November 13, 2023

To,
Listing/ Compliance Department
BSE LTD.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

SCRIP CODE: 543748

To,
Listing/ Compliance Department
National Stock Exchange of India Limited
"Exchange Plaza", Plot No. C/1,
G Block, Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051
SYMBOL: AARTIPHARM

Dear Sir/Madam,

Sub: Transcript of Q2 FY24 Earnings Conference Call
Ref: Regulation 30 of the SEBI (LODR) Regulations 2015

Please find enclosed herewith the Transcript of Earnings Conference Call held on Thursday, November 9, 2023 on the Audited Financial Results of the Company for the Q2 FY24.

Kindly take the same on your records.

Thanking you,

Yours faithfully,
For AARTI PHARMALABS LIMITED

NIKHIL PANDURANG NATU
Digitally signed by NIKHIL PANDURANG NATU
Date: 2023.11.13 22:11:00 +05'30'

NIKHIL NATU
COMPANY SECRETARY
ICSI M. NO. A27738

Encl.: a/a.

Aarti Pharmalabs Limited
Q2 FY2024 Earnings Conference Call
November 09, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Aarti Pharmalabs Limited Q2 FY2024 on his conference call hosted by Valorem Advisors.

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. On the conference call, please signal an. Operator pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arjun Sonpal from Valorem advisors. Thank you and over to us Sir.

Anuj Sonpal: Thank you. Good evening, everyone and a very warm welcome to you all. My name is Anuj Sonpal. Not Arjun from Valorem advisors.

On behalf of the Company, I'd like to thank you all for participating in the Company's Earnings Call for the 2nd Quarter and First Half of the Financial Year 2024.

Before we begin, let me mention a short cautionary statement:

Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on Management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us in today's Earnings Call and hand it over to them for opening remarks we have with us Mr. Rashesh Gogri – Chairman and Mrs. Hetal Gogri Gala – Vice Chairperson and Managing Director, Mr. Piyush Lakhani – Chief Financial Officer. Without any further delay, I request Mr. Rashesh Gogri to start with his opening remarks. Thank you and over to you sir.

Rashesh Gogri: Thank you. Good evening and a warm welcome to everyone on Aarti Pharmalabs Q2 FY24 Earning Conference Call. I wish to cover initial thoughts on the performance, evolving market trends and the outlook.

The Company operates in three distinct segments within the Pharmaceutical industry that is API and intermediates, CDMO, CMO and benzene, and intermediate business. Each playing vital role in the growth.

The Company is actively engaged in production and sales of API related intermediates, adhering to the regulatory standards there is a primary focus is on selling in the regulated market and for the Q2 we have sold almost 58% of intermediates and APIs in these segments to the regulated market.

In CDMO CMM business, strong scale up and commercial manufacturing expertise of over 2 decades is helping us to enhance customer confidence in.

The Company also prioritizes sustainability and responsible business practices. In line with this, we received an EcoVadis Silver Medal Rating in first assessment of our one of our Xanthine plants. We are now diligently working to extend this recognition to the entire corporate entity, indicating the commitment to greener and more responsible future.

Let me now cover the key performance highlights of Q2 FY24:

On quarter-on-quarter business, our consolidated revenues declined by about 4% to Rs. 441 crores, whereas the consolidated EBITDA increased by 4% to Rs. 89 crores on the back of improvements in margin and consolidated profit after tax stood at Rs. 52 crores higher by 10% over the previous quarter.

The consolidated EPS for the quarter gone by was 5.78

Now let me share some updates on the projects that commenced and operations in the recent past.

The Greenfield project in Atali, Gujarat is making significant progress with the completion target of H2 FY25. The project to manufacture the primary raw material for Xanthine products is set to begin operations in the current quarter, reducing import dependency. The Company is also developing a semi commercial production block at our USFDA intermediate manufacturing sites in Wapi to cater to smaller batch sizes requirement and aiming at completion in Q2-FY25. These initiatives exemplify the Company's commitment to expansion, self-reliance and catering to the diverse customer needs. Including with the current stable demand outlook, we expect to be on track to meet our guided EBITDA growth of approximately 10% to 15% in FY24 and remain well positioned to achieve our long-term goals.

We strongly believe in India's growing potential in various pharmaceutical products leveraging our strengths in specific chemistries and deep understanding of the market dynamics, we are poised to deliver strong performance in the coming years.

