February 13, 2024

To,
Listing/ Compliance Department
BSE LTD.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

SCRIP CODE: 543748

To,
Listing/ Compliance Department
National Stock Exchange of India Limited
“Exchange Plaza”, Plot No. C/1,
G Block, Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051
SYMBOL: AARTIPHARM

Dear Sir/Madam,

Sub: Transcript of Q3 FY24 Earnings Conference Call
Ref: Regulation 30 of the SEBI (LODR) Regulations 2015

Please find enclosed herewith the Transcript of Earnings Conference Call held on Thursday, February 8, 2024 on the Audited Financial Results of the Company for the Q3 FY24.

Kindly take the same on your records.

Thanking you,

Yours faithfully,
For AARTI PHARMALABS LIMITED

NIKHIL PANDURANG NATU
Digitally signed by NIKHIL PANDURANG NATU
Date: 2024.02.13 15:29:55 +05'30'

NIKHIL NATU
COMPANY SECRETARY
ICSI M. NO. A27738

Encl.: a/a.

AARTI PHARMALABS LIMITED
www.aartipharmalabs.com | CIN : L24100GJ2019PLC110964 | Email : info@aartipharmalabs.com
Admin Office : 204, Udyog Kshetra, 2nd Floor, Mulund - Goregaon Link Road, Mulund (W), Mumbai, PIN - 400 080, Maharashtra, INDIA, **T :** +91 22 67976666 I **F :** +91 22 25653234
Regd. Office : Plot No. 22-C/1 & 22-C/2, 1st Phase, G.I.D.C., Vapi 396 195, District - Valsad, Gujarat, INDIA, **T :** +91 260 2400467, +91 99099 94655

Aarti Pharmalabs Limited
Q3 FY24 Earnings Conference Call
February 08, 2024

Moderator: Ladies and gentlemen, good day and welcome to Aarti Pharmalabs Limited Q3 and 9 months FY24 Earnings Conference Call hosted by Valorem Advisors.

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. Sumeet Singhania from Valorem advisors. Thank you and over to you, sir.

Sumeet Singhania: Thank you, Sagar. Good evening, everyone and a very warm welcome to you all. I am Sumeet from Valorem Advisors. On behalf of the Company, I would like to thank you all for participating in the Company's Earnings Call for the third quarter and 9 months of Financial Year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us in today's Earnings Call and hand it over to them for opening remarks. We have with us today, Mr. Rashesh Gogri – Chairman; Mrs. Hetal Gogri Gala - Vice Chairperson and Managing Director; Mr. Piyush Lakhani - Chief Financial Officer.

Without further delay, I request Mr. Rashesh Gogri to start his opening remarks. Thank you and over to you, sir.

Rashesh Gogri: Thank you. Good evening. We welcome all the Analyst and Investor to this call on the FY24 Quarter 3 performance of Aarti Pharmalabs.

I will start the discussion with key "Business Highlights":

As Company operates in three distinct areas within the Pharmaceutical industry, API & Intermediate, CDMO & CMO and Xanthine & Intermediates, the Company is actively engaged in production and sales of API related intermediates and adhering to regulatory standards as the primary focus is on selling in the regulated markets.

For Q3, the share of the regulated market was 53% of the sales in this segment. In CDMO CMO business, strong scale up and commercial manufacturing expertise of over 2 decades is helping us enhance our customer confidence within us and for Q3, the revenue share of CDMO CMO business stood at 14.2%. We have added one new customer, 3 new commercial products and six new R&D products in this segment.

Let me now cover the key "Financial Highlights" for Q3 FY24:

I am pleased to announce that in Q3 Financial Year 24, we have recorded the highest ever EBITDA and the net profit till date. In absolute terms, the EBITDA stood at Rs. 97 crores. On the quarter-on-quarter basis, the consolidated revenue increased by about 2% to Rs. 448 crores, whereas EBIT increased by 10% to Rs. 78 crores against the earlier previous quarter EBITDA of Rs. 71 crores. Consolidated PAT stood at Rs. 53 crores marginally higher over the previous quarter. The consolidated EPS for the quarter gone by was Rs. 5.82 per share. The board has approved an interim dividend of Rs. 2 per share in the just concluded meeting yesterday.

