AARTI PHARMALABS

August 16, 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 Q1 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, August 10, 2023 on the Audited Financial Results of the Company for the Q1 FY24.

Kindly take the same on your records.

Thanking you,

Yours faithfully,
For AARTI PHARMALABS LIMITED
(Formerly known as Aarti Organics Limited)

NIKHIL PANDURANG NATU
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Date: 2023.08.16 11:05:01 +05'30'

NIKHIL NATU
COMPANY SECRETARY
ICSI M. NO. A27738

Encl.: a/a.

Aarti Pharmalabs Limited
Q1 FY '24 Earnings Conference Call
August 10, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Aarti Pharma Labs Limited Q1 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter star and one on their touch-tone phone. To remove yourself from the queue, please enter star and two. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touch-tone phone. Please note that this conference is being recorded.

From Aarti Pharma Labs, we are joined by senior members of the management team including Mr. Rashesh Gogri, Chairman, Mrs. Hetal Gogri Gala, Vice Chairperson and Managing Director, Mr. Piyush Lakhani, Chief Financial Officer. We will commence the call with opening thoughts from Mr. Rashesh Gogri. Post this, we shall open the forum for Q&A where the management will be addressing queries of the participants. Just to share this standard disclaimer, certain statements that may be made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the investor presentation uploaded on stock exchange websites. I would now invite Mr. Rashesh Gogri to share his perspectives. Thank you and over to you, sir.

Rashesh Gogri: Thank you. Good afternoon and a warm welcome to everyone on Aarti Pharma Labs Q1 FY24 earnings conference call. I wish to cover initial thoughts on the performance, evolving market trends and the outlook. The company operates in API and intermediates, CDMO, CMO and Xanthine-based intermediate business within the pharmaceutical industry. Company focuses on selling APIs and intermediates in the regulated market and during the last financial year, 2022-23, the company had commissioned an additional block in its API manufacturing plant.

The utilization ramp-up will happen from this year's H2 in the current fiscal. In CDMO-CMO business, strong scale-up and commercial manufacturing expertise of over two decades is helping us to enhance customer confidence in us and with its strong chemistry and manufacturing capability, we will continue to look for backward integration opportunities to become China independent.

One of the projects estimated to be completed in Q2 of this year is to manufacture the main raw material for Xanthine products, which is being currently imported. This will make us completely independent of China in this chemistry. Let me now cover the key performance highlights of Q1 FY24. Our consolidated revenues have declined by 6% to INR458 crores, whereas the consolidated

EBITDA increased by 6% to INR85 crores and consolidated profit after tax stood at INR48 crores higher by 10% over the previous quarter.

Now let me share some of the updates on the projects that commenced operations in recent past. Firstly, we have expanded our Xanthine capacity by de-bottlenecking from 4,000 tons per annum to 5,000 tons per annum. And the work on the Greenfield project at Atali, Gujarat has gained momentum in this quarter and company expects to complete this project in H2 of FY25. With the current demand outlook continuing to maintain stable, we expect to be on track to meet our guided EBITDA growth of around 10% to 15% in FY24 and also are well placed to meet our long-term guidance.

To conclude, I would like to say that we firmly believe in India's assuring potential within several pharma products and we will leverage our towering strengths across chosen chemistries with nuanced understanding of the market complexity to deliver robust performance. The ensuring years will see introduction of many high-quality product promised on core R&D competence, which will cement our leadership position in the market and deliver sustained value for our long-term stakeholders. I now request the moderator to open the forum for Q&A. Thank you.

Moderator: Thank you very much. Our first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Thanks for the opportunity. And, sir, thanks for this call. I appreciate the interaction with the investors and we hope this will be consistently done on a quarterly basis as we have been always doing it with our other group companies. And also, thank you for the initial commentary and detailed presentation. Sir, coming to the questions, first of all, based on the presentation which you had also released in June and the current presentation, we have done in the last two years a total capex of about INR216 crores, sorry, total INR315 crores and capitalized roughly about INR370 crores.

So, out of this, how much is the growth capex, how much is the backward integration and the balance, something which would be related to environment and compliance related? And you did mention the ramp up will happen in this year. So, typically, the capex which has been done till date, including roughly INR38 crores in quarter one, what kind of effect we can expect on this and what kind of sales could be possible with the amount of capex which has been done till date?

That is my first question. And the same thing related to the capex which we are going to complete in the current year FY24 and 25, if you could share details on that also in terms of the schedule of completion ramp up and the peak sales that would be possible.

Management: Yes. So, to tell you about this, you know, we will be holding these meetings on a quarterly basis so that we can appraise the investor community about the growth and the status of the company. And as far as your capex questions are concerned, you know, we did spend close to INR300 crores in last couple of years, INR370 crores, out of which, you know, more than INR200 crores went for the growth capex. And we capitalized out of that. We have capitalized around INR130 crores for our Tarapur project where, you know, we are expecting this ramp up to happen over next one, one and a half years.

