Aarti Drugs Limited
Manufacturers of : Bulk Drugs & Chemicals

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February 1, 2024

To,
Listing/ Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

BSE CODE – 524348

To,
Listing/ Compliance Department
National Stock Exchange of India Limited,
“Exchange Plaza”, Bandra - Kurla Complex,
Bandra (E), Mumbai – 400051

NSE SYMBOL: AARTIDRUGS

Dear Sir/Madam,

Sub: Transcript of Q3 FY24 Earning Conference Call

Please find attached herewith transcript of Q3 FY24 Earning Conference call.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR AARTI DRUGS LIMITED

RUSHIKESH
VIVEK
DEOLE

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COMPANY SECRETARY & COMPLIANCE OFFICER
ICSI M.No.: F12932

"Aarti Drugs Limited Q3 FY24 Earnings Conference Call"

January 25, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 25th January, 2024 will prevail

Management: Mr. Adhish Patil – Chief Operating Officer & Chief Financial Officer, Aarti Drugs Limited
Mr. Harshit M. Savla – Joint Managing Director – Aarti Drugs Limited
Mr. Harit Shah – Whole-Time Director, Aarti Drugs Limited
Mr. Vishwa Savla – Managing Director, Pinnacle Life Science Private Limited

Moderator: Ladies and gentlemen, good day and welcome to Aarti Drugs Limited Q3 FY24 Earnings Conference Call.

This Conference Call may contain forward-looking statements about the Company which are based on the belief, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

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. Adhish Patil – CFO and COO. Thank you and over to you.

Adhish Patil: Thank you. Good afternoon, everyone. Hope everyone is doing well.

On behalf of Aarti Drugs Limited, I extend a warm welcome to everyone joining us today to discuss our Financial Results for Quarter and Nine Months ended 31st December 2023.

On this call, we are joined by Mr. Harshit Savla - Joint Managing Director, Mr. Harit Shah – Whole-Time Director of Aarti Drugs Limited and Mr. Vishwa Savla – Managing Director of Pinnacle Lifescience Private Limited, and SGA - our Investor Relations Advisor.

I hope everyone had an opportunity to go through the "Financial Results, Press Release and Investor Presentation" which we have uploaded on the Stock Exchange and on our Company's website.

Let me begin by sharing an update on the "Ongoing Capital Investments":

The capital expenditure incurred during the first nine months of FY24 amounted to approximately Rs. 162 crores and the targeted total CAPEX for the entire fiscal year shall remain between around Rs. 250 crores to Rs. 300 crores. Greenfield projects at Gujarat Saykha for specialty chemicals got slightly delayed and are expected to be completed by March or April of this calendar year and Tarapur project on dermatology product is on track and in the final stages of completion and most probably will be starting by the end of this month itself. Operational commencement of dermatologic products as said is anticipated by the end of January of current calendar year. This shall lead to operating leverage from next fiscal year once these projects are commissioned and capacity utilization is ramped up.

Now coming to the "Financial Performance":

In Q3 FY24, our revenue stood at Rs. 608 crores as against Rs. 665 crores, decline of 8.6% mainly on the account of negative rate variance. EBITDA stood at Rs. 72 crores with EBITDA margins at 11.8% improved by 100 basis points year-on-year. PAT stood at Rs. 37 crores and PAT margins at 6.1%, improved by 60 basis points. For 9 months FY24, our revenue stood at Rs. 1,912 crores as against Rs. 1,975 crores, decline of 3.2%. EBITDA stood at Rs. 234 crores as against Rs. 213 crores. EBITDA margins stood at 12.2%, improved by 140 basis points. PAT stood at Rs. 124 crores and PAT margin at 6.5%, improved by 90 basis points.

Now coming to "Segmental Performance":

API Segment:

In the quarter gone by, in spite of the visible geopolitical uncertainties and macroeconomic volatilities, the Company has demonstrated resilience by achieving around 8.4% year-on-year volume growth in APIs amidst lower realizations due to negative rate variance, which have impacted revenues in Q3 FY24.

