segmental performance. For full year 2024, with the visible geopolitical uncertainties, supply chain hurdles and pricing volatilities, our business demonstrated resilient performance in FY '24, thoughdeclined in top line is attributed to lower realization stemming from negative rate variance and subdued export market demand in API businesses. However, there has been a notable improvement in gross margins related to the stabilization of input cost noticed in latter half of FY '24 and operational efficiencies across the majority of our product lines.

Furthermore, we project a further enhancement in gross margins in near future, mostly driven by upturn in selling price levels due to anticipated growth in export sales. Amidst heightened interest rates, dollar shortages, destocking, supply chain hurdles, and conservative ordering, export demand encountered challenges in select regions during Q4 and FY '24. Nonetheless, we anticipate a positive shift in the export landscape in the near future on back of interest rate reductions, low stock levels and upswing in demand. Despite these hurdles, our outlook remains optimistic on attaining our growth and margin targets.

On stand-alone basis, Q4 FY '24 revenue stood at INR560.64 crores as against INR697.34 crores, a decline of 19.6% year-on-year, where 13.6% decline was impacted due to negative rate variance. The stand-alone business contributed approximately 89% to the consolidated revenue for the quarter out of which 67% of the revenues came from the domestic market and 35% from the exports market for Q4 FY '24 for a stand-alone business. Within the API business, the antibiotic therapeutic category contributed around 45%, anti-protozoal around 17%, anti-diabetic around 15%, anti-inflammatory around 11%, antifungal around 9% and the rest contributed around 3% to total API sales for Q4 FY '24.

Formulation segment's revenue stood at INR68 crores for the quarter. For Full year, revenue stood at INR325 crores, with growth of 18.5% year-on-year. I would like to highlight a few updates on our Formulation segment that recently U.S. FDA had carried out inspection at Baddi plant operated by our subsidiary. And on conclusion of the inspection, none of observations were pertaining to data integrity and we are working on resolving reported observations. Post this, we are optimistic of getting clearance on the given formulation plant at the earliest.

Now coming to Specialty Chemical segment. Although the India's domestic chemicals demand is projected to remain robust in 2024 with low expectations in price increase. The market faces various challenges of finding equilibrium amidst the introduction of new production capacities within the country, shifting trade dynamics, subdued global demand, and fluctuating upstream prices. The company's balance sheet continued to remain healthy with leverage remaining comfortably at 0.44x. For FY '24, our return on capital employed stood at 14.2% and return on equity stood at 13.9%.

As of March 31, 2024, our net cash flow from operations stood at INR359 crores as against INR133 crores as of March 31, 2023. On updates on the ongoing capital investment, the capital expenditure incurred during full year of FY '24 amounted to INR226 crores. Recently, greenfield project at Tarapur Facility for dermatology products has been commenced and the ramp up is planned throughout first half of FY '25. Greenfield Project at Gujarat Sayakha for specialty chemicals and intermediates is on track, which we plan to commence by end of Q1 FY '25, and then scale up in Q4 FY '25.

With this, the operating leverage is expected to kick in from second half year of FY '25 with improved capacity utilization. The company had incurred capex of INR543 crores in the last three years mainly towards capacity expansion, backward integration and new product launches across API and Formulation segment.

The majority of the company's INR600 crores capex has been completed and the balance expected to be completed soon. These initiatives are expected to release the cost along with the expansion in profit margin and topline growth.

The pharma API manufacturing industry is constantly evolving, and we are committed to staying ahead of the curve. In the upcoming year, we plan to continue expanding our capabilities and enhancing our offerings to meet the ever-changing needs of the customers by improving our capacity utilization. We also plan to invest in new technologies and equipment that will help us streamline our processes, reduce carbon footprint and improve efficiencies.

