

January 25, 2023

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To,

**BSE Limited**

Phiroze Jeejeebhoy Towers,  
Dalal Street, Fort,  
Mumbai-400001, MH.

Scrip Code: **543534**

**National Stock Exchange of India Limited**

Exchange Plaza,  
Bandra Kurla Complex, Bandra (E),  
Mumbai-400051, MH.

Symbol: **AETHER**

Dear Madam / Sir,

**Subject: Transcript of the Earning Conference Call**

In accordance with Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, the Transcript of the Earning Conference Call scheduled on Friday, January 20, 2023, on the financial performance of the Company for the Third Quarter ended on December 31, 2022 is enclosed herewith.

We request you to kindly take the information on your records.

Thank you.

**For Aether Industries Limited**



**Chitrarth Rajan Parghi**  
Company Secretary & Compliance Officer



Encl.: As attached



“Aether Industries Limited  
Q3 FY '23 Earnings Conference Call”

January 20, 2023



**MANAGEMENT:** **DR. AMAN DESAI – PROMOTER AND WHOLE-TIME DIRECTOR – AETHER INDUSTRIES LIMITED**  
**MR. ROHAN DESAI – PROMOTER AND WHOLE-TIME DIRECTOR – AETHER INDUSTRIES LIMITED**  
**MR. FAIZ NAGARIYA – CHIEF FINANCIAL OFFICER – AETHER INDUSTRIES LIMITED**  
**MR. RAVI BHOJANI – LEAD INVESTOR RELATIONS – AETHER INDUSTRIES LIMITED**

**MODERATOR:** **MR. NILESH GHUGE – HDFC SECURITIES LTD.**

**Moderator:** Ladies and gentlemen, good day, and welcome to Aether Industries Limited Q3 FY '23 Earnings Conference Call, hosted by HDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nilesh Ghuge. Thank you, and over to you, sir.

**Nilesh Ghuge:** Thank you, Michel. Good afternoon all. On behalf of HDFC Securities, I welcome everyone to this Aether Industries conference call to discuss the results for the quarter and nine-months ended December 2022. From Aether Industries, we have with us today; Dr. Aman Desai, Promoter and Whole-Time Director, Mr. Rohan Desai, Promoter and Whole-time Director, and Mr. Faiz Nagariya, Chief Financial Officer. Without further ado, I will now hand over the floor to Mr. Ravi Bhojani, Lead Investor Relations at Aether Industries, to begin with the earnings call for Q3 and nine-months FY '23. Over to you, Ravi.

**Ravi Bhojani:** Good afternoon, everyone, and thank you Nilesh for the introduction. Today, on January 20, 2023, our Board has approved the results for third quarter and nine months of fiscal year '23, which ended on December 31, 2022.

And we have released the same on stock exchanges as well as updated on the website for the review. Please note that this conference call is being recorded, and the transcript of the same will be made available on the website of Aether and exchanges. Please also note that the audio of the conference call is the copyright material of Aether and cannot be copied, rebroadcasted or attributed in press or media without specific and written consent of the company.

Let me draw your attention to the fact on the call. Our discussion will include certain forward-looking statements, which are predictions, projections or other estimates about future events. These estimates reflect management's current expectation on future performance of the company. Please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. Aether Industries or its official does not take any obligation to publicly update any forward-looking statement, whether as a result of future events or otherwise.

Dr. Aman will begin the call by sharing the ongoing expansions and strategy of the company. And Mr. Faiz will cover the financial highlights for the period under review, and Mr. Rohan will talk on a high-level overview of Aether's business. Now I hand over the call to Dr. Aman Desai to share the update. Over to you, Dr. Aman.

**Aman Desai:** Yes. Thank you, Ravi. Good afternoon, everybody. I hope everybody is doing well and very happy to connect with everybody to discuss performance of our company, Aether industries for the third quarter of the current fiscal year '22 '23. We have recently launched our Site 3, which

is a new greenfield manufacturing site for new products. Trial runs have already started in this month and commercial production will also begin in the current month.

We will step wise start a production of five new advanced pharmaceutical intermediates in this new Site 3. All five products will be manufactured for the first time in India by Aether. We also have recently got the position of Site 3+, which is a plot of land adjacent to Site 3, where we will, in the future, be launching three new products for agrochemicals. As a result of this position of an additional land parcel we have thereby significantly increased the size of our Site 3, which is very important.

The three new products of agrochemicals that we will be launching in the Site 3+ in the future are in addition to the five new products which we are currently launching in the Site 3. The land parcel for the next Greenfield manufacturing site, which is Site 4 has also been increased by us from 8,000 square meters to 18,000 square meters are more than double, documentation for the position of all the plots and amalgamation of the two plots is going on.