Nevertheless, it is noteworthy that there has been an improvement in gross margin attributed to stabilization of input cost for the majority of our products and operational efficiency. We anticipate gross margins to improve further at current selling prices and also on account of the increased proportion in revenue contributions from export sales for the standalone business, which was down in Q3 FY24.

Recently, the challenges encountered in certain export regions during FY24 attributed to heightened interest rates, dollar shortages, destocking and conservative altering have not gone unnoticed. However, we are cautiously optimistic about a forthcoming turnaround in our export business in near future on the back of the anticipated interest rate reduction and the end of destocking cycle. Within the API business, the antibiotic therapeutic category contributed around 48%, antidiabetic around 14%, antiprotozoal around 16%, anti-inflammatory around 10%, antifungal around 9%, and the rest contributed around 4% to the total API sales for Q3 FY24.

Formulation Segment:

Revenues stood at Rs. 79.3 crores for the quarter, a growth of 58.7% year-on-year, with exports contribution of around 58%. In 9 months FY24, the revenues stood at Rs. 257 crores, with growth of 18.2% year-on-year. Specialty chemical industry while India's domestic chemical demand is expected to stay strong in 2024, price expectations are not very robust as the market struggles to find the right balance amid the new production capacities coming on stream in the country and in China, changing trade flows, weak global demand and volatile upstream prices.

Coming to "Standalone Performance" for the quarter:

The revenue for Q3 FY24 stood at Rs. 540 crores as against Rs. 627 crores, a decline of 13.8% year-on-year. Standalone business contributed around 87% to the consolidated revenue for the quarter. Around 67% of these revenues came from the domestic market and 33% from the export market for Q3 FY24. Domestic revenue declined by around 4.5% while exports grew by around 29% year-on-year for Q3 FY24. Although on the blended basis, volumes grew by approximately 9% mainly because of fantastic volume growth in the domestic market. As we navigate through short-term challenges, our commitment to overcome these obstacles and achieve long-term success remains unwavering.

Our journey may be characterized by uncertainty since past couple of years, but it is equally defined by our collective ability to adapt, innovate, and emerge stronger. Today, united and determined, the Company shall continue to keep the success story. I reiterate on our positive outlook for both our API and non-API business.

Our ongoing projects coupled with optimized capability will serve as the cornerstone of steady growth in the ensuing years. Importantly, we anticipate continued growth in exports within the formulation business, which shall be an important growth driver for the bottomline in coming years. Also, Board of Directors in the board meeting held on 24th January 2024 recommended an interim dividend payout of Rs. 1 per share.

With this, we can now begin question and answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Pramod Dangi from Unifi Investment Management. Please go ahead.

Pramod Dangi: I would like to know the trade component of the exports as well as domestic. How much of it is supplied to trade, and how much of it to the ultimate formulators?

Harit Shah: Most of our sales are directly to the consumer for exports.

Pramod Dangi: So, in the opening remarks, you had mentioned that there is destocking and interest rates causing some pressure. To the ultimate formulators, are interest rates a big variant?

Harit Shah: The major problem was destocking also because in the COVID times, people have bought a lot of API intermediates and the finished formulation stocks were at peak levels and what also is happening is that most of the countries have local tender for their social health and due to dollar issue and high interest rate they are not coming up with new tenders, although the stock levels are now coming down for them.

Pramod Dangi: And the new CAPEX that we have planned, there are some new products also. So, are the customer validation happen after the commercial production starts or has that already been happened? So, I wanted to understand how long it will take for the new capacities of new products to come into where the commercial sales can start?

