ANUPAM RASAYAN INDIA LTD.

ARILSLDSTX20231111090 Date: November 11, 2023

To, **BSE Limited**, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai -400001, India **SCRIP CODE: 543275**	To, **National Stock Exchange of India Limited** 'Exchange Plaza', C-1, Block-G, Bandra Kurla Complex Bandra (East), Mumbai 400051, India **SYMBOL: ANURAS**

Dear Sir/Madam,

Subject: Submission of transcript of Earnings Call on the Unaudited Financial Results (Standalone and Consolidated) of Anupam Rasayan India Limited ("the Company") for the quarter and half year ended September 30, 2023.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith the transcript of the Earnings Call on the Unaudited Financial Results (Standalone and Consolidated) for the quarter and half year ended September 30, 2023 held by the Company on Tuesday, November 07, 2023.

This information is also being hosted on the Company's website at www.anupamrasayan.com.

We request you to kindly note the same and take into your records.

Thanking You,

Yours faithfully,

For Anupam Rasayan India Limited

ASHISH GUPTA
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Date: 2023.11.11 16:28:44 +05'30'

Ashish Gupta
Company Secretary and Compliance Officer

Encl.: As above

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ANUPAM RASAYAN INDIA LIMITED

"Anupam Rasayan India Limited

Q2 & H1 FY '24 Earnings Conference Call"

November 07, 2023

MANAGEMENT: **DR. KIRAN PATEL – CHAIRMAN – ANUPAM RASAYAN INDIA LIMITED**

MR. ANAND DESAI – MANAGING DIRECTOR – ANUPAM RASAYAN INDIA LIMITED

MR. GOPAL AGRAWAL – CHIEF EXECUTIVE OFFICER – ANUPAM RASAYAN INDIA LIMITED

MR. AMIT KHURANA – CHIEF FINANCIAL OFFICER – ANUPAM RASAYAN INDIA LIMITED

MR. VISHAL THAKKAR – DEPUTY CHIEF FINANCIAL OFFICER – ANUPAM RASAYAN INDIA LIMITED

MODERATOR: **MS. SNEHA SALIAN – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '24 Earnings Conference Call of Anupam Rasayan India 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Sneha Salian from Ernst & Young. Thank you, and over to you, ma'am.

Sneha Salian: Thank you, Michelle, and good evening, everyone. Welcome to Anupam Rasayan India Limited Q2 FY '24 Earnings Conference Call. Please note that a copy of our disclosure is available on the Investors section of our website as well as on the stock exchanges. Please do note that anything said on this call, which reflects our outlook towards the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces.

This conference call is being recorded and the transcript, along with the audio of the same will be made available on the website of the company and the exchanges. Please also note that the audio of the conference call is the copyright material of Anupam Rasayan India and cannot be copied, rebroadcasted, attributed in press or media without specific and written consent of the company.

Today, from the management side, we have with us Dr. Kiran Patel, Chairman; Mr. Anand Desai, Managing Director; Mr. Gopal Agrawal, Chief Executive Officer; Mr. Amit Khurana, Chief Financial Officer; and Mr. Vishal Thakkar, Deputy Chief Financial Officer.

I would now like to hand over the call to Dr. Kiran Patel for his opening remarks. Thank you, and over to you, sir.

Kiran Patel: Thank you, Sneha. Good evening, and welcome to everyone to our Q2 FY '24 earnings call. As we complete the first half of FY '24, it should be noted that Indian economy remains robust, while the world economy continues to exhibit volatility. The global economy is crumbling with economic slowdown and elevated inflation. This impact has been more pervasive and persisting across many nations.

The agrochemical sector, in particular, for the last couple of quarters, has seen the oversupply from China coupled with excess channel inventory that has led to pricing pressure on agrochemical companies specifically in the generic chemical segment, which is a cause of concern to the chemical players across the globe. We expect the prices to stabilize and the excess inventory to rationalize by the end of CY '23 and expect the demand to strengthen our CY '24.

On that note, let us move to the Anupam Rasayan's performance. Our H1 revenue was INR794 crores, giving us a growth of close to 11% year-over-year. Our expertise on working on niche products with innovative and contractual demand minimizes our exposure to volatilities of the market allowing Anupam Rasayan to have a higher revenue visibility, which plays a pivotal role in sustaining our growth. I will let Anand discuss the business performances in detail.

Speaking on our sustainability efforts, we are continually pushing the boundaries with new initiatives aimed at protecting our ecology. I am happy to announce that we have signed three MOUs with government of Gujarat for afforestation of a total land area of 150 hectares, 50 hectares located in Narmada District, 50 hectares in Tapi District and 50 hectares in Surat District.

We have the capacity to plant more than 1,66,000 trees in these desolate areas. This project will be integrated into the green belt development program, which involves the utilization of designated lands by Gujarat government for the purpose of planting and caring for various tree species.

