NGL Fine-Chem Limited
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May 23, 2023

To,

Listing Department,
The BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400 001.

Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1
G Block, Bandra Kurla Complex,
Bandra East, Mumbai 400050.

Sub: Transcript of Concall with Investors held on 19th May, 2023
NGL Fine-Chem Limited Scrip Code: 524774 Symbol: NGLFINE

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that the Company participated in the Investors Conference Call on Friday, 19th May, 2023, enclosed herewith please find transcript of earnings conference call on Audited Financial Results for the 4th Quarter and year ended on 31st March, 2023. No unpublished price sensitive information was shared/discussed in the meeting.

Kindly take the same on your record.

Thanking you,

Yours faithfully,
For NGL Fine-Chem Limited

Pallavi Satish Pednekar
Digitally signed by Pallavi Satish Pednekar
Date: 2023.05.23 16:00:39 +05'30'

Pallavi Pednekar
Company Secretary & Compliance Officer
Membership No: A33498

Encl: As Above.

“NGL Fine-Chem Limited Q4 FY2023 Earning Conference Call”

May 19, 2023

Management Participants

Mr Rahul Nachane –Managing Director

Mr Rajesh Lawande – Whole Time Director & Chief Financial Officer

Analyst

Abhishek Mehra – TIL Advisors

Moderator: Ladies and gentlemen, good day and welcome to the NGL Fine-Chem Limited's Q4 FY2023 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Mehra from TIL Advisors. Thank you and over to you Sir!

Abhishek Mehra: Thank you. Good morning everyone and thank you for joining this Q4 FY2023 earnings conference call of NGL Fine-Chem Limited. The results and investor updates have been e-mailed to you and are also available on the stock exchanges. In case anyone does not have a copy of the same please do write to us and we will be happy to send it over to you. To take us through the results of this quarter and answer your questions we have with us today Mr. Rahul Nachane Managing Director and Mr. Rajesh Lawande, Whole Time Director and Chief Financial Officer. We will be starting the call with a brief overview of the financial performance which will then be followed by Q&A session. I want to remind you all that everything said in this call reflecting any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with uncertainties and risks the company faces. These uncertainties and risks are included but not limited to what we have mentioned in our annual reports which you will find on our company website and that is it. I will now hand over the call to Mr. Rahul. Over to you Sir!

Rahul Nachane: Thank you Abhishek. Good morning and thank you for joining the call today. I am delighted to provide you with an update on the performance of NGL Fine-Chem Limited for the fourth quarter of FY2023. I will spend a few minutes to share the highlights of our performance and address the challenges we have faced in recent months before we open for questions.

First and foremost, I am pleased to inform you that we have successfully maintained our trajectory towards sequential recovery in our business as we had anticipated and communicated earlier. Our operating margins for the quarter recorded a significant improvement primarily due to notable decrease in raw material prices. Alongside this favorable factor our diligent cost management practices have played a crucial role in enhancing our overall profitability. However it is important to acknowledge that the demand for our products has remained relatively subdued. The prevailing high level of uncertainty among our end customers caused by the ongoing crisis in Europe and elevated inflation rates in several countries has led to cautious behaviour and measures to rationalize inventory levels. As a result we have experienced muted demand for our products. Furthermore we have also been impacted by currency crisis in certain regions notably among countries such as Turkey, Bangladesh, Egypt and Pakistan. The adverse economic conditions in these areas have further dampened the recovery of demand for our products. Looking ahead we anticipate that the operating environment will continue to present challenges for the next two quarters; however, I am proud to announce that despite these difficult circumstances we have managed to maintain our market share. We have also introduced new product offerings and expanded our product portfolio to 24 products in veterinary API segment and two in the human health segment. Validation batches for these new products have been completed and we have initiated the process for obtaining customer approvals.

In terms of capacity expansion plans we have made the strategic decision to temporarily slowdown the execution speed due to the availability of spare capacity at our existing site. This approach ensures optimal resource allocation and cost management. As the operating environment improves and visibility is restored we will expedite the execution phase accordingly. Importantly I want to emphasize that until we see demand recovery we are averse to funding this expansion through borrowings and we will strive to fund our capital expenditure using the internal accruals generated by our business.