Adhish Patil: So, the customer validation for dermatology products have already been started. We spoke with all the important customers in the domestic market. So, that has already been done. As far as the specialty second project, an intermediate project was concerned of Saykha**,** majority of the production will be consumed for our own, it's almost more than 50% would be self-consumption for one of our APIs. The rest of the, you can say, not exactly byproducts, but the side products of that chain would be sold outside. And there also we know few customers where we have already spoken to them regarding the upcoming capacities.

Pramod Dangi: So, you expect the sales to start in the 1st Quarter if the facility is operational?

Adhish Patil: Yes, to some extent, definitely, yes.

Moderator: Thank you. We have our next question from the line of Romil from Chelsea Investments. Please go ahead.

Romil: Can you throw some light on the details of our new project finishing up at Tarapur and Saykha? What will be its capacity and how will be the utilization level be phase wise once operational and expected revenue?

Adhish Patil: Yes, so the Saykha one as I said is mainly for captive consumption. But if we talk about the dermatologic product, our final aim of the capacity is around 2000 tons per month. However, this is ramping up that capacity one by one. But that ramp up should happen within 6-7 months. And at the same time, as per the previous question even the customers who start procuring step by step, it won't happen right in the beginning. So, probably for dermatology products, we can expect some approximately 30%-40% utilization in the first year.

Romil: And what price levels for API products are favorable going forward?

Adhish Patil: So, the current price levels are very favorable in terms of overall demand of the API because they are almost back to the pre-COVID levels, historical levels of pre-COVID. So, we don't see the prices of raw materials and APIs going down further. But as you correctly pointed out, since September 2023, that is the previous quarter, the sales selling prices have further fallen down by around 7% on aggregate basis. But going forward, we feel that further fall will definitely curtail.

Moderator: Thank you. We'll take a next question from the line of Parth Vasani from KK Advisors. Please go ahead.

Parth Vasani: I had two questions. So, the first one was on the margin front. So, due to the price cut and weak demand, how our margins are impacted? And what is the scope for further improvement, if you can just throw some light on that?

Adhish Patil: Yes. So, as we can see that our gross margins have actually improved year-on-year basis. Quarter-on-quarter basis, it has very slightly improved by around 15-20 basis points. But what we expect was that the margin should have grown, the gross margin should have grown even more. What happens in the API business, API and spec-chem business is that for every product, it is product specific, for every product there is certain markup in terms of absolute number per kg. So, what we have seen in the last quarter even if we compare it to the historical numbers of that markup, that markup has not been achieved. And that was mainly because of the volatile scenario, the falling trend which continues in December quarter. So, even if we reach that fixed markup, our margin should definitely improve by around a couple of percent going forward in terms of gross margin and that will be reflected in EBITDA margin as well.

Parth Vasani: Sir, second question was on the side of formulation segment, which has done well this quarter. So, just wanted to know, are there any plans for increasing its contribution in our revenue or something like that?

Vishwa Savla: So, yes, formulation business under the name of Pinnacle is growing due to primarily as we are transitioning from a contract manufacturing based model to more of own exports on branded generic exports. So, here the contribution board in terms of the revenues as well as margins, we see good chances of increase. As we are opening up additional markets, we have a number of new product launches and new market launches planned over the next 24 months as well as there is a capacity enhancement brownfield project ongoing. So, post April, we expect to have additional capacities of about 30% as well as we've set up a new manufacturing plan dedicated for oral oncology, anti-cancer molecules which has just begun, and we are expecting USFDA and EU audits to happen in 2024 calendar year. So, with those approvals coming and product launches and capacity enhancement, we see high growth over the next few years for the formulation segment.

Moderator: Thank you. We have a question from the line of Pooja Mehta from JC Securities. Please go ahead.

Pooja Mehta: So, I have a couple of questions. So, the first question is, since our largest export market is Latin America, and our standalone exports revenue has declined substantially, so what are the challenges we are facing, and how do we see it going ahead?

