NGL Fine-Chem Limited

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November 23, 2023

To,

Listing Department,	Listing Department,
The BSE Limited	National Stock Exchange of India Limited
Phiroze Jeejeebhoy Towers,	Exchange Plaza, 5th Floor, Plot No. C/1
Dalal Street, Fort,	G Block, Bandra Kurla Complex,
Mumbai 400 001.	Bandra East, Mumbai 400050.
Scrip: 524774	Symbol: NGLFINE

Sub: Transcript of concall with Investors held on 20th November, 2023

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 Monday, 20th November, 2023, enclosed herewith please find transcript of earnings conference call on unaudited Financial Results for the 2nd Quarter and half year ended on 30th September, 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 No unpublished price sensitive information was shared/discussed in the meeting.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: 2023.11.23 12:16:32 +05'30'

Pallavi Pednekar
Company Secretary & Compliance Officer
Membership No: A33498

Encl: As Above.

"**NGL Fine-Chem Limited**

Q2 FY 24 Earnings Conference Call"

November 20, 2023

MANAGEMENT:
MR. RAHUL NACHANE – MANAGING DIRECTOR
MR. RAJESH LAWANDE – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER

INVESTOR RELATIONS ADVISOR:
MR. ABHISHEK MEHRA – TIL ADVISORS PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to NGL Fine-Chem Limited Q2-FY24 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Abhishek Mehra. Thank you and over to you, sir.

Abhishek Mehra: Thank you, Neerav. Good morning everyone and thank you for joining this Q2-FY24 Earnings Conference Call of NGL Fine-Chem Limited. The results and investor updates have been uploaded on the stock exchanges.

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 the 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 the uncertainties and risks that 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. With that said, I will now hand over the call to Mr. Rahul. Over to you, sir.

Rahul Nachane: Thank you, Abhishek. Good morning to all of you. I am Rahul Nachane, Managing Director of NGL Fine-Chem. A very good day to you and thank you for joining us today for the Q2-FY24 earnings call of NGL Fine-Chem Limited. I trust this call finds each of you in the best of health and cheer and I hope those celebrating had a safe and enjoyable Diwali season. I am pleased to present to you the financial highlights and our company's performance for the Q2-FY24.

It has been a strong quarter for our company. Our revenue from operations showed a healthy increase, marking a 13.5% growth over the previous quarter and an 18.4% growth year-on-year. Sales stood at INR80.18 crores for Q2-FY24. Our EBITDA margin recorded a significant improvement to INR13.97 crores, reflecting a close to a 45% increase quarter-on-quarter and about a 52% increase year-on-year. This performance positively impacted our EBITDA margins, which now stand at 17%, a 312 basis point improvement over Q1-FY24 and a 347 basis point increase from Q2-FY23.

Profit after tax reached INR10.48 crores, showcasing a 23% growth since the last quarter and a 124% increase from the same quarter in the previous year.

As we delve deeper into the performance of the quarter, it is evident that the strategic decisions made have borne fruit. Our operational performance has been robust and we have successfully translated it into sustained growth, even amidst economic uncertainties and global headwinds. This growth is especially significant as it comes at a time when the industry-wide average realizations have seen a year-on-year decline.

However, we have countered this with substantial volumetric growth and we anticipate that this momentum should carry forward into the subsequent quarters. Our margins have recorded favourable shifts thanks to a significant reduction in raw material costs. This has allowed us to bounce back to our standardised margin levels.

Staying put to our prior guidance, we maintain that our business sustainable EBITDA margin profile will persist in the 17%-22% band. While demand has shown signs of recovery, we remain vigilant for the persistent challenge. Issues such as currency availability in markets like Egypt, Pakistan and Turkey have adversely impacted demand.

Although our direct exposure to African markets is minimum, the currency volatility in these regions has an indirect influence on our operations through its effects on our customer base. Our resilience during these challenging times was bolstered by our broad and diversified API offerings, as well as the ongoing expansion of our portfolio. Our strategic choice not to be overly dependent on any single product, customer or geography has served us well as we have seen a resurgence in demand for several of our long-standing products.

On the capital expenditure front, we have maintained a measured execution pace. We are waiting for more definitive signs of demand recovery before we expedite our capex rate initiatives. Until then, we remain committed in funding our capital expenditures from the internal approvals generated from our business operations, thereby avoiding the need to leverage our balance sheet.