Let me now share update on "Ongoing Expansion Projects":

The Greenfield expansion project at Atali project continues to remain on track and with the expected completion targeted in H2 of FY25. The project to manufacture the primary raw material of Xanthine is expected to begin in this quarter, thereby limiting our import dependency. The semi commercial production block at our US FDA intermediate manufacturing site in Vapi to cater to smaller bed size requirements is aiming for completion in Q2 of FY25. In addition to above, the Company is planning to further expand generic capacity over next 15 to 18 months. All these efforts signify our commitment to growth, self-reliance and catering to diverse client needs.

With the current stable demand outlook, we expect to have EBITDA growth of approximately 8 to 10% in FY24 and remain well positioned to achieve our long-term goal of 12 to 17% annual growth in the next 2-3 years. We believe that Indian and global pharmaceutical industry is poised for sustained growth, and we aim to continuously improve our performance by leveraging our strong research and development capacities. We envision ourselves fortifying our leading position in the Xanthine segment of the business.

In the API CDMO segment, we plan to strengthen our position by introducing more value-added products and acquiring new customers. This will help us solidify our position in the market creating long-term value for all our stakeholders.

I will now request moderator to open the forum for Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pratik Banthia from Girik Capital. Please go ahead.

Pratik Banthia: So, just a couple of questions. First, we can see a big jump in the gross margins in this quarter. So, can you break down the gross margin expansion reasons?

Rashesh Gogri: As you will see that we had a higher percentage export and our CDMO CMO business has also expanded, and both of these have resulted into overall margin expansion in our business.

Pratik Banthia: And does Xanthine RM project was supposed to be commissioned in this quarter, in Q3, so that has been pushed to Q4, right?

Rashesh Gogri: Yes, that has got pushed to Q4, but however, we are able to buy at a similar price range from alternate suppliers, so that doesn't have any cost impact on our Xanthine production cost.

Pratik Banthia: Even when the project comes on stream, we can see a similar kind of gross margin, not big expansion from these levels, right?

Rashesh Gogri: Yes, that project is mostly from a standpoint of supply security and Indianization of the raw materials that the import dependence goes away.

Pratik Bandhia: And last question on my part was that is there any change in the theophylline realization because as seen from the export date, realization seemed to have gone up quite a bit for theophylline, aminophylline and other bronchodilator category, so are you seeing anything on that front?

Hetal Gogri Gala: No, it is at a more or less a similar level and mainly theophylline and aminophylline margins are, realization has been pressurized as or similar level to the CAPEX pricing.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: We have seen significant jump in the CDMO segment in this quarter and our product basket both on commercialized molecules as well as under developing molecules has increased conservatively and we have also added one new customer, so the ramp up in the CDMO that we have seen in the last quarter, is it sustainable? Do you think the traction that we have seen in CDMO segment is expected to continue going forward as well?

Rashesh Gogri: Yes, we expect the ramp up of these projects to continue. As you see now we have a basket of more than 39 products that we are dealing with our 16 customers, and they are at various phases of development and some are commercial also. So, depending on their plans and the approvals that they get, these products will become commercialized and provided they pass their clinical research and launch this product. So, on that basis we will have a visibility of these products in the future.

Ankit Gupta: So, but do you have good visibility on the products which are already commercialized, which are already launched?

Rashesh Gogri: Yes, that is why we are saying that we have a good conviction that we will be able to grow the current business of CDMO CMO in the future.

Ankit Gupta: And sir, given this segment in last quarter contributed 14% of our overall revenue, do you think over the next with the given visibility that we have, this segment can become 20-25% of our overall revenue in the next 2-3 years?

Rashesh Gogri: Next two to three years, yes, it has a chance to become 20 to 25% of the total revenue or even bigger because it depends on how the products are commercializing at the customer end, and depending on that, we will have more visibility, but I think going forward we see this number to at least reach this 20% mark and go above it.

Ankit Gupta: On the API and Intermediate side, how is the demand scenario currently, the industry had been facing some challenges on the pricing side as well as demand, so how is the segment doing for us and what is the outlook for the segment for FY25 and FY26?