The introduction of high-quality products driven by core R&D expertise, solidifying our leadership in the market and creating and enduring value for our long term stakeholders.

I will now request moderator to open the forum for Q. And A 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 Rahul Jain from Credence wealth. Please go ahead.

Rahul Jain: Thanks for the opportunity. So, my first question is with regards to the Xanthine, if you could share the volume growth in the current half year and also the prices of Xanthine and our realization are down by what kind of percentage compared to last year and have those stabilized and do we expect them to move up going ahead?

Rashesh Gogri: As a practice, we are not divulging our numbers and the realization, but we are operating our plant at full capacity and full enhanced capacity. So, currently that is what I can share with you. Overall, we are seeing some reduction in pricing of the final products and also we are also seeing some reduction in the raw material costs simultaneously. So, we have to retain overall contribution margins for this product.

Rahul Jain: It's rough ballpark figure what how much would be the realization down compared to last year?

Rashesh Gogri: Realization on an average basis, we don't have that information ready, but it would be some 10% to 15% in terms of pricing.

Rahul Jain: And Sir, our backward integration was expected to start say in Q2. It is delayed by, say, one or two, three months that's fine. But with that backward integration, what kind of margin impact or what kind of benefits we could derive from that apart from supply consistency on the raw material side?

Rashesh Gogri: The project which was supposed to start in this quarter is on track to start and it will basically reduce our dependency on the import substitute and that is what is our request from the customers that they want completely independent manufacturing out of China with no China presence and we are going to achieve that. I don't think there will be a great impact on the overall margin or the contribution by doing this in the initial stage, but once if we ramp up the production of that side, then ultimately, we could see some benefit.

Rahul Jain: Last question, Sir, with regards to the guidance in your initial commentary as well as the presentation, you have maintained that the current your FY24, our absolute EBITDA growth will be around 10% to 15%, but when we obviously, due to the Xanthine size that growth has not been there. It actually means somewhere in the next two quarters we'll need to do about 100 plus or 105 crores around EBITDA on a quarterly run rate compared to the 85 crores in the quarter two. So, what could drive that EBITDA growth in the second half?

Rashesh Gogri: So, basically, all the three segments that we perform, of course, Xanthine segment is where we are maintaining our contribution margins, but in the other two segments, we expect growth, particularly CDM/CMO segment as well as the API and intermediate segment.

Rahul Jain: Do you expect the benefits also coming from the ramp up of our CAPEX?

Rashesh Gogri: We will expect some benefit from that also. But though I think more benefit will also be in next year, but the benefit is start coming in H2 of this year, this financial year.

Rahul Jain: Sure, that's helpful, Sir. Thanks. Best wishes and Happy Diwali to you and your entirely. Thank you.

Moderator: Thank you. The next question is from the line of Prateek Bhatia from Girik Capital. Please go ahead.

Dhaval Shah: This is Dhaval Shah this side. Thank you for the opportunity, Sir. Just extension the last participant's question, the degrowth in the top line is driven by which segment for the quarter.

Rashesh Shah: The degrowth is basically the final product prices of Xanthine has come down for the last two quarters. However, we also have the raw material price reduction.

Dhaval Shah: We did 217 crores in Xanthine for the quarter. So, this entirely it's the Xanthine segment which is which is driving the revenue down, right.

Rashesh Shah: Yes, the specific numbers will have to be detailed, but if you compare the Q1 and the Q2, I think you will be able to get the numbers that where the Xanthine segment stays.

Dhaval Shah: Also your API segment is down by 10 crores Q1 and Q2 so it's the lower volume.

Rashesh Shah: Certain products dispatches would not happen in last quarter which have happened in this current quarter, so basically some more inventory impact. Though on the production front, we could do more production. So, there is some impact of that also.

Dhaval Shah: The backward integration of Xanthine, is it same to the 9 hydrogen reactors were which we are planning to add as per our Annual Report is it same to this Xanthine thing only?

Rashesh Shah: No, that hydrogen we have already enhanced the capacity in last year and now the announcement is basically for one of our basic raw materials where we have dependency on China and that is what we are trying to put up the capacity in our facility.

Dhaval Shah: The reactors are already added last year, nine hydrogen reactors.

