



Aarti Drugs Limited

Manufacturers of : Bulk Drugs & Chemicals

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

Ref: ADL/SE/2023-24/87
October 27, 2023

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

BSE CODE – 524348

Dear Sir/Madam,

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

NSE SYMBOL: AARTIDRUGS

Sub: Transcript of Q2 & H1 FY24 Earning Conference Call

Please find attached herewith transcript of Q2 & H1 FY24 Earning Conference call.

Kindly take the same on record.

Thanking you,

Yours faithfully,

FOR AARTI DRUGS LIMITED

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



“Aarti Drugs Limited Q2 & H1 FY'24 Earnings Conference Call”

October 20, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 20th October, 2023 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

Moderator: Ladies and gentlemen, good day and welcome to Aarti Drugs Limited Q2 & H1 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 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 the conference call, please signal an operator by pressing '*' then '0' on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Adhish Patil, Promoter and CFO -Aarti Drugs Limited. Thank you, and over to you, sir.

Adhish Patil: 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 quarter and half-year ended 30th September 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 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 by sharing an update on the ongoing CAPEX projects:

The capital expenditure incurred during H1FY'24 amounted to Rs. 109 crores and it is projected that the total CAPEX for the entire fiscal year will be between Rs. 250 to Rs. 300 crores. Notably all of the CAPEX plans including Gujarat, Sayakha Capex and Tarapur CAPEX on dermatology, both of which belong to high margin accretive categories are estimated to be completed by H2FY'24. Both projects shall lead to improvement in margins once they are commissioned and capacity utilization is ramped up.

Now coming to the Financial Performance in Q2FY'24, our revenue stood at Rs. 642 crores as against Rs. 688 crores a decline of 6.6%, mainly on the account of negative rate variance. EBITDA stood at Rs. 77 crores as against Rs. 74 crores year-on-year basis. EBITDA margins stood at around 12%. PAT stood at around Rs. 40 crores and PAT margins at around 6.2%.

For H1FY'24, our revenues stood at Rs. 1304 crores as against Rs. 1310 growth decline of 0.5% due to lower selling prices as compared to last year. EBITDA stood at Rs. 162 crores as

against Rs. 142 crores last year. EBITDA margin stood at 12.4%. PAT stood at around Rs. 88 crores and PAT margin at around 6.7%.

Now coming to segmental performance, in the quarter gone by despite the geopolitical uncertainty and macroeconomic volatility, API segment volume grew by approximately 10% year-on-year basis, primarily led by domestic demand. However, revenues for the quarter have declined by 6.2% due to a downward rate variance. In the first half of FY'24, API revenue grew by around 1%.

Due to operational efficiency and input cost stabilization for the majority of the products, gross margins have shown improvement and is expected to be better going forward. Moreover, the exports demand has been sluggish in some of the geographies for API in H1FY'24 on account of USD shortages, increased interest rates and cautious spending by customers amidst global geopolitical tensions. We have witnessed a marginal increase in our operating expenses due to one-time buyback cost, which we announced in the month of July 2023, labor rate revisions across all our facilities and other expenses.

Within the API business, the antibiotic therapeutic category contributed around 47%, anti-diabetic around 16%, anti-protozoal around 17%, anti-inflammatory around 10%, anti-fungal around 8% and the rest contributed around 2% for the total API sales of Q2FY'24.

Formulation segments stood at Rs. 86.6 crores for the quarter, a growth of 5.0% year-on-year basis with exports contribution of approximately 49%. Whereas in H1FY'24 revenues stood at Rs. 176.5 crores with growth of 5.3% year-on-year basis.

Specialty Chemicals industry globally the demand has been dipped and there is some spillover of order execution of campaign-based based product specialty products into next quarter, which has impacted this segment time being.

Coming to standalone performance for the quarter:

The revenue for Q2FY'24 stood at Rs. 578 crores as against Rs. 625 crores, a decline of 7.6% year-on-year basis. The standalone business contributed around 87% to the consolidated revenue for the quarter. Around 67% of these revenues came from the domestic market and 33% from the export market for Q2FY'24. Domestic revenue grew by approximately 1% on value basis while exports de-grew by around 20% year-on-year for Q2FY'24.

On consolidated basis as on 30th September 2023 net debt stands at Rs. 589 crores as against Rs. 609 crores as on 31st March 2023. Whereas equity and total assets stand at Rs. 1120 crores and Rs. 2352 crores respectively as on 30th September 2023.