Rashesh Gogri: Yes, basically in API & Intermediate segment, in API if I particularly mention, the Company operates in the steroids and anti-cancer segment along with the lifestyle drugs and in these products segment we are feeling stable to good demand. And though there is a little bit of compression on pricing overall due to overall competition, I think since we operate largely on the regulated market and export market, we are quite okay with this business and growth potential of this.

Ankit Gupta: So, can we expect 15-20% kind of revenue growth in this segment in the next 2 years?

Rashesh Gogri: Yes, it depends on the new launches and how our partners are becoming successful in future. So, we expect definitely this business to grow. The absolute number can be 10%, yes in that range.

Ankit Gupta: And then last question was on the Xanthine side, how is the pricing scenario now? I think last quarter also it seems that we have seen some pressure on pricing. So, where do you see the pricing pressure ending and what is the outlook for this segment?

Rashesh Gogri: Yes, overall, we have seen Xanthine segment pricing pressure, but we have been added by lower raw material costs also. So, ultimately pricing pressure is there, but margin pressure is not as much as the pricing pressure overall. We feel that I think these all the China based dumping of these kind of products also that we have seen in other APIs will eventually end in next couple of quarters. This can't continue because everything is becoming quite challenging to others, yes.

Moderator: Thank you. The next question is from the line of Hrishali Shah from Unifi Investment Management. Please go ahead.

Hrishali Shah: I have two questions. First is on Xanthine segment. So, it was earlier mentioned that we hold 15 to 20% share in this segment and then there is one Germany player almost equal to us and Chinese players which are larger. So, it appears as if Xanthine is a very consolidated market, so how do we expect growth there? Is it incremental opportunity coming in this industry which will lead to growth or am I missing on something in case of industry growth?

Rashesh Gogri: Yes, as you see that the overall market of the Xanthine derivative is growing and particularly it is growing significantly in Indian subcontinent and that is resulting in overall growth of the business. The customers that we are focusing on are convinced about our ability to partner with them for their growth and that is how we are seeing larger allocations to us for future demand from them.

Hrishali Shah: Any particular factor leading to this kind of growth or is it just the trend evolving?

Rashesh Gogri: Yes, Xanthine is essentially caffeine and other products and there is lot of demand of these kind of drinks and other food application which is increasing overall usage in particularly Asia and Indian subcontinent.

Hrishali Shah: And another question was on CDMO CMO front, so as we saw the sharp rise of around 700 basis points, that is from 7.2% to 14.2%, so what led to this kind of growth?

Rashesh Gogri: In the CDMO CMO place, we have customer orders and we had significant orders which we expect in this current quarter that we are reviewing, which resulted in growth of sales.

Hrishali Shah: Also, if you can bifurcate the margins into these three segments, you already had mentioned that CDMO CMO is the margin accretive business. If you can just bifurcate margins as of how much contribution is of Indian segment, how much for CDMO and how much for API?

Rashesh Gogri: Yes, currently we are not giving this bifurcation of margins and probably later on from next year onwards, we will give you the bifurcated margins because the assets are common that we are utilizing for API & Intermediates and CDMO CMO. So, it is a little bit trickier to give this breakup.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: As we have indicated in this call as well as in the past that the margins in the CMO and CDMO segment are higher than our overall Company margins compared to Xanthine as well as API Intermediates, so with the proportion of the segment increasing, do you think our overall margins can be like 20-21% over the next 2-3 years?

Rashesh Gogri: Yes, see, margin percentage depends on the pricing also. There are two factors which have led to higher margins in this quarter. Of course, we focus more on absolute growth, but the lower price of Xanthine derivatives has also factored in overall because the absolute margin compression has not happened, but the overall pricing has come down. So, that has resulted in terms of percentage increase.

Ankit Gupta: And on the volume side on Xanthine, in the 9 months, have you seen growth in the overall volumes and if you can broadly give an indication how much has been the growth in volumes in Xanthine?

