



Ami Organics Limited

CIN No. : L24100GJ2007PLC051093

Registered Office :- Plot No. 440/4, 5 & 6, Road No. 82/A, G.I.D.C. Sachin, Surat - 394230, Dist. Surat, Gujarat, India.

November 12, 2022

To,
The Corporate Relations Department,
BSE LIMITED,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort
Mumbai- 400 001

Scrip Code : 543349

Dear Sir/Madam,

To,
The Listing Department
National Stock Exchange of India Limited,
Exchange Plaza, 5th Floor, Plot no. C-1,
G-Block, Bandra Kurla Complex,
Mumbai -400051

NSE Symbol : AMIORG

Subject: Transcript of Earnings Call for Q2 FY23 financial results held on November 05, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 we hereby enclose the transcript of the Earnings conference call held on November 05, 2022 post announcement of financial results for the second quarter & half year ended September 30, 2022.

The same will also be available at the website of Company at www.amiorganics.com

This is for your information and records.

Yours faithfully,
For, **AMI ORGANICS LIMITED**

CS Ekta K. Srivastava
Company Secretary & Compliance Officer



Encl : As Above



**“AMI Organics Limited
Q2 FY 23 Earnings Conference Call”
November 05, 2022**

**MANAGEMENT: MR. NARESH PATEL – CHAIRMAN AND MANAGING
DIRECTOR – AMI ORGANICS LIMITED**

**MR. BHAVIN SHAH – CHIEF FINANCIAL OFFICER –
AMI ORGANICS LIMITED**

- Moderator:** Ladies and gentlemen, good day, and welcome to the AMI Organics Q2 FY '23 Results Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mehul Sheth. Thank you, and over to you.
- Mehul Sheth:** Thanks, moderator, and good afternoon, everyone. On behalf of Axis Capital, I welcome you all for AMI Organics Q2 FY '23 earnings call. Today from the management side, we have Mr. Naresh Patel, Chairman and Managing Director; and Mr. Bhavin Shah, who's the CFO of the AMI Organics. I now hand over the call to Mr. Bhavin Shah for his opening remarks. Thank you, and over to you, sir.
- Bhavin Shah:** Thank you, Mehul. Good evening, everyone. We are pleased to welcome you all to our earnings call for Q2 FY '23. 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 forward-looking statement must be reviewed in conjunction with the risk that the company faces. With that, I would like to hand over the floor to our Chairman and MD, Mr. Naresh Patel for his opening statement. Over to you, sir.
- Naresh Patel:** Thank you, Bhavin. Good evening, everyone. Welcome to our Q2 FY '23 earnings conference call. I hope you all are doing well and had a good break during the festive with your families. Before I discuss the business updates with you, I would like to discuss global trends and their impact on AMI.
- Global geo-political issues continue to have an impact on the economic stability and sustainability of various industries across the world. Europe has been one of the most affected regions with several industries running at low capacities or shifting products to other countries like India. For AMI Organics, the majority of our business goes into pharmaceutical production where energy requirements are relatively lower compared to other industries. Also, the demand for final products in the pharma industries remain stable due to its nature of being an essential product for Human Health. Therefore, we are relatively less affected by the energy crisis that has engulfed Europe. On the brighter side, I am able to see that the demand in the pharma industry is recovering and the industry is expected to see a strong revival in second half of FY '23.
- Coming to business updates. Our revenue for the quarter was INR 147 crores, which is a growth of 20.2% on year-on-year basis. In the previous earnings call, I mentioned that our business is structured in a way that our Q1 is always the smallest and with sequential growth every quarter. Q4 end up being the largest. This is visible in this quarter as we have delivered a robust 12.2% sequential growth. I am confident that we will continue to see more than 10% sequential growth in Q3 and Q4. This will also result in our second half of FY'23 being 55% to 60% of the total annual business.

Our EBITDA margins for the quarter are at 19.1%, an improvement of 107 basis points on a sequential basis. I will let Bhavin discuss the financials in detail.

The advanced pharmaceutical intermediates business saw strong growth of 25%, which was given by both export as well as domestic markets. The EBITDA margin for the pharma business have improved to 21.5%.

During the quarter, we continue our work of developing big existing products using flow technology. And I'm happy to say that we will commercialize a couple of more products on our flow technology in the second half of FY'23. So with four big products running on our flow technology, 5% to 7% of our reactor capacity will be freed up. The two new import substitute products have received trial orders from clients and we are confident of compensating this product in the second half of FY '23. The peak revenue potential from both these products combined is around between INR 150 crores to INR 200 crores. On the Specialty Chemicals side, Q2 FY '23 was a muted quarter, with EBITDA margins remaining steady on a sequential basis. Some of our cost improvement projects at the Jhagadia site are in final stages, and we should see the improvement in the margin of this business in second half of FY '23.