Now let us turn our attention to the key headline numbers for the fourth quarter of FY2023. Our revenue from operations amounted to 73.89 Crores representing a 2.72% increase compared to the previous quarter and a 12.1% decrease year-on-year. The EBITDA stood at 12.97 Crores reflecting a robust growth of 32.2% quarter-on-quarter and 22.7% year-on-year. Our EBITDA margins improved to 17.55% recording an increase of 391 basis points quarter-on-quarter and 498 basis points year-on-year. Finally our profit after tax is 9.32 Crores marking a growth of 43.6% quarter-on-quarter and 35.66% year-on-year. Before I conclude I want to express my deepest gratitude to each and every one of you for your unwavering trust and steadfast support. Rest assured we remain fully committed to delivering long term value to all our stakeholders. I would just like to add that going forward we plan to hold analyst calls on a half yearly basis. I am now happy to open the floor for any questions you may have.

Moderator: Thank you. We will now begin the question and answer session. Our first question comes from Rahul Jain with Credence Capital. Please go ahead.

Rahul Jain: Thank you for the opportunity. First of all congratulations Rahul in a tough environment we have followed the prudent principles in terms of cost realization and which has helped our margin improvement trajectory as promised by you two quarters back. So the first question itself is on margin, so going forward given the prices of products and raw material prices do we expect the gross margins which we have reported in this quarter March 2023 to sustain and further improve as we go forward, my next question is about the capex you have said that we are doing a bit slow earlier our plan was to complete this by March 2024 so based on the current situation when do we expect this Greenfield capex to pickup and lastly with regards to our revenue so typically with the prices being down and the topline which we have done so what kind of volume growth we have done and is the revenue growth volumes are growing but the prices are low which is where the revenue growth is still sometime away or how do we look at the revenue growth going forward considering that we have launched four new products?

Rahul Nachane: With regards to gross margins things are still in a very good position right now. When demand is down there is obviously oversupply in the market and there is intense competition amongst sellers to meet whatever little demand exists in the market. So until that equilibrium is reached again there will continue to be pressure on selling prices. Now we were aided by lower raw material cost in the last quarter which has been coming on the back of a steady decrease in most chemical prices over the last three quarters. Probably around May 2022 and since then have been coming down gradually over the last one year and chemical prices more or less seem to have bottomed out now. With decrease in prices and lower pressure there has also been pressure on selling prices for us. So for the next two quarters there is going to be a pressure on margins and the margins may move a little bit sideways plus minus 2%, 3% from where we currently are. Once we see a demand recovery we are confident that margins will go back to the earlier levels which we have attained over a 5-to-7-year period. With regard to the capex we have deliberately slowed it down because in a market which is where we see demand growth a little tampering down. We did not see the need to borrow and invest in a project, so we are funding the project a little more slowly. So yes earlier it was planned to go on stream by March 2024 and we may see a further delay of anything from six months to a year on that but again it is more like a wait and watch thing I would not like to put a date on it. We are very sure that once we see demand recovery within a period of one year we can execute the entire project because we are fairly advanced with the civil construction. We have identified equipment, started entering into discussion with equipment suppliers so our equipment are only selected. Final price negotiations and placing of orders will be done only when we see the demand recovery actually coming and your last point with regard to volume growth yes price realization has definitely decreased for us in a number of our products therefore to attain the same sort of topline we need to sell much more quantity luckily we have been sort of supported by the new products which we have launched. Quite a few have been in the $100 plus range and therefore though the volume growth has been affected we have still been able to hold on the top line. I hope this answers your question.

Rahul Jain: Yes sure and just on the product side with regards to increasing new products and you mentioned in your initial remarks the validation part over or almost done and in the previous call you had mentioned about five new products coming in and the commercial supply is to start so as we speak now with regards to these five new products how many products are in the commercial supply stage with regards to the balance, so what is the schedule of this new product commercial supply getting started?

Rahul Nachane: We have gone up from a total basket of 22 products to about 26 products now which are commercialized and being sold. We have got another six products which are being worked in the laboratory and in the pilot plant at various levels so we hope to take our total product line up to 35 products over the next two years now.