Rashesh Gogri: The growth over last year has been around 3.5% YTD if you compare YTD of last year and this year, so we have done a growth of close to 20%.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: First question is on the Xanthine side, so in the Xanthine, we are indicating that in couple of quarters the China dumping like all other APIs stock and prices may again kind of move up, so given that and I understand you do annual contracts for renting for most of your large customers. So, how does it work? You revise it somewhere middle of the year or you go through with the same pricing and then next year only, the price gets revised, so how does it work?

Rashesh Gogri: So, all our 100% quantity is not on an annual pricing, we have a mixture of quarterly pricing, annual pricing and spot pricing. So, it is a mixture. However, a significant portion is on the annual pricing and that gets reset every year.

Dhwanil Desai: Sir, that is at the start of the financial year or calendar year?

Hetal Gogri Gala: That is too much detail to share.

Dhwanil Desai: Sir, second question is, I think we have given that 12% to 17% EBITDA growth guidance. So, I think at that point in time when we were discussing on the call one of the thing was that the Xanthine realization are likely to come under pressure. Now from here on, if the Xanthine realization again comes back and we remain backward integrated, do we see any upside potential to what we have said?

Rashesh Gogri: No, we have a wide range 12 to 17. So, I think we will still fit in that range even though there is an uptake in and there is lot of dependency on our partner success for the projects for which the launch will happen. So, we have series of launch which will happen in '24-25, so with that Intermediates as well as API, how they fare and how our partner fares that will determine the overall margin profile and absolute number on our project, but in terms of Xanthine we will have another 7 to 8% increase in quantities that further some debottlenecking will happen starting next fiscal. And so that will complete our current debottlenecking program that we started last year and we further plan to do one more round of debottlenecking by further investment, and we are still working on that. So, once we have some details, we will get back to you in the next call.

Dhwanil Desai: And what is the total CAPEX that we are likely to have in FY25, both Atali and Xanthine expansion put together?

Rashesh Gogri: So, overall, there are several projects which are undertaken. So, I think in Atali we have announced total CAPEX of Rs. 375 crores and then there is a solar project where we are doing a Rs. 90 crores CAPEX and then the Xanthine CAPEX number is still being worked out, so all in all everything largely will get spent in 2024-25. So, over the next 12 to 18 months, we are looking at somewhere in the region of between Rs. 400 to Rs. 500 crores of our CAPEX.

Dhwanil Desai: And out of that Rs. 90 crores is for the solar, rest is for the processes and ingredient capacity, right?

Rashesh Gogri: Yes.

Dhwanil Desai: And we can assume around two times effect on whatever CAPEX that will be?

Rashesh Gogri: Solar is going to be not adding.

Dhwanil Desai: Not solar, I am excluding the solar part, so I am saying for the process part and the API and CDMO part?

Rashesh Gogri: Yes.

Moderator: Thank you. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: First question is on gross margin. So, this quarter, the number of 46% is a lot higher than our usual 41-42, you explained the reasons, but is this a sustainable number? And also can you bifurcate the impact of product mix and lower RM prices, export, etc?

Rashesh Gogri: This 46% number is definitely due to the lower sales price and lower raw material cost percentage plus improved margin due to exports and CDMO CMO segments. So, all three have contributed to this and I think we will have to really work on that number, but however, we are looking at absolute number increase and how we are able to get this absolute number to grow as a percentage. So, that is where the Company is focusing more rather than this percentage.

Nitesh Dutt: Second question is on API and Intermediates. So, you have given a pie chart right, basis that it seems like the revenue from API Intermediates has gone down a little bit in Q3. So, have you diverted some of your API capacities towards CMO and CDMO?

Rashesh Gogri: Yes. We have diverted some of our capacity of intermediates for CDMO CMO for utilization.

Nitesh Dutt: And sir, you have committed a CAPEX of nearly Rs. 270 Cr in FY23 and H1 of FY24, right, including the new Tarapur API block and the hydrogenation reactors etc., now its impact is still not visible in our topline, so when will it start getting reflected in the topline and also related to that, if you can share some details on Atali ramp up right, what is the peak revenue potential, expected utilization, etc.?