Rashesh Shah: No, there is a Xanthine plant has some hydrogenated reactors where the 9 hydrogenated reactors were put up in our custom synthesis plant, which is largely utilized for intermediates and CDMO/CMO products. So, there are two different assets

Dhaval Shah: There are nine reactors which you mentioned in the annual report that you're planning to add in FY24, and I think in Q2 it was written that will be added, is that added or that is also delayed?

Rashesh Gogri: That is added, and they are operational. So, now we have all the 9 reactors that are operational.

Dhaval Shah: It was it was added in Q2 itself, the nine reactors?

Rashesh Gogri: Yes. That basically when we do multi such synthesis, some steps require hydrogenation, which require hydrogenation we have to utilize that particular block where these hydrogenation equipments are located and then we have to bring it back to our normal production blocks.

Dhaval Shah: How should we understand the ramp up over the next two quarters in this CDMO and API business?

Rashesh Shah: Basically, we have a strong pipeline overall of our orders. So, on that basis, we are maintaining our guidance, and you will see growth in coming quarters.

Dhaval Shah: And any thoughts on expanding the Xanthine capacity?

Rashesh Gogri: As I mentioned during the last call also that we are evaluating several options of further enhancing the capacity and we would like to do it more as a Brownfield expansion rather than a Greenfield expansion. So, that we achieve with lowest possible CAPEX, maximum impact in terms of profitability and the production.

Dhaval Shah: And the gross profit, what you've done in the September quarter of around 42.6% now, is this number sustainable or should we expect an increase in this number with this backward integration?

Rashesh Gogri: No, the core integration is not going to have too much impact, particularly on this case because it is more for supply security, and it will avoid the price escalation of that particular intermediate that we are buying from China, it will prevent the suppliers to increase the price beyond certain bands. It is sort of an insurance for supply commitment at a reasonable price.

Dhaval Shah: Because even last year, in the December quarter, if we see the gross profit, across the four quarters the gross profit margin was different. So, what would explain that assuming last year was a very volatile year in terms of raw material and now this year there is some stability there. So, at least this profit margin can we assume will be maintained?

Rashesh Gogri: No. So, I don't know from where you are getting the gross profit margin because I think what we have described is particularly the top line in the last quarter presentation and this is also shared today also in our presentation.

Dhaval Shah: Not for the last year, but at least for the current quarter numbers, do you see at least for the next 6-8 months, the raw material scenario being stable and you'll be able to maintain this EBITDA margin?

Rashesh Gogri: Yes, we will be able to maintain the EBITDA margin?

Dhaval Shah: And Sir and last question, you mentioned about adding those 28,000 liters of capacity as a Brownfield at Vapi, when is that getting operational and what is it exactly for what are we, what products are we adding there?

Rashesh Gogri: As I as I mentioned in my opening remarks it will be used for semi commercial production where we have to give the pilot batches or initial Phase-2, Phase-3 requirement of CDMO/CMO customers. So, we will be utilizing that asset for manufacturing because these orders are 10 kilos to 100 kilo where we don't want to utilize our current commercial manufacturing assets and these will get completed in Q2 of FY25.

Moderator: Thank you. The next question is from the line of Vikas Sharda from NT Asset Management. Please go ahead.

Vikas Sharda: When I'm looking at the financials, it looks like the EBITDA or the profit contribution from subsidiaries has grown YoY quite sharply. So, could you talk about that a little bit?

Rashesh Gogri: We have an associate Company named Ganesh Polychem Limited and they had strong set of numbers this quarter. And overall, they are into a specialty intermediate which is used for pharma and the polymer. And it has good margins on the higher production and the reduction in raw material cost.

Vikas Sharda: Any particular products that they make, if you could name?

Rashesh Gogri: They are making intermediates which are used in polymer manufacturing that is used for dialysis or medical grade as well as the other engineering usage.

Vikas Sharda: Earlier you were saying that this US subsidiary will be wound down over a period of time. So, what is the status of that?

Rashesh Gogri: No, we will keep on operating the US Subsidiary only sales which are Aarti Industries is using the US subsidiary to continue the sales in US once Aarti Industries has their own subsidies set up, the business will get transferred to that because currently we had only one common subsidiary and as a business split because we had a large caffeine stock and sell business in the

US that subsidiary was kept as a part of Aarti Pharmalab instead of Aarti Industries. So, that's why.