This afforested land parcels will act as carbon sink and shall make significant contribution to our objective of reaching the net carbon neutral with respect to our energy consumption by 2027. Further, we have started disclosing scope 3 greenhouse gas emission data in our last ESG report, making us one of the few chemical companies in the industry to do so.

On this positive note, I will now hand over the call to Anand for his opening remarks. Over to you, Anand.

Anand Desai: Thank you, Dr. Patel. Hello, and good evening, everyone. Welcome to our Q2 FY '24 Earnings Call. Let me provide some color on our performance for the quarter, and then I will move on to business updates for the quarter. Our total revenue for the quarter stood at INR396 crores with a Y-o-Y growth of 3% on a consolidated basis, whereas for the first half year, our total revenue stood at INR794 crores posting Y-o-Y growth of 11%.

Amidst the challenging external environment, I'm happy that we have been able to hold our ground and deliver growth. That said, we are seeing a resilience in demand, which ensures confidence of delivering growth in the coming quarters.

Moving on to the business updates. In Q2 FY '24, we launched three molecules which translates to a total of five molecules launched in this financial year. Taking the total number of products to 58, our product pipeline includes five molecules, which we plan to launch in coming two quarters. As of 30, September 2023, we have LOIs and contracts signed worth INR7,669 crores, giving us strong visibility for the coming years.

In H1 FY '24, debtors cost stress on account of higher sales to large strategic global customers, coupled with domestic sales, which has a higher debtor cycle. We expect it to normalize in the next two quarters. Collection in October gives us confidence where the same would be achieved.

Another important update for the quarter is that we have Mr. Gopal Agrawal joining us as our CEO. He has 25 years plus experience in corporate strategy, global and domestic M&A, Fund Raise and management consulting. He has extensively worked for Indian companies and MNCs across US, Europe and Japan and its core specialization among others, have been manufacturing and Industrials.

Also, I have known Gopal bhai for the last 15 years, and he knows the company very well. The stage at where the company is today and growth that we are seeing in the medium to long term, the expansion of the management bandwidth is very essential. So, contribution of Gopal bhai in this growth will be very pivotal.

On a concluding note, our order book remains strong, despite the challenging environment giving us a good visibility of robust growth for the current financial year, and we are positive on maintaining our guidance of 20% growth with similar margins. Before our CFO Amit bhai takes you through the financial highlights. I would like to hand over the call to Gopal bhai to introduce himself.

Over to you, Gopal bhai.

Gopal Agrawal Thank you, Anand bhai. Good evening to you all. I'm really excited to join the team at Anupam Rasayan, a company known to me for over 15 years now. I have seen this company grow from nearly INR100 crores to a market cap of around INR10,000 crores today.

My endeavour would be to use my past 25 years of experience and act as a catalyst to augment overall growth of the economy. My idea would be to make the company globally competitive, future ready to be able to grow with manyfold from here. I also even look forward to meeting you in person who have been tracking, Anupam growth story to gain your available insight.

With that, I hand over the call to our CFO, to take you through the financial highlights. Over to you, Amit bhai.

Amit Khurana: Thank you, Gopal bhai. Good evening, everyone, and thank you for joining us on the call. Let me take you through the financial highlights for the quarter, and then we'll hand over the call to Vishal bhai to discuss the same further.

Let me begin by an update on the capex. The plan announced capex is approximately INR670 crores. Out of this, we have spent INR234 crores in Q2 FY '24. Majority of the capex is being used to cater the contracts and the LOIs we have signed. This quarter, working capital got stretched largely due to increase in debtors, which is temporary and will come down in Q3 FY '24 and Q4 FY '24. And our guidance of lower working capital days of less than 220 days still remains the same.

We see better growth in H2 FY '24, which would improve the working capital cycle. Anupam Rasayan continues to maintain its margins. Further cash equivalents on the books as on September 30, 2023, is at INR404 crores, coupled with expected cash generation in the coming quarters, it would be sufficient for the planned capex.

With further reference to the recent capital infusion announcement of INR550 crores through a preferential issue with participation from the company's promoters, these funds will be primarily used to retire the company's long-term debt. This strategic debt reduction will lead to decrease in interest cost, thereby making it EPS accretive.

With this, I hand over the floor to our Deputy CFO, Vishal bhai, who will take you through the financials in detail.

Vishal Thakkar: Thank you, Amit bhai. Hello, and good evening, everyone. Thank you for joining us here today. I would like to briefly touch upon the key performance highlights for the quarter and half year ended 30, September 2023. And then we will open the floor for the question and answers.

Before I proceed, I hope you all have had the chance to go through the detailed presentation submitted to the exchanges and uploaded on our website. Kindly note, our numbers for the quarter are on a consolidated basis, and they also include Tanfac numbers.

