



**Aarti Drugs Limited**

Manufacturers of : Bulk Drugs & Chemicals

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

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

**BSE CODE: 524348**

**NSE CODE: AARTIDRUGS**

Dear Sir/Madam,

**Sub: Transcript of Q1 FY2022 Earning Conference Call**

Please find attached herewith transcript of Q1 FY22 Earning Conference Call.

Kindly take the same on record.

Thanking you,

Yours faithfully,

**FOR AARTI DRUGS LIMITED**



RUSHIKESH DEOLE

**COMPANY SECRETARY & COMPLIANCE OFFICER**

ICSI M.No.: A54527



“Aarti Drugs Limited  
Q1 FY2022 Earnings Conference Call”

July 28, 2021



**MANAGEMENT:**            **MR. HARSHIT SAVLA – JOINT MANAGING DIRECTOR  
– AARTI DRUGS**  
**MR. HARIT SHAH – WHOLE-TIME DIRECTOR –  
AARTI DRUGS**  
**MR. ADHISH PATIL - CHIEF FINANCIAL OFFICER –  
AARTI DRUGS**  
**MR. CHINMAY MADGULKAR –STRATEGIC GROWTH  
ADVISORS**  
**MR. JIGAR KAVAIYA - STRATEGIC GROWTH  
ADVISORS**

**Moderator:** Ladies and gentlemen, good day and welcome to the Aarti Drugs Limited, Q1 FY2022 Earnings 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 the date of this call. The statements are not guarantees of future performance and involve risks 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, Aarti Drugs Limited. Thank you and over to you Sir!

**Adhish Patil:** Thank you. Hello! Everyone and a very warm welcome to all of you present on the call to discuss our financial results for the first quarter of FY2022. So, from Aarti Drugs Limited, today we have our Joint Managing Director – Mr. Harshit Savla, Whole Time Director, Mr. Harit Shah, and myself, CFO of the company.

We hope all of you and your loved ones are healthy and safe in the wake of the ongoing pandemic and floods across the country. The downward trend of COVID-19 cases is certainly a good sign, and we sincerely hope that the pandemic gets over soon.

I would also like to highlight that the company has not faced any major disruption in terms of the supply chain or plant shutdowns due to the ongoing flood situation in Maharashtra. We are happy to share that Aarti Drugs delivered a resilient performance in spite of facing multiple headwinds during the quarter. Our consolidated revenue stood at Rs.581.6 Crores as against Rs.545.9 Crores year-on-year. The revenue mix between domestic and export revenues stood at 69%: 31%, this time the domestic share was little more than the previous year.

I will now take you through segment-wise performance. First, we will discuss standalone business performance: Standalone revenues stood at Rs.505.8 Crores a growth of 6.4% year-on-year this contributed approximately 85% of that consolidated revenue. 69% of these revenues came from the domestic market and 31% from the export market.

Domestic revenue grew approximately by 12% and export contracted marginally by around 4.1% year-on-year; however, contraction in exports can be attributed to the fact that around Rs. 9 Crores exports from March 2020 quarter was accounted in June 2020 quarter due to lockdown in last year. So, if you take out that base then export has grown marginally. Approximately 13.2% volume growth was observed in the API segment in the first quarter. Within the API segment, the antibiotic therapeutic category contributed around 43%, antiprotozoal around 13%, anti-inflammatory around 11%, anti-diabetic around 10%, anti-fungal around 9% and the rest contributed around 14% to the total standalone revenues. The share of acute therapies remained subdued due to the second wave of COVID-19 in this lockdown.

Our Tarapur plant which witnessed shutdown during Q4 FY 2021 is now completely functional and operating normally. The company is well on track to mitigate this tide of risk in the future.

The company has converted additionally four of its manufacturing locations in Tarapur to zero liquid discharge category in the current calendar year. Further, the company is in the process to achieve the ZLD operations for more facilities in Tarapur by the end of the financial year 2022. This has marginally increased factory overheads which we plan to overcome in future by making more by-products from the waste and use high calorific waste in wastage recovery boilers.

Now we will discuss about the formulation segment, for the quarter formulation revenue stood at Rs.86.5 Crores, a growth of 6.7% year-on-year approximately 19% of the formulation revenue came from exports during the quarter which we expect to grow in near future.

Now, we will talk about business in general about the API segment as well. A sudden increase in the raw material prices driven by demand-supply mismatch, increase in crude oil prices and plant shutdowns at the supplier level affected the gross margins. This was coupled with reduced demand for acute therapy products because of the second wave of COVID-19 in these lockdowns.