Vikas Sharda: So, when is that the business transfer likely to happen?

Rashesh Gogri: I think next financial year that will happen.

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

Dhwanil Desai: So, my first question is on the Xanthine side so if you look at the industry structure in India, we come under very large market share even globally, there are only handful of players. So, can you give us some insight into why it is such a consolidated industry, why new players are not coming? What are the entry barriers if at all, if you could talk about that would be great?

Rashesh Gogri: Xanthine business is the regulated kind of business where the approval process is long and you need to really have the facilities which are world class to meet the expectations of the customer. And that is one of the barriers and also you know the approval cycle is quite long.

Hetal Shah Gagal: We are backward integrated in the product.

Rashesh Gogri: So, that is another reason why we are able to successfully be the largest Indian player operating in India where there are few players who are manufacturing in India. And of course, there are many players in China. There is a diversity factor also, the customer would like to have. Supplier from each region. So, that is also playing a part in overall the business that we are doing in this sector.

Dhwanil Desai: So, you know, so I think I assume that the backward integration that we are doing will be for the entire 5000 tons capacity, right?

Rashesh Gogri: Yes, we will have the capabilities to entirely get that in house.

Dhwanil Desai: So, I think you mentioned in the last call that we currently have around 15%, 20% market share, so with this backward integration in place will we be in a position to garner much higher market share and if so since we are operating at optimal capacity utilization how do we position ourselves to kind of enable that higher market share?

Rashesh Gogri: Yes. So, as I mentioned earlier, we are planning to work on a Brownfield expansion which we want to do accomplish within 15 months to 18 months window. And once we have that in place, once we have the approval, we will share the same with the investor community.

Dhwanil Desai: The second question is on the API side we completed a CAPEX in the last year. So, in terms of ramp up I think we were expecting that from H2 the ramp up will start. So, any updates on that and what kind of utilization we may book for in FY25?

Hetal Gogri Gala: Yes, FY25 we will have almost full we will be able to do 70% of capacity utilization in the new block and a lot of customers have now been able to approve this particular block for the existing product and some of the new products also we are validating in this block in this H2. So, that will give us this kind of utilization.

Rashesh Gogri: So, what we are trying to do is that Dhwanil is we have multi-purpose blocks. So, the higher volume products are getting pushed to this newer block where we have higher volume reactors an we have practically did a semi-dedicated asset whereas our flexible assets will get free where we can take up newer product validation and the newer product quantity expansion can happen there. So, that is the plan that large volume will move to this bigger block and smaller volume space will get created where we will use it for our new product.

Moderator: Thank you. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: I have first couple of questions on caffeine. So, first one is Aarti Xanthine derivatives capacity during FY23 was at 4,000 metric tons and average prices during FY23 were roughly $20 per kg. So, that gives a potential of $80 million of roughly 600 CR, 650 CR, but the reported revenue is 855 CR for Xanthine derivative in FY23. So, I just want to understand where is this difference coming from there is number one if you can just explain?

Rashesh Gogri: Yes. So, in the Xanthine derivative segments apart from caffeine we have some other products also which are classified under the Xanthine derivatives and those products are also getting sold. So, the number that you have is largely of the certain product capacity which we are sharing with you which are quantifiable number, but it's part of some other products also which are in that category.

Nitesh Dutt: But if 4,000 metric ton includes the capacity for other products also this was my understanding and also I believe the realization of other products also is similar please correct me if I'm wrong?

Rashesh Gogri: There are certain intermediates also which we end up selling. So, of course, the final API capacities or the active capacities are in that number, but there are certain intermediates which we sell and those also add up in terms of quantity and value.

Nitesh Dutt: Caffeine prices right now are down to Rs. 14 to Rs. 15 per kg, while pre COVID levels are $10 per kg. So, can you just give some thought from the global supply demand situation currently and do you see prices moving back to the pre COVID levels over coming quarters?

Rashesh Gogri: Yes. So, we expect the softening of the pricing of overall caffeine and Xanthine in general, and also the raw material prices are also coming down and then we have the expanded capacity. So, all these three factors put together is what we are trying to manage our contribution and manage the business.

Nitesh Dutt: Also sir our domestic revenue across total Xanthine derivatives and API plus intermediate is down by 20% quarter-on-quarter, but we haven't really seen the domestic pharma demand reducing this quarter. Aarti Drugs for example reported a 10% increase in volumes from the domestic front. So, what is the reason for our domestic business reducing 20% quarter-on-quarter? This seems like a huge drop?