Rahul Jain: Thank you so much Rahul. Wish you all the best. I will come back for further questions. Thank you.

Moderator: Thank you. Our next question comes from Vishal Prasad with VP Capital. Please go ahead.

Vishal Prasad: Hi good morning. Sir in the past we have mentioned market size for 22 products is 1500 Crores so is this the world market or we are talking about rest of world market size, if you could tell me the world market size for 22 products not world but rest of world market size and also if you can tell me the rest of world market size for top 10 products that will be helpful, also in the past we have mentioned that we are number one in six products and number two in other five so is this hold or is there some change?

Rahul Nachane: For the market size for our top 22 products when we say it was 1500 Crores that is of course the world market not just the India market and it is a world market size in terms of the API sales not in terms of the finished product sales. I unfortunately do not have the market size for the top 10 products to give you across the table right now and with regard to our market leadership size we continue to be number one in our top three products and number two in five so there has been no change in that and we have been to hold on to our market share in these products.

Vishal Prasad: This 1500 Crores you say this is the market size world over but we generally do not supply in the developed markets so if we try to remove EU and US then roughly what would be the market size for our 22 products?

Rahul Nachane: So the products which we are doing close to about 70-75% of these products are basically tropical disease products so there is very little demand in the US and Europe for those so there will be probably about 25-30% of the products which we do which have got a demand in the US and Europe I think we can probably remove 250 or 300 Crores out of it but I am just guessing. I really do not have that sort of a number to tell you straightaway right now.

Vishal Prasad: Even if we remove 500 Crores out of that and we will go with 1000?

Rahul Nachane: I did not say 500 Crores. It would be in the range probably of about 250 to 300 Crores. I am guessing on this and please do not quote me on this again because it is a very offline question and it is just a guess right now.

Vishal Prasad: I understand so out of 1200 Crores we are doing close to 200 Crores so we are just having 15-18% market size in 22 products and when we say we are number one in three and number two in five so if I say for top eight products we are close to 50% market share, the numbers are not matching somehow for 800 products if we say the market size is 600 to 700 Crores and we are doing 150 Crores it is just 25% out of it?

Rahul Nachane: But that will also depend on the total market size of each products so I cannot add more to that right now.

Vishal Prasad: Sure thank you Sir.

Moderator: Thank you. Our next question comes from the line of Darshil Pandya with Finterest Capital. Please go ahead.

Darshil Pandya: So basically majority of the questions are asked so I have two to three questions a few more questions I will ask in one go so as you said the capacity expansion plan has been slowed down so that assumes that we have a lot of capacity in the existing plant so can you just provide a number as to what capacity utilization we are running at currently?

Rahul Nachane: We are probably at around 75-80%.

Darshil Pandya: Sir you said that there are new products added to the total product count so can you please provide how much revenue this new product can generate over the time?

Rahul Nachane: So out of the 22 products which we were doing earlier the total market size was about 1500 Crores and we are probably at just about 15-18% market share for the overall, so for the four new products we have added I really do not have a number to share with you right now, but these are all basically products in the range of about 30 to 60 Crores sort of market size for each of the products.

Darshil Pandya: One final question Sir have we added any new customers within the quarter how is it like?

Rahul Nachane: Customer addition is a continuous process so yes we have added new customers during this quarter also.

Darshil Pandya: Any number specific?

Rahul Nachane: I will need to check upon that so give me some time somewhere during this conversation I will come back and let you know.

Darshil Pandya: Just one final question Sir. In many of the calls we are hearing that China has again started up ramping up its production and they are like easily dumping up so do you have any views on this or is it affecting our business or something that helps us to understand more?

Rahul Nachane: So as I said see we are right now in a situation where demand supply has shifted so our demand has fallen drastically supply has remained stable it is not just China dumping it is also lot of Indian companies dumping so let us not just point fingers at one country but it is a worldwide phenomenon where lot of suppliers are chasing very few buyers and this will continue until the demand stabilizes or equalizes so yes we are facing pressure and it is not just from Chinese companies it is also from our Indian competitors.