As we navigate through short-term challenges, our commitment to overcome these obstacles and achieving long-term success remains unwavering. Our journey may be characterized a bit un-strategic, but it is equally defined by our collective ability to adapt, innovate, and emerge together. Together, united and determined, the company shall continue to strengthen the success story and reiterate on our positive outlook for both our API and non-API business that is the formulation business. Our ongoing projects coupled with optimized capabilities will serve as a cornerstone of steady growth in the coming years. Importantly, we anticipate continued growth in exports within the formulation business.

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

Moderator: The first question is from the line of Rashmi Shetty from Dolat Capital.

Rashmi Shetty: So first question on the pricing environment, Adhish, if you can comment on it like whether the API prices will be stabilized at the current level? Or if you -- all you see that there might be some upswing in the prices? In case if it is yes, then what are the factors that would actually lead to the prices to go up? And also, if you can comment on the KSM scenario. In a war-like situation, any increase in the KSM or in raw materials, are you seeing or are you noticing that?

Adhish Patil: Thank you, Rashmi. As far as pricing environment of API is concerned, we saw decline in December quarter. Then from December to March quarter, the prices have almost stabilized now, so they are not falling further. However, recently, we saw some uptick in the crude prices. So if the crude goes beyond a certain point, then definitely that will start -- that uptick will start slipping into the prices of crude derivatives like solvents, which we use. Almost 65% to 70% of raw materials are directly or indirectly dependent on the crude prices.

So that is the only factor, which can, if at all, make the API prices to go up. Then as far as the availability of the KSMs is concerned, as of now everything seems stable. The only hiccup we had recently was delayed shipments due to the Red Sea scenario. Apart from that, there are no shortages in availability of any KSMs. And even in war-like scenario, I think, Harit Shah would better be able to answer that question.

Harit Shah: Yes, as far as raw materials are concerned, most of the import raw materials are coming from China, so we don't face any issues regarding Red Sea delay in shipments. And raw materials and KSM prices are quite stable so far. Unless crude goes up beyond USD100, we will see some uplift in the pricing of raw materials and KSMs.

Rashmi Shetty: Okay. And related to this, so as of now, you feel that the prices will be more or less at the stabilized level. And currently, there is not much risk on the raw material, so at least we can expect some gross margin improvement in this year because of this. Also, if you can let me know how much TPM are we adding for this new greenfield project, which is coming related to Derma segment?

Adhish Patil: Pardon me, how much what we are adding you said?

Rashmi Shetty: Ton per month, how much production ton per month we are adding for this Derma project?

Adhish Patil: Yes. So the final production capacity, for dermatology project would be around 2,000 tons per month, for the single month, but it will ramp up slowly in first half of FY '25, that is in next 2 quarters because we are getting up the production by putting in more and more reactors on stepwise basis. Anyways that will coincide with the gestation period of the demand.

Rashmi Shetty: Got it. And excluding this derma greenfield project, what is the capacity utilization at the company level currently?

Adhish Patil: Yes, so excluding this greenfield project, it could be around between mid to late 70s.

Rashmi Shetty: Sorry, it is how much?

Adhish Patil: Between mid to late 70, 75% to 79%.

Rashmi Shetty: Okay. Just last question. If you are expecting that the new capacities will be coming in sizes, we will be getting stabilized. Can we expect below low double-digit kind of revenue growth of both on the API segment as well as the specialty segment in the FY '25? And what would be the EBITDA margin outlook?

Adhish Patil: So as far as the growth is concerned, we do expect a good volume growth. However, what we foresee is that as we have seen in the last four quarters, the prices have gone down. So probably FY '25 will have prices for all four quarters similar to that of the last quarter of FY '24. So that might lead to a little bit of negative rate variance around, say, around 5% to 8%.

So considering that negative rate variance, we would target to reach like 10% top line growth. We will target that in spite of negative rate variance. And as far as EBITDA is concerned, so we are now more and more confident that we should be crossing the 14% mark at the company level. And slowly, if the situation continues to be stable, then probably we'll try to reach the 15% mark.