Hetal Gogri Gala: Our endeavor is to have more and more regulated business, that is where the different in Aarti drug. We are more of a regulated company and even for domestic business if you see the presentation, we also give the domestic customers who are eventually making the formulation and exporting it for regulated market also we are able to capture. So, I think domestic revenue we are not very much concerned.

Rashesh Gogri: So, basically you should not view domestic as primarily only domestic consumption. It is domestic sales because the companies which are generic like Cipla or Glenmark or Doctor Reddy's or Zydus ultimately, they end up exporting the product through regulated countries.

Nitesh Dutt: Just one, two more questions on intermediate front. So, in the intermediate, can you please help us understand the nature of this business in slight more detail? So, what kind of competition do you face, the complexity of molecules and your right to win etcetera and also I I'd like to understand what percentage of your production is for captive consumption versus for third party sales?

Rashesh Gogri: Yes. So, basically we are operating API and intermediate business where intermediates are advanced intermediates are the regulated starting material which can be used by the generic and the innovators for their final API production. So, these are really advanced intermediates which require regulatory filing and regulatory sometimes they require regulatory filing also like supplementary USDF or supplementary EDMF etcetera.

So, looking at that, it's a complex nature these are multistage products that we do manufacturing and we do anti-cancer intermediates, we do anti-diabetic intermediates. So, we do a varied range of intermediates manufacturing and then we support all the vertically integrated company is with these intermediates for their launch of newer generics, which are expiring in future. So, that is our business model that we operate in.

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

Ankit Gupta: My question was on the CMO CDMO segment in last call we had indicated that we're expecting a strong traction in the segment and this is the segment is expected to contribute to 10% of our total top line in FY24, but if we see in Q2 and in the first half the contribution of the segment has remained stagnant and in fact there has been some degrowth in the segment if we compare it with the FY23 numbers. So, do we expect significant ramp up in the CMO CDMO segment in the second half of this year and how should we look at the segment?

Rashesh Gogri: Yes, as we mentioned earlier on our call that we are looking at 10% to 12% of the overall business revenue from this segment and I think we are on course for that number and we will see some ramp up in the second-half of this year.

Ankit Gupta: So, overall sir if you can give how this business is shaping up for medium-to-long term plus API going to be our major growth driver over the next two to three years?

Rashesh Gogri: Yes, as I mentioned we are also mentioning the number of customers, number of products that are commercial, number of products that are in R&D development phase. So, those numbers have grown in terms of the number of commercial products, that number we have increased by two over last quarter and also the number of products in R&D have also gone up. So, we are working on significantly more number of products where we work on the development basis. So, our team is working on more and more RFP's from the customers and working with more and more innovators.

Ankit Gupta: Normally let say segment if you look at CDMO company, this segment has relatively high kind of margins of about 25%, 30% plus kind of margins. So, in our case also once this segment ramps up, can this segment be generate this kind of EBITDA margin in the range of 25%, 30% or above?

Rashesh Gogri: Yes, basically it depends on the mix of activities that you are engaged in. So, we are a full service CMO where we do manufacture for intermediate, manufacturing for API, manufacturing for key starting materials and regulatory starting materials and all. So, it depends on the mix that I am currently doing and as we move up from a key starting material to regulated starting material to API, the margins improve.

So, currently we are focusing on the products which are in Phase 3three and then going for the approvals and as the approvals will come and if they get approved, we will have reasonable volumes. If we are able to successfully manufacture the product and keep the customer happy with our services.

Ankit Gupta: We had 14 products which were in the launch stage as with the innovator partners?

Rashesh Gogri: Yes.

Ankit Gupta: So, it remains the same or there has been some addition into that or some product has been commercialized at innovator…..

Hetal Gogri Gala: In one quarter it will not change, so 16 products that we are doing are commercial with the customer and last quarter was 12 and this quarter the two products have increased for GMV products. So, that's how the number is which are under either under clinical phase or in Phase 3 with the customer.

Ankit Gupta: We have 16 commercialized and 14 underdeveloped.

Moderator: Thank you. The next question is from the line of Anant Shenoy from AS Capital. Please go ahead.