Rashesh Gogri: So, regarding this earlier expansion of hydrogenation as well as the new API block, I think now we have onboarded most of the customers on this newer block and we ultimately have to look at consolidated API capacity availability and what has happened is that we have moved our larger products to this newer block, and we have emptied out our capacity of multipurpose block. So, overall, this ramp up is going to happen over next 2-3 years and then we will get this API capacities getting fully occupied whereas in case of Atali, it is a very large land parcel that we have where we have almost 80 acre of land and we have only started first phase of Atali where we are doing this Rs. 375 crore out of which the infrastructure cost itself is going to be Rs. 125 crores and balance is going to be spent on the blocks as well as the utility etc., for that particular block that we are going to utilize. So, overall that ramp up will happen slowly, initially, but ultimately we will put up more and more blocks at that site because we have space to almost put 12 to 15 blocks in that particular site that we are developing. So, every year, we can put one-one block depending on our customer's growth and we don't have to change the sites.

Nitesh Dutt: Any targets on capacity utilization, revenue potential etc., for FY25, 26 or FY27?

Rashesh Gogri: See, our endeavor is to do more than 1x, 1.2x of net fixed asset, but we have to completely do the more product mix and manufacture more value-added products to achieve this number.

Nitesh Dutt: Couple of more questions. R&D spend, what will it be for FY24 and also FY24, what is going to be the total CAPEX?

Piyush Lakhani: So, R&D normally our run rate is about Rs. 10 to Rs. 11 crores per quarter. So, we will spend almost about same amount that we spend in 22-23, which is about Rs. 40 cores of gross R&D spend and CAPEX, we have spent about Rs. 40 crores so far in H1 and we will be capitalizing. So, we have Rs. 102 crores of WIP. So, basically the CAPEX number for this year would be about Rs. 150 crores or so excluding R&D.

Nitesh Dutt: And the number of Rs. 400 to Rs. 500 Cr you mentioned is in addition to this Rs. 100 Cr of CWIP, right? This is fresh Rs. 100 Cr of Rs. 400 Cr?

Piyush Lakhani: Yes, so some of this would be spent in 24, this financial year and 24 last quarter also. So, in 15 months we will spend this Rs. 500 crores.

Nitesh Dutt: Sir, last question from my side on the Xanthine segment, I just want to understand the market dynamics better, so can you help me explain the entry barriers in Xanthine right? Do you expect any sort of large capacities coming up in India or globally in the medium term? And also if the market is attractive in the Asian subcontinent what stops other players setting up capacities in India or in, let us say other China or elsewhere?

Rashesh Gogri: As you know that overall the Xanthine market has seen pressure on pricing and margins currently, so for any new player to enter and create this kind of market has become difficult to get to the scale at which we are operating. And also, there are regulatory approvals and qualification requirement with large customers where it takes time for any new entrant to get qualified and all that. So, that is the entry barrier that we have in this segment and that is what will deter other competitors from entering into this segment. Now from last year, this year, it has become more difficult because overall other spot customers and those markets have also pricing has become more challenging. So, what she is trying to say is that we are giving our customers India only product advantage, so that there is no Chinese element in our product. So, that is the advantage that people, if there is any competitor from China, it will not get entertained as much as we get entertained from India as a supplier.

Moderator: Thank you. The next question is from the line of Mr. Vikas Sharda from NTAsset Management. Please go ahead.

Vikas Sharda: I just wanted to confirm one factor which you mentioned earlier that the volume growth for the 9 months was around 20%? There was some background noise, so I couldn't get the number clearly.

Rashesh Gogri: On Xanthine segment.

Vikas Sharda: And secondly on the CDMO side, so the levels which you are say this quarter, would you expect that to remain more or less stable going forward for the next few quarters or would you see a very high volatility?

Rashesh Gogri: Yes, CDMO CMO, quarter to quarter, we can't give the guidance, but however on an annualized basis, we are pretty confident of growing the current segment. Last year, we did almost close to Rs. 95 to Rs. 100 crore. This year already we have crossed that number and we are near last year's number and this one quarter we will be doing another round of sales to our customer and going forward we anticipate growth to continue at say 40% or 50% annually.