Let me first discuss the consolidated financial highlights for the quarter ended September 30, 2023. Our total revenue for Q2 FY '24 was at INR396 crores as compared to INR383 crores in Q2 FY '23, up 3% Y-o-Y. EBITDA, including other income, was at INR111 crores in Q2 FY '24 as compared to INR101 crores in Q2 FY '23. The growth of 10% Y-o-Y. This would also translate to an EBITDA of 28% EBITDA margin for this quarter. Profit after tax was INR49 crores in Q2 FY '24 as compared to INR48 crores in Q2 FY '23, a growth of 2% Y-o-Y.

Coming to the half year performance. Total revenue for H1 FY '24 was at INR794 crores as compared to INR718 crores in H1 FY '23, up 11% Y-o-Y. EBITDA, including other income, was at INR225 crores in H1 FY '24 as compared to INR190 crores in H1 FY '23, growth of 18% Y-o-Y. This would also translate into an EBITDA margin of 28% for the half year.

Profit after tax was at INR101 crores in H1 FY '24 as compared to INR90 crores in H1 FY '23, a growth of 12% Y-o-Y. For Q2 FY '24, our licenses segment contributed 87% of the total revenue, and the balance came from the other specialty. Our top 10 customers contributed 83% of the total revenue and there is total 24 products that we provide to them.

With that, we open the floor for Q&A. Thank you.

Moderator: Thank you very much, sir. The first question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: First question on the revenue growth overall. You did mention that the growth was largely led by the domestic client. Just trying to understand, this is the existing clients and the stretch in working capital is more a timing issue. And how do you look at that?

Vishal Thakkar: Ankur, rightly identified. So, these are all customers that we have been doing business with that are very limited number that we have added in the quarter for the additional. The revenue from them is not that meaningful for us. All the revenue that is coming is from the existing clients, principally. We are very comfortable in terms of their payment cycle and all. What we are seeing today is a very temporary phenomenon in terms of debtor expansion, which we feel that it should come down in the next two quarters.

And if you see the first one month of the revenue or collection, we feel that, that numbers have started unwinding and we believe that it's only a temporary phenomenon. I agree with you, Ankur. I think much that we really see beyond a couple of quarters here.

Ankur Periwal: I missed the breakup between the domestic and export, if you can help with that as well?

Vishal Thakkar: Yes. So domestic is around 45% and 55% is export.

Ankur Periwal: This domestic customer that we are talking of will be a part of the top 10 customers, right, and existing ones?

Vishal Thakkar: So, few are, and few are not in the top 10.

Ankur Periwal: It's not one customer. There are multiple customers, that's why?

Vishal Thakkar: Yes. There are multiple customers. Not that it is only one customer.

Ankur Periwal: From an export growth perspective or probably in the first half, we have de-grown here. If you can help us understand, is this largely because of the RM deflation pass-through? How do the volumetric growth stack up here? And what will be our current capacity utilization?

Vishal Thakkar: Ankur, if you look at it from the growth point of view, I think the year-end numbers which you see, we will be selling there. Our large clients in the export market have actually talked about pushing the demand to the next two quarters, which is H2. And where you will see the H2 numbers, we will be able to see that the numbers have been more in line with what the normally that you have been seeing or we have been seeing. So that's there.

On the capacity utilization side, as we have been mentioning that the revenue that we can generate from here is around about INR1,700 crores, INR1,800 crores. To that extent, one and second is also these are all multipurpose plants. We try to play with the demand that we have, but we have enough and more capacity to continue.

Last question that you talked about volume versus price deflation. I think price deflation has not been a very, very significant impact in terms of that. The volumes have also been robust here. Also, if you see my RLC will be in the range of 40s and the impact of that in terms of my realization is limited. No doubt, there will be some couple of percentage points moves there, but nothing very, very drastic that we can see from here.

Ankur Periwal: In the initial comments, we did mention that the generic part of the market is facing slightly more pressure. How does our portfolio stack up right now between, let's say, generic, patented and maybe the recently off-patented products?

Vishal Thakkar: Historically as well as today if you look at my portfolio in terms of a patented and recently off patented, we will be transmitting into anything around 70%, 75% and above, and two is also the long generic product, even there, we will be working with an innovator and that's one thing that really helps us in terms of having the higher visibility of revenue and also the margins typically, because there is a limited number of products which are generic multi-customer products, and that really helps us insulate our demand and margin.

Ankur Periwal: Just last bit, Slide number 17 of the presentation, which talks about the R&D as well as the business development team globally. What is the arrangement that we have with all these representatives across the market. It is more on a business generation basis? Or how should one look at it? I'm presuming none of them is on our own, so.

Vishal Thakkar: No. If you look at it, they'll be on the retainer side. They are our employees. They work exclusively for us on this topic. Majority of them, one or two may have other assignments, but largely, they are all for us. As a business development team, always there will be some bit of performance incentives that will be there.

That's the standard customary things that we would have, but they work quite extensively with us and they are moving on a retainer approach. But as you know, as an Indian company, we would not want to spend so much in terms of international cost and hence, you would always structure it in a manner that there is a very pragmatic balance of retainer versus incentives.

Moderator: Thank you. The next question is from the line of S. Ramesh from Nirmal Bang Equities. Please go ahead.