Darshil Pandya: Got it Sir. Thank you so much and we expect that you come up with good numbers going forward.

Moderator: Thank you. Our next question comes from Ankit Gupta with Bamboo Capital. Please go ahead.

Ankit Gupta: First of all congratulations on a decent set of numbers in tough environment. On the demand side where are we in terms of the inventory destocking in the past five, six quarters we have seen severe inventory destocking across the geographies that we target so in terms of inventory stocking where are we and when do you think the demand will come back that was my first question, second question was on we were under the impression that newer products which are being launched will be launched from the new Greenfield capacity which was coming up and now it seems that we are also manufacturing in our existing facilities so if you can give some thoughts on that and the next 10 set of products or the next 10 set of new products that we plan to commercialize over the next two years so they will also be manufactured in our existing setup or not and my third question was on the existing capacity or the existing capacity that we have how much revenue can we generate from it now at optimal capacity utilization given the price decline that we have seen and if you can also share we will also be increasing the proportion of outsourcing which you have seen in earlier calls that we have reduced so if you can give us a ballpark number on how much revenue can we generate from our existing facility?

Rahul Nachane: Thank you for your question. With regard to the inventory destocking which is taking place across the world different countries are at different levels right now but probably we are looking at the tail end of that whole exercise. It seems to have been completed in most of the countries or customers we are speaking with and the few which remains will probably end up consuming their stocks either in this quarter or latest by the next quarter. With regards to new products which we are manufacturing all our facilities are designed as multi-product facilities so it is very easy for us to move from one facility to the other and fill in capacity. So the new products which we were doing all of them were not planned only for the new facility in mind because that was still any which ways planned to come up with 2024 so whatever new products which we are doing we are filling in existing capacity only. At the existing capacity I have said this earlier also that we have a revenue potential in the range of about 350-380 Crores with the capacity which we have got and finally with regard to outsourcing we have more or less brought down the total quantity of products which we have outsourced and our total outsourcing over the last 18 months has decreased substantially and I will not count whatever we do at Macrotech as outsourcing because that is our 100% subsidiary so ignoring Macrotech our outsourcing is probably just about between 1 and 3% right now and it was our objective to take it up to 15% years ago when demand was going up so we have brought down outsourcing with two intentions number one why keep capacity idle in our own factories, number two outsourcing is relatively more expensive so why outsource and why not cut the cost when the opportunity exist, but as and when demand arises this is something which can go up again. I hope that answers your question.

Ankit Gupta: Sure Sir so when the demand comes we can increase the outsourcing and that can also revenue potential from our existing facilities?

Rahul Nachane: That is right.

Ankit Gupta: Broadly our ballpark number that you can give on how much has been the realization decline in our top three or top five 10 products across the board how much has been the decline in prices over the past year or so?

Rahul Nachane: It varies from product-to-product. In some products we have been lucky that the decline is not more than 5 to 6% but there are some products where we have seen a 25% decline also, so on average I would say that the decline in price realization is in the range of 15 to 20%.

Ankit Gupta: Thank you and wish you all the best.

Moderator: Thank you. Our next question comes from Dhwanil Desai with Turtle Capital. Please go ahead.

Dhwanil Desai: Hi good morning Rahul so my first question is you have mentioned that we will go slow on our new capex now you also mentioned that we are operating it around 75% capacity utilization so just thinking about that is it possible that since the demand has been dampened and inventory destocking has happened if suddenly demand comes back and channels are empty then is it not better to have capacity in hand considering our balance sheet is in very good shape so how do you think about that so that is the first question, second question is if I look at the customer concentration I think this year looks like that large customers have been giving more business and the long tail that we have had the business has declined so any dynamics at play there, third question is I think we had China has a very decent market and that market was not available because of the lockdown now China has opened up so how the business is normalizing over there and I think last year we degrown from FY2022 base so looking at FY2024 with things normalizing maybe three, six months down the line and new products do we expect any growth from FY2023 base I think we were looking at some 20% kind of growth of FY2021 base if I remember correct?