Now as we look ahead, we do so with cautious optimism. The indicators are promising and the strategies we have in place are robust, but we are ever mindful of the fluctuating market dynamics. As I draw this opening address to a close, I must issue an important disclaimer.

We have observed that competitors might have used the detailed information from our public disclosures to their advantage. Therefore, we will be exercising greater discretion in the details we share going forward. We request your understanding and cooperation in refraining from asking product-specific questions during this call, as such queries will not be entertained.

This step is crucial to safeguard our strategic interests and maintain our competitive advantage in the marketplace. With that overview, I now open the floor to any questions you may have, keeping in mind the disclaimer I have shared. Thank you.

Moderator: Thank you very much. The first question is from Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Thanks for the opportunity. Congratulations, Rahul and the team. We have really done very well in the last 2-3 quarters, in spite of the environment being quite tough. So, Rahul, with regards to your initial comments and also the press release, first of all, on the gross margin side, we are back to our gross margin, the normalized gross margin of around [55% - 56%].

And I understand from your initial comments that currently the product prices or the relations are still lower. So, two parts to it. One, is this sustainable going ahead? And also, is this largely due to the raw material price being favorable to us? Or is there some product mix change also? That is my first question.

Rahul Nachane: Yes. Thanks for your interest and your call. With regard to your first question, whether this is sustainable, well, I would like to just give a cautious sort of a note over here that this is the first quarter where we have seen the recovery coming out well. If you have seen over the quarter-on-quarter, starting from early this year, i.e Q4 of the last financial year, Q1 of this year, and now Q2 of this year, it has slowly been improving. And I am quite optimistic now that our worst part is behind us. And going forward, we should be able to look at things with optimism.

But I would just like to add a note of caution that there are too many changes now taking place in the geopolitical area. So, there is a lot of political uncertainty coming and this tends to impact business sooner or later. So, I would be a little bit cautious probably for another one or two quarters before I commit how sustainable these margins are. Again, I reiterate, I am cautiously optimistic and your second question was, was this because of change in product mix or was it because of the raw material prices?

So, in this, I have to tell you that it is largely because of the raw material prices coming down. Because there has not been any drastic change in the product mix as such. But chemical prices, which were at a sort of a peak last year, have more or less fallen down to not probably their pre-COVID levels yet. But they have retraced at least 60% - 70% of the gains which they had earlier.

Rahul Jain: And with regards to the product prices for us, what is the trend like? The way you mentioned the raw material prices have retraced. So, on the product prices side, if you could share some details.

Rahul Nachane: Well, on the selling prices also, we have seen a fall in our price realization. And prices have gone down. It varies from product to product. And also depends on the depth of competition for each product. So, we have seen products coming down right from 15% to almost 40% in terms of selling price.

Rahul Jain: And, sir, with regards to the geography-wise and customers and product-wise, we have been observing for the last 2-3 quarters, the product concentration as well as the consumer concentration in regards to the top teams has been reducing and also on the geography side. So, is this growth which is coming in now becoming like you have entered some new markets and those new markets are giving us growth and at the same time, the new customers are giving us the growth?

Rahul Nachane: Geography-wise, there is hardly any change actually. It's more or less stable but what you are saying with regards to product is definitely true. Our product concentration is coming down. So, about a year ago, we had almost 75% coming from the top 10 products.

Today, our sales that top 10 products contribute to is only about 65% of our sales. So, this is because the newer products which we have introduced have started gaining strength and now, it's a much wider basket. And therefore, reliability on any particular product is gradually coming down.

Rahul Jain: Last question from the capex. You have mentioned that you have gone slow and typically utilized your internal equipment till now and not tried to borrow funds at a time when the demand was not suitable to us but with the current scenario, the demand improvement is being there. So, when do we expect the capex being accelerated in terms of the money being spent? And what kind of timeline we can see for the greenfield capex to come through?

Rahul Nachane: Yes, meaning, right now, as I said, we are a little cautious, cautiously optimistic. We will probably wait for one more quarter to see how things go before we commit ourselves completely to this. So, we will probably take our call early next year, next calendar year.

Moderator: Thank you. Next question is from the land of Ankit Gupta from Bamboo Capital Partners. Please go ahead.

Ankit Gupta: Thank you for the opportunity and congratulations for the revival that we have seen in this quarter, Rahul and team. On product realization, Rahul, are we nearing the end of product prices correcting or you still feel that the correction is left in the market and your views on price realization going down further from here? and how much has been the price realization fall on an average across our 25-26 products?