Our plants, therefore, for the next two Greenfield manufacturing sites, i.e., the aforementioned Site 4 in Surat and the Site 5 in Panoli are both simultaneously advancing well, and various activities are going on in this regard towards the planning, including civil construction, which is initial in nature, product selection, regulatory approval and overall design of these two sites.

The reason for the large capex, of course, is primarily on the back of robust inquiries and outsourcing opportunities and our own robust pipeline of in-house molecules that we have selected ourselves, which we have been receiving as well from various customers in the CRAMS Business Model, and we remain confident in our abilities to grab these opportunities and work with world-class corporate across the sectors in the CRAMS Business Models as well as continue with our own in-house pipeline of molecules that we select where we will manufacture these products for the first time in India.

The growth in our CRAMS Business Model is also continuously on the rise in the current financial year, and the demand for the products and contract manufacturing are also increasing quarter-on-quarter. We have also recently made a few public announcements in this regard, which reflect this continuous growth. We remain upbeat and positive on this business model for future outlook.

As in the last quarter, we continue to see a significant upward trend in inquiries, customer additions, previous contract renewals and actual business being translated into revenues in both these business models of CRAMS, which leads into contract and exclusive manufacturing.

We've added several new customers in this quarter, which are three in CRAMS and seven in large two manufacturing, a total of 10 new customers added in this quarter. R&D expenditure is significant. And for the nine-months, for the current fiscal year, this stands at 7.7% of our revenues. This includes revenue, plus capital expenditures.

The strength of the R&D team has also increased from 164 in March of 2022 to currently 207 in December 2022 with four new senior scientists, including three PhD project leaders who have already joined us in the last quarter.

Our three business models continue to be robust, and we are seeing growth in all business models. Large manufacturing business model contribution will increase by the end of this fiscal year as the new products are being launched in Site 3, which are of high value and with existing high demand in the market. The pipeline in R&D remains backed for future molecules with plans to launch these molecules in the upcoming years in the new Site 4 and Site 5 Greenfield manufacturing sites as well as the Site 3+.

So, with that, I will now request our CFO, Faiz Nagariya, to share the financial highlights of the quarter 3 of the current fiscal year. Faiz, over to you.

**Faiz Nagariya:**

Thank you, Dr. Aman. Good afternoon, all of you, and I hope you all have been great. I take this pleasure in presenting the quarter 3 results of the company, which have been very good for us. The company has recorded a total revenue of 1,705 million in Q3 of financial year '23, which has shown, which is a growth of 16% compared to 1,466 million in quarter 2 of the same financial year, and it is around 11% growth, which compared with the last year's same quarter.

We are seeing growth in all the business segments in the quarter, as already informed by Dr. Aman. The company has earned a healthy EBITDA of INR 507 million, which is 29.7% of the revenues in quarter 3 of financial year '23, which has grown by 17% compared to the last quarter of financial year '23 and by 22% compared to the quarter 3 of financial year '22.

The PAT of the company has been also increased because of this EBITDA and good revenues. It is 350 million in quarter 3 of financial year '23 which has increased by 38% as compared to the last year's quarter 3 of financial year '22 and 29% as compared to the last quarter of the current financial year. The total revenues of INR 4,833 million in the nine-months financial year '23, which is 8% increase compared to the nine-months of last year.

The capex for the Site 3 Greenfield project is almost completed, and we are now planning for the capex on Site 3+, which will be around 600 million to 700 million for the launch of the three new products, which has been referred by Dr. Aman. This will be funded partly from under accruals and partly from the term loans from the banks.

Overall, a successful quarter for Aether Industries and for the investors to be cheering for after the first two quarters being almost flat. Now I'll request Mr. Rohan Desai to talk on a high level overview of the business. Thank you.

**Rohan Desai:**

Thank you, Faiz, for the financial highlights. In terms of the demand, we have seen a good growth in quarter 3 compared to the first half of the financial year. We are seeing strong demand for our products and expect the demand growth to continue, and we are not seeing any signs of slowdown from our customers in the West.

For our products, the end prices have been fairly stable across the board. On the raw material front, we are seeing the price getting stabilized, which will aid to our margins going forward. As mentioned by Aman, we have been seeing a great traction from customers based out of Europe and USA, especially for the CRAMS business. With the gas crisis in Europe, we are seeing significant increase in the opportunities from the CRAMS a business. This is, to a certain extent, being demonstrated by our recent announcements with respect to the partnership with Polaroid Group and an increase in business from our existing agrochemical customers.

Coming to our three independent business models in nine months ending of financial year 2022 to '23, we have seen 50% of our total top line coming from large-scale manufacturing business model, where we anticipate good future growth due to the launch of new products in the greenfield manufacturing 5, 3. 13% of our total top line comes out of contract research and manufacturing services business model and our third business model, which is contract exclusive manufacturing contributed to 35% of our total top line.