Harit Shah: Yes, Latin America has suffered a lot due to major problems with dollar interest rates and dollar shortage and third was inventory de-stocking. So, we expect maybe another one quarter after the 2nd Quarter of this year, 2024, we expect demand to come up again, basically. There's a lot of destocking and start almost getting over. We feel that.

Pooja Mehta: So, we see positive growth ahead.

Harit Shah: Yes.

Pooja Mehta: And also, one more question. So, currently we are facing freight cost rise due to supply chain issues in Red Sea. Are any other challenges?

Harit Shah: No, as of now we don't have any other challenges except we buy some raw materials from European sources. There we are facing some delays because of the Red Sea issue but as of now we are okay with the inventories, so we don't have any issue on the production.

Pooja Mehta: So, freight cost is fine like..

Harit Shah: Yes, freight costs have gone up but that we added, 50% of our export shipments are FOB, so that doesn't affect us and otherwise we get revised rates from the customers.

Moderator: Thank you. We have a next question from the line of Pramod Dangi from Unifi Investment Management. Please go ahead.

Pramod Dangi: So, there are two things, you just commented to the previous question that last quarter we were down, 7% this quarter again we are down on topline, the volume is good. But in the March 2020, we are sitting on a huge high base. So, what kind of pricing impact we see going forward for the quarter-on-quarter or the year-on-year from March to March, because the pricing is already there. And you are saying that there will be no more negative growth. So, what kind of a volume we are expecting?

Adhish Patil: As far as the pricing is concerned, we feel that the negative rate variance should stop. At least it should reduce significantly. It might be that little bit because what we observed last time was by February 2023, last year that is, the raw material prices stopped correcting. But it was still, I think, February, the raw material prices kept on going down. So, a slight impact might be seen in March, but it won't be as sharp as the December quarter on year-on-year basis.

Pramod Dangi: And I believe that whatever we saw in the September quarter, the inventory impact is already there behind us, right, in terms of raw material costs?

Adhish Patil: So, the thing is, typically if you consider raw material, WIP and FG all put together, almost around 90 to 100 days of stock is there in the entire value chain. And what we have seen is that our December selling prices were almost on aggregate basis 7% lower than the September selling prices on the account of falling R&D. So, probably now they have stabilized in last quarter but then the little bit of it might flow, you know, might be consumed and sold in the first half of March quarter.

Pramod Dangi: And lastly, if I may, any update on the American FDA regulations? We were waiting for the inspection to happen?

Adhish Patil: Yes, the thing is we had received the communication that our file was already passed to the ORA department, that is the inspection department. All the responses were reviewed, and they were found adequate and they passed on our file to the inspection department. Now the thing is most of the time, the inspections are separate inspections. So, probably we might take one follow-up from the local inspection department that our inspection audit has been pending so if you can hurry that up. So, we might do a follow-up in January.

Moderator: Thank you. We have a next question from the line of Skand Chaturvedi from Enarr Capital. Please go ahead.

Skand Chaturvedi: I just wanted to inquire about the plans for achieving a debt-free status of the Company. Could you please highlight the roadmap towards reducing and eliminating the debt?

Adhish Patil: So, our current debt-to-equity ratio on the consolidated basis is 0.47. So, historically, it's almost 25 years. I'm talking about 5 to 7 years before today, before 2024. We had run the Company around 1.4 to 1.5x days. So, we have reduced that sharply to 0.47 in spite of the fact that we have been doing a lot of CAPEX for the future growth. So, in spite of that, we were able to reduce our debt to equity to 0.47. So, the thing is once the projects gets operationalized, reducing debt won't be an issue for us. But the problem is if we reduce debt too much, our ROE will also go down. And frankly speaking, we are very much comfortable to run a debt of around 0.5 to 0.7 in terms of debt-to-equity ratio. We are very much comfortable doing that. So, probably we are not looking for a debt-free Company, but yes, definitely we will keep debt to the minimum level so that it won't hamper, it won't create any cash crunch for the Company anytime in the near future. And I would also like to highlight the fact that we have also done buyback in the beginning of this year. Along with the CAPEX, we have also done the buyback. And in spite of all this cash outflows and shareholder payouts, our debt to equity is still 0.47 as of now.