So what happens in pharmaceutical industry is that whenever you open up a new block or a new site, you have to do the validation and then the customers will get approval. And it has to be added in the CEP or the US FDA. And then you get the approval to sell for those APIs which are moved from our existing block to the new block. So it normally takes around two years for the full, you know, ramp up to happen. Any expansion then we which we put up in the API facility. Similarly, we also spend some capex on enhancing our hydrogenation capacity as well as intermediate capacity in last two years.

And those capexes have come online and we expect, more CMO, CDMO projects in this intermediate and hydrogenation manufacturing lines. Normally our maintenance capex and the other EHS related capex is around INR50 crores to INR60 crores a year and that's how it is planned.

So, if we end up doing INR200 crores capex or INR150 crores capex a year, then INR50 crores to INR60 crores will be the capex for this activity and the rest will be for the growth.

Rahul Jain: And the asset terms are on the growth capex?

Rashesh Gogri: Yes, asset term, typically we are currently looking at 1.5 asset term. That is what the current run rate is. But we would like to, of course, expand that number closer to 2, but currently we are in that range, 1.5 to 2. Sure.

Rahul Jain: Sure. Sir, on the new product you have been talking about introducing roughly about 40 products per year, going ahead with a total basket of 150 products. Can you share some details on some of the major products out of this maybe you may name it or not, but what segment they are typically going into, are these kind of intermediates also for some of the patented products.

And I understand from whatever data we have got through Aarti Industries concalls and the presentations across that we typically we are into more high value products and where our products would sell somewhere beyond USD100 per kg or about INR10,000 per kg. So going ahead, the kind of product addition, which is going to happen, if you could share some more details about that in terms of what segments.

What category and whether the gross margins which have been hovering around 39%, 42% for last two years, three years. Do we expect this new products to be on a much higher gross margin trajectory?

Rashesh Gogri: Yes, so basically, this is our R&D program has normally taken up to 40 products for development and out of which we may not be successful in all the products. Typically, we end up doing 8 APIs to 10 APIs and balance in the intermediate space. And also, we have some CMO, CDMO projects out of those.

So, that is the product mix of R&D that we do currently and on a standalone basis, if you see, we have more than 50% of gross contribution. So, I think for understanding you have to look at the standalone and see how it is moving.

And we expect this 50% kind of a gross contribution to continue for the future product mix that we…

Rahul Jain: Yes, for the product mix.

Rashesh Gogri: Yes.

Rahul Jain: So that's very helpful. And last one, sir xanthine, which was around 40% in FY'21 and FY'22, went up to almost 56% in FY'23, probably due to the rising prices and higher volumes. And now it is in quarter 1, it is back to around 50% and API intermediates are around 43%. Out of which CDMO is again 6%.

So, how do we see this proportion in next two years – two years to three years coming in to change and if you could share the margins in each of these segments or which is the higher margin segment relatively?

Rashesh Gogri: I think overall, on a quarter-to-quarter, I think the CDMO and the API numbers will keep on changing depending on the products and the orders that we get because essentially the API intermediates and the CMO, CDMO business uses the same assets, which are shared between both the businesses.

And the CMO, CDMO business is what we are trying to grow and we expect by the end of the year, this number to be higher than the 6.3 number. Going forward, it depends on how much projects we are able to deliver, but longer term we see API intermediates and CMO, CDMO business growing in next couple of years.

Rahul Jain: And that is the higher margin segment out of the three?

Rashesh Gogri: Yes, that would become a higher margin. Of course, xanthine margins have come under pressure definitely than what they were in last two years. And that's why you are seeing that despite us producing more quantity in the current quarter.

Rahul Jain: Just last one, if I could squeeze in and then I'll come back in case if I have more questions. Exports for us has always grown at a faster rate in last five years and also a 12-year period. Exports growth has been roughly around 16% in five years compared to the overall sales growth, which has been a bit lower and they were hovering around 55%, 56%.

So, going ahead, maybe this could be just a quarterly phenomenon where this in this quarter, it is much at a lower percentage at around 40%, 42%. But of course, we should not be looking on a quarterly basis. But overall, say in next two years, three years the proportion of exports will keep growing furthermore and also the export margins versus the domestic business margins.

Rashesh Gogri: Yes, basically the way in which we have to look at it is whether we are supplying direct export and indirect export. So, essentially the products in which we are operating essentially cater to the export market to large extent. And overall, if you see the non-reg market that we cater is very limited. It could be 15%, 20% only, not more than that. So, direct export and indirect export combined is almost 75%, 80% of what we do.

Management: So basically, three of our API plans are U.S. FDA approved, so main focus is on exports.

Rahul Jain: Sure. Thank you so much, team. This is quite helpful. Wish you all the best. Thank you so much.

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

Nitesh Dutt: Hi. Thanks for the opportunity. I have a clarification on our segmental business mix. So, the FY'23 presentation mentions that xanthine contribution is 57% of revenue. So does the 57% figure include revenue from Ganesh Polychem, Aarti US, and the chemical revenue also or is it purely xanthine revenue?

Rashesh Gogri: Yes. So this is on a standalone cut of the revenue. So, Ganesh revenue is separate. Okay. So of the entire years of INR1500 crores approximate sales, 57% was the xanthine.