I'm delighted to announce that we have successfully developed Methyl Salicylate using flow technology. We have received flow reactors for this, which have been successfully set up in our Jhagadia plant. We expect to commercialize the product from Q3 and as you all know, Methyl Salicylate is close to 30% of our Specialty Chemicals business and 5% of our total revenue. This shift in manufacturing technologies decreased overall production time considerably, expanded capacity by threefold and resulted in a cost saving of around 5% to 7%. The cost savings and higher volume will improve our competitive edge in the market, thereby driving overall growth of the product. We expect Methyl Salicylate to lead the growth of the Specialty Chemicals business in upcoming quarters.

Coming to the update in electrolyte additives, we are expecting a commercial trial order of a couple of metric tons within a couple of weeks. This gives us enough confidence of commercializing the product before the end of the current financial year. We have been receiving good response and inquiries from clients across the world, which give us enough confidence to state that this will become a huge business for us in the coming years. Overall, I remain optimistic about the growth of our business in the coming quarters. And just as with the various growth engines that we are putting in place are now ready to fire. We continue to maintain our guidance of 25% growth in FY '23.

Now I request our CFO, Mr. Bhavin Shah, to discuss the financials, over to you, Bhavin.

Bhavin Shah:

Thank you, Naresh bhai. Good evening, everyone. I would like to briefly touch upon the key performance highlights for the quarter ended 30th September 2022. And then we will open the floor for question and answer. I will start with quarterly update.

Revenue from operations for the quarter was at INR 147 crores, up 20.2% as compared to INR 122 crores in Q2 FY '22. The gross profit for the quarter was at INR 70.6 crores, up 6.8% as

compared to INR 66.1 crores in Q2 FY '22. Sequentially gross profit improved by 10.4%. The gross margin for the quarter was 48%, Employee benefits expense was higher on a sequential as well as on a Y-o-Y basis due to variable pay during the quarter and the annual increment that was rolled out in Q1. We expect this to normalize in second half of FY '23. EBITDA for the quarter was at INR 28.1 crores, up 2.8% as compared to INR 27.4 crores in Q2 FY '22. On a sequential basis, EBITDA for the quarter increased by 18.8%, which is a result of various cost optimization programs to keep the operating costs low as well as lower freight charges.

EBITDA margin for the quarter were at 19.1% compared to 22.4% in Q2 FY '22 and 18.1% in Q1 FY '23, improved EBITDA margin was on the back of lower operating costs. PAT for the quarter was at INR 19 crores, up 9% on a Y-o-Y basis and 28.1% on a sequential basis. The PAT margins for the quarter were at 13% as compared to 14.3% in Q2 FY '22 and 11.3% in Q1 FY '23.

Overall, you can see the improvement in margins on a sequential basis, and we believe we will continue to see the improvement in coming quarters as well.

Export for the quarter was at 58%, whereas domestic business was at 42%. As Naresh bhai mentioned, looking at the demand scenario, we maintained our guidance of 25% growth for FY '23. With this, I conclude my remarks and request the moderator to open the floor for question-and-answer session. Thank you.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and on their touchtone telephone. If you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have a first question from the line of Sudarshan Padmanabhan from JM Financial PMS.
- Sudarshan:** Sir, and congrats on good set of numbers. So my question is if I'm looking at the gross margin specifically, quarter-on-quarter, there has been a decline given that the mix has been relatively better, more of pharma intermediate, do we have any kind of one-offs or high cost inventory in this quarter? And how do we see the second half.
- Bhavin Shah:** So Padmanabhan, that if you see, our gross margin is in line with our average. So 48% is the average gross margin we have over the last 6 or 8 quarters. For current quarter, it is 0.8% lower than last quarter. We do have some inventory, which we have from last 2 quarters that we have procured. So, going forward, this will normalize, but it will remain between 48% to 50%. That is our normalized gross margin level.
- Sudarshan:** Sure, sir. And sir, I mean, on the chemicals side, I mean, just talking about this Methyl Salicylate I mean just wanted to know with the flow chemistry starting in the second half. What is the kind of impact that one should be looking at, say, in the second half and for FY'24 and what is the target that we have, you mentioned other few products as well. So on the margin perspective, I

mean, you did mention that the chemical business is flattish. So how do we see the chemical business margin trajectory in the second half and for the next year?