Net debt-to-equity stood at 0.49x whereas net debt to total assets stood at 0.25x.

In spite of short-term challenges, we remain optimistic about the growth avenues for our API and non-API business. All our growth plans shall enable steady growth over the next few years, on the basis of the completion of ongoing projects, some improvements in the current manufacturing processes and better utilization of current capacity. The pace of growth is expected to continue in the formulation 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. We will take the first question from the line of Tushar Manudhane from Motilal Oswald Financial Services. Please go ahead.

Tushar Manudhane: Primarily on the pricing of API segment, we have seen, this is second consecutive quarter where prices have been on the down trend. So, if you could comment on this? And is it across the portfolio or certain select API which are dragging the overall pricing of API segment?

Adhish Patil: So, the overall pricing trend has been down. We have seen the raw material pricing had stabilized from the month of February, but last two months, we observed that for few of the antibiotic products and some anti-diabetic products the prices of raw materials had gone down further. And subsequently what we observed for our sales portfolio, was that for the month of July and August, the prices were stable; for the September month, the prices had gone down further. Having said that, our price rate, negative rates variant quarter-on-quarter means September 23 versus June 23 Quarter is approximately around (-7.5%). Whereas, if we compare September 23 versus September 22 to the negative price variation, the percentage rate de-growth is almost around (-16%).

Tushar Manudhane: But at the same time the volume pick up has been quite decent in terms of price impact. So, is it to do more with the significant demand you are seeing or it is more like a market share --?

Harit Shah: Yes partly market gain and partly domestic demand looks good these two quarters, first two quarters yes.

Tushar Manudhane: And just last week, the raw materials which we procure are largely imported from China or domestically obtained?

Adhish Patil: So, usually, it is a sound mix, import is around 60% and domestic is around 40% to 45%. It changes from quarter-to-quarter. And out of total imports around 80% is coming from China.

Tushar Manudhane: And even currently as we let's say, over the past month or so still the prices are further going down is that the way to think about say for the upcoming quarters?

Adhish Patil: See, for few of the intermediate, for some products we saw that the prices had gone down. But nevertheless, with the increase of crude the prices of basic solvents like toluene, methanol they are going up slightly.

- Moderator:** We will take the next question from the line of Rashmi Shetty from Dolat Capital. Please go ahead.
- Rashmi Shetty:** So, again, on volume growth in first quarter we have seen 18% volume growth whereas in this quarter we have seen 10% volume growth only. So, quarter-on-quarter along with the price declines have we seen a volume de-growth also? It has come off right?
- Adhish Patil:** Quarter on quarter we do have a positive volume growth, actually, roughly around 5%. Yes, but then the rate de-growth is there of almost 7.5%.
- Rashmi Shetty:** And in the coming quarters, like in the October month and the subsequent quarters what is the trend likely to be, you are going to see, I mean this time we have seen quarter-on-quarter decline in prices of around 7.5%. So, are these prices supposed to fall further or you feel that somewhere it is going to get stabilized?
- Adhish Patil:** The thing is for the September quarter as you know, what we have observed that the September month prices were slightly lower for the top few products they are slightly lower by 4% as compared to August and July prices. So, taking this into consideration probably, it's a very rough estimate that probably around 3% odd negative price rate growth can be seen in the December quarter with respect to September quarter.
- Rashmi Shetty:** And related to your CAPEX plan, Tarapur CAPEX on dermatology and Specialty is a brownfield project and the SAYKHA project which are referring in the press release is it for Greenfield expansion for Specialty Chemicals?
- Adhish Patil:** Yes.
- Rashmi Shetty:** So, out of this Rs. 250 to Rs. 300 crores, can you just give us a break up how much will be for the SAYKHA project at Greenfield and how much could be for the Tarapur?
- Adhish Patil:** Coincidentally both the projects at SAYKHA and the dermatological Greenfield project in Tarapur both of them are roughly the same amount so both of them would be somewhere between Rs. 350 to Rs. 400 crores combine and it will be almost 50-50 split.
- Rashmi Shetty:** And the SAYKHA project is expected to get completed by which year?
- Adhish Patil:** So, actually we are hoping that we will be able to complete by December of this current quarter, December end quarter, but then there were slight delays in terms of equipment delivery and because of rains also some part of civil work we did, but nevertheless, we feel that by the end of January we should be able to start the work and then maybe 15 to 30 days later, the commercial production batch can also start in the month of February, end of March.
- Rashmi Shetty:** So, just want to understand more on this, like you have already mentioned that the demand for Specialty Chemical is pretty muted and there is a complete demand slowdown for most of the

products. And we are putting out this brownfield plan will also get over by mid of H2, Greenfield plant will also get over by December. So, we will have a lot of capacities, but we will not be really supplying and will it take time for the capacity utilization to run at full level.