Rahul Nachane: Thank you Dhwanil. Regarding your first question if demand suddenly comes back then what we do with this so right now as I said we are fairly confident that as and when we see demand recovery we can set this capacity within a period of just one year so what we have been doing is we have not been sitting idle, civil work, RCC work especially is almost 90% complete at the project as of now. Equipment selection and equipment identification process has been completed. What we have not done is we have not entered into commercial discussions and place orders so we are fairly confident that within a span of 12 months from the time we decide we should be able to get this facility up and running. The flipside of having capacity setup right now is number one it is a fairly large explanation for our company. We will have to take debt on the books interest rates are going up right now, so we will be faced with a double whammy number one we will have a higher interest and depreciation cost on our books at the same time the plant will have to be stopped because you cannot have a plant and keep it empty so it will be a drain on the books if there is no demand recovery coming up. So it is a question of how to balance these two sides at any point of time. We feel that we have adequate potential to accommodate up to 20-25% growth in our existing plants and probably another 10% growth can be accommodated by outsourcing certain products so we have upper leeway of accommodating growth anything up to 30-35% so with this kind of leeway we would prefer to not put ourselves in a situation where we are faced with increasing costs with no revenue-earning potential on the horizon. The second part with regard to the customer dynamics so there has been definitely a change we find that there are some customers who are buying more now and at the same time when we say the top 10 customers or top 15 customers even the mix of those customers is changing right now for us and that is because some major customers who bought more in earlier years are now holding on to inventory so they are cutting down. Some markets where customers are buying more so it is a very dynamic situation and in this time, I would not like to say that this a long term shift which has taken place it is more a short term in nature shift probably it will pan out by the end of this year. With regard to China you are perfectly right China has been a very good market for us, in fact two years ago it accounted for close to about 13-14% of our sales and we have seen a major drop in our sales to China and though China is coming back right now so from February they have started opening up the Chinese customers have still not entered the market yet. They are still are saying that they are holding onto stocks so their inactivity levels for the last so many months that they are the people who are still holding onto stock and this business probably will not come back for at least another six months is what we think so probably calendar year 2023 might just go but demand potential is still very strong in China and hopefully 2024 will turn to be a better year. With regard to the growth potential for this year we are still saying that the first two quarters we will see subdued demand part of it is because of markets like China which is still destocking and lot of it is also because of the currency crisis hitting lot of economies across the world right now so we talked about a little bit of Egypt, Pakistan and Bangladesh little earlier but this currency crisis is actually now much more wider spread and we also see that in number of African countries, a few Latin American countries and not having currency means that customers are not able to get the currency to import goods. So though there is some demand in these countries we are still not able to book the order because we are not able to open LCs. So hopefully this sort of situation will also normalize. It is something which has come up by spending too much money is what I guess in the last three years during COVID so we will see a recovery coming in that but the basic demand requirement exist and probably just a blip of a year or two which we will see now.

Dhwanil Desai: Do we expect the same level of revenue or are we expecting growth or we are not taking any view right now?

Rahul Nachane: I am unable to give any guidance on that for the current year.

Dhwanil Desai: Got it and just a followup on this capex I think again we had said that even though capex may take time we will do pilot thing ready so that we can start taking validation batches so that process also has been slowed down or that is continuing as it is?

Rahul Nachane: It is continuing that has not been stopped but again as I said we are doing at a little slower pace so it might be instead of the first quarter of 2024 probably might come up in the second quarter of 2024.

Dhwanil Desai: Right but the idea is still that we will have validation and everything completed by the time the plant is ready to commercialize.

Rahul Nachane: Yes that is the intention.

Dhwanil Desai: Got it thanks.

Moderator: Thank you. Our next question comes from Rajat Setiya with ithought PMS. Please go ahead.