Naresh Patel:

We also, in our previous call also, we say that our aim is to consolidate the specialty chemicals, acquisitions in line with the our existing business, and that is where we started working on several implementation, which include the technology upgradation and as well as the more efficient production, operational efficiency, everything, even energy efficiency, everything has to be implemented. So that margin and our share in the business in Specialty Chemical will increase. And in that line only, we are working continuously, and that is also one of the reasons that one of the product called, which is Methyl Salicylate, which is contributing 30% of the revenue of the Specialty Chemical is a sizable amount of revenue. And in worldwide demand, we are not contributing even 2% of that. So that is where a huge volumes are available to grow. So that's why we put up flow reactors where we can expand our current capacity of 200 metric ton to 600 metric ton per month, and that will drive our future growth in terms of specialty, not only this product, but other specialty chemicals product like Paraben other all and all that also we are working on simultaneously. So one by one, we are improving each product, and our target is to bring it to 2.5 times of the FY '21 of the revenue of specialty chemicals of Gujarat Organics and also improve the margin from single digit to double digit, near to our normal margin of pharma.

Sudarshan:

And one final question. I mean, I understand that as capacity utilization is still not on a full throttle. So what is the capacity utilization at this point of time? And you did mentioned that as the growth comes in, we will also be seeing higher margin. So how do we see the margin trajectory, say, in FY '24 and FY '25 because I would believe that as the growth comes in, you would also see operating leverage benefit on margin?

Naresh Patel:

Our first target is to reach our margin to the FY '21 levels, which is the best margin year of all 14 years of time. So first target is to reach to that level. And then over, every year, we are targeting to improve to 1% or 2% basis every year in the margin to go up to the 25%, 27% levels. But that is our aim. And on that or that area only, we are working on improving not only in one sector, but all areas including energy, raw material, operational efficiency, capacity utilization, converting batch pursuing the flow by that way we can improve our operating efficiency as well as we can release capacity for our upcoming new molecule for FY'23 and FY'24. And later on, it will be supported by our Unit 2, which will be coming in next year, it will be ready by December 2023. So then that will be supporting further new product inclusion into the system.

Sudarshan:

If I hear correctly, around 27% is where we can actually potentially go to the margin

Naresh Patel:

The first target is to reach to the FY '21 levels and then onwards, our focus is to go up every year around 1% or 2% basis in the improvement on that.

Moderator:

Thank you. We have a next question from the line of Tarun Shetty. Please go ahead.

Tarun Shetty:

Sir, my first question is on the Vinylene Carbonate. We have heard that these prices are significantly dropped over the last six months. So any clarity on this aspect would be helpful?

Naresh Patel: It's a very nice question. And I was expecting this. Let me tell you one thing, Vinylene Carbonate, the price is going up based on the raw material prices as well as the demand. And the raw material are very, very, I can say, the cheap in terms of value and technology is very important in this product. So AMI Organics developed a flow chemistry in that, and we are successfully running the continuous reaction of that, and we achieved to reduce our production time, our cost sizably, and now we are ready to compete the China price, and that is the reason why we are expecting first order in this month, maybe.

Tarun Shetty: Sir, my next question would be, so given that you have taken price hike in the previous quarter and given that the expectation is that the baseline raw material prices should start softening or have softened a bit, so would you need to pass on the sales to your customers? And if yes, then when do you expect the same to happen?

Naresh Patel: Normally, I always say that on quarterly lagging, we are able to pass on our any incremental price of raw material to the customer, and that is continuously going on. Apart from that, we are holding some stocks for the long-term contract, which has now the softening of the price of the raw material and the all stock of the raw material will be normalized in this quarter or maybe end of this quarter. And from that onwards, it will go upside.

Tarun Shetty: So basically, you do not see any issue at least for the near term in terms of -- because of your long-term contracts?

Naresh Patel: Yes, but in long-term contract, every quarter, we are passing the cost incremental to them. So it is not impacting very largely on our pricing.

Tarun Shetty: Lastly, could you help me with the contribution of your key products like Trazodone and Entacapone?

Bhavin Shah: Trazodone is 18%, for this half and Entacapone is 8%.

Tarun Shetty: Trazodone is 18%, Entacapone is 8% for this quarter.

Bhavin Shah: For 6 months.

Naresh Patel: As we run the commentary and now the Apixaban we told that the growth driver for this year, and it is showing that in this half Apixaban has contributed 13% of the revenue,

Tarun Shetty: 13% of your revenue. And this is about total revenue and not Spec-chem

Naresh Patel: Half year.

Tarun Shetty: Okay. 13% of total revenue and not including spec-chem or excluding?

Bhavin Shah: It is 13% of total revenues.