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

Dhwanil Desai: So Adhish bhai, first question is, so if I look at our stand-alone and consol numbers, it seems that in the formulation segment, there is a big delta coming on the margin side. So if you can talk a bit about that, is there any one-offs involved in here? Or how should we look at the formulation margin on the Pinnacle side?

Adhish Patil: Vishwa, can you answer this question?

Vishwa Savla: Yes, sure. So basically, the formulation margin in Pinnacle has been increasing basically because of a switch in the business model and the growing exports. So as a conscious decision, we are trying to replace our domestic CMO business to more of value-added export business in Latin America, Asia, Africa and now increasingly in the regulated markets. So as in every year, every quarter, our international markets contribution to sales is increasing. And majorly, that is what is leading to the higher margins. So we see that trend continuing and the margin levels being sustained to the level that we achieved in the current year.

Dhwanil Desai: Okay. Because just to clarify we are -- if I do the numbers, it is coming out to be 20% plus margins and historically -- and that's a big delta coming in. So I just want to ensure there is no one-off and 20% plus kind of a margin on the Pinnacle side is sustainable. Is that a right assumption to make?

Vishwa Savla: Obviously, we had a good year in terms of, in general, in formulation in last year because of lower API prices and reduced API prices in general that has had a small impact. So if material prices rise up sharply in the year, that could slightly reduced margins. But the major delta that you're seeing is because of a switch from domestic CMO sales to international sales. And that would -- that is not a one-off, that is the continued part of Pinnacle. So that margins would remain at a higher level.

Dhwanil Desai: Okay. Got it. Second question on this U.S. FDA audit on the Pinnacle and what is the significance of that? And I think we were doing expansion on the oncology side also. But if I look at your new product on the formulation side, I don't see many on the oncology side. So have we already kind of developed those products? And what is the road map for scaling up in the U.S. market on the formulation side?

Vishwa Savla: Right. So our oncology plant is brand new, we just started the plant. We commissioned the plant a few quarters back and with the first filing, we could trigger the U.S. FDA inspection. We have a strong pipeline of products coming in, in oncology. We are developing about 12 to 14 oral oncology molecules, which would all come into filing over the next 6 to 18 months. And many of them are kind of day one launches with patents expiring from '25 till '27, '28. So with the FDA audit approval coming in fully in the next quarter and with -- we should have more and more filings not only for U.S., but also for international markets and that would start bringing us revenues from the oncology segment.

Dhwanil Desai: So how many ANDAs we have already filed on the oncology side for U.S. market?

Vishwa Savla: Only one so far.

Dhwanil Desai: Only one. And rest are in the pipeline. So we'll do the filing and approval process for 18 to 24 months, so it's like two years out, right?

Vishwa Savla: Exactly. Exactly.

Dhwanil Desai: Okay. Third question on the API side, Adhish, I think we have said that we have almost completed our capex on the very large part of our INR600 crores capex plan. And we have said that we will go to INR4,000 crores to INR4,500 crores in five to six years. But if I look at historically, we have generally utilized our capacity in two to three years at optimal level. So where is this disconnect? Because I think we have mentioned that the full utilization, we'll reach those revenues. So are we looking at slower ramp-up? Or is it because of the negative rate variance, we think it will take much longer to reach that number if you can throw some light there.

Adhish Patil: So the negative rate variance will definitely impact, no doubt about that. As far as the utilization ramp-up is concerned, in terms of quantity, so along with this greenfield, we continuously keep on expanding the existing production in terms of -- by debottlenecking the existing plants and that is the reason why our capacity utilization stays in late 70s in terms of percentage of the installed capacity is because we keep on adding those small-small capacities every year whenever we see the demand.

So the thing is, INR4,000 crores topline, it seems doable, not that it is too optimistic. But definitely, last year, we suffered a loss because of the sluggish export demand. That was one of the factors, which pulled us back. Apart from that, our domestic market made a fantastic growth of almost around 15% to 17% in terms of volume growth. But it was the export market is almost around 10% volume degrowth was observed, if you compare entire FY '24 with respect to FY '23.