As a result, passing on the increased cost the customers have a big challenge in this situation. However, the average realization for most of our products has increased compared to Q4 FY2021. But it was only a partial as compared to increased input cost and that is why our gross margins contracted in this quarter. We believe that the worst is behind us in terms of raw material price hikes and EBITDA margins are expected to come back to normal levels in a coming couple of quarters.

We remain confident of achieving EBITDA margins in the range of around 18% going forward for the current product mix. Profit after tax for the quarter stood at Rs.48.8 Crores as against Rs.85.5 Crores, year-on-year; however, we know that June 2020 quarter was an exceptional one in terms of margin and we have discussed that last year as well.

The company incurred a capex of Rs.48 Crores during the quarter and planning a capex of Rs.150 Crores to Rs.200 Crores for the remaining parts of FY2022 which might get affected in case there is a third COVID-19 wave. The balance sheet continues to remain firm with comfortable net equity of around 0.54X as of June 30, 2021.

The net debt to equity ratio is expected to improve going forward with strong internal accruals in forthcoming quarters. Credit rating agencies like ICRA and CRISIL have reaffirmed the debt credit rating on lockdown facilities to AA minus with the stable out and A1 plus for the short-term facility. The strong credit ratings will allow us to further lower our rate of interest, reaching time would reduce our interest outgo, thereby improve our ROE further.

I am happy to announce that the share buyback concluded during the quarter witnessed a massive response from the investors and was oversubscribed by almost 111 times. The company bought back 6 lakhs shares worth Rs.50 Crores during the buyback. With this, the company has distributed around Rs.195 Crores, almost 26% of the net profit in the form of dividend and

buyback of shares over the last six years to our shareholders. I would like to highlight here that the promoters also participated in this buyback.

The company is well on track of growing the contribution from lifestyle and chronic therapeutic areas and reducing share from optic therapies from the API business. Our recently expanded chronic therapy capacities have already started contributing to the growth. We have a robust pipeline of products under development and for API as well as formulation. There is more focus on anti-fungal, anti-diabetics in treatment and antibiotic therapy.

We are even confident of overcoming the near term challenges. Our growth trajectory is expected to be robust driven by the robust demand, excellent operational execution and capacity expansions through a combination of Brownfield Greenfield ethics in the API and formulation segment.

Our margins, profitability and return ratios are also expected to improve due to the operating levels and backward integration in coming quarters. The company will continue to explore various opportunities in terms of new therapies addition and geographic expansion. We can now begin the 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 Pranav from Invesco Mutual Funds. Please go ahead.

**Pranav:** Basically just wanted to understand you eluded that to the thing that you have taken price increase even in the current quarter. But if you have taken price increase all I am trying to understand is why your volume growth then is higher than the pricing growth or the value growth if you have taken price increase across segments?

**Harit Shah:** I will state to that to then last year. So, in June 2020 quarter that particular quarter, the prices were exceptionally high. During last year around mid of August the prices have tapered down and then the, so that to recent quarter and March quarter prices kind of a base in the March quarter and after that the raw material prices have gone up. So, they have taken a price hike which would affect to December.

**Adhish Patil:** If you compare with June 2020 quarter then the prices have gone down, because June 2020 quarter was at that time the selling prices were exceptionally high. But if you take the normalized quarter for December and March and with respect to December and March the prices have gone up of the raw material and so does the selling prices have also gone up. But then the increase in the selling prices is not proportionate to the increase in the input prices and that is why there is a squeeze in the gross contribution.

**Pranav:** Okay, so let me sort of highlight, quarter-on-quarter you saw what 13% volume growth, is that a right number?