S. Ramesh: If I may just take the balance sheet first, it could be surprising that the receivables have gone up and you have been guiding for a reduction in the working capital cycle. So did you have to extend additional time for payment to the new customers. When you say you expect it to come down. What is the basis for that confidence? Because suddenly, the receivables go up in terms of number of days, it seems to me that implies that you have given an extended credit term. So how do you expect this to be brought down in the next six months? I would like to understand that.

Vishal Thakkar: So, two, three things. One is, we have supported our customers with an extended credit term for a little longer credit terms than normally than we would have done, we do it, but that is a very clear understanding that it is a temporary support to them, and it's not a long-term support to them.

Two, there is a bit of a more of sales to the domestic customers. In this quarter, if you see the sales is little on the higher side on the domestic, which has a little longer period in the first half.

As we go, that number will only drop because our customers in terms of their payment profile, and two is also, if I look at the first month after the first half, which passed by, we are seeing a fair bit of collection coming in stream. So that are the three reasons why we are really feeling comfortable that we should be able to come back to that number, and historically also, if you see, this is something which we don't see too much moving on a quarter or two quarter, it can happen, but we don't see it anything long term here.

S. Ramesh: It's interesting that you plan to raise promoters' equity, which is welcome step, so when do you expect the promoter funds flow equity and the warrant to come in? And when do you expect to repay the debt and how much of the equity proceeds will be used to repay that?

Vishal Thakkar: We have got a board approval today. So, we'll run it with the shareholders' approval, which takes this normal new case of 21 plus few days of operations. Post that, we will be able to bring that money straight into the company. So maybe by the first week of December, kind of first week to second week of December, we should get the money into the bank accounts.

If you look at it, of that amount that we've got, majority, it will be around about 80% odd kind of a number that we would use to just repay the debt straight up, but as you can appreciate that this will be in two parts. One is part of it is pref and the part of it is warrants. The pref will come straight. The warrants will have only 25% coming in now and then the balance will come within the 18 months.

So, to that extent, whatever money we get largely the first tranche will largely be used to just repay the debt. Today, we have around INR400 and something odd crores of long-term debt, which we'll try and unwind as soon as we get this cash. We'll try and line it up accordingly.

S. Ramesh: Okay. And incrementally, if you look at the expansion of the business based on execution of the LOIs and the contracts, once the projects are commissioned. Will there be any incremental requirement for additional working capital that will again require you to borrow funds once this capital infusion is done?

Vishal Thakkar: If you look at for the money that I'm sitting on today is around INR404 crores of cash, which would be sufficient to do my capex. So that is one point there. Second is if you look at the growth that I'm seeing in terms of the revenue as we go forward after the capex comes into place. Today, if you look at it, there is a reasonable amount of working capital, which is locked in which will also get released.

Two, over a period, the EBITDA that we generate and the operating cash flow that will be generated, we see that it should be fairly balanced to really not expand our working capital limits that we have today anything significantly.

Maybe in two years to three years, when the revenue goes beyond, let's say, INR2,000 crores, INR2,500 crores is where you may see a few things. But today, for next year, 1.5 years or two years, I don't see that anything moving very significantly from.

S. Ramesh: So, one last one thing on your operating results and what do we expect for the second half and the next two years, three years. If you can give some sense of how much of your first half revenue on the 2Q revenue was from fluorination in terms of percentage? How do you see that move in the second half and over the next two years to three years? And what is the kind of visibility one should expect from the LOIs and contracts in terms of addition in value terms in rupees crores over, say, FY '25 and '26 and then beyond '26. If you can break it up, it will be useful.

Vishal Thakkar: Let me first start with the fluorination part of the story. In fluorination in the first half, we had around about 15% of revenue coming from fluorination, and we expect that the number would hit just around 20% by the year-end. And if you look at our long-term view, I think fluorination should contribute a number 25% to 30% or 30% odd kind of a number for a term of our revenue portfolio by that time and mind you that this number is a number which is 30% of that expanded revenue. To that extent, you can imagine the kind of revenue that we are talking about here.

Now let's come to the LOIs and contracts. We believe that for LOIs and contracts, we should be able to continue to grow in around three odd years, which is the typical time period for that, we should be able to get to around about four-digit number in terms of my revenue by next three years to four years' time frame. I think that's what we see as it's staggered LOIs that we have got and the ramp-up also has its own staggered approach, and that is where we would see this to be.

S. Ramesh: In total, you are saying the addition will be about INR1,000 crores from the new contracts LOIs?

Vishal Thakkar: Order of magnitude, yes, you are right.

S. Ramesh: Another housekeeping question, just like the export domestic, but can you give us modular split between contract revenue and revenue outside the contract for the second quarter and first half? How you see this moving, say, in the next two years to three years?

Vishal Thakkar: So historically, and even now also most of our revenues are largely on the contractor side around 70%-plus is more on the contractual or contractual behaviour revenue. I think there is not much of a movement that you can see. See there may be some kind of a scheduling part of it, and you can see a bit plus or minus on that. But principally, you will see the same number as you see. Even for this year also, you will see the same and going forward also, you will see that.