Dhwanil Desai: No, I get that. Sir, my question is that earlier, our target was that once we get the capex commercialized, we will optimally utilize it in 2.5 to 3 years, so now we are at the end of commercializing most of the capex, maybe a little bit of that is still remaining. But so I think INR4,000 crores or INR4,500 crores, whatever number you want to take, will it take three years or will it take five to six years? In your presentation, it talked about prices this year.

Adhish Patil: Yes, actually, we need to update that a little bit. But we feel that once the project is streamlined in terms of the production capabilities, within three years, we should be able to scale up.

Dhwanil Desai: Okay. Got it. And last question on the margin. I think we have all along been saying that our normalized margin at around 15% to 16% barring the volatility in RM and realization. And we have done that in the past and with the new capex being on the higher margin side and formulation kicking in, which again we are moving to higher margin trajectory. So once everything is fully utilized, is it that the company's margins profile will change from 15%/ 16%. So maybe small like 17%/ 18%, is that a right assumption to work with?

Adhish Patil: See, if everything goes well, it is achievable. The thing is, if I look now, we have a very diversified basket of products in terms of APIs also, in SpecChem and also formulation. So yearly in the API segment, we manufacture almost around 40 to 50 molecules in a year. Though top 20 is what is contributing the most, but the tail molecules will grow bigger in coming five years. So what happens is a few products here and there always are in negative cycle. So we think that 17%/ 18% EBITDA margin mark might be slightly difficult, but at least getting that 15%/ 16% mark would be this easier then what it is right now, I would say.

Moderator: The next question is from the line of Pramod from Unifi Investment Management.

Pramod Dangi: Just if you can give some data on the volume and the price. Price variance, you've already given. When we look at the API, what will be the volume in the domestic and export market Q4?

Adhish Patil: Yes. So as far as -- should I give FY '24 because sometimes what happens that a demand of first quarter gets moved to second quarter. So probably I would first give you the landscape of volume growth book of the entire financial year, that is FY '24 versus FY '23. If you compare the entire year, financial year, we had a volume growth of up to 7% on a total basis; however, the domestic market performed well and the volume was almost 16% to 17% whereas the export market, there was a volume degrowth of around 9% to 10%.

So this was about the volumes in the -- as far as entire year is concerned. And as far as the quarter is concerned, so if you compare year-on-year basis, March '24 quarter versus March '23 quarter, we had quantity negative growth of -- around 6% and that is mainly because of the export market. Because export market we saw a degrowth of almost around 15% for the last quarter, whereas for the domestic market, it was almost flat, means there was hardly 1% decline was there.

But in domestic market, I would say, still the performance was good because March '23 quarter in the last financial year, what happened was that the first three quarters selling prices were so high that there was continuous destocking of API by the formulation companies. And where the prices collapsed finally in December '22, that is when in the March '23 quarter, suddenly, there was a lots of buying of API by the formulation companies and the volume of domestic market in March '23 quarter was very high. And comparing to that quarter, now we have then also just 1% less.

So I would still say that volumes in the domestic market is good, but it is the export market where we need to perform really well. And we are hoping that in the coming financial year, although destocking is completed, the interest rate cycle now will move downward, so there will be more government tenders in terms of the foreign countries giving tenders to their local formulation companies, which in turn creates export market demand for us, so sales will be better.

Pramod Dangi: Okay. So when you are saying the export is down, 15% is in volume term, right, in the Q4?

Adhish Patil: Yes, I was talking about volume growth.

Pramod Dangi: Okay. And then as you said that the situation is improving now, so what we're hearing from the customer now? Is it the destocking is completely over or still they are into the same phase. And another update was, earlier, there were a few of the countries who were facing the dollar issues, the availability of the dollar, so our customers over the countries in the South America or Africa is over ahead -- overcome those issues now? Any update on -- from the customer?