**Adhish Patil:** No, that was year-on-year volume growth.

- Pranav:** Quarter-on-quarter how these things have moved actually, say volume and value?
- Adhish Patil:** So, value-wise there is growth, in fact, quarter-on-quarter there is more growth because last time on consol we had done Rs.502 Crores of sales and this time Rs.581 Crores of sales we have done i.e., quarter-on-quarter, March quarter versus June quarter.
- Pranav:** How much would have been the volume growth, Sir?
- Adhish Patil:** Quarter-on-quarter I do not have the numbers right now, but I have the numbers for YOY and year-on-year it is more than 13%.
- Pranav:** Have you taken any inventory write-offs or write-downs in this current quarter?
- Adhish Patil:** No, this is purely because of the raw material prices and we have seen hikes in almost more than 20–22 raw materials and the hikes were also quite drastic in the sense of, in some cases more than 250% hike, more than 100% hike like that.
- Pranav:** Thank you.
- Moderator:** Thank you. The next question is from the line of Anant Padmanabhan from PGIM Mutual Fund. Please go ahead.
- Anant Padmanabhan:** Thanks for taking my question. Sir, some more colour on your raw material price increase, so in the last quarter, you had given a guidance of around 38% kind of gross margins. So, by when would you expect to reach those kinds of margins and in terms of a price increase by Q2, how are the raw material prices as of now have they started stabilizing or are they continuing to go up?
- Adhish Patil:** Yes, one thing I would like to answer is that in a couple of quarters we are expecting that our gross contribution should improve by 4% or so. As far as the current raw material pricing scenario is concerned, I will ask Mr. Harit Bhai to answer that question for you.
- Harit Shah:** Out of 20 raw materials prices are tapering down in almost 50% of the cases, but since 50% of the cases price is still at the same level as the first quarter. But we expect that also to slowly coming down by another month or so. So, in this quarter we expect around 1% or 2% raw material price coming down definitely.
- Anant Padmanabhan:** Are you continuing to even in current quarter you are continuing to take price hikes in your products to your customers or how is that working for you or for what portion of your business there would be a formula-based mechanism for pass-through of our raw material prices?
- Harit Shah:** What has also happened is we took first quarter due to COVID the demand scenario was also very weak, so we were unable to pass on the price increase to the customers due to competition and also one more point is like in exports the container freights have gone up by almost 7% to 8% in most of the cases so, there also we are being affected. So, in an overall situation, we expect we should do better than the first quarter.

- Anant Padmanabhan:** One final question before I get back to the queue. So, in Q4 you had mentioned that there was some spillover of sales from Q4 to Q1, so in Q1 what portion could you quantify that portion for Q1, how much is it, how much of those sales are in Q1?
- Adhish Patil:** It is like last year we are accounting exports from the bill of lading date. So, unless that material is shipped we are not taking it as a sale and because that last year lot of March sales almost for Rs.9 Crores to Rs.10 Crores worth of sales got spilled over in June 2020 quarter.
- Anant Padmanabhan:** Rs.9 Crores to Rs.10 Crores?
- Adhish Patil:** Yes, and this year in fact the opening inventory of port was lower than the closing. So, this year actually we have shown a couple of Crores of sales less in exports because of the same BL accounting.
- Anant Padmanabhan:** Thank you, Sir. I will get back into the queue.
- Moderator:** Thank you. The next question is from the line of Abdul from Anand Rathi. Please go ahead.
- Abdul:** Thank you for the opportunity. Sir, just two questions, firstly on the product mix side, as I heard in your opening remarks the exports sales had been quite lower in this quarter. So, how should that pan for the entire year? Is there any sort of a demand contraction which is happening from an overseas client or so just a temporary phenomenon from a quarter basis where in the priority was given to domestic customers?
- Adhish Patil:** One thing I would like to say is that going forward the export demand is looking strong. We have a lot of pending orders also. So, it was more of a one-off case because of more priority being given to the domestic market, but we have a lot of big pending order list for exports. So, it is not that of worry for us export division.
- Abdul:** Secondly, I referred to the presentation where you have mentioned that the investment what you are doing into 2MNI backward integration that number is slightly lower as compared to what we are doing previously. So, any colour on that front and whether the Rs.600 Crores, capex guidance for two year – three years, is that entirely intact?
- Adhish Patil:** The only thing is in some cases because of the improved process you can say we might be able to reduce the capex number in an absolute sense. But that does not impact anything related to the capacities we are planning to install. That line is still on.
- Abdul:** Understood, Sir. Okay, thank you.
- Moderator:** Thank you. The next question is from the line of Ranbir Singh from Sunidhi Securities. Please go ahead.
- Ranbir Singh:** Thanks for taking my question. Sir, in this quarter, do we have the contribution from New Metformin facility phase-1?

- Adhish Patil:** No. That facility is not yet constructed. What we are talking about from 1,000 ton to 2,000 tons per month that is still not yet commissioned.
- Ranbir Singh:** So, when will we see the revenue coming from this facility?
- Adhish Patil:** It will take around because of this COVID thing conservatively, safely you can say 10 months to 12 months more.
- Ranbir Singh:** Okay, so all these new projects start, earlier we anticipated that at least by the second half of FY2022 the phase-1 will start contributing, so I think this is pushing towards FY2023?
- Adhish Patil:** Yes, correct slightly there is a delay because of these construction activities getting delayed.
- Ranbir Singh:** Earlier participant asked about that gross margin outlook, so you said 4% improvement may happen in the next couple of quarters that is what you say?
- Adhish Patil:** Correct.
- Ranbir Singh:** So, from 31% it can go to 35% that is the maximum we can see in this financial year?
- Adhish Patil:** Okay, and yes, correct for this kind of product mix that is what we are estimating, it is around 18% - 19% EBITDA levels.
- Ranbir Singh:** So, that 38% kind of gross margin as far as we have so that seems not achievable in this financial year, right?
- Adhish Patil:** In this financial year, no.
- Ranbir Singh:** This price increase is passing on, on price increases you have talked about. So, what proportion of our contract is based on long-term where we can have the price increase cannot be passed on in a smaller time and how much is the business where we can pass on so that will give you some understanding going forward that because the price is likely to remain volatile for most of the raw materials. So, can you give some light on it?
- Adhish Patil:** Typically what happens is our exports contract, the export prices are fixed for two and half months to three months on an average that is there where we cannot do much. Then our domestic orders would be somewhere around one month but then for few of the MNC's we are fixing up price contract also in the domestic market for a quarter means for three months period and then we revise it. So, in some cases, it is difficult to revise immediately and as I was saying that especially the acute therapies like antibiotics and antiprotozoal, because of these lockdowns at one side there was a sudden increase in raw material prices and severe hikes were there. So, it is very difficult to justify to the customers especially in this market to get very severe hikes in our selling prices. So, it is like a little slow process, but it is happening. So, it is more of a temporary gross margin contraction right now.