Rahul Nachane: So, it's very difficult to predict whether we have reached the bottom and things will go up or not but my personal feeling is we are more or less at the bottom of the bell curve right now. It should definitely go up from where we are right now in terms of realizations and pricing but as to whether this will happen in the next 6 months or a year, that is a big question which I cannot answer, frankly. So, we have to wait and watch and see how it goes. But I am pretty hopeful we are more or less at the bottom of the bell curve.

Ankit Gupta: And how much has been the fall, let say compared to last year? How much has been the fall in prices? And if we compare the current prices, let say with pre-COVID prices, are we near that prices or have we fallen below that?

Rahul Nachane: As I said, it varies from product to product. There are some products where we have seen a 15% drop in realization. There are some products where we have seen a 40% drop in realization. So, it just varies over a wide margin and it depends on the depth of competition for each product.

Ankit Gupta: And for some products, have we seen prices below pre-COVID levels also or it is still higher than pre-COVID for most of the products?

Rahul Nachane: I had not put a thought to that actually, but let me think about it. I would say that we are more or less at the pre-COVID levels, yes. In some we are probably lower than the pre-COVID levels also.

Ankit Gupta: Okay. My second question was on the current capacity utilization at our standalone and Macrotech level. what is the current capacity utilization? And let's say, we are at INR80 crores quarterly run rate, at full capacity utilization with some outsourcing that we used to do when the markets were buoyant, what kind of revenue can we do from the existing infrastructure, given the price fall that we've seen in the products?

Rahul Nachane: I think, we will probably be able to do between INR350 crores to INR400 crores, along with a little bit of outsourcing because we are doing very little outsourcing now. Everything is being done more or less either at NGL or at Macrotech. We will probably start outsourcing in the next three months, so that we start building up capacity gradually as the markets come back.

Ankit Gupta: And we were in like two years back, we were also looking to increase our outsourcing from, let's say, 5% to 15%. That also maybe in case you face some capacity constraints, hopefully, over the next two quarters, three quarters, we'll also be looking to increase that. And with that, can we touch, let's say, INR450 crores kind of revenues from existing setup?

Rahul Nachane: That would be a little ambitious. I would still go by, let's say, up to INR400 crores is what I think we can do with current levels.

Ankit Gupta: Okay. And...

Moderator: Mr. Ankit, sorry to interrupt you. Just request you to come back for a follow-up question. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: First of all, sir, it's a pleasure to see the company coming back to the normal runway, given the challenges that we have still seen in the industry. So it's a good thing to see our performance and the resilience of our business model.

Now coming to the question, sir. One thing which I just be given -- having flagged the company for so long is that at one point, we were at a point where we wanted to expand the capacity and seeing the market condition, we had slowed down our plans quite a bit. Even now, you said that maybe start of calendar year is where you'll take a call on that part.

Can you share more of your thoughts on the expansion? Where we are, where we -- how do we want to proceed on that? And by when do we intend to complete the whole of the capex? And also on the product development side, which is something which would be very critical for us to grow from the levels we are to the next level if we have to?

Rahul Nachane: Yes. So as I said, we are still cautious on doing more at our price investments. I'm not sure whether the recovery is complete, and when recovery is completed and things will start going up. So we will probably take this call early next year on the investments. But just to inform you, we have proceeding with the investment right now at a much lower speed, of course.

Close to 90% of the RCC civil work is already completed. And some equipment ordering in terms of long delivery item has already started, but we are not fully committed to putting all the equipment in, machinery in. But once we decide, it shouldn't take us more than 12-15 months to complete the project. So we'll take this call early next year. So if we do that, then in '24 or '25, we should have the plant up and running.

Ayush Mittal: Okay. And what about the product development that like -- because one thing which I feel is that the product basket we currently have has its own limitations in terms of growth. So it is very important that we expand our product basket significantly so that we can tap new further figures and do the scale up?

Rahul Nachane: Product development is going on well currently,, our total product range has gone to close to about 28 APIs now. So product development is going at a pretty good rate. I did not understand the question. What was that?

Ayush Mittal: No, no. What I was trying to get the insight is more on these new products, like the new product basket. If you are expanding the product basket, how are we doing on that front? and if we are doing much more on that part? Expanding this basket further, like from 28, do you -- are we on line to keep adding three, four, five products every year that we intended...