- Moderator:** Thank you. A reminder to participants to press star and one to ask a question. We have a next question from the line of Padma Raju Mathi from SBI Life Insurance. Please go ahead.
- Padma Raju Mathi:** Yes. So my first question is, if I see this presentation this particular quarter, we have given only two segments. So is it fair to assume that the other segment is combined with advanced intermediates?
- Naresh Patel:** Yes.
- Padma Raju Mathi:** So sir, my second question is with respect to specialty chemicals. So I mean I have understood technology improvements and the change in power source and on. But if I see the revenue from this particular segment over the last three quarters, I mean it has been operating at the same 40% utilization levels only. So my question is, are we facing any sort of challenges in scaling up this utilization levels apart from the technology improvements aspect that you mentioned?
- Naresh Patel:** No, there is no challenge, because it's a multipurpose manufacturing facility. So we try to use in a such a way that we can have a product mix in such a way that we will be not utilizing maximum, but we conservatively use, and that's why we can remain capacity, which can be available to any spot demand coming in. So that's how we are planning in our production planning.
- Padma Raju Mathi:** How do you see this utilization levels for the full year from this particular?
- Naresh Patel:** Our target, maximum we can go up to 85% of total utilization of our capacity. In Unit 1, this year, it may go up to 65% to 70% is the max, whereas in Jhagadia, which is running at 40%, it has to go to 60%, but after installing this Methyl Salicylate plant now it will be remain at 45% with the flow reactor will give us the leverage of reduction in 5% to 7% in that.
- Padma Raju Mathi:** So this 45% you mentioned is for the full year for FY '23?
- Naresh Patel:** Yes.
- Naresh Patel:** Yes, of the Jhagadia plant.
- Padma Raju Mathi:** And next, like every quarter you give the breakup between pharma and spec-chem margins. Can you specify for this particular quarter as well
- Naresh Patel:** Yes, Bhavin can give you the answer.
- Bhavin Shah:** So specialty chemical is a flattish 10%, and Pharma is at 21%
- Padma Raju Mathi:** Okay. Sir, lastly, just on, you have given the guidance for the full year in terms of what is the kind of growth you're expecting. Any sense on the margins as well?
- Naresh Patel:** Yes, margin, we always say that every quarter, we are trying to improve 1% or 2% basis, you see that Q1 against Q2, we have improved by 1%, and that will be continuously going job.

- Moderator:** Thank you. We have a next question from the line of Hardik Shah from Taurus Mutual Fund. Please go ahead.
- Hardik Shah:** Hello, sir. Thank you for giving me the opportunity and congratulations for a fantastic set of numbers. Sir, it is very heartening to see that despite the drop in our gross margin, we have been able to improve our EBITDA margin. Sir, my question is that during the quarter, there was a report that there is some new technology upgradation in the lithium-ion batteries and Vinylene Carbonate, which we have developed will not be required for the new age batteries, but the patent document mentioned that Vinylene Carbonate will continue to be an important part for the same. So if you could give us some bit of clarity for the same would be very helpful?
- Naresh Patel:** That report I had read and in fact, after that, I had seen that patent as well. See any lithium-ion battery, whether it is lithium silicon or lithium fluorophosphate or lithium Nickel based, Whenever there is a lithium, the electrolyte solution is required and for that electrolyte solution, Vinylene Carbonate as the polymer is required for that to cover the cathode of lithium. So it's wrongly interpreted statement as issued by someone who had not thoroughly studied that. Any lithium battery whenever it is used Vinylene Carbonate or fluoroethylene carbonate either one of them is mandatory based on the geography or where it's going to be application.
- Hardik Shah:** And sir, my second question is with respect to the specialty chemicals business. Sir, while answering the previous participants, you had mentioned that we want to take a revenue to say, 2, 2.5 times and take our margin to, say, in line with the pharma intermediate margin. So can we work with a number, say, of INR 180 crores, INR 200 crores top line with 17%, 18% plus EBITDA margin for next year?
- Naresh Patel:** Yes, this is our guideline, it's our target. See, in FY'21, it was INR 90 crores of the revenue of Gujarat Organics. So we are targeting to make it 2.5 times in the next couple of years. including the margin has to be 2% or 3% basis lower than the margin of our pharma.
- Moderator:** Thank you. We have our next question from the line of Jay Shah from Capital PMS. Please go ahead.
- Jay Shah:** Congratulations, sir, on a great set of numbers and sticking by our guidance and giving quarterly performance as we've been guiding. Sir, my question is a lot of the broader trend that since we have more than 50% of the revenues coming from exports, are you seeing a shift in demand from Europe even now that now they might be asking even for KSM, not only APIs because of their energy problems or are they do you see any chances for more wallet share increase in a particular customer because of this Europe Plus One that is happening? And second question is, if you can throw some light on because API sector is again in much demand because of the global geopolitical problems. What therapies do you think are more in demand and hence, which of our products might be doing much better going forward.
- Naresh Patel:** So I will divide your question in two parts. First part is that whether European client will move from KSM or maybe API. See, you know the pharma industry is running with a very regulated documentation point of view. So like in a general chemical industry like BASF and all, there can

be changes from one location to other, because they don't require any regulations in terms of compliances as well as approval. Whereas Pharma is run with the complete documentation, even the site and location is also important for any manufacturing of any chemical or API for pharma. So in that sense, it is not immediately possible for any company or any country to see complete production from one region to another region. So that will be very protected for us in terms of the demand.