Our endeavor is to achieve balance between large-scale manufacturing business model, CRAMS and contracts / exclusive manufacturing so that we are not dependent on any single business model. Our sales mix stands at Pharma 42%, Agro 36%, material science 5%, and High-performance photographs 6%, coatings 3%; and others, including oil and gas at 7%. Our exports stand at 70%, which includes exports to SEZ and EOU units in India and domestic sales stands at 30%.

Exports outside the geography of India accounted for 31% of our total revenues from operations. We believe that with the launch of new project -- products, building up new capabilities, seeing the increasing demand from marquee clients across sectors and geographies and renewal of existing contracts, we are certain to deliver good growth in the going forward. We are excited about the growth at Aether and with the commencement of the capex at Sight 4 and Sight 5, we are confident of the new product launches, which we have in our pipeline.

Thank you, and back to you, Ravi.

**Ravi Bhojani:** Thank you, Rohan. We would request the moderator to open the line for question and answer.

**Moderator:** We have the first question from the line of Rohan Gupta from Nuvama Wealth Management.

**Rohan Gupta:** Sir, a few questions from my side. I'll restrict myself two initially. So, one is that you mentioned in your opening comment that you are seeing a good traction in CRAMS business, especially from Europe when they are struggling with the energy crisis. So how do you see that the customers are approaching you? Are they looking for the replacement? Or they are looking as an alternative for you for the high cost, which in energy which they are experiencing right now. And you have also mentioned that you do not see any kind of slowdown in European customers' demand while we see that the European market are going through some recessionary pressures. So why you think that it is not impacting our business? So that is first set of questions.

**Rohan Desai:** Aman, would you like to take it up?

**Aman Desai:** Yes. So, in terms of traction in CRAMS vis-à-vis the energy crisis in Europe, we have actually seen an increased level of as I had mentioned in the last quarter as well, we are seeing increased inquiries come in. These are a mix of the customers trying to shut-down some of their facilities or reduce the production and the energy consumption in their facilities or optimize the energy consumption in their facilities and partner with other partners worldwide, including Aether India for picking up some of these opportunities.

In addition to the so in terms of the existing processes that are happening in these customers, we are seeing a rollout of these processes towards partners like Aether and in terms of newer opportunities in newer pipeline and we were launch molecules of these various multinational customers that we are working with at the highest levels at cropping set spectrum the decision to partner versus manufactured in-house is much more now biased towards the decision to partner with people in with liable partners in India where we are already a trusted partner in their pipe of name for the last many years now.

And so that's what's happening. In terms of the recession happening in Europe versus that not affecting us at Aether. We are not seeing any effects of the recession in our demand and the inquiries and the sales and the revenues. The pharmaceutical global industry was in a slight slowdown over the last couple of quarters that have actually picked up now. Including inquiries from Europe has picked up in the pharma industry and the Agro and the oil and gas and the material sciences sectors that we engage in various customers.

These are innovator customers who have launches rolling off and pipeline, which is back, and that has the current recession in Europe has made no difference in that pipeline and the launch programs that these customers have. So hopefully, I answered your question, Rohan.

**Rohan Gupta:** Yeah Aman. And just a second question is on the gross margin expansion. So, if I heard you rightly, you mentioned that definitely, the end product pricing scenario still remain very stable where the customer pricing remains are holding on, while the raw material prices are experiencing and they are softening. So that leads to gross margin expansion. Am I right? So, do we see the margin expanding over the next 1 or 2 quarters?

**Rohan Desai:** I will take that question, Rohan, for you. So, the graph if the raw material prices are reducing, the end product prices will not reduce to that extent. So, you'll see some expansion, which will happen, but the correction of the prices will also happen at the same time on the selling side. So, if you see our positioning on all the products, we have not increased the prices on very high levels as such also. So it will not affect the gross margins, rather the gross margins will improve to a certain extent. So you are right. But it will be at a certain extent, level only.

**Rohan Gupta:** Sir, just last on my side, and that is basically commissioning of the third unit. So how we are placed in terms of ramping up that facility. And in terms of the customer acquisition or the

product approval from the customer, so how quickly you see that the ramp-up of the new unit can happen? And what can be the revenue potential?

**Rohan Desai:** I'll take that question also Rohan again, the full commissioning, all the streams of that site 3 would be online by March end, but what we are targeting for. And the revenue potential at maturity from this site 3 would be close to around INR 400 crores that is INR 4,000 million.