Moderator: Thank you. We will take the next question from the line of Rohan Gupta from Nuvama. Please go ahead.

Rohan Gupta: On our business model, where we are completely selling to chemical industries both in generic as well as innovator. Right now, sir, both of them are going through extreme pain point, while in generics, we see that all the domestic biggies in India, they are facing extreme pressure. Probably they may continue to exert pressure on our working capital, and we may see some more delays in terms of correction from them. That is on generic.

However, in innovators, we are seeing that the global inventory destocking continuing. Even in the year-end balance sheet, what I understand that they will try to strengthen their balance sheet. With all these, probably the near-term money coming back from these customers, both in generic and innovator looks challenging. So how do you respond to that, sir?

Vishal Thakkar: Rohan, so you're right that it's not that easy conversation with our customers. And what you rightly identified is, yes, they would want to strengthen their balance sheet and would want to pass out of it to us as well. And for some time, every supplier will always accommodate their purchasing partners. But if you look at it the way we have been interacting with our customers here.

See we have been supporting them. And it's a very clear conversation with them as well that the realization that we need, we need to have it in time that we need. So there, what we have seen from them is that there is a very clear acceptance of the plans that we have with them. So, to my mind, that will not be a bigger challenge.

Second is if you look at it, large part of it is coming from the innovators. And if you look at innovators, innovators especially in the international sphere, what our understanding is, their challenges were more on the Q1, Q2 ours or Q2, Q3 of their and maybe at best will go to Q4 of theirs, which is Q3 of ours.

So, we see that, pressure is organically also easing now. But even having said that, we believe that there is a very clear path to this number. And that's where I'm also saying that even when I look at the October's collections that gives us a reasonable confidence that we should be able to come back to normalcy in terms of better collection and we should improve on the inventory PCA.

Rohan Gupta: Sir, I was saying that with the current weakness in the global market, how we see that our LOIs there is a chance of spill over they may pushed back maybe for one quarter or two quarter or three quarters, how confident we are that all the LOIs are expected to come within the time frame?

Vishal Thakkar: See, you're right that environment and the kind of movements happen. But we also plan our numbers, these all are budgeted. And today, after whatever the allotment we have seen, whatever the activities that we have seen, there is no reason for us to move this number anything significantly expectation. Now it's a quarter or two quarter, yes, that conversation can always happen, that's not a question. But if you look at it, it's a portfolio.

And if you look at the total portfolio in the large portfolio, both of my existing molecules and also the pipeline molecules. Just to give you a context, today, this year itself, we are going to launch 10 total new molecules, right?

So, if there is a bit of a movement on one product to other, that's an advantage of a multipurpose plant as well. That is less one thing is streaming slower, then you just move to another part and use the asset for that because that's a total portfolio of products that we have. And to that extent, we really get comfortable with the kind of growth that we are seeing.

Having said that, I would not guide for a quarter-to-quarter number because, yes, this is not a world, and this is not a business there we can talk about quarter-to-quarter. But if you ask me annual to annual, I think the consistency will be fairly representative. And to that extent, I told you.

Rohan Gupta: Sir, just a last bit from my side. Sir, the reason for press issue, is it primarily just to show that the confidence stock price promoter wants to show or it's the real need of the money because I think the partial money is only going to come in near term and another warrants issue. So is there any significant debt reduction, which is expected? Or it is just only showing that promoters showing the confidence in the stock?

Vishal Thakkar: I would put it this way that if you see Anand Desai is the founding promotor, he has been increasing his shareholding in the company. And that has been the primary driver for this press. Yes, along with that, there are other investors who have joined along. That's fair, but the original thought and the principle was there, and that's the driver.

Now balance debt reduction is just to ensure that we do not impact the ROCE of the company with this one, because beyond the point, the business does not make cash. So that is also the reason. And yes, it will help a bit on the EPS accretive behaviour. But primarily, the thought origins from the founding promoters desire to increase his stake holding in the company, and that's where we come from.

Moderator: Thank you. We'll take the next question from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Sir, first question is on our guidance for FY '24 and '25. What are we expecting in terms of top line growth and margins for both these years? And how much of this top line growth will be contributed by the LOIs? I understand FY '23, the contribution from the LOIs was closer to some INR100-odd crores. What do you expect in FY '24 and '25?

Vishal Thakkar: Let's first answer the first question in terms of my revenue growth item. I would not want to give a specific year-to-year guidance, but I can definitely say that my revenue growth will continue to be at least this first half has been more on the tepid growth side.

But I think the second half onwards and here, I think we should be able to get back to the growth momentum that we had in our historical revenue growth. From H2 '24 and FY '25 onwards, we will be able to see that kind of a growth that we are seeing. And for the FY '25, my increment would be around about INR400 crores by FY '25 from today.