Apart from that, that might be possible that some pharmaceutical API manufactured company may ask us from starting material to KSM because in that sense, they can save some state manufacturing in their location and by the way they can control their costs by energy and all. So that is for one. We are already receiving this kind of opportunity, and we are working on that. So that is always available. And we are ready for that kind of inquiries as we have always developed N-minus one, all intermediates so far API.

Second question is in terms of therapeutic demand. We normally, we are doing all chronic kind of a therapeutic area, where it's a daily doses kind of things. So here, the demand is incremental or decremental is not possible because the patients who had prescribed for this kind of medicine has to held that. So for us, it's like a regular demand is there. So we are not seeing any kind of any escalation or something like that. It's a robust growth in our therapeutic area.

Jay Shah:

And sir, second question is, basically, in this vinylene carbonate capacity that we have, how fungible is it or how flexible is our process design or plant design that we seen, like, as you said to the previous participant that instead of Vinylene Carbonate you can use fluoroethylene carbonate, can we do that? Do we have chemistry expertise in fluorination also?

Naresh Patel:

Yes. See, basically, vinylene carbonate and fluoroethylene carbonate, both we have made and our samples are with various customers. And it's a longer process in terms of qualification because it's not only the compliance, safety is involved in that. And we are lucky that in one year time, we could able to create one customer with the commercial trial demand, which they use to make some cells, and then they will go for the use trial of that cells into the automobile batteries. But this is how it works. In fluorination, there are two types of fluorine. One is direct fluorination, which is done by SRF, Navin Fluorine, Tanfac kind of companies, whereas some fluorinations will do with the potassium fluoride. And that can be done with so many companies can do it, AMI also already doing in pharma, and now we have a capable to do the same thing in a large scale as well.

Jay Shah:

Just one last question, sir. Sir, can you throw some light on that agrochemical molecule that we've been working on? Is it towards the crop protection side or what is the market side, what is the nature of the molecule, something if you can share with us?

Naresh Patel:

So the two molecules out of that one, which is what we got the commercial order is related to that only. And that is used in a fungicide API

Jay Shah:

So it's an active ingredient basically.

- Naresh Patel:** No. We are making chemical. We don't make any active ingredient. Our chemical is used to make that active ingredient.
- Moderator:** Thank you. Ladies and gentlemen, to ask a question please press star and one on your phone now. We have a next question from the line of Suruchi Parmar from NX Wealth Management. Please go ahead.
- Suruchi Parmar:** Yes. Sir, last quarter, where we get to know that you have developed the two molecules of import substitutes, which is related to anti-diabetic and cardiovascular and that has been send to clients for testing and trials. So any update and business opportunity there?
- Naresh Patel:** So these two molecules were already commercialized in Q3'22 and Q4'22. A larger volume already supplying and after that, we announced two more molecules, three more molecules, in fact, where we are in a qualification stage. And out of that two already qualified. One is in agro and one is in pharma. And it is in anti-inflammatory, segment in pharma and that we got an order from Europe and Israel. And this agro-chemical, which we got an order from India.
- Suruchi Parmar:** How big that order would be, sir?
- Naresh Patel:** These are all qualification validation batches are there. So in pharma, we got around 5 tons. And in agro, it's a validation batches of around 500 kilo.
- Suruchi Parmar:** And then what is the bifurcation between the Specialty Chemicals business and the pharma business, which is under GOL revenue bifurcation?
- Bhavin Shah:** See, for GOL, everything comes under a specialty chemical. Out of our total revenue, 85% is a pharma and specialty is 15%.
- Suruchi Parmar:** So last year, by Q3, I think GOL was doing some 14% EBITDA. And this quarter, you said something around 10.7%. So what is the outlook we see this GOL facility can reach near to the EBITA level of AMI?
- Naresh Patel:** It will be in a longer term. It will be 2% to 3% basis lower than the Pharma business.
- Suruchi Parmar:** And sir, including electrolyte and Vinyene Carbonate and whatever the new product we are developing along with the Methyl Salicylate so what is the outlook we can see? Like right now, we are doing at around INR 140 crores to INR 150 crores quarterly run rate. You said around that INR 180 crores to INR 200 crores quarterly run rate can be achieved. What is we can say, by '25 to '26, we can surpass this INR 1,000 crores top line number, something like a broader outlook?
- Naresh Patel:** Yes, it's possible if VCB will be commercialized, it can be possible, but we are not guiding any numbers for you because normally, we say that 25% CAGR is our growth rate and that is based on our current birds in our hands rather than birds on the branches. So VCB and all are still under a maturity level. And we are always conservative in our statement, and that is how we are seeing.