**Ranbir Singh:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Bob from Falcon. Please go ahead.

**Bob:** A couple of questions regarding your products. You are a leader in the school of quinolones but there has been quite a bit of backlash against that because of the side effects. Like to understand your comments regarding there and similarly for Nimesulide again, there have been some negative articles around the side effects on the liver etc., so how do you see the demand panning out of such products?

**Adhish Patil:** As you see that company as a whole we have for new Greenfield capex we are focusing more on chronic lifestyle diseases and less of acute therapies. So, that is the way of derisking ourselves from such kinds of things happening in future but as of now what we see we have five chloroquinolones, Ciprofloxacin, Enrofloxacin, Norfloxacin, Livofloxacin and Ofloxacin, so they treat a different kinds of acute symptoms. So, we have not seen much of a problem but right now what has happened is that because of lockdown this particular infection has spread and some of them are respiratory, some of them are spread through waterborne, amoebic infections or bacterial infection through water and because people are not going out, not meeting other people, not eating out and because of all these things the demand has been slightly low not mainly because of the side effects because these molecules are quite stable as of now and since they are used in very short burst, what I am trying to say is it is not like we have to consume a lot of doses of these particular molecules. So, that is one form of insulation in terms of for the demand of these products and as far as Nimesulide is concerned long back, in fact, if I am not mistaken more than five years back, Nimesulide dose is a very effective molecule but it is banned in paediatric use but that thing happened long back. But even after that ban for the adult purpose, it is being prescribed quite heavily. So, we are not seeing that much of a problem as far as demand of Nimesulide is concerned and in fact, Nimesulide has done quite well in the last financial year for us.

**Bob:** Fair enough saying year-on-year a contraction in growth. Actually, you are saying the demand increase year-on-year of these molecules, Ciprofloxacin, Nimesulide, and Norfloxacin?

**Adhish Patil:** Very much, yes.

**Bob:** The other question I had was, you have a large scale and you have been one of the leaders in Metronidazole and Kenedezole etc. because you have been producing these molecules for a long time for the past 15 years – 20 years, I understand that. But, how when you are venturing into the new API, how do you establish leadership because you would not have scale in the beginning and there already be established players. How do you compete on price with them?

**Adhish Patil:** That is a good question. The thing is when we launch a particular molecule we see to it that what is the competitive landscape of a particular product. So, most often when we enter there were like 6-7 players in that particular molecule which in turn also means that market share is quite fragmented. So, there is no clear cut dominant player in the market, obviously, there will be top

two-three players, but there is no clear cut dominance as such. So, if the market is fragmented like that it is easier for a new player to enter and then obviously because of our process R&D the way we improve the processes, our engineering skills are also very good especially when it comes to handling products where a lot of material movement needs to be handled. So, whatever we manufacture, they are manufacturing. So, that is how means we try to become cost leaders then obviously backward integration is always there, always one of the key factors for achieving that cost of production leadership and that is how we start getting more and more market share. So, initially, there is price wars, so we have seen that whenever we try to expand in the meaning full way for any particular products there is a little bit of margin contraction, but in the long run the margins revert back to me, so that is what our main strategy is.

**Bob:** Finally, we have been learned from a couple of players that have announced their results recently in formulations that addressing a lot of price erosion. So, there is price erosion in formulations would that not feed back to API's and lead to lower prices for you as well?

**Adhish Patil:** The price erosion in terms of the final prices of the retail drugs that we have not seen at least in the developing markets as such and moreover the API content, the cost of API vis-à-vis the retail price of a particular strip of a tablet is very, very low. So, actually more margins are there in the distribution chain of the formulation, the wholesalers, the retailers and all those stockists. So, in fact, even if they try to save in API it would not be meaningful for them.