Nitesh Dutt: Understood, okay. Second question is on our capacity expansion. So, we have expanded capacity at Tarapur plant, xanthine plant also and recently on intermediates and we are also investing heavily in Atali. So the question is, why is our EBITDA guidance only 12% to 17% versus our longer-term historic performance of 20% plus? Is it because the EBITDA will grow slower than revenue or is there any other reason?

Rashesh Gogri: Yes. Basically what has happened in last two years, we had a high growth in the xanthine overall margins and that has put us in a high base EBITDA number. So, to grow over it for next few years, it is still a task. Because overall what we are trying to do is we are trying to compensate the decrease in the margins by expanding the tonnages of xanthine derivative.

So, that's why from 4000 tons we went to 5000 tons and now we are looking at how we can further debottleneck and expand the capacity of it further. So, that we don't impact the overall absolute number on that. Yes. So that's why we are giving a fair estimate 12% to 17% on overall EBITDA growth.

But overall, PAT growth can be higher because EBITDA growth is, as you know, that we have reasonable debt, which is not very high. So, overall PAT growth can be higher.

Nitesh Dutt: Got it. Fair enough. Can you please provide some kind of guidance for xanthine API and intermediates and also the chemicals business for FY'24 as well as slightly longer term?

Rashesh Gogri: I think we are giving you the mixed guidance and we have not worked out the guidance on each business. Because, of course, in the current volatile situation in the chemical space it's very difficult to give guidance. You yourselves know the way in which the chemical industry is behaving now.

So, I think what is important is that we have been operating in intermediate space and CMO, CDMO space, which is insulated by all this. And where we also cater to the demand of upcoming generic products intermediates and where we don't have this effect of slowness, etcetera because the companies that are our customers are trying to first file the APIs, taking our intermediates.

Nitesh Dutt: Got it. Sir, one more question is on our current and sustainable margin trajectory for our different business segments. So, if you could provide some color on what kind of EBITDA level or GM level margins are we making across API, intermediates and xanthine and chemicals business separately and also what kind of margins, sustainable margins would you expect going forward let's say two years, three years out?

Rashesh Gogri: I think we would be in the range of 20% plus or minus two, I think on the overall EBITDA for the company as a whole. I think different businesses tend to behave differently on a quarter-to-quarter because CDMO, CMO and API are part of the same shared asset. And what happens is that in particular quarter, if we have a higher CMO, CDMO business, then the margins little bit bump up as compared to the traditional API, intermediate business.

So, it's difficult to do the breakup of this. And of course, in xanthine, we are trying to augment the absolute number and we are trying to protect the absolute number to the best of our ability by enhancing the capacity. So, that is what we are trying to do now.

Nitesh Dutt: Fair enough. And lastly, a couple of questions sir, on the utilization front, could you share utilization numbers for your facilities like Vapi intermediate plant, Tarapur API and xanthine plant, also the Dombivli API plant and I think these are the peak revenue potential from these existing facilities?

Rashesh Gogri: So, overall our intermediate plants would operate at around 80% plus or minus 5% level and API plant because since we have just commissioned this facility that is operating at little lower per tonnage, but it is a play of product mix. Of course, in our API plant we have dedicated block which caters to the steroids and anti-cancer demand production and they have a different operating rates.

So, it's a bit complex than the absolute number, but it is around the 75-85 range, largely for all the activity whereas our xanthine capacity we try to operate it much higher level so 90% is the xanthine overall operation rate.

Nitesh Dutt: Sir is this the peak utilization or the current utilization?

Rashesh Gogri: Typically, we operate 90-95% on the xanthine. So, of a name plate capacity, we try to operate at a maximum level and then we can traditionally markets, cola markets and we try to place the product, because current our market share is 15%, 20%, so we always have a potential to take that market share away from the competition and place our product.

Nitesh Dutt: And for intermediate and API sir, the numbers you mentioned are the current utilization or the peak?

Rashesh Gogri: Because we are using our multipurpose plant to do the production and there are multiple stages that we do. So, the changeover times and all that also affects over a utilization of the intermediate plant, whereas API gave you the explanation about the current ramp up etcetera. So, that’s why those facilities of newly commissioned block utilization is little lower.

Nitesh Dutt: Okay got it. And what’s your estimate on peak revenue from these facilities?

Rashesh Gogri: Peak revenue is dependent on the product mix and what we produce. So, I can produce a INR5,000 a kilo product in the same asset and I can build a INR50,000 a kilo product also in the same asset. So, it depends on the product mix. So, what we are trying to do is how do we grow the absolute EBITDA and I think that is the number that ideally one should focus on.

And typically we like to do more value-added products as far as possible and do lesser and lesser of the lower value product, low margin product. So, that is how we try to manage overall product mix.

Nitesh Dutt: Got it. So, just last question on capex front, other than the Atali capex of INR350 Cr to INR500 Cr, are you planning any other capex for API intermediates and xanthine as well in next couple of years?

Rashesh Gogri: Yes, so the INR350 crores is the capex number for Atali and INR500 crores is the overall capex number. So, we will be doing the small capex of the debottlenecking etcetera and time-to-time, we will evaluate the opportunity and see the current API facility that we have where we have just one block there, we have space to put up another three blocks, two to three blocks. So, there we have scope of expansion. So as soon as we feel that now the occupancy is good, and we have a potential to put up additional block, then in 15 months to 18 months, we can put up one more block.