**Rohan Gupta:** And in what time frame you think that the full potential will be achieved in what time period?

**Rohan Desai:** 2 years' time.

**Moderator:** We have the next question from the line of Ranvir Singh from Edelweiss Wealth Management.

**Ranvir Singh:** So, while your question is related to EBITDA. I see on Q-on-Q basis, we have some INR 27 crores of incremental sales and the EBITDA has been INR 10 crore incremental EBITDA we had in this quarter. I see that most of revenue has gone up in contract manufacturing or total manufacturing size. I think INR 20 crores kind of revenue has gone up there. So just I wanted to understand that on the EBITDA margin, why do varies between larger scale manufacturing and exclusive manufacturing or it is similar to that?

**Rohan Desai:** The margins varies with is different between the large-scale manufacturing and CRAMS business model. Contract exclusive manufacturing and the large-scale manufacturing has the same almost same EBITDA margins at the moment.

**Ranvir Singh:** So, what you could last year, in FY '22, our largest steel manufacturing was some 67% of revenue. Now this has come down to 50% of revenue. So that CRAMS starts and exclusive manufacturing is going up. But our EBITDA margin has been flattish on 29%. So that you want to understand going forward also. I believe this ratio is going to be like this or if you could guide here that how the proportion of different segment is going to be next two years? And how the EBITDA, what kind of EBITDA we should expect to change?

**Rohan Desai:** So, thank you, Ranvir. That's a great point. So, we were in the first two quarters, we were -- as the prices of the -- went into our trend, we were taking a heat in the large-scale manufacturing business model.

And the CRAMS business model was intact, and it was increasing. Hence, the EBITDA margins was in the flattish zone now that the raw material prices and the trend is improving and coming back to the original levels, we will see the EBITDA margins go to the north of 30% from the next quarter onwards.

**Ranvir Singh:** So, there will be improvement due to this product mix, assuming that the cost element, which has gone up in the second in the past quarter, is it remains at this level, then still we'll have that 1% improvement in real -- that's what you are thinking?



**Rohan Desai:** Yes. So as the large all the raw materials are getting back to its normal level. The large-scale manufacturing business models, EBITDA margins will come back again to its normal zone, which will improve the margins overall, margins of the company also.

**Ranvir Singh:** Energy cost is an important cost. So energy cost, I believe, remains at the firm level. So or expectations have been for?

**Rohan Desai:** As the energy cost is already we have - we are suffering with the energy costs since the last nine months or more, I believe so. And so, it has already been incorporated into the costing of all the products as we speak. So if there is an improvement in the energy cost, you will see a still better improvement in the margins.

**Moderator** We have the next question from the line of Ameya Chalke from 3P Investment.

**Ameya Chalke:** Thanks for taking my question. First question I have is basically on Site 3. You have said that there will be five products which would get commercialized through this Site from March onwards. Is it possible for you to give some color on the end market of these products, whether the where the market is already established and is basically maybe manufacturing, which happening from the older supplier to US? or are these newer products where it will ramp up slowly over a period of time?

The return of the end market product, if you can explain? And similarly, I also wanted to understand the - our segment called large scale manufacturing in the CRAMS site. Also, what is the mix over here in this segment?

I understand we supply it to the innovators. But are these products where the patents have already expired, these are natural cycle products or these are the new all products which have just been launched over the last few years, if you can explain a bit more on? Thank you.

**Rohan Desai:** Sorry, I can take the first question, Ameya, for you. There is Site 3 and the five products and their applications and the end markets and the customers. And Aman can talk more on the contract is exclusive manufacturing on the later stage.

So Site 3 will be completely online by March end. There will be five products. The applications would be in the pharmaceutical segment of chemical industry and end applications would be carbamazepine, oxcarbazepine, ambroxol intermediates and Dolutegravir intermediate, respectively. These the five intermediates, which goes into these four products. The total market known and being imported into India for these five products is INR 1,200 crores that is INR 12,000 million. And the customers fairly our Indian pharmaceutical companies, the big companies out in India.

And then to a certain extent that our companies in Europe also and in Japan also for these Pharmaceutical intermediates, which we are planning to sell. We have zero gestation period as of today, because most of the companies have completed the validation or taken the validation

quantities and I have already -- we have also commercialized two products in the last 2 quarters out of these five products, and we are already selling that product through from the site to so Site 3 will not have much gestation figure on the existing customers and the new customers will also have already audited our sites earlier and they are existing customer for us. So, we will not have any issues on the gestation yet for these five products. Did I answer all your questions, I may...

**Ameya Chalke:** Yes. Just one supplementary question to this. So, when you say Dolutegravir, so I assume that it would go to the end market would be the tender business, right? Or you think it will also go to the regulated market?