Adhish Patil: Products which we are putting up at SAYKHA are actually different line of products, so those capacities will be for different products not for the existing products. And moreover, whatever slowdown we have seen in Specialty Chemicals, that is mainly due to the inventory pile up. So, we don't expect that sluggishness to remain more than a quarter or two. So, definitely by the time we come up with capacities, the Specialty Chemical segments should be better. And moreover, if we see quarter-on-quarter we have volume growth for Specialty Chemicals only year-on-year it is slightly, it is almost flattish, but it is not that negative as far as Specialty Chemicals is concerned.

Rashmi Shetty: But this chlorosulfonation products will be manufactured in which plant, will it be in your Tarapur plant or in the SAYKHA project?

Adhish Patil: So, in Tarapur we have two facilities so, in two of them we manufacture the chlorosulfonation products whereas the SAYKHA one would be totally different.

Rashmi Shetty: And the derivatives of chlorosulfonation will also be manufactured in Tarapur only.

Adhish Patil: Yes.

Rashmi Shetty: And the last question, if I may, related to your gross margin improvement and your EBITDA margin improvement since you are foreseeing that demand continues to be weak in the next two quarters also, and the rate variance also is likely to be negative. We have done around 12% EBITDA margin in first half. So, what is the guidance which you give for the entire year that is for FY'24?

Adhish Patil: See the thing is for the next half, we feel that the gross contribution should increase slightly at least 0.5% to 1% we hope that net contribution will improve for the next half of FY'24. Where we are seeing the negative side is that quarter-on-quarter June 23 versus September 23 the other cost, other manufacturing costs and administration costs, the percentage of that has slightly gone up. The reason being the selling prices have come down quite drastically. So, that is one of the reasons, but apart from that we are trying to offset by better volume growth. But yes, there were a few other things also infact our factories which we have been improving processes of few API products and while doing so we had negative raw material cost and higher consumption for the last quarter that also we plan to improve going forward. So, all this put together we feel that at least we should improve by 1% in the next half of FY'24.

Rashmi Shetty: You mean to say around 13% sort of?

Adhish Patil: Yes.

- Rashmi Shetty:** And this includes your cost which will be coming from the new facilities also that is Tarapur both the facility and the SAYKHA project, because that costs will also be added right?
- Adhish Patil:** Yes, a part of that is already been done, some part of it so yes.
- Moderator:** Thank you. The next question is from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.
- Bhagwan Chaudhary:** Adhish, just one question this is regarding earlier we were expecting margin to reach by 15% by the end of the fourth quarter. So, the question is that on the one side we are looking there is a volume growth while there is a pressure on the pricing side. So, margins are not able to move from here onwards. So, what is holding exactly as to take the that pricing part given the fact that volume growth is there?
- Adhish Patil:** So, one thing what we notice from our internal analysis is that the raw material prices have gone down more in terms of percentage basis, but they just came means if we take **(Inaudible) 21:18** based on that. So, those rates have gone down further, but then we have an inventory of almost 94 days to 95 days that inventory to get accounted into P&L. So, that is the reason why we see that there is a slight decrease in the gross margins. So, we expect that the gross contribution will improve mostly.
- And the second biggest factor for us has been exported, the de-growth in exports because of global scenario, that has caused me that is something relatively new that happened this quarter; from this quarter itself we saw significant impact of that on the numbers.
- Bhagwan Chaudhary:** So, what I understand out of this that the higher pricing inventory was holding us so far, which is likely to normalize from the next quarter onwards, but the impact of that would not be more than 100 bps?
- Adhish Patil:** Correct as of now as at least we expect 100 bps, but going forward, if anything **(Inaudible) 22:35** we will try to achieve for better result.
- Bhagwan Chaudhary:** So, let me put it the other way, for example, in the next year to reach the 15% what are the circumstances and what are the conditions we are looking for?
- Adhish Patil:** One is the crude levels should not go up sharply from here, the current year is still okay, there should not be much volatility in the market. And these geopolitical tensions what are happening right now globally that should ease out, because that will definitely impact business quite a lot in terms of ease of transaction.
- Bhagwan Chaudhary:** And secondly, what is the status on our Specialty project that has commenced?
- Adhish Patil:** Yes, so are you referring to the Tarapur one?
- Bhagwan Chaudhary:** Yes, Tarapur.