So, and in Xanthine also, we are looking at optimizing and the bottle linking time-to-time. So that is a thing which is WIP. If we do that, then we'll get back to you in the next few quarters on any change in the capex program.

Nitesh Dutt: All right. Thank you, sir. I'll join back the queue.

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

Vikas Sharda: Yes, hi, good evening. Thanks for the opportunity. I have a couple of questions. One is on the CDMO and the CMO segment. Could you give some color on what kind of products do you make there and what kind of opportunities you're looking at in terms of say product lifecycle or the say the customer type?

Management: Yes, in CDMO, CMO space, generally we like to operate in phase 2 and upwards. So basically, that is why we have mentioned in our presentation that we like to, we are not working on mad chemistry, we are working on scale ups and commercialization, the products which have potential of commercialization. So that move from phase 2 to phase 3, and then the final approval. So we work in that segment and we are working with innovators and we are working with the partners of innovator to supply them with the KSM, RSM for their requirement.

Vikas Sharda: Understand. And currently, how many products would you be making in that segment?

Management: So currently we are doing 16 products have been commercialized and 12 products are under development for this segment.

Management: At the innovator level. So they are either in phase 2 or phase 3 at innovator.

Vikas Sharda: So 12 in pipeline, right?

Management: Yes.

Vikas Sharda: Understand. And coming to the API segment, again, I mean, any colors will be helpful if you can talk about your key products, which are say, I mean, have meaningful revenue share for you, or where you have a significant global market share, either in therapy or whichever way you want to talk about.

Management: So we operate in steroidal chemistry, we operate in hypertensive and the anti-cancer space and there we have products where we have strong position. But overall, that's three segment is big for us. And the steroids.

Vikas Sharda: Understand. And how is the product concentration for you in API?

Management: Top 10 product would constitute to 60% of the overall sales. API? No. So after the API sales, top 10 product would constitute to around 60%.

Vikas Sharda: Understand. Very much. Thank you.

Moderator: Thank you. Our next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Yes. Hi. Thank you for the opportunity. I want to understand a couple of things on the Xanthine business side. So A, if you could talk about Xanthine market in India, what is the capacity? How is it in terms of global market? Is it a global market? Is it a very globally traded product? Or where is the large capacity concentrated globally? How do we see ourselves competing on the prices, cost of production side?

And then what is the relation of Xanthine with our API, intermediate and CDMO business? Does it act as a feedstock for making any APIs or intermediates? So, yes, these are my two questions on the Xanthine side. Thank you.

Management: Yes. So Xanthine derivatives is a class of products which have applications in API and food segment. So there are APIs which are Xanthine. Xanthine is a chemistry basically that we do for producing the products which are called Xanthine products. So essentially, these are anti-asthma products and bronchodilator products also constitutes to these Xanthine products. So these can be theophylline, ethylphylline, caffeine, aminophylline, and host of other products that we produce. And they have pharma application, they have food application, both. And cosmetic application also. Yes. So overall, I think we are competing with China. And also there is one European manufacturer which is manufacturing Xanthine-based derivatives in Germany. So, and there are multiple manufacturers in China.

So as far as the cost of our production of Xanthine is concerned, I think we are at a comparable level of what is being done in China. Of course, they have higher scale than what we are doing. So they may have a scale advantage. So overall cost, other manufacturing costs per kg may be lower in China. But I think on technology front, we are at par with them currently.

Dhaval Shah: Okay. And how is the domestic market for Xanthine? How are the other players? What is their capacity?

Management: Yes, so the domestic market for Xanthine would be around 30% of the total production that we do is catered.

Management: Lower than 30%.

Management: 25%, 30% is catered in the domestic market. And essentially, we are the largest player there. I think we have a few players who are smaller in this space and they are not very significant players as compared to us.

Dhaval Shah: And how much Xanthine products are supplied to our API segment?

Management: No, no, there is no connection between API and Xanthine in terms of inter-supply or feedstock or anything. So Xanthine is an independent product range that we do. And API intermediates and CDMO, CMO. So there are different plants and three plants operating API intermediates and CDMO, CMO space and other three plant operating the Xanthine derivative space.

Dhaval Shah: Okay. Thank you. I'll come back in the queue. Thank you.

Moderator: Thank you. Our next question is from the line of Ranvir Singh from Nuvama. Please go ahead.

Ranvir Singh: Yes, thanks for taking my question. Sir, my question is related to that Xanthine business. I see a sudden jump in Xanthine business in FY '23 versus FY '22 and even in FY '22. So from INR380 crores to INR520 crores and then suddenly INR1,100 crores. So that whether my data is right or so there is some disconnect here or if you could explain.

Management: Yes, I think there is some disconnect of the data. So the basically the number of '21 is a nine-month number. So I think we'll get back to you with the overall last year and this year first quarter numbers, if you want.

Ranvir Singh: Yes, that would be fine. But I think the 40% of total revenue was in FY '23.