**Bob:** I mean more on the export markets like the US, Europe would the developed markets?

**Harit Shah:** Actually, we have not seen any pressure as such because ultimately the API price generally, historically they are driven by the input prices because even if you take three manufacturers for any API for all of them the input prices more or less are similar, so everyone is in the same boat. So, typically if there is any movement in the input prices i.e., of the basic chemicals then the API prices do get revised and accordingly, the ultimate formulation prices should be getting revised finally.

**Bob:** I can understand. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

**Nimish Mehta:** Thanks for the opportunity. First, the basic question about raw material pricing, what is the reason behind the increase in the price and I could not get it in the initial comments?

**Harit Shah:** I did not get the question, can you repeat it?

**Adhish Patil:** He is asking the main reasons for the raw material price hikes

**Harit Shah:** Yes, one is there are a couple of plants which were taken as shut down and there are some one or two plants in the US has experienced, they have some issue on the power and other situation. So, that has caused delay and they are not able to operate for first quarter almost three months to four

months there were plants were shut down. So, that is one of the reasons and overall, the crude prices also have gone up from \$50 to \$75 a barrel and overall demand-supply mismatch was there, so all put together this has created a very big price increase in major raw materials.

**Nimish Mehta:** This plants that were shut down you are mentioning is in which country in China or in the US?

**Harit Shah:** In China and the US.

**Nimish Mehta:** And is it for the products because we are being showing prices?

**Harit Shah:** No, in part of the products, some of the products. So, out of 20, 5 or 6 products were affected because of that and there was a supply-demand mismatch also due to sudden demand part the prices went up also.

**Nimish Mehta:** Okay, the other thing summing up on the last question as well, like I am trying to understand how we select products and, in the presentation, you have mentioned that every API Company should have some niche. So, what is the niche that we are talking about making some sense and how can this niche help us expand or how much help was expand beyond where we are currently in terms of a number of products?

**Adhish Patil:** The main niche for us as far as the API segment is concerned is the cost of production, so that is the main thing, and the cost of production comes from multiple things. Manufacturing efficiency of course that is important, the process is important i.e., ROS, so R&D is important. Engineering skills are important, then the quantum means once your cost of production is less then you should expand very quickly to scale up your operations because once you scale up the overheads also go down per kg. So, that also helps in retaining the cost of production further down and apart from being a price leader in APIs recently, in last five-six years the quality of API, the impurity profile, the regulatory requirement that has also become very stringent and because we are there in this business since last 36 years and all our customers are repeat customers, so there is a good branding of Aarti in formulation space and that also helps us in getting more market share from our existing and our customer base is also very high. So, whenever we launch a new product, we get that much easier access to those purchase managers because many of the formulation companies have a basket of products. So, if they are buying a certain set of APIs from us then obviously they will give us preference for the newer launches also, so that is one. Then for expansion, we are saying that the thing we have a big list of products, so top 13-14 we have already established leadership whereas in some cases, the leadership is very, very means you can say we are much larger than the second next best player you can say. So, that kind of leadership we want to achieve for almost all the products, so we will capture more and more market share for older molecules, because then it will give further stability to our margins for those products and meanwhile, we have a big trail of molecules like, 15<sup>th</sup> to 40<sup>th</sup> API which we manufacture and they are contributing very less. The top 20 molecules must be covering almost 94% - 95% of the standalone sales for the API and the Specialty chemical segment. So, all these trailing molecules like next 20 molecules, they are contributing only 5%, so those are the molecules which will

grow in future and by doing R&D we will keep on adding new molecules also. So, that is the way we are trying to expand.

**Nimish Mehta:** But Sir, also are there any processes or technology where we have developed any expertise which is what can?

**Adhish Patil:** Yes, what you say is correct. So, when you manufacture a certain state of a product, now we manufacture a wide range of products like antibiotics, also chloroquinolones, then we manufacture anti-diarrheal in a big way, then anti-inflammatory also we are manufacturing in a big way, then cardio-protectant, anti-fungal, anti-diabetic also. So, what I am trying to indicate is that lot of the chemistry, not all the reactions but a lot of chemical reactions where we are very versed with and that too at a very large scale. So, we are manufacturing all these products which I talked about on a very large scale, means very, very large scale even the few of the smaller, when I say smaller products, I still mean 25 ton–30 tons per month of capacity that level of production I am talking about. So, obviously, we get expertise in keeping the cost low for these reactions and that is what we use when selecting a new molecule, we also see that the chemistry involved in manufacturing that new molecule is somewhat like what we are already doing because that helps us a lot in launching a product with lower cost.