Rohit Nagraj: Okay. That's from the contribution from the LOIs you're talking about, right sir?

Vishal Thakkar: Yes.

Rohit Nagraj: Okay. Got it. And in terms of the confidence that we are having that second half would be much better than first half. Is it backed by any firm volume commitments that we have engaged with our customers, both domestic and global? Or is it based on the general commentary by global players and the inventory destocking is coming to a fag end, so ideally, the situation in second half should improve. So, your thoughts on this?

Vishal Thakkar: Yes. Rohit, let me answer the second question first and then I'll answer the first one. I'll clarify on that. The first is that see, in the CSM business, I would really say that we are more driven by what my customer is doing for that product and product range rather than about the general market. So, you are right that the commentary of a larger industry, industry statements are not to be picked up as our anticipation of our business as we go, and that I agree with you.

What we tend to do when we want to look at this growth is that what's the kind of demand indication and the offtake that my customer has given me. As you know that every large MNC, especially in the CSM side, would give an annual forecast for us under the contract or an LOI that we have, and that is the reason why we see that like even when we were in the Q1, we said that Q2 will be flat was for the same reason that we knew that customer has requested us to push the demand to the second half.

Now when we are talking to them as well in Q2 and now, we see that they are saying that we are up taking and that's the forecast that they have given us. Second, also, the launch of new molecules will also aid to the additional growth that we are seeing. It's not only the organic growth of an individual molecule, but also the addition of the molecules will continue to be growth to us. So, it's a combination of two, which will be there, and that's where it gives us a fair bit of confidence.

Rohit Nagraj: Just one clarification here. So base business of FY '23 without any contribution from the new LOIs, that base business, generally, what should be the growth rate that we can assume given that most of these molecules, I mean, it will be partially established molecules and partially new molecules. What could be the average growth rate for that base business?

Vishal Thakkar: So, the base business, I don't want to segment it that way because in any company, if you look at my history also, five years back or seven years back, I had only four products, and that was giving me the revenue. Today, that number has gone to 55, 57 and 58 now. I would not say the base revenue and others. But if you're asking me, yes, the existing molecules typically with my existing customers will typically hit the kind of, not a plateau, but they would have taken care of the large part of the potential.

The growth from there would be, let's say, 15% to 25% of the additional growth would come from there and the balance additional growth would come from the new molecules and commercialization and ramping up, if that helps.

Rohit Nagraj: Just your broader guidance on the margin profile for the next couple of years? Will it be similar to what we are currently having? Or will there be any chance of further improvement?

Vishal Thakkar: I would really tend to guide at 26% to 28%, though we have done 29%, but I would always caution that 26% to 28% is a fair guidance that I would want to give. If we perform better, we would definitely be happy and that's our endeavour as a management that we improve every single bps of my EBITDA margin.

But I would not want to stick my neck out and try and say more because I would want to be more conservative here. Yes, we have been doing it. Yes, there is a buoyancy that we can see in terms of the margin profile. But I would want to be conscious and cautious here. And the reason is not the situation, but just being financial a bit more prudent on this.

Rohit Nagraj: Just two clarifications, 26% to 28% is on stand-alone basis. Is that assumption, right?

Vishal Thakkar: Yes. But if you look at consol yes, Tanfac will play typically, if you see historically, we have been guiding at 26% to 28%, and I think that's where I would go by.

Rohit Nagraj: You earlier told that fluorination revenues are currently at about 15%. So, this is on a consolidated basis? Or is it only on standalone?

Vishal Thakkar: No. Sorry, that's on our understanding. If I take Tanfac strategically, the whole revenue gets into the fluorination side of it. I'm talking only stand-alone. Yes.

Moderator: Thank you. The next question is from the line of Krishan Parwani from JM Financial. Please go ahead.

Krishan Parwani: Just a couple of clarifications from my side. You have done about INR170 crores to INR190-odd crores capex in the first half. So how much are you expecting to incur in the second half of '24 and FY '25?

Vishal Thakkar: If you see, we have totally announced around INR670 crores of capex. Till date we have around INR234 crores of capex. So, in the next balance period, we should be able to do the large part of it in next six months to nine months' time frame, because I'll tell you the spend is one part of it, but the committed capex, like I would have ordered the vessel, and I would have paid less a 10%, 20% advance on that. But the moment the vessel comes in, the reactor comes in, I have to pay the balance 80% straight up. So, it may look a little huge in terms of money spent. But if you look at from a gross amount perspective, this number will be very different.

And that's the reason I'm saying that because it's at the fag-end of the construction, where all the equipment gets on the site and gets erected. And that's the time when you spend the large part of your money. And that's where you would see that in the next six months to nine months, you will see a large part of the utilization there.

Krishan Parwani: So that is INR670 crores, I mean that is for '24. So, there's no change in that. So that was part number one of the questions. And part number two was for FY '25, how much are you envisaging around INR300 crores, INR400 crores or even more?