Management: So there is a consolidated number. There is a stand-alone number also. So both these numbers are different. So for example, we have almost INR120 crores worth of consolidation which is happening due to our subsidiary and other companies that we operate. So that also skews our numbers. So I think we prefer that if we talk about the stand-alone number, then the Xanthine number is little under, last year it was 55%. Now it is under around 50% for this quarter.

Ranvir Singh: No, so far as the comparable number, the consolidated would be the key thing to understand. So if you could provide us a comparable number exactly for FY '22 versus FY '23 for the revenue from Xanthine, if this is and for this quarter also just to see. And also, that in Xanthine just I saw that some capacity expansion further undertaken. So what was the quantum that capacity expansion, so just I wanted to understand that actually, what has been the real growth here in this business?

Management: Yes, so basically the capacity was enhanced from 4,000 tons per annum to 5,000 tons per annum. So 1,000 tons capacity addition was undertaken in last two quarters. And in terms of the numbers, if you, I think 56%or 58% of last year's top line of INR1,500 crores was Xanthine. And this year's stand-alone number of Xanthine is 50%.

Ranvir Singh: So that means this has de-grown this year in FY '23?

Management: The volumes have increased but the overall sales prices are lower than the last year. That is the reason why the…

Management: I think we need to calculate the real number. So I think we will get back to you with those numbers.

Ranvir Singh: Sure. So going forward also what is the outlook here, what kind of growth, because Xanthine has diverse users in different drugs. So for us it is a little difficult to understand the growth rate. So if you could help us to about the growth, what growth we can expect in this segmented?

Management: We are utilizing our capacity to almost 90%. So unless we increase the capacity, the absolute number of the contribution won't grow. So we are planning to look at opportunities to further debottleneck. So that overall market we are only capturing 15% to 20%. So there is enough opportunity which is available for us to grow.

Ranvir Singh: So even after expansion our utilization has reached to that level, after 1,000 metric ton addition?

Management: Yes. So we will be reaching in second half of this year to that level. Because it was just a debottlenecking exercise in addition of some few reactors.

Ranvir Singh: And who are the other players in this field if I need to compare peer here in Xanthine?

Management: There is no listed player. There are China based companies and also some one player in Europe is operating in Xanthine space, which has a comparable or a higher capacity.

Ranvir Singh: So most of drugs based on caffeine is imported you are saying or from China?

Management: Yes, we are supplying almost 80% of the domestic demand of caffeine. And maybe 50% of the customers who have advanced license for export they may be importing some of the APIs.

Ranvir Singh: Okay. Fine. Thank you. Thanks a lot and I will talk offline later to understand more. Thank you.

Management: Thank you.

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

Dhwanil Desai: Hi, good evening, everyone. So my first question sir is that in the presentation and in your outlook, we seem to be very positive on the CMO or CDMO side. So next three years how do we see that 6% contribution going to 15%? Is that something that we are looking at? And consequently in the earlier calls when we were doing our industries call and giving outlook on our Aarti Parma, we were saying that the incremental products that we are doing in the R&D and commercializing were 25%-plus

EBITDA margin product. So kind of tying this in, how do we look at margin improvement from here on?

Management: Yes, so basically, we anticipate the CDMO or CMO business to become a reasonable size business. This year it has a potential to be up to 10% or more of the overall business pie that we would have in this year. However, still it depends on the customers, the program and how they are trying to commercialize this product. So we will have to see quarter-by-quarter how it grows but overall our pipeline is strong and we anticipate reasonable growth in this segment.

Also, we are growing other segments also simultaneously. So overall I think it will be a mix, very difficult to quantify the real number how it will grow. But I think all three businesses are growth areas for us. We are focusing on all three of them and trying to expand overall EBITDA for the company.

Dhwanil Desai: Okay, but is it a fair thing to understand that if CDMO proportion grows, overall margin at a company level will get better?

Management: Yes, overall the endeavour is to grow absolute EBITDA. So for example, we are trying in Xanthine segment also by increasing the capacity. How do we enhance even though the prices are depressed but still we can make the same or a higher absolute delta. But overall in terms of top line and percentage EBITDA number may drop but absolute number will increase.

Dhwanil Desai: Okay, and the second question is on Atali. So Atali project, we are saying that Q2 FY '25 will get completed. So is this something that we…

Management: Yes, it is H2 FY '25.

Dhwanil Desai: H2 FY'25, sorry. So sir, is this project something, again we are doing API and intermediates or more of a CDMO, CMO where we do more innovative patented molecules and any timeline for then commercializing and scaling up? Is it like six months to a year from after everything is complete?

Management: So basically what company is trying to do is we have taken up 80 acres space in Atali in Dahej and we are trying to develop a complex of facilities there. And this is the first phase of development in Atali where we are putting up 400k reactor volume capacity to start with. And we will be handling, you know, in API largely intermediates and CDM or CMO projects there. But we have capability to handle all kind of products there and we have EC where we can do APIs also and all kind of… So depending on the opportunity, the Atali land area would be utilized over next 5 to 7 years for the expansion and growth of company's products.