**Rohan Desai:** No. So we do not - we are not manufacturing APIs. We are manufacturing intermediates which goes into APIs. So it would be a regulated market and raw market, both so the customers would apply for that, but...

**Ameya Chalke:** Demand would be driven by it is irrespective of the market basically...

**Rohan Desai:** Demand will be driven by our customers.

**Moderator:** We have the next question from the line of Noel Vaz from Union Bank.

**Noel Vaz:** Yes. I just wanted to know what exactly is the state of the working capital as of today.

**Faiz Nagariya:** Yes. So I'll take that question. The working cycle stands as it was on the six months only, there is a slight increase because of the sales which were done because of the quarter sales. And the working cycle will be contracted, we are working on it, and the raw materials for the new products have been purchased, again, raw materials have been increased. And we are hopeful this will be controlled by March end, and we will be able to bring it down to a substantial level.

**Moderator:** We have the next question from the line of Yash Shah from Investec.

**Yash Shah:** Sir, my first question is regarding our CRAMS business segment. We've added about seven new customers in this segment this quarter. My question was, do we expect in the coming quarter since we are seeing increase in traction, do we expect the -- expect to add a similar number of customers in the coming quarter as well? And do we have any kind of internal target when it comes to adding newer customers throughout the year? So that will be my first question, sir.

**Aman Desai:** Yes, the seven new customers who were in the last 2 manufacturing model in the CRAMS, we have 3 new customers. It's not so the new customers are important, but also additional projects from existing customers is, I would say, even more important in the CRAMS business because once we've established our relationship at the highest levels with its innovator customers across the industry spectrum, they have a packed pipeline of launched molecules coming off and our endeavor is to basically make sure we deliver steps on the first project, so that the next project is coming off the launch pad of these customers come to us. And so that's usually a more focus

area for us as competitive customers. But yes, considering all the scenario happening globally in terms of the energy issues and other issues and India being the preferred destination, we do expect to be adding additional customers in the coming quarter as well. We added three in the last quarter. I'm guessing we'll be able to add same number or more in the next quarters to come as well.

**Yash Shah:** All right. And sir, are you seeing any kind of inventory pile up in terms of CRAMS on the customer side.

**Aman Desai:** No, I think we haven't seen that effect yet in the CRAMS area. It is majorly in large scale manufacturing only. Because especially the CRAMS is all pipeline molecules. And there are fixed timelines of launch for these customers, and that doesn't deviate because 100 different factors are involved in the launch as compared to just supply of critical materials from us.

**Yash Shah:** Got it, sir. And sir, now coming to the business at the end user business segments now from the last couple of quarters, we were seeing pressure in the Pharma segment and which was very well covered by the Agro. Now we are seeing revival in the pharma, but at the same time, Agro, we are seeing inventory pile up on the Agro side. So, what has been your experience on the ground at this point of time? Are you witnessing strong demand from both the segments or how is it working out for you?

**Rohan Desai:** I will take that question, yes. We are seeing a comparatively very strong demand on the agro and the pharma side both. We do not have many products on farm on agro side. We have only four products on agro side as of today. So, our answer would be limited to that, but we are seeing a good demand on the agro side till now.

**Yash Shah:** Sir, one last question, then I'll come back in the queue. Sir, the new three products, which we are going to launch about the five products, so will the application be in pharma itself? And I might have missed it, what is the revenue potential of these three products? Is it INR 400 crores, which you mentioned? Or can you please provide some clarity on the same?

**Rohan Desai:** Yes. So these three are all intermediates for agrochemicals and the revenue potential for these three molecules which are coming into India is around -- in the range of INR 540 crores per annum.

**Yash Shah:** And what will be the market share will we be targeting, sir, in the near term, say, two years? And when do we expect it to be commercialized?

**Rohan Desai:** Yes. So we should be able to target INR 200 crores plus market share based on the current capacities which we are designing.