One, it will be electrolyte will be commercialized the numbers and everything will be changed very dynamically.

Suruchi Parmar: And so 25% growth, you said only for '23, not for '24 onwards.

Naresh Patel: No, '23 also, '24 also, '25 also.

Suruchi Parmar: So 25% CAGR growth outlook we are giving it, correct?

Naresh Patel: Yes. 23% to 25% for the longer term is always there because it's our last 12 year history is like this. And our all new molecules are which we had developed and is coming every year, there are four, five molecules bringing the new revenue growth as well as the old revenue all molecules are growing at 8% to 10% as well. So it's a cumulatively, we are getting good revenue growth.

Suruchi Parmar: And sir, how much Dolutegravir contributed during this quarter?

Naresh Patel: Dolutegravir in this quarter, this half is like 4% and 3% in this quarter.

Suruchi Parmar: So which were the three molecules, which we contributed highest?

Naresh Patel: Apixaban, Trazodone, Entacapone. This is the beauty that we are not dependent on one customer, and one products, and that is our policy.

Suruchi Parmar: So this INR 190 crores capex, which we announced last year in April or something. So sir, what is the progress on this?

Naresh Patel: It's going on the line. It's per our planning. It is going in the same way. Right now, we are in a civil construction as well as in the phase of ordering the equipments.

Suruchi Parmar: But when we can start the commercial production from this new capacity?

Naresh Patel: The facility will be ready by December '23, and then we start validation and qualification of the facility. And by FY '25, its start giving the revenue.

Suruchi Parmar: And what would be the allocation of this new capex?

Naresh Patel: 2x, 2.5x, we can increase – 3, 3.5. Because in these, it's complete DCS and we are putting several flow continuous reactors as well.

Suruchi Parmar: Two things to understand because our capacity utilization right now is on the lower side. Ankleshwar, Jaghadia is doing 40%, 45%, Sachin might be doing around 60%, 65%. So this capacity, optimum level, what revenue we can achieve or whether this will be capacity optimally utilized in the maybe in next 15 months to 18 months?

Naresh Patel: Surat facility in the next 1.5 years, it will be fully utilized, 85%. Whereas the Jaghadia will be in next 2 years. And meanwhile, we have an additional capacity coming from Ankleshwar. So

we are proactively investing in our capex, considering our growth plan and our projections and our planning. And we normally have the capacity available for our future.

- Suruchi Parmar:** Last question, sir. How much can be the size of the electrolyte business in three years, five years in revenue terms? It can contribute INR 50 crores and INR 100 crores or bigger than that?
- Naresh Patel:** The number I will not say, but it will be definitely be much bigger. If everything goes well, it will be much bigger than our current existing portfolio.
- Moderator:** Thank you. Before we take the next question, I would request participants to press star and one to ask a question. We have a next question from the line of Tarun Shetty. Please go ahead.
- Tarun Shetty:** So my first is on the import substitute products that you have launched in the past few quarters. How is the demand scenario for these? And have you gained market share in the recent months?
- Naresh Patel:** Yes. The pharma is moving slow in terms of qualification and substituting from existing vendors. So it is growing well. We could able to reach to around 30%, 35% of the demand and it will grow gradually to next FY '24, it will be 100% reached to that level.
- Tarun Shetty:** So currently, the contribution would be less than 10%.
- Naresh Patel:** Yes.
- Tarun Shetty:** Coming to your books. So the inventory level that we see has gone sharply up, so in the coming months, do you see this normalizing? Or you will have to take some debt for short-term working capital?
- Bhavin Shah:** So Tarun, let me answer this. Our inventory level is a little higher. So in coming quarters, in Q3 and Q4, we can definitely see that this would normalized, and this will come to a normal level. We are intending to bring it down to 90 days kind of thing. Currently, we have positive cash from operations and that we are going to maintain and we don't foresee any debt to be raised for our working capital purpose. We have INR 52 crores available as a bank balance and investment currently with us.
- Tarun Shetty:** But I believe there is a substantial portion of capex so that is coming this year?
- Naresh Patel:** Tarun, these are all because of the demand and everything we are positioning ourselves in such a way that considering the projections and planning coming from the customer. And to encash that we are building a positioning in that. So it will be liquidated in this quarter and beginning of the next quarter.
- Tarun Shetty:** So my final question will be on the capex. Any reform your guidance for this year as well as next year?
- Naresh Patel:** Sorry. Can you repeat the question?