Rahul Nachane: Our target is to reach 35 APIs by '25. So we are very much on target with that.

Moderator: Thank you. Next question is from the line of Debashish Niyogi from Digitian Investment. Please go ahead.

Debashish Niyogi: So congratulations, first, for a very good set of numbers. You have been always cautiously giving guidance with respect to margins, volume growth and have been very open and transparent in answering our questions.

So my question to you, sir, is given that we are the market leader in the top 5 products and also gaining market share in the next five, can we also say that we have the chemistry skills. Now my question to you is that if we have both in this context, we should have pricing power. And you always said that we don't have pricing power, not even INR2 to INR3 -- in one of the con calls many quarters back. Why is it so, sir? Being a market leader and also having chemistry skills, you still don't have pricing power?

Rahul Nachane: Yes, so I would like to address that in two ways. Number one is that we are in a B2B business. And pricing power normally comes from -- more from either IP or from brand power. Now brand power does not exist here because it's B2B, and we are doing only generics. IP also does not exist because, again, we are doing generic products, which are out of patent for a long time.

So how do you get pricing power in a B2B business? It's generally not possible. That's the first. And the second part is that there's always competition. Now if we try to price products very high up, we will -- it will be very easy to flood the market because people will immediately start entering the market as competitors and the competition goes up. So margins will come down sooner or later. Pricing power in the B2B business is very difficult.

Debashish Niyogi: So sir, then what is our edge? If we being the market leader and we have also chemistry skills, and we are supplying to the top 5, top 6 global animal API players, then what is our actual edge? I thought maintaining great quality, and servicing on time, our retention of customers has been 99%. These are edge. So should that not indirectly give us pricing power over the years with sticky customers?

Rahul Nachane: No. See, in a B2B business, the buyer is always much well informed and as a policy, no company keeps a monopoly supplier. So they always spread the risk by buying from multiple sources. Now having said that, even if I am the, let's say, lowest cost supplier, no company will buy more than 60% of their requirement from me. 40% will still go to other two suppliers because they want to keep their supply chain intact. So pricing power does not work, not in a B2B business.

Debashish Niyogi: Sir, my second question, sir, is we are getting into every year two-three products almost and we target to get into 35. But the opportunity size of each of these products is very small. So in the pipeline to 35, do we have anything, you need not discuss in detail, like you said in the conference, in the beginning of the conference, about specific strategy of the product itself.

But do we have anything in pipeline to the build-up of 35 where the size of that particular product is huge with respect to either the product itself or where you are servicing with respect to geography?

Rahul Nachane: Yes, so we have slightly changed our strategy. So in addition to some niche products, we are also doing some volume products now and volume products have got a large potential, but at the same time, these are already existing products with multiple suppliers in place. What we are doing is, we are targeting those products where there are only Chinese suppliers. So we will probably be the first from India to start manufacturing these products. So we are offering basically customers a China Plus One alternative.

Debashish Niyogi: That's great, sir. Thank you, sir.

Moderator: Thank you. Next follow-up question is from the line of Ankit Gupta from Bamboo Capital Partners. Please go ahead.

Ankit Gupta: Thanks for the opportunity. In case, earlier we had indicated that for the new Greenfield capex, our pilot plant will be ready before the entire, the bigger plant comes on stream. So that, we will do the validation basis earlier and save on that three months, six months of stability studies, which we require for starting production from the new plant.

So, let's say if the new, if the Greenfield capex takes another 12 months to 15 months from the time we decide to go ahead with installation of machineries and all. So, will the pilot plant come into production earlier than the entire plant gets completed and we save on that, six months of time?

Rahul Nachane: Yes. The pilot plant is scheduled to start by Q1 FY next year.

Ankit Gupta: Okay. So that is expected to start even if we, let's say if we delay the starting of the entire plant?

Rahul Nachane: Correct. So that has not been stopped. Pilot plant work is going on right now.

Ankit Gupta: Sure and on our product basket, we have been targeting to add, five molecules every year. So, as you have stated that we have, also started looking at higher volume and, relatively bigger size of product. So, let's say, earlier our target molecule size was generally in the range of around

INR20 crores to INR50 crores. So, the new product that we have already added or which we plan to add, are those products, let's say their market size bigger than, what currently we have in our product basket?

Rahul Nachane: Yes, two of the products which we are targeting have a much larger market size.