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

Hrishali Shah: A year back there was a mention of increasing the contribution of specialty chemical and intermediaries to 20% to 25%. My question is on that front, what kind of chemistries or what kind of products are we targeting and what is the roadmap going ahead? So, that is what I wanted to ask.

Harit Shah: So, for specialty chemicals, we are coming out with Methylamine project, which we are expecting to be commissioned somewhere in March or April. So, there we are going to make dimethylamine, monomethylamine, and trimethylamine. Then 50% of their consumption is within the group. And 50% we need to sell outside the market. The second project is of salicylic acid. We are planning to make 2,000 tons per month eventually. And we are starting the production somewhere in first week of next month, February and we will start gradually. And at this moment, we'll run at as Adhish mentioned, first year of our capacity utilization will be 30% to 40% for that. So, if both projects go on live, then our specialty chemical business value will go up like that's what yes.

Moderator: Thank you. The next question is from the line of Ruchi Gupta from Value Consultancy. Please go ahead.

Ruchi Gupta: Can you please throw some light on the specialty chemical segment? How do we see in FY25 growing? Also, we are coming up with a new plant in Gujarat. What are the plans regarding that?

Adhish Patil: Yes, so as Harit bhai was mentioning that the Saykha plant will be operational by April, mostly by April end of this current calendar year. And we have chlorosulfonation product line as well. Those capacities are there in Tarapur that will also be ramped up. Then we are coming up with salicylic acid as well, which will be a dermatology product. So, overall, our spec-chem business, we can see very good growth. We can easily double it once all these production line, production capacities come up. For the next financial year, overall, it's slightly difficult to say as of now, but we'll definitely target a handsome growth of around 30% to 40%, but it all depends on the rate variation. Hopefully the further negative rate variation won't take this. If that is there, then we should be able to achieve very high double-digit growth in the spec-chem segment.

Ruchi Gupta: Also, on raw material prices front, how were the prices for our top raw materials in Q3 versus previous quarters and your views on future likely prices to be?

Harit Shah: Most of our major raw materials are less than pre-COVID levels and we don't expect further price going down. Price from quarter two to quarter three, of course, definitely prices have come down of raw materials. Now prices are more or less stabilized and we don't expect further price reduction in these chemicals, intermediates.

Moderator: Thank you. We have a next question from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Sir, I wanted to understand for next 2 to 3 years with all these CAPEX coming in and new sources of revenue coming in. Sir, what kind of topline and bottomline growth do we expect going forward?

Adhish Patil: Yes, so definitely we will target a volume growth of around 10% to 15% for the coming year. We are taking into account that the newer projects will typically have some troubleshooting problem which will overcome soon and then there will be some gestation period as well in terms of demand to pick up, means getting the product approval from various customers. So, we are thinking of 10% to 15% but that will continue in the further years as well because overall we plan to achieve around 4000 to 4500 for the standalone companies from all these new capacities which are coming up.

Madhur Rathi: And sir, what kind of margins do we see from this incremental revenue coming in from the specialty chemicals as well as the API business?

Adhish Patil: Typically, from the market what we have seen for these products, the EBITDA level margins are quite high that way in the upwards of 18%-20%. But the thing is when we come with a newer capacity, definitely we expect some bit of price loss. So, initially probably around 15%-16% EBITDA margin should be fairly achievable from these products is what we believe.

Madhur Rathi: Sir, do we have some offtakers for the salicylic acid well as the methylamine project that will be starting?

Adhish Patil: You are asking for offtake? The thing is salicylic acid plant will start in next week. We have already spoken with customers, and they are ready to buy from us because we will be the only manufacturer after China for this product for Indian market. So, that sale should pick up pretty fast and the Saykha one, as Harit bhai was saying that more than 50% is a captive consumption. So, we will immediately start consuming.