Adhish Patil: So, the thing is we were hoping to start it by September end only and we were quite in line except for very few days of delay from the instrumentation in November. But then even that is done. The thing is a little bit in detail I will tell you; we had installed one titanium pipeline. So, there were a few leakages, so we had to take it out again and again we have to render. So, because of that it got delayed by a few days otherwise, by now it should have already started. So, anyways in October itself we have mostly started. And once it's started, we will update you on that.

Bhagwan Chaudhary: And on the Salicylic side project, we are on track?

Adhish Patil: Yes, Salicylic side by December end, we are planning to start the commercial batches.

Bhagwan Chaudhary: Any update on the USFDA part?

Adhish Patil: No, so there will be a update on that actually. So, after the last response what we had filed back in March, we had done a few follow ups on back. Then, in the past month we were able to speak with them, on the phone, and so we asked them about their response part, so they said that the response is complete. So, they don't need any more information as far as the response is concerned. However, by that time they had not intimated their Indian counterparts to initiate the audit. But they told us that told us to follow up by the end of October or start of November to check with them again. So, most probably, they will be integrating the Indian counterparts to initiate the audit, but it will be mostly an unannounced audit.

Bhagwan Chaudhary: And that can happen anytime from now onwards?

Adhish Patil: Anytime, so we are ready because it can be a surprise inspection also.

Moderator: Thank you. We will move on to the next question, which is from the line of Chirag Dagli from DSP Blackrock. Please go ahead.

Chirag Dagli: On the facility where there can potentially be an FDA inspection, has a mock audit been conducted already?

Adhish Patil: Yes. So, the thing is, before giving the final response just before that we had done almost a weeklong, four to five days or a week long mock audit from 2 ex-USFDA inspector. So, that report also we had submitted as a part of response to FDA, but nevertheless almost a few months have passed since that time. So, probably, we might think of having a few more checks for the facility.

Chirag Dagli: And assuming that, let's say sometime in the future this facility does get approved by the FDA, what happens over the next six to 12 months post that just if you can throw some light on what will be the next steps as far as we are concerned to tap that market?

- Adhish Patil:** There are couple of DMFs which are actively referred to in ANDAs so those product launches will start, so that will be definitely positive. Then how it scales up that that is to be seen, but we are very confident about products like Ciprofloxacin from that facility, because there is a huge demand of that product in the European market. But because of the FDA import alert they also are not able to purchase from us. So, even that business will kick off because for the same plant last year we had EQDMM audit in around October or something and that has been cleared now. So, we had been issued the new GMP certificate for the same plant.
- Chirag Dagli:** So, you are basically saying Europe will open up rather than the U.S., per se. U.S. you have two DMS, which you are saying --?
- Adhish Patil:** U.S. will definitely open up but then the thing is the other businesses then we will have to reinitiate, two of them are already active. But Europe will kick off much faster than U.S. is what we believe.
- Chirag Dagli:** I was asking that, Adhish was indicating that two DMFs can be launched in the U.S. assuming that the facility gets approved today. So, in those products what is the price realization difference in the U.S. versus what we currently sell?
- Harit Shah:** So, in narcotic products price realization is almost 25% more than what we are selling in Europe also and vis-à-vis domestic it is around 35% to 40%.
- Chirag Dagli:** So, as some of these markets open up you will, it is obvious to assume that you will target some of these higher realization markets.
- Harit Shah:** Definitely, yes.
- Chirag Dagli:** And Cipro in European markets how different is pricing over there?
- Harit Shah:** It is in, for example, given example in ROW market we are selling at about \$23 to \$24. And in Europe we are selling it at \$35 to \$36. So, almost 50% more, because of the low commodity, low value price, it's low value product so overheads are also high.
- Chirag Dagli:** And Adhish in terms of CAPEX, so both these projects almost get done by the end of this year. So, how are you think about capital expenditure in FY'25 and beyond? And just some color around where that potentially will be?
- Adhish Patil:** So, one is, if there is any spillover from these two Greenfield projects which can happen that will be, it's not too much though. Then there is a Metformin expansion which we are planning, which might kick-off next year. And plus, in one of the Greenfield projects which is coming up, we have land parcels to bring up one more production facility. So, all the supplementary amenities will be there ETP everything will be already there, so the production block will come for one more product which is under R&D and piloting that is again, I would say that is a group of products which correlates with salicylic acid.