**Nimish Mehta:** Understood, so what would be common say among the top product in terms of chemistry or process or technology how is that some sort of processes would be common among the top whatever 5–10 products. I am just trying to understand like what is common as far as all these making products?

**Adhish Patil:** No, Sir there are different synergies like, for example, we manufacture one intermediate which goes in two products, then one intermediate which goes in three products or four products. So, when you have such kind of ecosystem then you can manufacture that intermediate to a large scale and then be a cost leader. So, those kinds of efficiencies we do look after for such products.

**Moderator:** Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang. Please go ahead.

**Runjhun Jain:** Thank you for the opportunity. Sir, just one question I have, you were saying that there was a sudden price increase what we have seen is it possible for you to quantify what kind of overall price increases what we have seen in the raw material and against that what price increases what we have taken, which probably would be reflected in coming quarters? Thank you.

**Adhish Patil:** It is in a way slightly difficult that how much will come back because there are cyclical events also. But I will give you a very rough idea that when I compare gross margins of a few of the products from the December quarter versus June quarter, then we could almost see more than Rs.30 Crores of difference purely in terms of gross contribution for this quarter.

**Runjhun Jain:** Sir that is the kind of price increases you are seeing and the benefit of any price increases what you have also taken and is not reflected in this quarter as a whole?

- Adhish Patil:** Some extent it has been reflected, to some extent but not completely.
- Runjhun Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rajdeep Singh from ASK Investment Managers. Please go ahead.
- Rajdeep Singh:** I just wanted to understand in your opening comments a little better, you said demand for acute products were subdued in the second wave, whereas this is a little contrary to what the IPM is reporting, and the company looks more acute focused reporting supernormal growth. So, where is the disconnect, just wanted to understand this?
- Adhish Patil:** The thing is it might be related to a particular product or a particular company getting market share from some other company or something like that, but the kind of molecules which we manufacture, many of them go for therapies like respiratory bacterial infections or UTI (urinary tract infections), stomach upsets because of water-borne diseases and because of that I think this product might be affected. So, the thing is one of the antibiotics has though I would not name because we do not disclose product-wise but then I will tell one of the antibiotic products has then phenomenally well meant the sales have been doubled as compared to last year, but then rest for we were subdued. So, it was more of a holistic statement done applicable to all the products.
- Rajdeep Singh:** Okay, product-specific and given the onset of monsoon also the demand should remain strong you are saying for your kind of products?
- Adhish Patil:** Yes, so usually this Q4, Q1 and Q2 are the stronger quarters for us.
- Rajdeep Singh:** Right, and one last question from my side. Sir, our new capacity would come on stream by FY2023 end, so prior to that for this financial year and for next financial year, FY2022 and FY2023 can we grow at 15% on the top line, would that be comfortable or that is a little stretched?
- Adhish Patil:** So, the thing is we are targeting that much growth. Right now we had 13% volume growth. We will still target for that 10% to 15% growth.
- Rajdeep Singh:** Okay, and gross margin you said 35% to 36% and margins at operating levels in the range of 18% - 19%?
- Adhish Patil:** Correct, fair enough.
- Rajdeep Singh:** Thank you. That is all from my side. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Abdul from Anand Rathi. Please go ahead.
- Abdul:** Thanks for the follow-up. Sir, would it be possible to quantify the impact of zero discharge cost versus there in other expenses as well as the cost pertaining to the share buyback?

- Adhish Patil:** See, approximately a crore of opex might have gone up per quarter for that and buyback would be also to the tune of a similar extent is 50 to 75 lakhs, something like that.
- Abdul:** 50 to 75?
- Adhish Patil:** Yes.
- Abdul:** Okay, and secondly on your US side any update from the FDA we have, or any partnership is having in US for API, you would like to highlight?
- Harit Shah:** FDA so the thing is FDA we have been receiving few communications from them, but we were planning for a mock audit from ex- USFDA inspector back in April–May only but because of this shutdown in travel from the US they were not able to travel. So, we are planning for this in August or early September. We have already identified, and everything is finalized just that travel arrangement must made and the report of that would be submitted to the FDA directly and then that might lead to either a virtual audit or I do not know means how the FDA will proceed further. But because this will be an ex-USFDA inspector and that too from the US itself it will carry a lot of weightage.
- Abdul:** Sure Sir, so maybe that would happen sometime in the second half of August is that understanding right?
- Adhish Patil:** Means by the next quarter I think we should be coming up with at least some update on the arrangement.
- Abdul:** Alright, understood. Thank you.
- Moderator:** Thank you. The next question is from the line of Ram Krishna an Individual Investor. Please go ahead.
- Ram Krishna:** Adhish, this is Ram here. Adhish, I believe that you got the approval for the PLI scheme from the Government of India, right? When do you think, you will start taking the benefit of this scheme, that is the first thing and the second question I would like to ask you about do you have any blueprint in shareholders, we have a lot of expectations from you guys, okay. So, do you have any sort of blueprint so that you can be a market leader in the next few years, if you have what is the timeline, I would like to ask you?
- Adhish Patil:** To become the market leader takes time, and it also depends upon the product to product because some products more export-oriented, some are more domestic-oriented, some are like import substitutes. So, in products like import substitutes and more domestic-oriented products, it is fairly faster. If everything goes right, then three years to four years you can become a market leader for a particular product. But for export-oriented products maybe you can a couple of years more because approvals and everything takes time for that and in exports also it depends whether it is going more in RoW markets, European markets or US markets that also decides how much