Moderator: Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: I joined call a bit late so maybe you could have repeated, but just wanted to understand this price continued to fall in the API segment. Is it just partly to do with the lower raw material cost and so subsequently it is passing on to the benefit to the customers or there is something more to this and how long will this last?

Adhish Patil: So, the main factor for the selling prices of APIs to go down in December quarter was related to the falling raw material prices. But having said that, I would also like to point out that last quarter our exports did not do well. And the export market typically you get higher gross contribution and higher margins because of the requirement of higher regulatory approval. So, because of that, since the proportion of those sales in higher selling prices that went down, we had double impact not only because of raw material the selling prices went down, but also on an average level because the export component was lesser in December quarter, hence it went down little further. So, on that account, we feel that we should be able to regain some bit of margin in terms of gross contribution.

Tushar Manudhane: But on the pricing front are you witnessing further reduction in the raw material prices?

Adhish Patil: So, yes, so that question, Harit bhai answered that as compared to September quarter, we saw some reduction in December quarter, but now the prices have stabilized. So, now we are not foreseeing further reduction because even the selling prices of APIs and even the raw material prices, they are almost to the level of pre-COVID historic levels. So, we don't foresee that they can go down further, considering the fact that over the last four years, even the other inflationary factors are also there. So, we don't foresee the raw material prices going down further. Having said that, we do carry raw material, WIP and finished goods all put together. We do carry around 90 to 100 days of inventory in pipeline. So, a little bit of that inventory will be sold in the first half of the March quarter as well. So, that might impact the performance of the March quarter to some extent.

Tushar Manudhane: Understood. And just the on the inventory in the system, not at the Company level, but at the industry level, you think that the inventory for our core products are largely now stabilized, and at a lower level and so that will not further drag the prices as far as our products are concerned.

Adhish Patil: Yes, that is what we feel, especially in the export market because as far as the domestic market was concerned, we had done a fantastic volume growth of around 20% year-on-year for December quarter. So, domestic demand point of view, there are no issues. The only issue that lies with the export market like destocking and we believe that now it should be done. So, we hope that the demand will pick up for the export market as well in the coming quarters.

Moderator: Thank you. We have a next question from the line of Hrishali Shah from Unifi Investment Management. Please go ahead.

Hrishali Shah: My question is that there is some seasonality that we can see in case of formulation segment in both domestic as well as export front. So, is it expected to stabilize further as we grow or looking at Y-o-Y numbers is a better method for it?

Adhish Patil: So, as far as seasonality is concerned in our products, our antibiotic, anti-diarrhea, these two segments, historically what we have seen, the December quarter is the leanest quarter and March, June and September quarters are usually better in terms of these therapeutic categories. But the rest of the categories like anti-diabetic and cardio-protectant, even anti-inflammatory to some extent, we don't see much of seasonality. But having said that, our antibiotic does contribute around 44% to the total API sales. And API sales will be roughly somewhere around 78% to 80% of the consolidated sales.

Hrishali Shah: I guess I was not clear. My question was on the formulation front. We see certain seasonality there that H1 is quite good whereas H2 is weak.

Vishwa Savla: Yes, sure. So, going forward, at least more on the international markets, we don't think the formulation business will be subject to much of seasonality change. However, what is happening currently, since business is very new in many of the international markets, we are having some new product launches from new markets opening up, which is what is causing a majority of the changes. But going ahead, we don't foresee too much of seasonality impact on the formulation business. Of course, on the domestic CMO part, there will be a slight impact during the winter, the season is a little lower. But in general, in totality, we don't think the business would change a lot due to seasonality impact.

Hrishali Shah: And can you please throw some more light on domestic CMO front, which you just mentioned right now?