Vikas Sharda: And what would be the nature of these products like, it is more like commercial launches of the products or like it is still in the R&D stage?

Rashesh Gogri: Yes. So, we have 19 products, which are in commercial, 20 products at R&D stage. Of course R&D stage share in revenue is very hardly anything, but currently the products which we have been working with our 16 clients or more where the numbers are showing up from few products which have been either their validation quantities or commercial launch.

Moderator: Thank you. The next question is from the line of Bismith Naik from RW Advisors. Please go ahead.

Bismith Naik: Sir, what do you see on the ground that you believe China dumping would be over in the next two quarters?

Rashesh Gogri: We feel that overall in the chemical segment and other segment also, overall I think pricing and sustainability of China at this lower pricing has ended in certain product segment in chemicals. And I think the same will continue in pharma also, because once the chemical prices start moving up, which we have seen in China, the API prices also will slowly start mirroring that.

Bismith Naik: And on annualized guidance, I could not hear it properly, CDMO is expected to grow at 20-25% as a segment earlier?

Rashesh Gogri: CDMO next year, we will grow faster. So, we are anticipating 40-50% growth over this year in CDMO CMO segment.

Bismith Naik: These are all gross margin at least, can you give us a sense of how better CDMO CMO or better compared to Company gross margin on an annualized we achieved?

Rashesh Gogri: Yes, basically gross margin currently, we were at 41%, now we are at 46%, but on the CDMO CMO side, I think our gross margin is in excess of 50% in most of our products that we do.

Whatever, as the product will become more and more commercial and the margins still ramp up, I think those margins also will rationalize going forward, but however it will get compensated by absolute quantity increase and absolute number increase. So, it is a balancing number. It depends on where, in which place the products are and how we are doing. So, if I have a campaign of innovator every year, then the margins can't be 50% or north of 50%, but initial launch batches or those can be higher.

Bismith Naik: And sir, this CAPEX of Rs. 400 odd cores of solar, which we want to do in the next 15 to 18 months, so the commissioning of it should be expected around Q1 FY26?

Rashesh Gogri: Yes, we have guided H2 FY25 that would be. So, basically we will have in the next 15 months the projects will start operating.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Sir, One clarification, so in the business vertical split that you have given, that is for the standalone number for this quarter or 9 months or is it for console numbers?

Rashesh Gogri: Standalone for the quarter.

Dhwanil Shah: Sir, my question is that, if I look at the API and Intermediate segment, if I look at the overall numbers, we are close to Rs. 500-Rs. 550 crores in that segment and given that we have such a good customer base and very good products and we have 13 new APIs under development, all regulatory approvals across various countries, so can we grow this business at 18-20%, and if not, what are the restricting factors for us to grow this business at that rate?

Rashesh Gogri: So, globally, API business for newer generic launches has seen lot of pricing pressure on day one launch and also subsequently. So, there is a lot of pricing pressure which is there on this launched new APIs, however, the advantage that our Company has is that we are backward integrated and we have our own multistage synthesis that we carry out for these APIs which make us position our product differently than other players of API. So, basically absolute number increase is one thing, but what we are trying to do is how we can grow the absolute margins because the assets which we are using for API, we are not using for any other user. So, how we can do more absolute contribution in this manufacturing asset is what is our goal.

Dhwanil Desai: But is it safe to assume that your volume growth could be in that 15%-20% rate, just the realization pressure because of which the growth may be that lower?

Rashesh Gogri: I think those numbers, we can guide for absolute EBITDA increase that we plan, but however these topline numbers are ultimately because if you see, we have not increased our topline over last year, but however, the EBITDA and other numbers have shown increase.

Dhwanil Desai: And one more question, sir, I think we had given earlier that 10 to 15% EBITDA guidance in terms of improvement over FY23, now we are seeing 8 to 10%, so is that largely because of the Xanthine market changes or anything else which kind of slightly different than what we had anticipated?

Rashesh Gogri: Yes, I think you are right that we have lowered our absolute growth. As we pass quarter-on-quarter, we have more security on what number we are going to achieve and we are at this number. We are seeing some postponement of orders of certain projects also which have resulted in moving this sales to next financial year. So, both these results would result in that lowering of this EBIT growth.