time it will take to achieve leadership in a particular product. As far as the first question was concerned the PLI scheme, I think the first of benefit ideally should be FY2023 that is next year.

**Moderator:** Thank you. The next question is from the line of Ranbir Singh from Sunidhi Securities. Please go ahead.

**Ranbir Singh:** Thanks for the follow-up. In this quarter you had additional overhead expenses related to a zero liquid discharge. So, what was the amount how much we have spent additionally?

**Adhish Patil:** Approximately Rs.1 Crore for a quarter but that too going forward we are having a lot of ideas in terms of using it for waste heat recovery and for the utility purpose and deriving more by-products from it which can add some amount of revenue stream to the waste. So, in the long run, we will reduce this cost but approximately it was increased by Rs.1 Crore per quarter.

**Ranbir Singh:** So, still Rs.1 Crore one quarter would be an incremental spend on related to this?

**Adhish Patil:** Yes.

**Ranbir Singh:** Sir just I was calculating like currently, we have Rs.884 Crores kind of expenses in this quarter and even if we maintain if that run rate is maintained going forward and we assume that 34% gross margin happens every quarter after this from second, third, and fourth quarter then still your EBITDA margin will not be 18% we will still be 17% kind of thing?

**Adhish Patil:** Really what happens, one is once we start selling immediately the operating leverage will kick in terms of the fixed expenses, so a 3% to 4% increase in the gross contribution and a bit higher sale will take it to 18% - 19%.

**Ranbir Singh:** Chances are on the gross margin front we can see even better than what we are anticipating and then volume we can achieve?

**Adhish Patil:** Yes, so the thing is there is a scope of improvement in gross margins.

**Ranbir Singh:** That clarifies. Thank you.

**Moderator:** Thank you. The next question is from the line of Umang Shah from Asian Market Securities. Please go ahead.

**Umang Shah:** Sir, thank you for taking my question. Sir, are you observing any capacity increase in the top 10 molecules from the competitors in India?

**Adhish Patil:** For Metformin people have increased capacities. Harit bhai, would you like to answer this question, for top 10 molecules whether any competitor has recently increased any capacities?

**Harit Shah:** No, except Metformin I think, no.

- Umang Shah:** Thanks Sir, would you say that you mean to say that your antibiotics it would be detrimental for any of the competitors to put in your initial capacities and still gives you scale?
- Harit Shah:** Yes, it looks like because we have already reached that very high scale so for any new entrant it would be very difficult.
- Umang Shah:** Thanks Sir, and just Sir one more question, currently Aarti Drugs has the highest margins in the last 20 years, would you be able to roughly attribute what percentage of the margins are structural and what percentage is cyclical?
- Adhish Patil:** It is difficult to say because last year initial part of the year, the margins were exceptionally high but after that from December quarter onwards, they were fairly structural not much of cyclical. The thing is apart from this sudden price hike there was no reason and there was no downfall in selling prices of the products or anything like that. So, whatever was there was structural as such.
- Umang Shah:** Absolutely Sir. That would be all. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.
- Cyndrella Carvalho:** Thanks for taking my question. Just two-three clarifications, Adhish, can you please help us with how is the status on the recently expanded Gliptins and Clopidogrel if you could update us how these products are doing?
- Adhish Patil:** Gliptins we just launched one of the products sitagliptin then Clopidogrel that product is going strong as far as the sales are concerned the product is doing good and we believe that going forward this Clopidogrel should be a blockbuster molecule for us.
- Cyndrella Carvalho:** Okay, and if you could help us understand how do you see the ramp-up of Gliptins over the coming two years to three years' time?
- Adhish Patil:** We are coming up with the multipurpose facility first of all, so it will be more means though it can add up Rs.70 Crores to Rs.90 Crores of revenue but then the major thing would be the next level of expansion once this product grows after going off-patent means it has gone off-patent so now the product will start growing. At that point of time, we will require a second phase of expansion more like a dedicated facility for this product range.
- Cyndrella Carvalho:** That is helpful and if you could speak something more on the speciality chemical expansion that we have been talking about largely on the chlorosulphonation side and what is the status, how is the capex coming up?
- Adhish Patil:** These two Greenfield sites in fact three I would say that way, one is in Tarapur, other two are in GIDC. We recently acquired the third one in last quarter itself and that is the biggest land parcel we acquired till now and another one is also very big and there the plot development is almost over now this foundation all this work will start for our backward integration project and