- Chirag Dagli:** But it's Brownfield expansion?
- Adhish Patil:** Means the thing is the production plant would be Greenfield, but then it won't require any plot development cost or ETP cost or other utility department cost, warehouse cost. But the plant will be absolutely new.
- Chirag Dagli:** So, what will the absolute rupees/crores CAPEX in '25?
- Adhish Patil:** So, as of now we don't see beyond Rs. 150 crores.
- Chirag Dagli:** For both the projects put together.
- Adhish Patil:** Yes, for next year.
- Chirag Dagli:** And just the last question on, before this CAPEX these new facilities come through, as you look at the current facilities and the utilization etc., what sort of utilization are we at on the existing facilities that we have?
- Adhish Patil:** So, the existing ones we are slightly up by a percent or as compared to June quarter. But it is still somewhere around between 74% and 75%.
- Chirag Dagli:** And what can we peak at, Adhish?
- Adhish Patil:** 90% is achievable, but the thing is in many of the cases we have taken like 28 days this thing, but on the safer side you can say that 90% is easily achievable. And in some product, we can go 95% as well.
- Chirag Dagli:** And what is the hurdle for us to reach this 90% potential? We have been at least 75% for a while, Adhish.
- Adhish Patil:** So, the thing is, the reason it is 75% for the while is because we are constantly doing incremental expansions. So, each time the new utilization is calculated based on the newer capacities. So, that is the reason why it is going hand-in-hand, but once the Greenfield projects goes online, then suddenly you will see a little bit of dip, because suddenly lot of capacities will be introduced, so you will see a dip in the utilization.
- Chirag Dagli:** No, so my question was on the existing ones, on the existing capacity or existing gross block, if you were to think about how do we reach at 90% utilization in this, is it going to be usual linear growth that will bring us to that or is there something.
- Adhish Patil:** Yes, for few of the products we have already reached 90% for few of the products. And for few of them it is, you know so that composite is coming to 74% to 75%. So, as the product is becoming more and more and it is more regulatory approved, more and more markets are getting open for few products. So, in certain products we have already reached that, but in certain products it is lower.

- Chirag Dagli:** And just the last question I am sorry, but this on harping this point but this European market you said that there is a market which is not available because of the FDA issues for us. Just if you can quantify how much our utilization can improve if and when this market opens up?
- Adhish Patil:** It is all about gestation period, but I would say within couple of years, one plant will definitely become full. We might have to do expansion in the adjacent, where we do have some space to put up additional production plant. So, we might have to do that as well. Once it comes through, we will immediately start that expansion.
- Moderator:** Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.
- Dhwanil Desai:** I am saying that what is the total CAPEX that is going to be capitalized in FY'24?
- Adhish Patil:** So, FY'24 probably around and these are very rough estimate, probably it can plus minus Rs. 200 crores or something like that.
- Dhwanil Desai:** And that will give us additional revenue potential of Rs. 500 crores to Rs. 600 crores, right that's a right understanding?
- Adhish Patil:** Yes, correct.
- Dhwanil Desai:** And I think in last call you had mentioned that in FY'25 whatever CAPEX gets completed in FY'24 second half, we should be able to get to 35% to 40% utilization.
- Adhish Patil:** Actually, it will be like if both the projects, if everything is put in place probably around we can go to the level of Rs 250 cr also means in terms of capitalization.
- Dhwanil Desai:** My question was, can we utilize that capacity to 35% to 40% as you were expecting till last quarter or you think that because of the environment that has changed, we would expect lower utilization next year.
- Adhish Patil:** Yes, that much we do expect to utilize by FY'25. One-third probably we should be able to use.
- Dhwanil Desai:** And second question is again on margins, I think we were expecting around 14%- 15% margin by the exit of FY'24 and you have indicated that probably will end up 1.5% lower than what we are expecting because of the inventory changes. So, are we, I mean I was under the impression that Q2 was the quarter where most of the high-cost inventory will get accounted for, in that something you can highlight?
- Adhish Patil:** So, what happened was, when we started the quarter, the first two months were really good. So, in fact our gross margins improved by almost 150 basis points. But then and I am talking about the API and Spec Chem business, but then it went down and closed to only around 0.3 or something like that. The thing is, in the month of September there was some price cuts, and because there was a price cut, that was a new price cut which was not there before. So, if that

price cut did not happen then with all the high-cost inventory would have been already considered in this quarter itself, nothing would have left. But because there was another price cut in September month that is the reason why I am saying it might push further.