**Yash Shah:** Okay. And when will this be commercialized, sir, as soon as Site 3 years commercialized?

- Rohan Desai:** Site 3 will be commercialized in March, and this would come in, I believe so in the Aman, correct me if I'm wrong, March next month, right?
- Aman Desai:** Correct. Yes.
- Yash Shah:** Got it. So we are looking at incremental INR 200 crores starting next march over a period of two years, right?
- Rohan Desai:** We will be ramping up these molecules also in the existing sites. So you will see it much faster than two years. We typically consider it the three products are in the 18-month period.
- Yash Shah:** Got it, sir. And sir, one last question on my side. You've launched one more product this quarter. Is it part of the five new products which we had said because we have already commercialized two out of those five. So the one new product, is it part of that five or incremental to it?
- Rohan Desai:** It is part of the five.
- Yash Shah:** Okay. So that means three or is it two?
- Rohan Desai:** It is totally now at three.
- Yash Shah:** Okay. So we've commercialized three products now.
- Rohan Desai:** Yes.
- Moderator:** We have the next question from the line of Kalpit Narvekar from Alliance Global Investors.
- Kalpit Narvekar:** So my first question was on the five products that are coming in the site three. Could you share some color on whether these end molecules are actually innovator products and whether you were working with the companies or the intermediate manufacturers through the research stage of it? And have they come into the manufacturing stage from the CRAMS site of the business?
- Rohan Desai:** Kapil, I'll take that question. No, these are all generic APIs than market is generic APIs, these molecules where it goes. And they are mostly manufactured and manufactured in India, Europe and Japan. The APIs are manufactured over there. And so it's not innovative association molecules or because these all five products belong to large-scale manufacturing business model.
- Kalpit Narvekar:** Okay. And my second question was on the three new molecules on the Agrochem side because if my understanding is correct there, do you have customers on the CRAM site in Agrochem, right? So are these molecules being converted from that pipeline?
- Rohan Desai:** No. This -- all three are also large-scale manufacturing business model, where the imports are happening since the last three years or more, and they are also generic molecules.

**Kalpita Narvekar:** So, sir, just one follow-up on this was that if -- so could you share some color on what helps in the conversion of these molecules for you with the customers the most. So, there must be some existing manufacturing from Europe and Japan you mentioned, right? So, are we better than those guys on cost front? And have we been doing this on a small scale for some of these guys, not really, right? So, could you share some color on what are the critical parameters for the customer that we're able to sort of pitch them.

**Rohan Desai:** So, our competition is usually China. And so usually the customer who wants the product. These are all products which are manufactured for the first time in India again. And usually, the customer looks at Indian manufacturer. That's the biggest advantage with these see. The second is obviously the cost component where you should be comparable to China's price. The third is the QEHS quality environment, health and safety, which we demonstrate to our customers and they audit us quite regularly, which gives them confidence.

And the fourth one is they do not want Chinese manufacturers or Chinese stores now active when there is an Indian source out in India, manufacturing the same products at the same prices. So that's a major advantage. And what is the advantage for Aether is the technical competencies of chemistries and technologies under which this product is developed. And then we use automation and other niches on chemistries and technologies where we improve the yields and productivities, which gives us an added advantage as compared to our competitor.

**Kalpita Narvekar:** Great. If I may ask one more question, if it's okay. So if on the R&D side, with we're doing significant spending, which is actually great, right? So if -- and so around about when I look at the numbers, so the split is about 13% CRAMS. So let's say, 13% of the revenue is actually from the R&D side and 7% or around 7.7% of the expenses are going right? So in R&D. So could you share some breakup on the R&D expenses in terms of what is being channeled into the customer side? And what is being channeled into the large-scale manufacturing piece in terms of developing capabilities for new molecules on the large-scale side versus what goes into working with the customer.

**Faiz Nagariya:** So, R&D expenditure, actually, we do not bifurcate between the CRAMS and large-scale in manufacturing because we have given the R&D work to various cities who are handling the R&D for various products. We have been some last cambering products also and some trends also. So that bifurcation is not done by us, but very less person of the portion is towards CRAMS because CRAMS basically is a joint partnership with the world innovators. So mainly the expenses which are done are towards LSM and very less portion is towards CRAMS portion.

**Rohan Desai:** If I may add, the CRAMS activities are the costs or the expenses or the raw material costs are repaid by the customers and they are built to the customers. So you will not see a huge amount of overlap between the CRAMS and the large-scale manufacturing. R&D is mainly done for a large-scale manufacturing business model or contracts with access manufacturing business model only