Rajat Setiya: Thanks for the opportunity. First of all Sir big thanks to you and the whole NGL team for brilliantly executing during these tough times we are swinging back to the normal levels of margin although still some room to grow from there. However, the way we have kept our operating expenditure in control in this year despite slowdown it has been commendable and thank you so much for that. Coming to the questions so the first question is about the new product that we have launched, one if you can talk about the competitive scenario on these products and secondly I think sometime in the past we had mentioned that some of the new products will be in high volumes and low price products where probably market size overall is very huge and for the first time as a company we would be entering such a space so if that understanding is correct if you can help us understand what is our strategy in terms of making a name for ourselves in this kind of market and second question is how are the raw material prices compared to the pre-COVID levels are we back to those levels or are we still above that and similarly for power and fuel cost where are we right now compared to pre-COVID and do you expect any breather from here onwards or do you think now prices have stabilized and would not expect any longer movement, the next question is about top three products which contribute I think around 50% of our sales so how is the competition in these three products right now in terms of any new player coming in or you have talked about that there is pricing pressure for sure other than that anything different in the competitive scenario and do you see any risk from here onwards in the top three products and do these top three products also contribute in the same way to the margin at the company level or are they lower or higher at the company level and finally how do you see NGL shaping up over the next 5 to 6 years? Thank you so much.

Rahul Nachane: Thank you Rajat for your questions. With regard to the new products which we are doing I will just give a little bit of industry background out here. The veterinary product industry and I was speaking only of the API industry out here. It is extremely rare to have production being dominated by just one or two companies. For most of the products there would be anything from five to 15 different manufacturers based both here in India and in China so it is a fairly open market with quite a lot of competition. The new products which we are doing we are not the first ones to come into these products. These are all products which are out of patent so we definitely do not have the first mover advantage in these but that has been our strategy all along. We have always gone in for products which have been out of patent and it has worked out till now for us. The competitive scenario exist it will remain more competitive also going forward and especially in the current times where demand is low it has definitely become more competitive and brought in pressure on pricing of the FAS products also. With regard to the products which we are doing we had mentioned that we will also add a few of the high volume products to our product basket which may lead to lower margins for those products those have yet not been commercialized so those are still in the pilot plant space and we hope to have them commercialized in the later part of the current year. With regard to the raw material scenario prices are definitely not at pre-COVID levels but just post-COVID and especially after the Russia Ukraine crisis which took place raw material prices were at peak around May 2022 and from the pre-COVID levels they have gone up by almost varying from product-to-product anything from 200% increase up to 350% increase and they have come down now though not at the pre-COVID level they are roughly in the range of about 50 to 75% higher prices than the pre-COVID levels but prices have been coming down and especially in the last four months especially in Q4 last year they came down substantially when China came back. Power and fuel cost power cost is stable there is not much change in the power cost but fuel costs are up. We moved over to clean fuel about three years ago and because of the gas shortage going on gas prices have not come down though oil prices have come down so we continue to face pressure on the fuel cost front. On our top three products we are not the sole producers there are at least five to six competitors in almost all of them. There are new companies trying to enter the front also in fact there have been two new companies which tried to enter in these products during the last year so the competitive continues, competitive risk always exist. It is our thought process and our effort to ensure that we retain our market in these products and we have been successful in doing so till now. With regard to NGL shaping up over the next five to six years, yes, we have plans for expansion. We hope to get our products registered in Europe and start approaching that market also which we have not approached till now which we will definitely do through the new facility. So there is ample opportunity for growth available in this market and we look forward to growing in these markets in the next five to six years.

Rajat Setiya: Sure thank you so much for the detailed answer to each and every question. One or two followups so for the raw material prices do we expect them to come back to pre-COVID levels and similarly our gross margins to come back to what we were doing earlier say 55% plus?

Rahul Nachane: It is really difficult to answer that question because commodity chemical prices are actually over here so the prices are still high so items like caustic also which used to be the range of about 30-35 are still at 50 plus prices but they have gone up to almost 85 plus so in a way it has come down substantially from that peak but it is still higher. So we have to see how it plays out.

Rajat Setiya: With regards to European registration whenever we decide to do it whenever we think we are ready so how long does it really take for the filing registration, how long does it take for the approval and secondly what is the cost of registration?

Rahul Nachane: So we have actually already filed for European registration for three of products. We did this filing last year. Pre-COVID it used to take anything from 8 months to 12 months to get this approval but post-COVID they are taking as long as 18 months to give approval so we hope to have registration approvals by the end of this calendar year for three products. We plan to file for another three products by the end of this year so those approvals should come through hopefully in 2025 and this is being done from our existing plants right now.