Dhwanil Desai: Okay. And sir, lastly, going back slightly in history, so if we look at our company when it was part of the industry, you know, we have grown from 150 crores in FY12 to 1500 crores, very decent 18%-20% CAGR. So going forward with this scale, you know, are we looking at similar kind of a growth or because of the base impact, we are looking at lower growth, any outlook that you have on that?

Management: We have given the outlook of 12%-17% growth. 12-17% growth and…

Dhwanil Desai: Sir, I am saying top line.

Management: So top line and EBITDA will move in tandem unless we are embarking a journey to produce something which has a higher EBITDA or a lower EBITDA. So what we are trying to do is we are trying to grow all the three segments and I think more or less at the similar rate we will grow, I think.

Dhwanil Desai: Okay. Got it, sir. Thank you.

Moderator: Thank you. Our next question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Hello. Thanks for the opportunity and thanks for hosting this call. My first question was on the CMO and CDMO segment. You know, we have been in this segment for more than 15 years, 15-20 years now. But despite that, the segment hasn't scaled up in a big way for us. And now, you know, from your commentary and the capex, which is coming up in Atali, it seems that this segment will be one of the bigger growth drivers for us.

So what had happened earlier that the growth in the segment wasn't… the segment hadn't scaled up in a big way for us. And what is changing now that the growth in the segment is expected to be better than at least the denting segment and even the API segment. And it is expected… its proportion in our overall revenue pie will increase.

Management: Yes, basically, you know, we have not been doing the CDMO, CMO for last 15 years. But what we were doing earlier, you know, we were also looking at medicinal chemistry and, you know, contract development, CDO, we were doing largely at that time. And now the focus really, you know, we did internal brainstorming and we decided that where is our strength. And our strength is basically in scale up and commercial manufacturing.

And that's why we started focusing on CMO business and CDMO business as a combination and dropped the CDO business, you know, contract development business where, you know, we only do the R&D. So we are focusing on the manufacturing side of it. And how do we take up the medicinal process and clean it up and make it scalable and make it commercially most viable for the innovator. So that is the business focus. And I think we have changed this business focus in the last 3-4 years. And we have seeded the products.

It requires time. So now we have been working with 14 innovators and big pharma companies. And we would like to add more and more customers. And with same customers, we would like to have multiple projects. So that is what is the strategy of company. And we are working towards growing it.

Ankit Gupta: So the 16 products which we have commercialized, out of which how much would have been launched in the market and how many will be in phase 2 or phase 3?

Management: So these typically these 14 products are in the 16 products are in the launch stage with our innovator or big pharma companies. And 12 products which we have mentioned are at the development stage. So we provide them either with RSMs or KSMs or early intermediate stages and for some of them at advanced level.

Ankit Gupta: So the 16 products are already commercialized and out in the market?

Management: They will be commercialized. So they have taken the scale of quantity. Post clinical level.

Ankit Gupta: Okay, so these are expected to be commercialized going forward.

Management: Yes. They have commercialized or they will be commercialized. So in that space.

Ankit Gupta: Okay, okay. And if you can broadly talk about which therapies are these products in and which like, are we a single source? Will we become a single source supplier when they get final approval from regulators or will there be another one or two more suppliers as most of the innovators do in the CDMO space?

Management: Yes, you rightly mentioned. I think there will be multiple sources because the way in which we know we are gathering the products are in phase two. And I think they already have early phase development partners. So they always remain the partner or they change. They get one Chinese partner, one Indian partner. So it depends on the strategy of the innovator, how they want to develop and partner with the intermediate provider. And ultimately, you know, some of the companies do their in-house API manufacturing and some companies also the API manufacturing. So it is clearly dependent on each innovator and their strategy, how they want to position their product and how they want to source the raw materials.

Management: Yes, and these are all multi-therapeutic. So it's not a single therapeutic that we can define. Yes,

Ankit Gupta: Okay. So it's not like, you know, we are largely in our API segment. We are focused on, you know, cardio and also, it's not just related to cardio. It can be other products, other therapies as well.

Management: Yes.

Ankit Gupta: And out of these new products which are expected to be commercialized, you know, do you have a, you know, pipeline where this product can few of them become a big blockbuster product. So these are largely, you know, smaller market size products.

Management: Yes, I think we would not like to speculate on it. You know, some products may be dropped, some products. So we will see how it goes, you know, every year.

Management: Every quarter, yes. We are there to give you the update.

Ankit Gupta: Sure, sure, sure. And my second question, sir, was on, you know, our consolidated numbers and, you know, standalone numbers. So there's almost 400, 420 crores difference between, you know, RT standalone and consolidated numbers. So the entire 400, 420 crores is contributed by Ganesh Polychem or is there some other subsidiary also which is there?

Management: No, we have one subsidiary also which is based out of USA. This is Piyush. So the consolidated numbers are 50% of Ganesh is consolidated in the consolidated numbers and 100% subsidiary number also gets consolidated.

Management: So that is essentially a trading company which is currently being shared between both the companies, Aarti Industries and Aarti Pharma. So eventually, I think those numbers of US trading which has very marginal profit will ultimately, once we have a company established for Aarti Industries, I think those numbers will reduce in future.