- Moderator:** We have the next question from the line of Rohit Nagraj from Centrum Broking Limited.
- Rohit Nagraj:** First question is in terms of our overall capex for the next couple of years. I mean, FY '23, '24. So as I understand that Site 3, we had a capex of INR 190 crores with a revenue potential of INR 400 crores. Site 3+ we just mentioned about INR 60 crores, INR 70 crores of capex, INR 200 crores of revenue potential, what could be the capex for maybe Site 4 and Site 5? And what will be the annual capex for FY '23 and '24?
- Faiz Nagariya:** So I'll take this question. So as you mentioned rightly, the Site 3 capex is INR 190 crores. So of course, the financial year '23 when we end the total capex will be the site three that is INR 190 crores plus the R&D ramp-up which we need for the R&D ramp-up and the penetrant ramp-up, which will be added and the solar power plant, which we have commissioned. So, it will be around plus some portions of capex being done in the current location of Site 2 also. So it will come to a lot of around INR 275 crores.
- And for the next year, as we have rightly mentioned, Site 3+ will be started and it is a project which will be costing around INR 60 crores to INR 70 crores. Plus, we are also going to break ground in the Site- and Site 5 together, wherein we will have some capex, which will come up. So next year also, we expect the capex to be around INR 150 crores to INR 200 crores.
- Rohit Nagraj:** Second question is from the current Sites, 1 and 2, is there any untapped revenue potential which still exists or incrementally be our entire revenue stream will be coming from Site 3 and Site 3+?
- Rohan Desai:** I will take the question. Site 1 is CRAMS host the world's biggest pilot plant. So the CRAMS has a very good potential. We have 55 few modes over there and we are expanding constantly in terms of the team which we have, which is currently growing every quarter. So we see a good potential increasing in Site 1. As far as Site 2, we are approximately at manufacturing capacities of 70%. Faiz, correct me if I'm wrong. And we are looking at, if we can realign the production and the productivity and the demand comes back on all the products, we can look at going to 80% to 85% capacity utilization. So 15% increase can happen in the Site 2 also. Rohit, does that answer your question?
- Rohit Nagraj:** So effectively, the current revenues have a potential of going up by another 15% largely, that should be the equation, correct?
- Rohan Desai:** Yes. You can think in that one.
- Rohit Nagraj:** Yes. And just one last clarification on the pharma Site. So the pharma intermediates that we are manufacturing, are there any previous inventories in the global system? Or we see that the demand for our pharma intermediates has more or less normalized and this shall start going from say, this quarter onwards?
- Rohan Desai:** Yes. So we have struggled quite a bit in large scale manufacturing since Q1, Q2. So the struggle as we are seeing a good revival on all of our molecules and a lot of inquiries are coming on each

of the molecules. So we are not seeing any raggedness now on all the molecules which you are manufacturing in the pharmaceutical space.

**Moderator:** We have the next question from the line of Sabyasachi Mukerji from Centrum PMS.

**Sabyasachi Mukerji:** Firstly, can you share the volume or the realization data for this quarter?

**Faiz Nagariya:** Volume means, you are talking about no of kgs?

**Sabyasachi Mukerji:** So, I think in quarter 1, you had shared the realization as INR 1,800 per kg the similar data for 2Q and 3Q, if you can share?

**Faiz Nagariya:** Yes, it is at the north of around INR 1,900 in the last nine months, total.

**Sabyasachi Mukerji:** INR 1,900 for nine months? And if possible, quarter three what was the number?

**Faiz Nagariya:** Quarter three is around INR 1,825.

**Sabyasachi Mukerji:** INR 1,825, right?

**Faiz Nagariya:** Yes.

**Sabyasachi Mukerji:** So the Site 3 is the revenue potential is INR 400 crores and the installed capacity is 3,500 metric tons. Am I right? So no, my question is, so let's say, 3,500 metric tons of capacity and probably we reach around 75%, 80% kind of optimum utilization levels, and that translates to somewhere around 2,500 to 2,800 metric tons of peak production capacity.

And if I do the math, generating INR 400 crores of peak revenue, the realization rupees per kg comes to somewhere around INR 1,400 to INR 1,450 which is lower than the current trend. But if I recall correctly, in the past few quarters as well as in the various management introductions, it was said that these five molecules should be having a very high realization compared to whatever we have currently. So where is the disconnect, if you can please throw some light?

**Rohan Desai:** So we always operate on the conservative estimates of year 2012 when the prices were at the lowest on all the molecules. Second, you're not going to reach 3,500 tons capacity because it is a complex molecule. So, you have a design capacities, which are there, which are still not explored, right? So one see you stabilize the production coming up in quarter one of the next financial year, we will be able to tell you what is the actual capacities of this which we can achieve.

So designing is a different part because there is no other manufacturer in India. So, it's not a straightforward designing where you're designing an automobile line and saying that 100 units will be produced on a daily basis. It's not so straightforward.

Although the lines are quite complicated, and there are several steps on production. So going -- I understand where you're going through Mr. Mukerji -- but that's not the right way of calculating the capacities for our specialty chemicals company.

**Sabyasachi Mukerji:** I get that point. Hence, I kind of mentioned that you'll probably reach a 75% or 80% of the rated capacity and not obviously 3,500 tons. But let me ask or rephrase the question. So this INR 400 crores of revenue that you have a conservative target of, what kind of blended realization in the rupees per kg that you are factoring in for these five molecules.

**Rohan Desai:** It would be INR 2,500 plus per kilo.

**Sabyasachi Mukerji:** INR 2,500 per kilo. Okay. And may I know the reason behind such high number compared to your existing product line? Because you said that these five intermediates will go into APIs, which are generic in nature and not something which is innovative molecules, right? So the pricing power remains not so great compared to an innovative molecule, I believe?