Anant Shenoy: Sir, my first question is from the Xanthine part, for supply side this one we look for long term contracts. So, just wanted to understand on the Xanthine side, do we mostly on the spot basis with these companies or do we have some long-term contracts and if it is so like how does the pricing work in that long term contracts?

Rashesh Gogri: Yes, currently we have long term commitment with the customer, but the pricing is largely annual with the customers which are long term customers.

Anant Shenoy: So, the pricing so it will negotiate like in January and so that is fixed throughout the year?

Rashesh Gogri: Yes, there are certain caveats, but it is largely annual prices.

Anant Shenoy: And roughly like what the proportion will be annual versus spot basis we do in Xanthine business?

Rashesh Gogri: The split changes from year-to-year. So, we want to do more and more annual work which is longer term with our long-term partners.

Anant Shenoy: So, roughly around 50% will be annual confidentiality?

Rashesh Gogri: The number for confidentiality reason….

Anant Shenoy: In this annual contract if the pricing is fixed in the beginning so like what visibility are there on the margin part because if the raw material part in between how does it work or it goes up?

Rashesh Gogri: We have a mechanism to manage that and therefore we won't be able to dwell more into it for.

Anant Shenoy: My next question is from the CDMO part. So, you mentioned about 14 products in the development phase, so does that mean in Phase 3 and do we have any like inability of going any product going into commercial in this year?

Rashesh Gogri: So, we have 16 commercialized products and 14 development and these are at the various preclinical and clinical phase 1, 2, 3 and we are not saying that everything is in Phase 3, but there are some which are in early phases also.

Anant Shenoy: I mean the earlier call we had mentioned that we typically work more from Phase 3 onwards now like we are like developing a facility that will like for smaller molecules as well. So, is there any change in strategy where we are like started working on early stages also or like have you been doing that from before or like how does that work?

Rashesh Gogri: So, basically for our API manufacturing assets we work for preclinical and early phases whereas for intermediate and KSm and RSM, regulated materials like KSM, GMP intermediates we work largely on a later clinical phase or commercial projects.

Moderator: Thank you. The next question is from the line of Pratik Bhatia from Girik Capital. Please go ahead.

Dhawal: Sir, one point I wanted to understand, we mentioned the annual report that biosimilars and biologics led by patent expiry is an opportunity for us in CDMO CMO business. So, could you throw some light on it, are you already doing those products, some samples that we sent to the customer or where are we on this?

Rashesh Gogri: No, no we are setting up a new R&D lab, which is our third R&D lab where we are recruiting scientists to carry out this kind of reactions and particularly newer products which are more biotech how do we participate in that product as a supplier of technology, as a supplier of intermediates for that. So, these are peptides and other intermediates that we plan to attend in this newer R&D lab.

Dhawal: So, that is it's still like 2 years away the entire…

Rashesh Gogri: Next 2 years, 3 years away.

Dhawal: And across our both businesses, I mean, yes, on Xanthine we know where we stand. In API intermediates and CDMO CMO, sir what is the right to win in terms of certain reaction capabilities, knowledge of chemistry, are we there how much of the business would be coming from those exclusive business where Aarti Pharma Labs only has the knowhow to make those products across both the businesses or we are of the top two, three in India. This will help us understand your strengths better.

Rashesh Gogri: So, Aarti Pharma Industries is operating in lifestyle drugs. So, these are anti-hypertensives and these are CNS drugs also. We are operating particularly in the anti-asthma range and also we are operating in an anti-cancer range of products. So, these are steroids and anti-cancers are very exclusive production capabilities that we have and also this lifestyle drugs that we produce are also multistage synthesis which require chiral synthesis and hydrogenation and enzymatic technology. So, all that is making us more differentiated than the other players which are manufacturing large volumes of production.

Dhawal: Would we be exclusive in some of the products?

Rashesh Gogri: No, these are not the innovative products. So, we can't be an exclusive one on any of this, but we have a good market share in these products.

Dhawal: And on the API side see in the past 20 years we have commercialized around 50 APIs and 10 are under development. Now the growth rate what we see in the API business, is it going to be driven by this library of 50 plus 10 new products or how should we see the growth rate in the API intermediates business because we always guide on the EBITDA growth rate at the company level, but at the segment level, how should we understand the growth is going to come for us?