Vishwa Savla: Yes, so domestic CMO has been our core business in Pinnacle in the formulation segment since we started. However, the objective has been that over the last couple of years we have been increasing our sales and production contribution more towards international markets, more towards our own branded generics. So, as of now about depending quarter to quarter about 40% to 50% of our businesses are still coming from the domestic CMO. And with our volume expansions going on, we plan to maintain that at around 40%. And in the domestic CMO segment, we cater to most of the leading Indian MNCs and primarily on products where we have backward integration on the APIs, we supply those products to them.

Moderator: Thank you. We have a question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Sir, the first question is on the working capital. If you could give some idea of how inventory and receivable days compare at the close of this quarter versus a year ago?

Adhish Patil: So, if you compare with the March 2023 numbers, the December 2023 numbers look much better in terms of debtor cycles. In fact, we were able to reduce the debtor volume by 20%. I'm talking about December '23 as compared to March '23.

Gagan Thareja: No, I'm asking December '23 compared to December '22 if it's possible.

Adhish Patil: December '22, exact numbers I don't have right now. March '23 I have. March numbers were somewhere around 100 days. But that has come down to 90 days for December 2023. I don't have. Maybe offline I can give you those numbers.

Gagan Thareja: Alright. And would year to date the Company have taken some sort of inventory losses because you would have been holding input inventories at high cost and they have continuously dropped through the year. And if so, can you enumerate the value of the inventory losses that you would have taken?

Adhish Patil: The thing is this time we haven't taken any inventory losses because the domestic sale was high. So, everything has been sold. Nothing is in stock which is at a level which we have valued over the market. So, that is not there. So, that is why we haven't taken any inventory losses as of December. But most of the products got sold. So, automatically it came in the raw material pricing.

Gagan Thareja: I understand but would there not have been any mark to market sort of impact on?

Adhish Patil: No, that did not happen for December end.

Gagan Thareja: Okay, but for the first half of the year, if there was any...

Adhish Patil: No, the thing is typically what happens generally if we are holding to lot of stock, then such things happen in terms of marking down. December quarter, frankly speaking, our volumes were up by 8.5 to 9%. So, that way we were able to sell the product. And that is the reason why it did not come in inventory losses, but actually it came in the gross contribution itself of December quarter.

Gagan Thareja: So, as you head into FY25, you said that even from September to December, your prices have gone down, right? If prices stabilize here on, year-on-year at least for the first 2-3 quarters of the next financial year also, your pricing would be lower And if you have volume growth of 10% to 15%, would that therefore mean that value growth would be lower than that because the pricing if it maintains at current levels would be lower than what you have seen in the first half or first night of this year?

Adhish Patil: I understand what you are saying. So, as you already pointed out, the first two quarters, the June quarter and September quarter prices, are much higher than what the prices are today, what we achieved in the December quarter. So, basically for the next year, the first two quarters can see some bit of negative price variation. But then we feel that, so it won't be that high as we are seeing right now here from New Jersey. But our volume should go up further because the new capacities would be added for the next financial year. So, that should also take care of some bit of volume growth.

Gagan Thareja: So, just to get some idea, because you talk of a substantial amount of new capacity coming on board. First thing is, when you monetize it fully, what's the revenue potential of these assets that are getting commissioned today or in the near future? And over the next year, where do you see utilizations broadly on these assets? And thirdly, there will be fixed costs associated with these assets, which as and when you commission them, you know, will come into the OpEx and obviously, till the time you hit a reasonable utilization, those costs will impact margins, if I understand it correctly. So, while at optimum utilization, they might benefit margins, to start with, they might actually impact margins. So, if you could give your assessment of these three factors, 1) full potential, 2) what could be utilization, 3) what could be the margin trajectory starting and at optimum levels?