**Rohan Desai:** Right. So, we are again talking about INR 2,500 as a conservative number. And these are based on the import statistics, which we are seeing since the last 10 years.

**Sabyasachi Mukerji:** Second question on the Site 4 that you spoke about. I believe last few calls, you had a target of completing the site for capex by December 23 with the estimated capex of, I think, INR 243 crores. Are we on track or is it getting a bit delayed?

**Rohan Desai:** It was delayed because we amalgamated to two units together, right, if you see the earlier communication on the site I was only 8,000 square meters. Now it is approximately 18,000 square meters. So, we have opportunity is to buy the decent land and amalgamate and do the obligation for the whole parcel of land instead of going for two obligation with the pollution and control board. And because if you have two obligation, you will have to have two pollution control setups and everything which is double in nature. So, we are slightly delayed over the whole process where it is a very good advantage on the longer term.

**Sabyasachi Mukerji:** What is the timeline for site 4?

**Moderator:** Mr. Mukerjee, I would request you to kindly rejoin the queue, please.

**Moderator:** We have the next question from the line of Rohit from Progressive Shares.

**Rohit:** HI Dr. Aman and congrats for the award for BW Disrupt 40 under 40 by Business World. So, I have a few questions. Firstly, on Polaroid this INR 120 crore for three years, what sort of EBITDA margins can be expected?

**Aman Desai:** Yes. Thank you for the kind wishes of all. Polaroid business is purely in the CRAMs business model business model, and we expect 60% to 70% EBITDA margins in that.



- Rohit:** Okay. And in addition to this, the three molecules, what is the time line by when do you think you will be launching the rest of the three molecules from the five which we earlier spoke about.
- Rohan Desai:** We are looking towards the end of March that is next March, we will be launching these molecules. However, we will look at seeing the opportunity of launching the any of these three molecules in the existing site also if there is a possibility.
- Rohit:** Okay. So that can help you pull the margins to around 33%, 35% kind of a range in next two, three years? Is it possible?
- Rohan Desai:** Theoretically possible, yes, but we'll have to see.
- Rohit:** Okay. And in addition to Polaroid, are there any more strategic acquisitions that you're looking at in UK US?
- Rohan Desai:** Aman?
- Aman Desai:** Formalize was. Not an acquisition, right? It was a collaboration and an announcement of a partnership on research and development and scale up, and that has been finished and that continues to be one of our privileged customers for the CRAMS business. Along that line, we have several customers, and we are currently working on trying to enable a few similar announcements in the near future as well.
- Rohit:** Okay. China opening up, and I know that the prices and the competition that we have with China and we try to always be one of the prices. Do you think that the opening up of China would lead to increase or decrease in the average selling prices going forward?
- Rohan Desai:** It will not affect in a negative way for it. So, we the pricing of all the molecules are already added at its best. So, there it is not related to the China opening up its mode because of the COVID-thing. So, I don't see any changes in the pricing structure.
- Rohan Desai:** My last question is related to any development on my store work that you have done, which is related to fluorination or organic silicon or anything that is related to oil and gas segment?
- Aman Desai:** So, fluorination, we are currently working on two molecules in the R&D, which are complex molecules. One is showing significant progress, and that's going to go into the agrochemical sector. On Organosilicon still on the paper stage, exploring significantly on the paper, actually tying up with one of our European CRAMs customers in a significant way for their contract reset manufacturing requirements on organosilicon chemistry, and we are hoping to finalize contract in the coming few months with that particular customer and that is an organosilicon chemistry and that will translate this business that is currently in the grams model into the contract with exclusive manufacturing business model in the coming quarters.

That's an organ of silicon chemistry and the last question, I believe, was oil and gas. We continue to work with numerous top most innovators in the oil and gas sector in Europe and US with existing contracts and existing significant projects for all these customers, and that's a significant portion of our CRAMS business model right now, which we are hoping and fully expecting to translate into exclusive manufacturing business model in the months and years to come.

**Rohit:** Okay. Aman and Faiz you can share some numbers, I think like what sort of revenue can we expect from these new initiatives? Or is it like INR 100 crore kind of an uptick in the business or 150 or more than that?

**Aman Desai:** I think we'll refrain from doing such numbers for the forward-looking things. Suffice to say that we are quite upbeat and quite positive about these interactions that we are having and we should see significant growth and revenues from these areas in the months and years to come.

**Rohit:** Okay. So. Thank you thank a lot to answering my question.

**Aman Desai:** My pleasure. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

**Management:** Thank you, everyone, for joining the call. We hope that we have covered most of your questions. If you still have any further questions, please feel free to reach us directly. Stay safe, and have a great day. Thank you.

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