Dhwanil Desai: So, are we still holding on to the 10% top-line growth guidance that we had given?

Adhish Patil: It would be slightly challenging because the way the rates have corrected means as I would say in September month almost (-17%) rate variation was there, September quarter, September versus September, but we will definitely try to achieve anywhere between 5% to 10% for the entire year.

Dhwanil Desai: And one of the things that has been slightly challenging from a market perspective is the international market, right, the export market for last two, three quarters had been literally subdued. So, are you seeing any revival, or do you think this kind of trend continuing for few more quarters?

Adhish Patil: So, the export market is a new factor which we did not account for when we gave the guidance of around 10%. So, that has impacted our guidance. The September quarter was weak. Right now still all these because of geopolitical tensions things look little dicey. So, if it improves than we feel it will definitely pick up because it cannot go so low as compared to previous years because we are adding new customers, we are adding new geographies, so it has to go up. I think it is more of a temporary thing and if the geopolitical situation improves faster than the recovery will be much faster in the export market.

Dhwanil Desai: And is this the reason why export market is subdued in lot of other segment because of the hangover of the inventory. But I think --?

Adhish Patil: Mainly what happens you know the interest costs have also gone up quite high in last one year, last six months especially across the globe. And earlier those people, carrying inventory was not an issue because the interest cost was much lower, but now they also feel the pinch of carrying more inventories. So, probably even if that is impacting demand in near terms, it won't be for longer period, but it will be normalized inventory.

Dhwanil Desai: The overall channel inventory is coming down because of that, right that's what you are saying.

Adhish Patil: That is just an estimate, I mean I can't verify it but it is how it looks like.

Moderator: Thank you. The next question is from the line of Harsh from Marcellus. Please go ahead.

Harsh: So, from what I understand in terms of new revenue growth drivers we are entering into methylamine-based products. So, could you give us some indication as to what will be our right to win in this product segment?

- Adhish Patil:** So, the thing is there is a lot of captive consumption for this, because we are quite big in Metformin. So, more than 50% demand would be ours only from the entire project. And the thing is, we can sell to other players as well. And plus there are two more products coming out from this chain, wherein a few other group companies are also purchasing, procuring from outside. So, we do have a demand visibility and that is why we are pretty confident that selling the product won't be a challenge. The main thing would be to set up the quality of the product right and achieve the cost of production.
- Harsh:** So, what is the total capacity that you are coming up with and what will be our internal consumption rate?
- Adhish Patil:** See as of now we might come up with, 60 plus TPD of capacity.
- Harsh:** And in earlier participant's question you said that we will be reaching 35% approximately utilization FY'25, so that was for this capacity, right?
- Adhish Patil:** Yes.
- Harsh:** So, what is the constraint, I mean why can't we reach let's say 60%, 70%, 80% utilization in the first year itself? What is the constraint here, just trying to understand?
- Adhish Patil:** No, the thing is, the settling of process would be the major constraint, once the process settles properly, probably we might revise that estimate.
- Harsh:** And are we planning to enter into this market in a much bigger manner, because this itself is like a Rs. 2,000 crores to Rs. 3,000 crores market.
- Adhish Patil:** There is room for expansion for little bit, but we will evaluate that further whether it makes business sense or not whether the margins are there, what is the competitive landscape at that point of time and then we will take a call.
- Moderator:** Thank you. We will take the next question from the line of Bismith Nayak from RW Advisors. Please go ahead.
- Bismith Nayak:** One clarification this Rs. 650 crores run rate that we have on consol revenue that is based on 75% utilization, correct.
- Adhish Patil:** Right.
- Bismith Nayak:** And whatever new capacity will come through which will be available for us to ramp up at the beginning of FY'25, potential of that would be Rs. 1,000 crores, right.
- Adhish Patil:** Approximately, in longer terms.
- Bismith Nayak:** And 33% of that, Rs. 1,000 crores can be done in FY'25 that is also fair understanding?

Adhish Patil: One-third of that, yes. One-third of capacity utilization so probably initially we might have more captive consumption for the SAYKHA plant. So, we will update that guidance as and when the picture becomes more clear on that.

Bismith Nayak: And backward integration with regards to Specialty Chem that we will do from the new CAPEX, what could be the gross margin benefit over long term?

Adhish Patil: The EBITDA level margins definitely for testing products was upwards of 20% so higher than company level margin.

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

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

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Aarti Drugs Limited that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.