- Tarun Shetty:** Yes. Just wanted to know the capex number for FY '23 and FY '24, FY '25, if you can?
- Naresh Patel:** FY '23, FY '24, we had already guided that INR 190 crores for this new facility as well as maintenance capex of INR 30 crores, which is the guidance right now.
- Moderator:** Thank you. We have a next question from the line of Mehul Sheth from Axis Capital Limited. Please go ahead.
- Mehul Sheth:** Just first, I have two, three questions. First, on Ankleshwar plant. Out of this INR 190 crores, how much spend you have done so far? Till date how much you spend out of this INR 190 crores?
- Naresh Patel:** It is still in the initial phase of civil construction as well as order placing, orders going on. So it's some advances in the order. So it will be somewhere around INR 10 crores to INR 15 crores we have paid till now.
- Mehul Sheth:** And it will be like in phase like, some part will be in H2 and maximum will come in FY '24?
- Naresh Patel:** Yes. It will be splitted in two years, yes.
- Mehul Sheth:** And sir, one scenario like global scenario wise, I want to ask something. What was the impact on the volume as well as on the price, for AMI Organics due to this increase in raw material as well as there is a supply chain disruption? So what was the impact on AMI Organics in terms of volume as well as in terms of pricing? And second part of this question is also like because of the similar issue, there must be some company or some of your competition must moved out of the market. So that kind of opportunity are you getting from the market or you are getting benefited because of exit of some existing players?
- Naresh Patel:** See, basically, whatever the product we make in the pharma, we are positioning or positioning in that, and we are contributing around 80% of the world demand in that API. So here, we are already at a positioning ourselves at a higher level. Yes, there might be shifting of 2% to 5% from other competitor to us. It may be possible, so that will be, in a sooner or later, it will become out of that, whereas the volume is increasing every quarter, it means that shifting is already happening. So that will be in a positive manner at Ami Organics. In terms of valuation, we are - the sales price is almost be derived based on our cost and the incremental margin, whatever the profit and all, which we pass on to them based on that the value that is going on.
- Mehul Sheth:** And sir, one clarification as Bhavin sir mentioned that you had some higher cost inventory in this particular quarter. So considering this Q3 gross margin will be in a much on the higher end of around 49% or 50% range from current 48%?
- Bhavin Shah:** So there is a room of improving 100 or 200 basis points from here. We will see definitely improvement in every quarter. So coming Q3 and Q4, we will definitely see improvement on a gross margin.

- Mehul Sheth:** And sir, one last question on launch run rate for you. Specifically in the advanced intermediate side, so what are your visibility for the product which have recently expired achieve, this better expire or will be expiring next couple of quarters' time. Some products like Sitagliptin, which is recently expired then the dapagliflozin on diabetic side. So, do you have presence in such molecules?
- Naresh Patel:** Yes. We have presence in Sitagliptin. We have presence in Apixaban. We have presence in in Vildagliptin as well. So these are all molecules contributing and it is growing slowly-slowly in the demand.
- Mehul Sheth:** And what will be your launch like new product introduction run rate next, say, two years, three years' time frame, every year, what could be the run rate?
- Naresh Patel:** We have more than 400 products waiting to come into the basket. So, and these all 400 products is which the customer is already invoiced and it is expired till 2037. So we have a long visibility of our product pipeline. And this is also secure with the customer base as well. So every year, there are four, five molecules coming in the basket, and this is our basket from every year is at least currently, it is contributing around 60 molecules which are contributing in total revenue. And out of the 30 molecules contributing 60% of the world revenue. So this is how is widely spreaded and visibility is also long so that we can probably says that we have a sustainable growth in terms of our revenue.
- Moderator:** Thank you. We have our next question from the line of Hardik Shah from Taurus Mutual Fund. Please go ahead.
- Hardik Shah:** I have a small follow-up on the question of the previous participant. I understand that we would not require any debt for working capital. But for the capex, sir, will it be funded by debt, partly?
- Naresh Patel:** Yes. If needed, we will go for the debt for the capex. That was missing answer.
- Hardik Shah:** Yes. Understood.
- Naresh Patel:** We have IPO, general corporate purpose fund is available and also internal accruals are also there, but if all needed to -- we will go for the small debt raise in term loan kind of thing.
- Hardik Shah:** Sir, can you share what will be our mix from Europe, sir?
- Naresh Patel:** Europe, Mix from Europe?
- Hardik Shah:** Yes, sir.
- Naresh Patel:** Contribution of the Europe business?
- Hardik Shah:** Yes, sir.