Ankit Gupta: I was going through, you know, an old rating report of Ganesh Polychem and if you look at the numbers for that, JV, that is also doing very well. It is into, you know, complex polymer intermediates and it has scaled up in FY21-22 in a decent way and margins are also around 19%-20%. So if you can briefly talk about this subsidiary and what are the plans to grow or this joint venture, what are the plans to grow this joint venture going forward?

Management: I think we would not like to do too much discussion about this joint venture because I think we will be sharing the annual report. In the annual report, I think we will have the Ganesh Polychem balance sheet also. It won't be there. We will have standalone and consolidated. So I think Ganesh Polychem is also doing some intermediates which have this kind of application and it is largely for medicinal usage of the polymers that go for kidney related dialysis and stuff like that. Related to Pharma also. They have end usage.

Ankit Gupta: My last question was on the API and intermediate segment. In this segment, what is the criteria for choosing a molecule? What we understand is this is a relatively, we normally choose less competitive and high value and low volume kind of product. So if you can briefly talk about this segment, criteria for choosing products and how do you see this segment shaping up for us over the next 2-3 years?

Management: So typically our endeavour is to choose lifestyle drugs as you rightly mentioned. The high value and low volume which suits us more and we are focusing on regulated markets. So we do our research and understand what are the APIs which are growing once they are launched and accordingly match it with our capabilities and how we will be able to market it to our customer base and accordingly decide on the APIs. And intermediate business as well. In a similar way.

Ankit Gupta: And we are largely focused on cardio and few other therapies like anti-asthmatic, anti-cancer?

Management: Basically these are all lifestyle chemistries. So anti-hypertensive, anti-asthma which is steroids, anti-cancer, and some of the CNS and now we will be having anti-diabetic therapeutic as well.

Ankit Gupta: Okay. And how many of the 50 products that we have commercialized in this segment, how many of them are we currently selling on a regular basis and how many are we selling in the US market? 40 US DMF we have but actively how many products are we manufacturing?

Management: So we have 50 APIs which have been commercialized. How many are we selling?

Management: So we are around 12 to 15.

Management: In US but then some customers take it in India or US market. So we will have to quantify the number.

Management: But then our main focus is regulated. So in Europe also we have a very big chunk.

Ankit Gupta: Okay. Any broad breakup between API and intermediates in this 43.6% segment that we contributed to?

Management: We are not doing the different breakups.

Ankit Gupta: Okay. Because I have gone through the old phone calls of art industries and intermediate used to contribute less than 50 crores in our sales and it had scaled up in a big way in FY19-20 and that had resulted in good growth for us.

Management: Yes. So what is happening is that basically the intermediates that we manufacture also are used for the captive consumption. So then it becomes an inter-sale and then how do we quantify the number. So that's why we have decided that these API and intermediates are focused towards the generic segment largely. So that's how we are giving the new breakup of business vertical.

Ankit Gupta: But do we sell generic intermediate also in the market?

Management: Yes. We do sell. So the customers that we have is all the large Indian pharma who like to work on a vertical basis like Dr. Reddy's or Cipla or Zyder's or Mylan. All of them would buy intermediates from us and then they make their own API as an alternative source to the Chinese intermediates. So that is where we pitch in because all our facilities where we manufacture these products are USFDA approved and we can support them with the regulatory requirements.

Ankit Gupta: And the last question on the Atali EPIC that we are doing of INR350 crores. So this will be like any broad breakup between CMO, CDMO and API segment or it will be like we will be using this capacity interchangeably or you have any broad breakup let's say INR100 crores, INR200 crores goes in CMO and the remaining goes into API?

Management: Largely we will be using for intermediates and CMO, CDMO. So we won't do an API CMO there. API CMO will be done in the API plant in Tarapur whereas intermediates and CMO, CDMO projects in intermediate segment will be done there. So it will be largely an intermediate in Phase 1 we will largely develop for the intermediate manufacturing.

Ankit Gupta: Okay so this will be largely focused towards that.

Management: Yes.

Moderator: Thank you. Our next question is from the line of Rushabh Doshi from Nimiti Investment Advisors LLP. Please go ahead.

Rushabh Doshi: So I have two questions. Firstly I wanted to understand like what particularly changes after the demerger in terms of management, badwins or the supply base or the organizational structure. And my second question was that could you bifurcate the Xanthine division in terms of the consumer division which is beverages or cosmetics and the pharma division. And you mentioned that you are seeing some pricing pressure here. So in which segment are we seeing the pricing pressure?

Management: Yes. So basically essentially, we were running two businesses in the combined RP industries where we were running a chemical business and the pharmaceutical business. And the pharmaceutical business you know we had the separate manufacturing blocks and a separate R&D, separate manufacturing team and separate management for commercials also.

So essentially after demerger I think more or less you know the operations have remained more segregated. But what we so I think both the companies are able to focus on their business vertical and grow their business significantly. And both companies have different needs in terms of where they should focus and what kind of people they should invest in and stuff like that.

So I think this will give more independence to the pharma business to go after more credible R&D and credible CDMO, CMO business. And that's why you know we have started a new R&D center specially catering to the CDMO, CMO business segment. So essentially that and in Xanthine I think we are not bifurcating the mix because you know it's essentially interchangeable.