intermediate plant project and then specialty chemicals the Greenfield project plot development will start maybe in few months but what we are doing is we are going ahead with brownfield expansion for Specialty chemicals. In one of our current intermediate facilities in Tarapur itself, so there itself we will come up with a big capacity almost more than 400 ton–450 tons per month kind of capacity for speciality chemicals and that we are doing mainly from the point of view of entering the market early.

**Cyndrella Carvalho:** So, what kind of expansion in terms of overall share from the specialty chemical, you can envisage about two years to three years?

**Adhish Patil:** This current facility may be 2% or 3% it will go up because the other categories also growing. But once that Greenfield project comes up and the utilization of that capacity goes up then it should become a little meaningful, so it can go to around 15% or so.

**Cyndrella Carvalho:** Great Adhish. Thank you so much. This is very helpful. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Rajat Srivastava from InCred Asset Management Company. Please go ahead.

**Rajat Srivastava:** Thanks for taking my question. Sir, just to clarify, you said 15% growth on the APIs or overall topline?

**Adhish Patil:** Overall topline.

**Rajat Srivastava:** If I have to talk about only the APIs then how do you see the growth going forward for the next two year to three years?

**Adhish Patil:** The thing is it is similar. In fact, the formulation will also grow maybe even at a faster pace because of the base you get. But then if you take the average then more or less it will be similar means because API segment as in the API plus specialty chemicals is right now around 85% of the consolidated business. From that point of view more or less that will be the same.

**Rajat Srivastava:** If I have to break this 15% growth into price hikes and volume growth. I am sorry it might just be a repetition, but I missed the opening remarks.

**Adhish Patil:** More or less we are assuming volume growth only, frankly, speaking because price growth we cannot estimate, so usually we try to avoid including price growth. Even if you want to take it will be very minimal that is what we can do.

**Rajat Srivastava:** So, we are expecting around 14% - 15% of volume growth?

**Harshit Savla:** Yes.

**Rajat Srivastava:** Sir, on the formulations what percentage of the capacity is currently utilized like I think we are doing roughly Rs.350 Crores of sales, right?

- Harshit Savla:** We are right now operating at 80% of the capacity.
- Rajat Srivastava:** And incremental Metformin capacity is coming in the formulation, right?
- Harshit Savla:** No, still API.
- Rajat Srivastava:** Okay, so any incremental capex on formulations?
- Harshit Savla:** Yes, in formulations, we are expanding in Oncology product with product expansion and product development we have a budget of Rs.55 Crores.
- Rajat Srivastava:** This will commercialize when?
- Harshit Savla:** It is from the scratch to Greenfield project so it will be, we are talking about two years' time.
- Rajat Srivastava:** Okay, so basically for the next two year to three years growth is going to be almost flattish for formulation because already nearing peak capacity, right?
- Harshit Savla:** Yes, growth will come from the existing product which we have registered in a different part of the world where 250 products we have been registered. So, the growth will come from there also, we will be growing at the rate of about 15% to 20% meanwhile.
- Adhish Patil:** I would like to add here that our formulation model is slightly different, so it is not like asset-specific it is more about IP specific means we have intellectual property, and we can get it manufactured outside also and that will add. So, it is not restricted by capacities.
- Rajat Srivastava:** Okay, got it. Sir, the last question like what is the capital employed over here like 10% at the moment?
- Adhish Patil:** Not more than Rs.40 Crores I believe.
- Rajat Srivastava:** Thanks. That is it from my side.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Adhish Patil from closing comments.
- Adhish Patil:** Thank you everyone for participating in the call. Always enjoy answering your questions. One of the key concerns going forward is that many scientists have predicted a possibility of a third wave of COVID-19. We sincerely hope that this wave to be a mild wave or in the best case does not arrive at all. Let the vaccination happen very quickly for most of the population. We would also like to assure you that employee safety and hygiene remain the company's priority in this period and the company remains fully geared up to face any disruption going forward. In fact, in the second wave also we were able to manage our production to the full extent by taking care of all the social distancing and fumigation etc., transportation of employees. Thank you everyone for joining us on this call. Please reach out to us either directly or through our IR consultants, i.e.,

Strategic Growth Advisors should you have any further queries. Stay safe and now we can close the call. Thank you, everyone.

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