- Naresh Patel:** Yes, our total export majorly going to Europe. So, it is somewhere out of total 58% export, we have around 70% coming from Europe.
- Hardik Shah:** And in the toughest quarter, we were able to grow the business. So there is no challenge for our business. Is that understanding correct, sir?
- Naresh Patel:** Yes, this quarter has performed well in that -- this quarter, so many problems in Europe, even though we are contributing a good amount of revenue from Europe, so I think it's not -- we are not seeing any near future any threat out that. We are having a sizable orders are in hand. If something will happen, we will proactively come and inform to our investors.
- Moderator:** Thank you. We have a next question from the line of Prateek Chaudhary from Saamarthya Capital. Please go ahead, sir.
- Prateek Chaudhary:** This electrolyte product in your understanding, what is the advantage that China particularly has as the presentation mentions that all seven or eight companies that make this product globally are all based out of China. Do they have any specific advantage in terms of say, is the product very power intensity, or does it require a lot of incentives from the government, or is it technologically difficult to produce? I mean why have no other company in the world being able to do it other than these seven, eight Chinese companies in your understanding?
- Naresh Patel:** Yes. So initially, when these industries are putting up the -- because of the China advantage and all the big -- even the big industry is based in Europe and Korea, Japan, like LG and all they has also put up Samsung, they are also put up the plant in China, and this is the reason why this is highly consolidated in China. But now the demand in rest of the world market is now more derisking themselves from China, and that is the reason why the big window opened for the rest of the world. And this is where we are the first one to get in that in this window and that is the reason why the faster approval for us is getting in this requirement. So say, for example, a big company based in Korea, they have a manufacturing site in China as well as in Europe as well as. So they now want to have a material from us not only in China but in Europe because from there, Europe, we are targeting to US. So this is a complex, but definitely, they want to derisk themselves depending on China.
- Prateek Chaudhary:** And what sort of -- although it's very preliminary to ask this question, but what sort of margins do you foresee in a product like this?
- Naresh Patel:** When there is the volume in terms of 100,000 metric ton kind of things you are talking, the margin will be similarly in that level as well.
- Prateek Chaudhary:** And any rough estimate on gross margins? Is it similar to what we do or better or worse?
- Naresh Patel:** Normally, our target is to make the similar kind of margin, where we are making in other products. So that will be our target, and that will be the guideline right now.

- Prateek Chaudhary:** And if I remember correctly, the size of this product globally is upwards of USD 1 billion. Is that correct, or am I wrong?
- Naresh Patel:** It can be -- it is growing every year. So it is incremental.
- Prateek Chaudhary:** What is the current size, global size of this product?
- Naresh Patel:** As per the report, it is USD 1.2 billion. But as per the market survey, what we do personally is completely different, but we can't claim that because we are not authorized for that.
- Moderator:** Thank you. We have a next question from the line of Rohan Kamath from Finterst Capital. Please go ahead.
- Rohan Kamath:** Sir, actually, I want to know about something electrolyte, electrolyte salt which are making. Tatva Chintan also in that segment. So please, can you elaborate it?
- Naresh Patel:** No. First of all, let me tell you, Mr. Kamath. We are not making electrolyte salt. electrolyte salt is manufactured by GFL and Neogen is trying to do that. We are making the electrolyte additives, which is one of the part of the electrolyte solution. And GFL and Neogen, GFL already ordered us. So they are our customers.
- Moderator:** Thank you. We have a next question from the line of Suruchi Parmar from NX Wealth Management. Please go ahead. You are not audible. Can you use the handset, please?
- Suruchi Parmar:** Sir, in your PPT, you have shown this chemistry of fluorination and bromination, any future plan to go into this chemistry?
- Naresh Patel:** We are already doing this. So there is no future plan on that. We do all kinds of chemistry. As in pharma, there is -- we are not known for any specific chemistry because we are doing most of the -- which is more viable, more addressable chemistries these all we do in a commercial scale.
- Moderator:** Thank you. We have our next question from the line of Prateek Chaudhary from Saamarthya Capital. Please go ahead.
- Prateek Chaudhary:** Sir, on this electrolyte, if you could give some historical perspective on when did you, how did you identify this opportunity? Are there any parallels, technological or chemistry that you handle are there any similarity or parallels with what you do in your existing business?
- Naresh Patel:** So the question what asked by previous caller is that answer will become in this as well. So these opportunities bring by our one of the international partner based in Israel. And they bring us this opportunity, considering our capability in the reaction handling. And we got this inquiry or opportunity in 2022, and then we developed -- because this chemistry we're already doing commercially. And that's how we started making this in a lab and then in a pilot and -- so I can say one year, 1.2 years of history of this molecule.

Prateek Chaudhary: And is it like some guarded technology, or is it like any other Indian chemical company, it will not be very difficult for them to crack this? Is it like that or?

Naresh Patel: It's a guarded technology.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Naresh Patel for closing comments. Over to you, sir.

Naresh Patel: Thank you very much. Thank you, Axis Team for hosting our conference call. Thank you, everyone, for your questions, and we hope we have been able to answer most of your queries. If we have missed out on any of your questions, please kindly reach out to our IR adviser, E&Y, and we will get back to you offline. Thank you very much. Have a good evening, and have a good weekend.

Moderator: Thank you, sir. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.