Piyush Lakhani: Just one small correction. The earlier target was 10 to 12, not 10 to 15.

Moderator: Thank you. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: So, my question is on Atali, we are committing significant CAPEX, right Rs. 375 Cr in the next year, so is this more from a longer-term growth point of view or are you also seeing some near-term visibility driven by customer orders etc.?

Rashesh Gogri: Yes, it is more from overall growth perspective. I think it is a large manufacturing site that we are trying to put because we would like to see, consolidate our place where we do further expansion because the regulated customers and innovators don't like us to ship the sites from one site to other site and so from that perspective, we have taken a bet on putting up this very large manufacturing site and it will have, I think, multiple phases of newer CAPEXs that we will do at this site. So, current phase one includes the infra spend as well as two large blocks that we are constructing there as part of this current phase of expansion. And we will have all the permissions and land and everything to do further expansion also there which can come up every year as additional blocks, so that is the strategy. So, there we can, longer term we would have one side which will give us consolidated control over our expansion.

Nitesh Dutt: And sir, are we also adding some new capabilities, let us say chemistry capabilities or newer kind of products in Atali site?

Rashesh Gogri: Yes. Overall in the new R&D center that we have started, we are looking at doing more peptides and flow chemistry as well as the newer reactions in newer chemistry we would like to add and once we form our R&D capabilities, I think in the future projects we will see more such production capabilities coming into Atali.

Nitesh Dutt: Finally, on the Rs. 90 Cr CAPEX on solar side, will it help reduce our energy costs in any way?

Rashesh Gogri: Yes. So, the cost increase that we are looking at is about Rs. 6 to Rs. 7 per unit. So, currently, in Tarapur the per unit cost of electricity is almost Rs. 10. So, there is definitely going to be savings and we are consuming about 20 lakh units on an average per month.

Nitesh Dutt: So, roughly Rs. 10 Cr of annual savings?

Piyush Lakhani: No, it will be more than that.

Moderator: Thank you. The next question is from the line of Krishna from Capital Mine. Please go ahead.

Krishna: Sir, my question is regarding Xanthine pricing pressure. So, are we at the flag end of the pricing pressure or do you think how long can we expect for the pressure to come back to its previous level? That is one question. Second question is on, you mentioned that EBITDA, we are expecting 8 to 10% growth, right? So, that is for the next quarter or next financial year. So, these two questions are from my side?

Rashesh Gogri: So, overall, I think Xanthine pricing pressure will end. We anticipate it will continue till middle of next year. And in terms of the growth that we will end FY24 will lead to 10% EBITDA growth and for future next 2-3 years, you can anticipate 12% to 17% annual growth of EBITDA.

Krishna: So, this 8 to 10% is for next year?

Rashesh Gogri: Next quarter, all combined.

Piyush Lakhani: So, 23-24 overall compared to 22-23.

Krishna: And then from 25 onwards, we can expect 12 to 17% for next 2 years till 27?

Rashesh Gogri: Yes.

Moderator: Thank you. The next question is from the line of Bharat from Neomile Capital. Please go ahead.

Bharat: I just wanted to ask, how do you plan to fund your CAPEX within the next 2 years like Rs. 100 crores. So, how do you plan to fund it?

Rashesh Gogri: It will be a mix of both, internal accruals as well as borrowings. And we can see our debt equities, we have quite well placed and if you see the business opportunity also we are in a much, quite good place to basically expand on the capabilities as well as the future that we have. So, we think that kind of CAPEX is really put in a much better place and we will fund it through internal accruals as well as some sort of borrowing. But we will keep a tab of where we want to be in terms of debt equity or target is between and we want to be between 0.3 and 0.35.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Rashesh Gogri: We thank you everyone for taking their time to join us for our Q3 FY24 Earning Call. Hope we have addressed all your queries. If you have any further questions, please feel free to contact our Investor Relation team and they will revert back on the same. We look forward to connecting you together again next quarter. We wish you good evening and bye for now. Thank you.

Moderator: Thank you. On behalf of Aarti Pharmalabs Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.