Vishal Thakkar: No, I don't think. We have gone through one large capex cycle now. So now whatever the next year's capex will be more on the maintenance and routine side rather than really a large capacity addition kind of a thing. So, I don't see that number to be in that range. I would wait for a quarter or two quarter to really give you the guidance on those capex numbers, but I don't see that in a significant number for now. Not like what we are seeing. So right now, you should budget a routine maintenance and some debottlenecking expansion kind of activities rather than the large capacity addition kind of a thing.

Krishan Parwani: Yes, because I'm asking because, let's say, if I look at from FY '18 to '23, there has not been a single year where we have spent less than INR200-odd crores. So, I mean there has been some sort of capex ongoing. I mean, because you'll have to continuously growing even in '26, right? So, you will have to incur some capex. Otherwise, then '26 growth for the LOI that you have signed, you might not be able to kind of execute it. Is my understanding correct? Or am I missing something?

Vishal Thakkar: For the LOIs largely, you will see that the capex that I have done, let me put it simply that the current capex will take me to INR1,700 crores to INR1,800 crores. So INR670 crores of capex and other will around INR1,100 crores, INR1,200 crores. So, if you look at it, we are talking about INR2,000 to INR3,000 crores of revenue from this capex.

So to that extent, I have a breather. But you're right that some of the other capex may come up, like it's a solar investment or any other investment that may come up. That's what I'm saying, it's not in the range of INR300 crores to INR400 crores kind of a number.

It will be in the range of I don't know want to hazard a guess and that's the reason I'm holding back because I would rather come with a fair number to you for the next year or going forward, but the numbers are not about large capacity addition. It will be more debottlenecking, maintenance capex. And if there is some bit of any other green energy projects or something like that, so that may come into play, but it will not really, really swing to the numbers up INR300 crores, INR400 crores for now.

Krishan Parwani: So, the last bit I wanted to understand is, so what is the status of the six-month pricing agreements with our customers? So, is it done for the customer, whosoever we wanted with? Or is any customer that we thought to do a six-month contract is anyone pending?

Vishal Thakkar: There are a couple of ones that are pending. I would really say that there is around 60%-odd of contractor revenue. And what will happen? Two things will happen. we're working with them, and they are also saying that we are agreeing to.

And 12 months having it will only change the mix in favor of where we want the pricing structure to move to. So that will continue to happen. So, I think we are in the right direction. And hopefully, we should be looking at it that we get to where we want to.

Moderator: Thank you. The next question is from the line of Meet Vora from Emkay Global. Please go ahead.

Meet Vora: I wanted to know your thoughts more on the LOIs that we have signed. In terms of whether these are more of a building block kind of a nature or how do we see these molecules panning out in terms of incremental inflow of advice from these existing customers? That is one.

And second is, what was the moat that we had in terms of getting these LOIs over the last few months, so to say, is it more that we acquired Tanfac and we have the building block of HF or is it more that we have built a kind of business development teams in say, Japan and US, which drove these kind of inflows?

Vishal Thakkar: I think, Meet, to answer your second question and the one is that any business there will be multiple play multiple activities or multiple pivots that will play its role to get to the business. The most important thing is that do we have a chemistry and ability to deliver that, I have developed this product and I can deliver. So that's the first, which is the technical competence that we have demonstrated, which we had demonstrated over the last five years, seven years.

If you look at it, we have more than 30-plus products in our portfolio, which are fluorinated products. Then the second is ability to deliver coming from supply chain side because these are all products where the supply chain is very, very essential. And there Tanfac coming in really helped to demonstrate that we have a supply chain sorted out here, and that led to the crystallization of the conversations that we have been having with our customers.

Third, yes, having teams on ground in the geography that we are looking for business always helps from two things. One is from a speed of execution and two is from the demonstration of commitment perspective, and three, the familiarity of all the individuals who go and meet the customers. All these three really help in accentuating and improving the crystallization process further in terms of our business.

And last is to be able to demonstrate that we have enough and more capacity and plans to deliver. So, all these three or four points really play out. And to us, that's what is the strategy. That's what is the execution that has happened. I mean, I would really say that these are the four, five key things, a key development that has really helped us here.

Meet Vora: You mentioned that we are the sole suppliers of some of these molecules from Asia. So, is this that we are seeing incremental demand in these molecules or incremental supply shift away from geography that we have seen primarily and where do we see the competitive intensity in these LOIs?

Vishal Thakkar: See, as you can see, historically, also a large part of our business is where we are competing with the European and Chinese players. Now in that scenario, always three things help us. Four things that have. One is the lenience and experience that we have given our customers. And they are the guys who are either they are offering us new products, or their peers are offering us and then we are able to attract the customers there. One.