Moderator: Our next question comes from S Chatterjee with Asterisk Capital. Please go ahead.

S Chatterjee: Hi Sir thank you for the opportunity. I had two questions. I am saying if you look at the broader picture say after three years in FY2026 when our Tarapur facility is commissioned and we are also increasing our outsourcing then we can get back to our early margins like 25% which you used to be the guidance and our revenue can also go up to 650 Crores right approximately?

Rahul Nachane: So we have always maintained in this market 25% plus EBITDA margins are virtually difficult to meet. We have always given a guidance from 17% to 23% is what we aim to achieve.

S Chatterjee: My second question in recent times we are going for poultry and companion animals also earlier we used to be only for farm animals so say over a period of five years can we see significant revenue from this poultry and companion animals and is for companion animals margins are better that is my last question?

Rahul Nachane: So what happens is that most of the API which are used for farm animals also can be used for companion animals and this with regard to antibiotics, so the API is the same it is only the end user changes and there are very few which are exclusively for companion animals most of them have various fungibilities now the biggest market for companion animals lies in Europe and in the US. So when we start registering our products over there those are the customers who are in the end selling for those markets we will able to approach them also.

S Chatterjee: Okay Sir which means currently our progression partners are mainly catering to farm animals right, they are not very much into companion animal?

Rahul Nachane: That is right yes.

S Chatterjee: Thank you and good luck for the year. Thank you Sir.

Moderator: Thank you. Our next question comes from Tarun Sancheti with Sanchay Capital. Please go ahead.

Tarun Sancheti: Well congratulations for a great set of number, so coming to the question I think in response to one of the previous participants' question you mentioned about three filings for European union I do understand that you have CEP filing for three products wanted to check the status of that have we received the approval for European region?

Rahul Nachane: Approvals we have not received.

Tarun Sancheti: So any tentative timeline by which we can really see the approvals for those products?

Rahul Nachane: We hope to see it by end of this calendar year.

Tarun Sancheti: Directionally from a market perspective and I do understand that couple of products are very limited competition out of those so how big that market opportunity or those particular products could be if you can set some colour on that?

Rahul Nachane: Yes see the market opportunity is large for these products but there are already existing companies in it we are not the first to supply but there are Chinese companies and Indian companies who are already in it mainly the competition comes from China in this because they have over 90% of the market when it comes to supply to Europe and US.

Tarun Sancheti: I was going through this EDQM database and looks like at least as of today there would be one or two products in their reserve very limited competition so are you seeing that you people have already registered and they will get the approval before us is that the way to read it?

Rahul Nachane: There are at least five, six companies who have already registered those products they already have a CEP.

Tarun Sancheti: Fair enough. Thank you. That is all.

Moderator: Thank you. Our next question comes from Rohit with ithought PMS. Please go ahead.

Rohit: Rahul most of the questions have been answered but just to understand this whole cycle better so if you look at the history of our company last 10 to 12 years even in your past interaction you have always maintained and used to maintain that there is steady demand for our kind of products and one would also understand given the kind of end user industry that we cater to so just want to understand in the last two, three years what exactly really happened, is it like the demand got pulled forward and people wanted to buy a lot and hence because of the uncertainty if you can share a bit on that that will really help and you have been in this business for a very long time and how does it unravel usually just related to that in terms of supply side how are your competitors going through these tough times and if you can share a bit on that that will really help us understand the scenario better you already answered but just a bit more detail?