Suppose you know if I have a weak demand in pharma usage then I will push the product into food and cosmetic and if I have low demand in food then I will put into pharma.

Rushabh Doshi: So here I just want you to understand like are PepsiCo and Coca-Cola like the larger science for us in terms of concentration?

Management: So we have we supply to bigger cola companies and for confidentiality reasons we do not name them.

Management: Yes.

Rushabh Doshi: Okay. So you like I just want to know so you supply to the bottlers or you supply to the main cola companies?

Management: So basically the way in which it works is that different companies have different strategies and essentially there are concentrate manufacturers and there are direct cola manufacturers. So it depends on the strategy that is being used by each company...

Moderator: Thank you. Our next question is from the line of Piyush Arora from SOIC LLP. Please go ahead.

Piyush Arora: Hi sir. So my question was what will be a sustainable margin going forward this year or the next financial year?

Management: Pardon. Pardon.

Piyush Arora: Sir my question was what will be a sustainable margin going forward this year or the next financial year? Sustainable EBITDA margin?

Management: Yes, I mentioned about this 20% near about 20% range plus or minus 2% would be the sustainable margin range.

Piyush Arora: Right. And so in this Xanthine product so has there been an element of Chinese dumping which has happened in like last one or two years? Like is that the reason why the real-life pressure?

Management: No there is no dumping in India from China. We are managing the Indian market and we have a good market share. So essentially it is an export driven product. So in the world China was always selling 80% of the market. So they are still catering 80%.

Moderator: Thank you. Our next question is from the line of Naitik Mohata from Sequent Investments. Please go ahead.

Naitik Mohata: Sir I have couple of questions regarding the Xanthine segment. So starting with the raw material backward integration that we are doing for the same. So what is the outlay for the project and secondly it would be really helpful if you could explain how it would help in protecting the margins regarding the segment?

Management: Basically we are trying to increase the tonnages to protect the absolute number. And of course the raw material sourcing we are trying to do more efficient way so that overall we are able to maintain the margin. So now with the backward integration that we are doing of the intermediate you know we may be able to further consolidate our position as an independent of China manufacturer and then we can have some savings there also or improvement in margin there also.

Naitik Mohata: So sir this backward integration once when it gets in quarter 2 will it be sufficient for our entire capacity or do we need to import a little bit of products from China etcetera?

Management: Yes, we have designed the plan to meet our needs but of course we have to operate it and I think it may take some time for us to reach to the 100% capacity utilization at that intermediate.

Naitik Mohata: Okay. Also sir if you could throw some light regarding the prices in the revenue segment. So I understand that last year we saw some price rise in the sale and now the prices are corrected. So if you could give some ballpark figures what are the average prices in the segment and what level did, they reach last year and what are we seeing now?

Management: So there are multiple products you know there are several products which come into Zentine and different products have different pricing so they range anything between INR800 to INR1500. So I think difficult to give real break up. I think you can see the trade data to check the pricing.

Naitik Mohata: Okay sir last question from my end would be in the Zentine segment out of the total production how much is for export and how much is for domestic?

Management: It is presented export would be around 70% and India demand is also there. So I think 50%-60% is export and then balance is in domestic.

Moderator: Thank you. Our next question is from the line of Tanika Aggarwal from Green Portfolio Private Limited. Please go ahead.

Tanika Aggarwal: Sir if you can provide us with some guidance regarding R&D expenses for FY ’24?

Management: We are in the range of 35 to 40, INR10 crores per quarter on the R&D.

Tanika Aggarwal: Okay. And so with such kind of R&D expenses, how many filings are we expecting for the year?

Management: No, so basically, we are not doing ANDA filings. So basically, we have the U.S. DMF numbers. So every quarter, you know, as the numbers move up and down, you know, we will be changing the numbers. So you can see the number of DMFs filed.

Tanika Aggarwal: Okay. And if you can give like a number for FY '23, how much would you file in?

Management: 40 have been filed in total. I think we would have filed 5 or 6 in FY -- So I think we will get back to you with the number.

Tanika Aggarwal: And so when looking at the revenue, as it is down on a quarter-on-quarter basis, both at the consolidated as well as on standalone levels. So how are you going to save volume there?

Management: So the revenue has been basically lower on account of, overall prices have corrected. But our raw material costs have also corrected. So in a way, we have grown the EBITDA.

Tanika Aggarwal: I just missed what you said. Can you repeat it?

Management: Yes, I think the line is bad. Basically, overall, you have to concentrate on the absolute EBITDA number, whether it is growing or not growing. And I think we are in the, that number has not de-grown. It's just a minor, product sales. It depends on whether you are shipping the innovator order or the particular intermediate order in particular quarter or the next quarter. So that's why you also have to look at the inventory adjustment and all that. So post that, I think we are stable. And we will have those inventories which have increased will be sold in the coming quarter.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Management: Hi, I would like to thank all of you for joining our conference call. Thank you. Be safe.

Moderator: Thank you. Ladies and gentlemen, that concludes this conference. Thank you for joining us and you may now disconnect your lines.