Adhish Patil: As far as dollar shortage issues are concerned, definitely, those are minimized as compared to the last year. Last year it was much severe; however, what we need to be watchful was -- is current geopolitical tension in the Middle East. More and more countries should not get involved in the conflict, otherwise, with total -- then the situation might be little dicey.

Pramod Dangi: Okay. Okay. And then we are waiting for that FDA inspection for the API plant for the -- so any update on that? Had they come back or they're still status quo?

Adhish Patil: So it is status quo, frankly speaking, though we have recently sent a reminder also to the FDA office. So as we said last time that our file has been moved from response renew department to the ORA department now, that is the inspection department. So because we have import alert on their API facility, standing import alert, I think most probably, the inspection would be supply zone. And because the FDA calendar is really packed from October to September. And from October onwards, only the file has been moved to the inspection department.

So we are hoping that in this year, this year of FDA financial calendar, there has to be some activity, so which might lead to triggering inspection. And three of the ASCAs are active, which are deciding our DNAs from that U.S. FDA plant. So those customers are also following up with FDA now. So we have also reminded directly to the FDA inspection office. So probably by September'24, we are keeping fingers crossed that it might be some kind of surprised inspection.

Pramod Dangi: Okay. Great. Good. And when you said that on the formulation that we have filed one for the U.S. market, and we are going to file another 12 to 14 other molecules. What kind of the total capacity we are looking in the formulation over the next one, 1.5 year once all this filing is done and what kind of revenue we can target say in '26?

Adhish Patil: Which one?

Pramod Dangi: Formulation.

Vishwa Savla: Yes, so specifically for the oncology segment that I mentioned 12 to 14 products, the potential revenue, the new revenue that we can target is about INR300 crores to INR350 crores of additional revenue, which would take the next 24 to 36 months, considering the approval times and for the products to be launched. But 24 to 36 months down the line, oncology revenue should be at about INR300 crores. And apart from the oncology, even in the non-oncology space and non-U.S. markets, we are filing a lot of cardiac, diabetic and other segment products, which would also lead to a good growth on the non-oncology segment as well.

Pramod Dangi: Okay. Okay. Great to hear that. So that means our current rate, which is around INR300 crores today in the formulation can actually double over the next two to 2.5 years?

Vishwa Savla: Over the next three years we can say.

Moderator: The next question is from the line of Pooja Mehta from JC Securities.

Pooja Mehta: So I have a couple of questions. So what margins in future, do we expect like given the raw material prices and selling price fluctuating and we have a good cash flow from operations as on March '24, like due to release in working capital, the short-term borrowing have increased versus March '23, so could you throw some light on the same?

Adhish Patil: Actually, the short-term borrowing is only INR215 crores at a consol level. Probably, that might be the term loans instalment what you're talking about. The short-term borrowing is now only INR215 crores, so it must have decreased as compared to last year. And our long-term borrowing is around INR348 crores, so the total debt stands at INR563 crores at the consolidated level. So for understanding, debt to equity has also gone down 0.44 at a consol level and 0.4 at the stand-alone level.

Now as far as the margins are concerned, so gross margins have been continuously improving on a sequential basis in this current -- in the last financial year, quarter-on-quarter basis. So with the current selling prices of API, we expect that the gross contribution should go at least till the level of 35%. And right now, it is somewhere just below 34%. So we hope that around 1% more improvement should be there as far as gross contribution is concerned.

Moderator: Next question is from the line of Rashmi Shetty from Dolat Capital.

Rashmi Shetty: Can you just guide on the capex for FY '25 and FY '26 since we have already completed the major capex.

Adhish Patil: So last year, we almost did an investment cash flow around INR226 crores, so our two greenfield projects, one was almost done and it was put to use. Only some ramp-up was pending, which is still pending now and, Sayakha one, that will commence in towards the end of the Q1 FY25, I would say. So that spill over capex would be there for FY '25. And we are estimating, we have set the budget of around INR200 crores to INR250 crores for the coming financial year that is FY '24-'25.