Ankit Gupta: Okay. So that can be in, let's say, few hundreds of crores as well?

Rahul Nachane: Yes.

Ankit Gupta: Okay. And thirdly on the geography wise, can you tell us like some of the geographies which are doing well for us, let's say which have bounced back now and, where the demand is good for a veterinary product?

Rahul Nachane: Which are the geographies which have bounced back, you're asking?

Ankit Gupta: Yes. Which are doing well now and demand is back…

Rahul Nachane: Well, basically East Asia is bouncing back right now.

Ankit Gupta: Okay. And some of the new geographies which we are trying to penetrate and where we have got some success?

Rahul Nachane: Yes. As of East Asia has bounced back. Europe is doing well right now. Latin America is doing well. West Asia and Africa is still in trouble.

Ankit Gupta: Okay. Primarily because of the currency issues?

Rahul Nachane: Because of money problems. Yes.

Ankit Gupta: Okay. Thank you.

Rahul Nachane: Thank you.

Moderator: Thank you. Next question is from line of Faisal Hawa from H G Hawa and Company. Please go ahead.

Faisal Hawa: Going forward that we are going to be in some kind of an expansion almost every year. What is the ROC and ROE that we are targeting which we will maintain given that we are a B2B business and, as such pricing power will never come to us very easily. So will we maintain discipline on that?

Rahul Nachane: I am unable to, comment on that because we don't give forward guidance on our turnover or on our profits. But as I said, the long-term margins in our business are more like 17% to 22%. So, we have just reached the lower level of that level of that margin. We hope to take it to a little higher median going forward.

Faisal Hawa: Thank you so much, sir.

Moderator: Thank you. Next question is from line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Yes. Thanks for the opportunity again. One clarification in a previous participant, you said the pilot plant will start by quarter one of next year. So, you're talking about calendar year or you're talking about the financial year?

Rahul Nachane: Financial year.

Rahul Jain: Financial year, sure and sir, if you may permit to ask a question with regards to the product registration in Europe. In the quarter 4 call, you had mentioned that for three products, you expected to get approval by December and you were to file for approval for further three products. So, any details you can share on the same?

Rahul Nachane: Yes. So we have filed for. So, there are two types of approvals one can take. One is known as CEP and the second is by filing DMF. So we have filed for CEPs for three products. Unfortunately, it's taking much longer than we anticipated. Normally, pre-COVID, they used to give approval within about 15 months to 18 months. Unfortunately, right now, it's been close to about 21 months since our filing and there are still queries being raised.

So, they are doing it at a much slower pace as compared to pre-COVID levels. So right now, we think it might probably take another six months to get the approval and in addition to that, we have also filed for five products. We have five DMF in various countries in Europe. So those are also under registration right now.

Rahul Jain: Sure. So, this is three plus five, total eight, right?

Rahul Nachane: Three plus five. Correct.

Rahul Jain: Okay. And further on the product side, in the previous March '23 call, we had mentioned that we had gone from, we had added further two products. And also, we were trying to do validation of further two products. So, the commercialization of these four products has already started. The commercial sales have started?

Rahul Nachane: Right now, we have 28 products in commercial production. And so this was six months ago, which we had spoken. So yes, they are more or less now in commercial production.

Rahul Jain: Sure and for this one last thing, with regards to our Greenfield capex, you had mentioned that, we will go to the regulated market with our Greenfield Capex coming on stream, once it comes on stream and also, our pilot plant, you expect to start by next year first quarter. So are we preparing the groundwork for the introduction of some of these products in the regulated market from the Greenfield facility?

Rahul Nachane: No, the Greenfield is being done primarily for the regulated markets only, with that in viewpoint, yes.

Rahul Jain: Sure. So, basically the groundwork, the preparation in terms of product side, we are at somewhere advance stage of doing on the product side. Can that be a right assumption?

Rahul Nachane: Yes.

Rahul Jain: Sure. Thank you so much, Rahul. Best wishes.

Rahul Nachane: Yes. Thank you.

Moderator: Thank you. If there are no further questions, I will now end the conference. Over to Mr. Rahul Nachane for closing comments.

Rahul Nachane: Thank you everyone for participating in this call. If you have any additional questions or wish to engage with us further, please reach out to our investor relations partner, the investment lab. Their email address can be found on the back of the investor presentation. We look forward to our next conversation again. Thank you very much.

Moderator: Thank you very much. On behalf of NGL Fine Chem Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.