Rahul Nachane: See COVID was a game changer for many things out here with the lockdown and supply disruptions which took place. So we saw for extended period of time transportation came under standstill, manufacturing had slowed down and then when we were recovering from COVID 8 months, 10 months later there was this second wave which came out and then there was a little bit of worry across many countries what happens if there is a third wave and fourth wave so during 2021 and 2022 we saw large growth in demand from many countries and customers and since it was a medical emergency there was a feeling that people should stock up on medicines as much as they can and probably most of the companies out here sort of miscalculated the whole thing and third and fourth wave really did not materialize, did not lead to any logistical problems, operations went on as they were, the vaccine came out and people were left with holding large amount of stocks and people actually bought so large part of our growth from 2022 we went from 150 Crores to 315 Crores. Lot of it was not just by the normal growth of the market but by requirement of people to have stock so that they could even out any logistical processes if at all which come up and they did not stock out so the last year we have seen all those companies which held out the large stock are more or less now destocking their inventories and wherever we see that destocking has taken place now there is a new problem with regard to currency issues which customers are facing so these are things which are affecting the demand right now and again it seems more like a short term trend and by short term I do not mean couple of months, but it is something which will take probably a couple years to unravel. We are already good year plus into that cycle right now and it should probably continue maximum till the end of this year is what our feeling is.

Rohit: Given the end nature of these products which are sort of mostly necessary and in the normal course of one’s life and given that we had a COVID disruption and now we have issues like currency and macro disruption in country do you see whenever things resolve back the spring will again recoil and whatever demand which is being curtailed sort of comeback very fast is that understanding correct and you may have a similar situation what we saw may be not to that extent but something like the cycle will revert back or go back to the other side of the track very fast is that understanding correct?

Rahul Nachane: Yes as and when the cycle completes its turn then we should see the demand coming back.

Rohit: Can you talk a bit on the supply side as well how are other companies managing or are you seeing some companies sort of going out of business or going through a lot of stress given the last one-and-a-half years has been very challenging?

Rahul Nachane: So low prices does mean that companies which are not very competitive will definitely face pressure on their margins and profitability and once the products becomes unviable we will definitely see a scene where we will go in. So it is sort of a thing which keeps on repeating itself in this pharma industry and I have been seeing for almost 35 years now where companies come in say with a product for a few years, go out and when they go out somebody else starts coming in so it is a cycle which keeps repeating itself over a period of time.

Rohit: Just one last question our top three products, top five products and top three clients and top five clients in this quarter have gone up quite a bit is that more a quarterly aberration or have you gained share in these products with our existing clients as well so if you can just talk a bit about that?

Rahul Nachane: Quarter-to-quarter really does not give a comparison in this industry.

Rohit: Fair enough. Thank you Rahul. All the very best for the coming year. Thank you.

Moderator: Thank you. The next question comes from the line of Rushabh with Equirus PMS. Please go ahead.

Rushabh: Just a small question on the Tarapur expansion so originally we had planned 100 Crores expansion and due to inflation we said that it would be around 140 to 150 Crores and it was expected to start in November of last year so just wanted to know how much have we spent as of the date and have we taken any debt for that?

Rahul Nachane: As of March 31, 2023 our total expenditure on the Tarapur project was 25 Crores and advances given to suppliers were another 6 Crores so we had spent about 31 Crores and there was zero debt for that.

Rushabh: Thanks.

Moderator: Our last question comes from the line of Jainam Ghelani with Svan Investments. Please go ahead.

Jainam Ghelani: Hi Sir thanks for the opportunity I am fairly new to the company, so pardon me if my question seem a bit naive so this Tarapur expansion what is your capacity post the expansion and when it is expected to start as of now?

Rahul Nachane: We have not put a date on when we expect to start as I said we are just playing wait and watch game right now. As and when we see the demand coming back that is the time, we will figure out actually the entire expansion until then we are going at a slower space so that we can fund the entire thing from internal accruals.

Jainam Ghelani: What would be our capacity post the expansion?

Rahul Nachane: So typically this industry has a capital asset turnover ratio of anything from two to three. Let us say between 2 and 2.5 would be a good average to think about, on 150 Crores investment we should be able to generate probably in the range of 350 to 400 Crores turnover.

Jainam Ghelani: Thanks a lot Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen we have reached to the end of the question and answer session. I now hand over the call to Mr. Rahul Nachane for the closing comments.

Rahul Nachane: I would like to thank everyone who has shown so much interest in our company and thank you sparing your time to attend this call. As I have said we are moving to half yearly calls because there is not really much big changes within a three month period so I look forward to meeting with you again when we discuss the half yearly calls for FY2024. Thank you very much and have a good day.