Rashmi Shetty: Okay. And -- so this will be the last leg of the capex, from FY '26 we can just expect maintenance capex to go ahead?

Adhish Patil: From FY '26, the thing is, we will still be including a few products, but the capex required may not be that high. At the formulation side, we might require some capex for developing more and more -- developing and registering more and more oncology products, so we will be keeping budget for that as well. Apart from that, on the API, on the second side also, we have one or two products which we want to launch. So right now those projects are on paper. So once we finalize and we decide to go ahead with the capex then we will announce the capex plans very soon.

Rashmi Shetty: Okay. But otherwise, it will be more or less in the range of INR150 crores to INR200 crores, right?

Adhish Patil: Correct.

Rashmi Shetty: Okay. And another question is about your working capital cycle. Your distributor sales have actually come down in FY '24 versus FY '23, which will be more or less similar for the future also? Or you see that it will pick up with the sales also picking up?

Adhish Patil: So the distributor base slightly might get impacted per head because I will tell you the reason. The reason why this operating cash flow is suddenly released for the March 2024 is because there was this tremendous reduction. So for similar kind of growth now your working capital required is much lesser. And that was the main reason why there was -- no doubt, overall, the receivables are good. Fortunately, there are no bad debts as such. But then we've seen that releasing our operating cash flow has come mainly because of the lower selling prices and lower requirement of working capital in Q4.

Moderator: The next question is from the line of Resham Jain from DSP Asset Managers.

Resham Jain: Yes. Okay. So just one question on the overall capex, which you have incurred. Let's say, three years out, what kind of EBITDA trajectory you're looking at given that, let's say, last four years, if I take '21 as a year when you had a kind of very good benefits because of COVID and all, but 3%, 4% kind of CAGR growth at EBITDA level, so let's say, three years out, what kind of EBITDA growth you're looking at a company level, consolidated?

Adhish Patil: The thing is, I don't have a number ready right now. But then the thing is we are estimating -- we are hoping that we will be reaching that INR4,000 crores turnover soon. And the steady-state EBITDA, if everything goes well, should be in the range of 15.5% to 16% at a turnover of INR4,000 crores.

Resham Jain: Okay. So basically doubling of EBITDA in next three years?

Adhish Patil: Yes.

Moderator: Next question is from the line of Pramod Dangi from Unifi Investment Managers.

Pramod Dangi: Just to -- you just said in an earlier question that the price variance, which we are looking at for this year is around 5% to 8% negative given the higher base of 2024. How it panned out in the June quarter and September quarter, so will it be in the higher in the June quarter and then it will go down as the higher base goes away and by December, we will see the positive price variance, is it how we should look at?

Adhish Patil: I understood the question. So last, that is FY '24, the prices have been falling slowly. And every quarter, there was decline. So if I compare year-on-year, the March quarter, March '23 and March '24 quarter, so in domestic market, there is almost a decline of 15% and in the export market, there is a decline of almost 10% to 11% in terms of rates. I'm talking just about rates. So now the March '24 selling prices, we are expecting them to continue for the FY '25.

So the initial half, the first half of FY '25, the negative rate variance would be more, relatively more. It won't get to the tune of this, what I just told you that is 15% and 11% because in June quarter itself, there was some negative price variation as compared to the March quarter that is -- I'm talking about June '23. So for the first half, the negative will be more, negative price variance. But in the second half, it will be quite minimum.

Pramod Dangi: Okay. And we are looking at, at least, you said 7% to 8% volume growth for full year, right? including the new capacity or it will like 10% plus?

Adhish Patil: Okay. So the last year, FY '24, we did 7% volume growth. But for the coming years, we will definitely target around 15% sort of volume growth. Internally, we should target around 15% sort of volume growth given the addition of new capacity.

Pramod Dangi: Okay. So 15%, volume growth 7%, 8% negative price variance. So top line will be like high single-digit top line growth we would have for the full time, somewhat flat...

Adhish Patil: Correct.