Adhish Patil: So, the new CAPEX what we are planning, what will come online in next couple of months, we feel that current price levels, the incremental revenue potential from these new projects would be anywhere between Rs. 1000 to Rs. 1200 crores. And as you correctly, but the thing is what happens is that as we are scaling up the production, the workforce and everything which is added, is typically on incremental basis. So, it won't create that big of a drive. First year, even at, I would say 30% utilization, we would be able to make profits out of it, not that we will make losses. At the optimal level, when you go, as per the current market trend, those products are facing EBITDA margins upwards of 18% to 20%. But the thing is, once the capacity is launched, there might be some bit of price war. But still, we feel that 15% to 16% should be easily achievable from the newer products.

Gagan Thareja: So, 15 to 16 is achievable at what utilization level is what I'm trying to understand.

Adhish Patil: I think beyond 50% we should be able to achieve that.

Gagan Thareja: And for FY25 you are aspiring for what sort of utilizations of these?

Adhish Patil: FY25 we were thinking of around 30%-40%.

Gagan Thareja: So, basically what you're saying is that incrementally the new capacity should give you a turnover of Rs. 400 odd crores in the coming year and while optimal margins could be 15%-16% when you hit that utilization, first of all am I correct in saying Rs. 400 crores or are you saying that you'll exit the year at 30-40% utilization starting at zero and therefore blended utilization will be more like 15%-20%?

Adhish Patil: Correct. So, we will be exiting at that level because the initial first and 2nd Quarter, there might be some commercial level problems.

Gagan Thareja: So, basically 15% utilization is what you will have for this. And that would mean roughly 170-180 crores.

Adhish Patil: We will try more, no doubt we will try more. Because the captive consumption, that will immediately go up right from the day one.

Gagan Thareja: I get your point but if the incremental turnover from this asset in the first year is going to be around 170-180, what could be the incremental EBITDA you could generate from that? I presume it would be less than 15% or probably more like 10%-12% to start with and then it moves up as you sort of exit the year perhaps you will be absorbing your cost better and there the quarterly run rates might be higher in margins but for the full of next year, The new facility margins could probably be more closer to what you are doing right now. Would that be a reasonable assessment?

Adhish Patil: So, EBITDA, the main drag factor would be depreciation and interest. So, at the EBITDA level, probably we will still be able to make better margins than 10%-12%. But as you said, at the PBT level, there might be a little bit of drag because of depreciation and interest.

Gagan Thareja: Alright. And on the current capacity that you have, incrementally, how much more can that add? I mean, when you say, you talk of 10% to 15% volume growth, you are talking of that coming entirely from your existing capacity or you're taking into consideration the new capacity as well?

Adhish Patil: That is including the new capacity as well.

Gagan Thareja: So, the existing capacity would give you how much in terms of additional volume growth?

Adhish Patil: We can target somewhere between 5% to 10%.

Gagan Thareja: And would you be in a position to do better gross margins on the existing capacities going into the next year?

Adhish Patil: Yes, that is what we believe.

Gagan Thareja: Of what order could the gross margin be higher by?

Adhish Patil: We feel that, frankly speaking, if we restore back to that basic markup over the RMC cost, it can push our existing margin profile by a couple of percent.

Gagan Thareja: While domestic this year or this quarter has been good in volume growth, the pricing is still down but export volume itself is down.

Adhish Patil: Domestic pricing was almost down by around 24% whereas the volumes were up by a little more than 20%.

Gagan Thareja: And in exports, how was it? Volume and value?

Adhish Patil: In exports, both were bad. In fact, the rate variation was around say minus 15 and even the volumes were around 14 and a half in negative.

Gagan Thareja: This is for your API business or you?

Adhish Patil: This is for the API business only. It is for the standalone business rather. But the formulation business did really good business. We had around 58% of our revenue being formulation came from exports.

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

Adhish Patil: So, thank you everyone for joining us today on this earnings call. We appreciate your interest in Aarti Drugs Limited. If you have any further queries, please contact our Investor Relations Advisor, SGA, or us directly. Thank you and a Happy Republic Day to all in advance.

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