Rashesh Gogri: Yes. So, basically that 50 years has now become 54 and also the API under development has now grown also from 10 to 13, but that you have to watch. So, the presentation that you were referring was earlier part of presentation. So, that will be our basket and how we are commercializing these products because there are certain products which have expiry 4 years, 5 years down the line, but still, we have to do the validation and make it ready.

Dhawal: So, if you look at only the API intermediate segment how do you see that business growing over the next say 3-to-5-year period in terms of top line growth and the profit growth?

Rashesh Gogri: See, we have invested almost Rs. 130 crore was capitalized for a asset of API where we increased our capacity in last financial year and also we are further increasing our capacity of intermediate manufacturing at our newer site and also our Vapi site. So, continuously we are expecting this business segment to grow as India becomes more preferred source of buying this APIs and intermediates than from Europe or China respectively for API and intermediates. So, that is where both will come, in the specific numbers I think rather than going on this particular top line I think we focus on bottom line. So, we have to do the products which are more profitable and top line actually doesn't matter as much.

Moderator: Thank you. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: I have a clarification on the API and intermediate business. So, till FY22 this business segment, API plus intermediates combined was roughly 65% of the pharma segment revenue for Aarti Industries which translated into 730 crore revenue in FY22, but in FY23 the reported revenue for these two segments is 550 CR. So, just want to understand was there a big growth in FY23 and what led to it?

Rashesh Gogri: We will have to check the number and get back to you Nitesh. So, Piyush you would like to comment.

Piyush: So, Aarti Industries was always reporting the numbers including GST. So, that is one factor where the GST part was included in the segment reporting, whereas we are reporting net of GST, so net sales. So, that is one of the reasons why I think the numbers are basically not comparable apple-to-apple.

Rashesh Gogri: I think one of the GST or there was some concern, so I think I'll reach out to you separately.

Nitesh Dutt: I have one more follow up on the intermediate business, so want to understand at a macro level are you facing headwinds similar to the chemical chemicals industry where prices are still soft and there is high Chinese dumping? So, any challenges of that sort in or intermediate segment?

Rashesh Gogri: No, the intermediate that we are focusing largely on for newer range of products and partly are for captive consumption and the market segment that they ultimately end consumer is customer is selling is largely regulated. So, overall pressure there is not as much, but it is moderate pressure it's not a very, very high-pressure situation.

Nitesh Dutt: And sir in the presentation you had mentioned that there was drop in prices of certain products. So, what products are these exactly because I think Xanthine prices were similar in Q1 and Q2 and also what are the reasons is there and is it temporary or is there an oversupply that will continue in coming quarters as well for these products?

Rashesh Gogri: Yes. So, basically the revenue declined slightly on account of drop off prices of Xanthine derivative products largely and clearly the EBITDA has increased. So, raw materials have also come down more actually than the finished product prices. So, we are able to maintain healthy profitability and EBITDA.

Piyush Lakhani: Further, if you see the standalone results then the decline is hardly anything, it's just flat and on the consolidated because we have a subsidiary which gets added to the top line. So, there slowly the business is being ramped down and which will be routed to the Aarti Drugs in new subsidiary. So, that is one reason if you compare the consolidated numbers then the factors which are beyond the Aarti Pharma Labs results so mainly the subsidiary 100% subsidiary.

Nitesh Dutt: In fact, makes it clearer just one final question on the subsidiary front. So, EBITDA from subsidiaries is right now 18% for this quarter and it's a significant contributor to console EBITDA now. So, what is the reason for this increase because in the previous quarter this was single digit and is it sustainable or is this one off the 18% EBITDA margins?

Piyush Lakhani: No, that's not only the subsidiaries basically the joint venture in which we have 50% investment the current.

Nitesh Dutt: Yes, I am including that, will it continue in coming quarters as well or is that sort of one off kind of games somewhere?

Piyush Lakhani: Yes, we will be continuing to do the associate company that we have, 50-50 joint venture, that's a significantly large company where also we have almost 350 crore worth of business and we are seeing stable business there for this year.

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

Rashesh Gogri: Thank you everyone for taking the time to join us on our Q2 FY24 earnings call. Hope we have addressed all your queries and if you have any further questions, please feel free to contact our Investor Relations team and they will address the same. We look forward to connecting with you again in the next quarter. Happy Diwali and wish you a prosperous New Year. Thank you.

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