Two is the product portfolio. Please understand that this is very, very essential that our ability to demonstrate to our customer that we can offer a high-quality product on a consistent basis is very, very few. And third is supply chain, which is again one. And the last one, what you rightly said that competitive intensity, yes, if you look at my European peers are really today becoming less and less competitive compared to us. And from a China side, Chinese peers are becoming less and less preferable compared to us. These are the broad things that really play out. And that's where we would put it up. And also, one more thing that happened is that we work on a value tree. So, when my customers feel that, okay, the products are falling in a particular tree or particular value chain, they will have a higher propensity to offer that to me because I've demonstrated in the value chain, supply chain and ability to deliver. These are the ones that I would put in here, which has helped us.

Meet Vora: In terms of our working capital, when we say that we are trying to bring it to say, 230 or 200 days, what are the kind of arrangements that we are working with customers, if you can highlight on that? And at the same time, whenever we are trying to reduce the working capital, will we see some kind of margin correction in terms of our overall EBITDA margins to deliver the products early or try to work? If you can highlight on that, that would be helpful.

Vishal Thakkar: Okay. So, let's break it into two parts. One is, if you look at my working capital today, the expansion of working capital is largely on the debtor side which is basically adjusting for a quarter or two quarters. So, I don't see that really. It's a very clear understanding with the customer that have extended the working capital cycle. I have extended the credit terms, but it's not for a long period.

It's a short term that I've offered them, which we have started seeing that it will come, it is coming back. So that's one part of it. If I exist for the debtors just from where they were to where they will be, okay. Then I'm knocking off around about 50-odd days of my cycle anyway.

On the inventory side, it's just that the moment of the revenue picks up and the inventory starts combining, I think we should be able to bring that also to a more reasonable level. So put together, I think there I see fair bit of comfort here. It's a couple of quarters discussion that we are talking about here.

Moderator: Thank you. Ladies and gentlemen, this will be the last question, which is from the line of S. Ramesh from Nirmal Bang Equities. Please go ahead.

S. Ramesh: So, you had an agreement with the TI Group for an alliance in CDMO. How is that progressing? What is the thought process behind that? And when do you see there actually culminating in some kind of impact on your P&L and balance sheet?

Vishal Thakkar: So first, the MOU that we have with the TI and 3xper is primarily on really developing newer molecules. They have an understanding in terms of the pharma market, and we have a strength in terms of our chemistry and our process part of it, which is what is really helping. This is what we are trying to leverage between us. Mr. Govindaraj, as were the ex-MD of Aurobindo Pharma, he is the one who is guiding us on the interaction with the innovator because that's where we need the understanding which segment to go to, especially on the innovative side. So that's what we will be able to do.

Our chemistry strength, flow chemistry and molecules and also starting from the base molecule is early KSM level is helping us in this. So, it's a very symbiotic relationship. When do we see it, it's a very initial stage in terms of trying to tell that when this will translate into revenues, probably the collaboration has started. We have been working jointly, give us a few partners for us to really say exactly what kind of numbers from when we can start seeing.

S. Ramesh; Okay. And then on last thought. Now if you look at the supply chain issues, inventory in China excess supplies and dumping at distress pricing, how much of impact has it had on your business in the first half? And how do you see that shaping up, say, in the second half of the year and in FY '25? What is your reading on that situation, but that seems to be the biggest overhang for the entire chemical sector as we speak today.

Vishal Thakkar: You're right. See, that is there and that's an overhang for the Indian chemical industry at last, but that is what our MD and even our chairman shared in their opening remarks as well. And that impact is significant on the earlier part of the value chain, which is where the impact is far higher and significant.

When you come to more CFM kind of one-to-one relationship with an innovator, then that impact is fairly less, and with the kind of a pricing structure that we have, where we have a pass-through in terms of cost structure. We see that impact is practically pass-through because it either is impacting in terms of the input costs or any other kind of a cost, which just gets passed through for us. And to that extent, we are reasonably insulated in that sense.

The only thing that it can also do is move the demand growth by quarter or two quarter, but nothing really significant that we have seen at least till now we have seen anything of that sort in our performances for now.

S. Ramesh: And do we see this abating say, by FY '25, what is the current reading?

Vishal Thakkar: See, if you are the expert of the sector, I would really take some guidance from you also. But if I were to use my limited understanding of the sector and what I understand, I would really say that what we are seeing is which is getting abated. We are seeing that especially the stock coming from in the channel is building significantly.

And also China, if you see the large part of the stock that the China had in the COVID phase is now getting released. We believe that it's a quarter or two quarter that they would be done with that stock and the new stock will come into the market where they will have to also price the products as per the current market prices.

So probably, we at least are seeing acquire a couple of partners at best and depending upon which part of the value chain you are, it may be a quarter or two quarter or three quarter depending upon where you are on the value chain, that the impact will get reduced.

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

Vishal Thakkar: Thank you all for joining us today on the call and being part of our journey so far. I hope we have been able to answer all your questions. If there are any that I have not answered, I promise that over the next few quarters, we will do so. And if there are any specific questions which are left out, please reach out to our IR partner EY, and they will get back to you offline. I also would like to wish everyone a Happy Diwali on behalf of Anupam Rasayan. See you in the next quarter.

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

(This document was edited for readability purpose.)