Moderator: Next question is from the line of Yug Mehta from AP Capital. Yug Mehta? The participant got disconnected. Next question is from the line of Nikhil Upadhyay from SIMPL.

Nikhil Upadhyay: Adhish, just one question on the previous participant, you were explaining the pricing. If you can just help me understand again, I missed some part of it. If we consider first half of '24 versus second half of '24, Y-o-Y, how the prices trend would have played out? And secondly, at the end, you said that in first half of '25, there will be some minimal price impact, but second half pricing should be better. So if you can just explain that bit again? Sorry for that.

Adhish Patil: So what I was explaining was that over the period of the last 12 months, if we are talking about March '24 quarter metrics, so over the past 12 months, the domestic market, there was negative price variance of almost around 15% and for export market, it was around 10.5% to 11% negative price variance. Now this variation means -- the negative variation that happened a month on month in the last financial year.

And in fact, in December and March quarter, it was very minimal, the movement was very minimal. The reason I was talking that because FY '25 selling prices will be more or less similar to that of March '24 quarter, so it does remain similar to FY '25 selling prices. That is why I was saying that the first half of FY '25, you can see a little bit of negative price variation. But for the second half of the FY '25, negative price variation will be very minimal as compared to the previous year. Year-on-year I am talking about.

Nikhil Upadhyay: Okay. And just one last question. See, what we had also seen is that many of these molecules -- because post COVID, there were a lot of capacities which had come up, both in the domestic and in China market and other competitive markets. Now in last 1.5 years, how is the situation on the capacity side, both at the intermediate and among our top 10 molecules? Are you seeing rationalization or -- some idea there?

Adhish Patil: So as far as top -- our API molecules are concerned, let's say, the top 15 molecules, the API plus which we manufacture in the stand-alone company, over there, apart from metformin product, there has not been any capacity increase because most of those top 15 molecules are mature molecules. So there was not much capacity enhancement observed in the market for those molecules except for metformin, which is a growing product. So apart from metformin, we haven't seen any sharp increase in capacity, not even -- forget sharp, but we haven't seen any significant increase in capacities for the top 15 molecules...

Nikhil Upadhyay: Okay. So which means that all this pressure was mainly because of this inventory destocking, which...

Adhish Patil: Mainly -- yes, for our molecules mainly because of that. But if we talk about the trade molecules, like, let's say, 16th to the 40th molecules, which we are manufacturing, in that space, definitely, even we have added the capacities. So in that space, there will be capacity enhancement. But for the existing molecules, there is not much.

Nikhil Upadhyay: So among our top 15 molecules, we've not seen any major capacity addition except for metformin. So there, it's largely that inventory destocking, which impacted. Lower-end molecules, the capacities would have come even we have added capacities?

Adhish Patil: Correct, correct.

Nikhil Upadhyay: Okay. So on the inventory destocking side, like based on what you are talking or your customer feedback, what are you hearing like are any sense -- so on the volume side, you said we are now seeing volume growth. And even next year, you said volume growth should improve. But then shouldn't it translate into a better pricing also if there is no more capacities which have come up?

Adhish Patil: Right. The thing is people are having that much capacity already to suffice. Last year, the export was quite down, frankly speaking. So the increasing in demand may not lead for existing top 15 molecules I'm talking about. Unless , the pricing levels will go up. That is purely because the export selling prices are higher than the domestic selling prices. So clearly because of the increase in the proportion of exports, a lot of composite selling price should go up. That is one thing. But within the export market itself, the pricing impact, means, it would be stable. I won't say it would be -- it does, but it should be stable on increase of percentage.

Moderator: As there are no further questions from the participants, I now hand the conference over to management for closing comments.

Adhish Patil: Okay. Thank you, everyone, for joining us today on this earnings call. We appreciate for your interest in Aarti Drugs Limited and the questions you asked. If you have any further queries, please contact SGA, our Investor Relations advisers, or you can directly reach back to us as well. 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. Thank you.

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