

# NGL Fine-Chem Limited

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July 18, 2020

To,

DCS-CRD,  
The BSE Limited  
Phiroze Jeejeebhoy Towers,  
Dalal Street, Fort,  
Mumbai 400 001.

Ref: NGL FINE-CHEM LIMITED (Scrip Code: 524774)

Sub: Transcript of Concall with Investors/Analyst held on 13<sup>th</sup> July, 2020.

Dear Sir/Madam,

We enclose herewith the transcript of Concall with Investors which was held on 13<sup>th</sup> July, 2020.  
Kindly take the same on your record.

Thanking you,

Yours Truly,  
For NGL Fine-Chem Limited



Pallavi Pednekar  
Company Secretary & Compliance Officer  
Membership No: A33498

Encl: As Above.



“NGL Fine-Chem Limited Investor Meet 2020  
Conference Call”

**July 13, 2020**



**MANAGEMENT: MR. RAHUL NACHANE – MANAGING DIRECTOR  
MR. RAJESH LAWANDE – WHOLE-TIME DIRECTOR &  
CFO  
MS. PALLAVI PEDNEKAR – COMPANY SECRETARY**

**Moderator:** Ladies and gentlemen good day and welcome to the NGL Fine-Chem Limited Investor Meet 2020 Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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 Ms. Pallavi Pednekar. Thank you and over to you **ma’am**.

**Pallavi Pednekar:** Thank you Lizann. Good evening everyone and a warm welcome to you all. My name is Pallavi Pednekar – Company Secretary, NGL Fine-Chem Limited. On behalf of the company, I would like to thank you all for participating in the company's conference call for the yearly financial results for FY19-20.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's conference 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 beliefs as well as assumptions made by the information currently available to management's **beliefs as well as assumptions** made and information currently available to the management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's conference call is purely to educate and bring awareness about the company's fundamental business and financial results for the year ended on 31<sup>st</sup> March 2020.

I would now like to introduce you to the management participating with us on the call. We have with us Mr. Rahul Nachane – Managing Director of the company and Mr. Rajesh Lawande – Whole-time Director and CFO of the company. Thank you and over to you, sir.

**Rahul Nachane:** Thank you Pallavi. Good afternoon to all of you. I am Rahul Nachane – Managing Director of NGL Fine-Chem. Thank you all of you for joining us on the call.

With regard to the working for 2019-20, I have some opening remarks to make after which we will take questions from the participants in today's call.

Sales for the last quarter have been lower at about 35.5 crores as compared to 43.5 crores during the same quarter last year and 37.4 crores in the quarter ended December. Our impact on sales has been mainly due to the COVID19 pandemic. Raw material imports from China were affected during January to March due to which production for some products were affected. Secondly exports virtually came to a standstill from 15<sup>th</sup> March, 2020 onwards due to COVID19 pandemic affecting India and the government announcing various steps to lock down the country.

Profits for the last quarter were down to only 14 lakhs as compared to 6.8 crore in the same quarter of last year and 2 crores in the quarter ended December, 2019. In the current quarter we have taken a write-down of 2.5 crores on mark to market loss and mutual fund investment and 69 lakhs on forward cover on the US Dollar. These two together amount to almost about 3.2

crores. Of these, the mutual fund investments have already recovered about 50% of the write-down in the June 2020 quarter. Profit has also been lower due to increase in overheads and under utilization of capacity due to COVID constraints.

As regards the current state of operations we are affected due to the COVID pandemic along with the rest of the world. Our plants were shut down for a short period from 22<sup>nd</sup> of March till 31<sup>st</sup> March. We started our factories on 1<sup>st</sup> April, 2020. However, challenges of raw material supplies, logistics & manpower movement severely limited our operations initially. We were able to meet these challenges and restore production over a 3-4 week period. There are still some sporadic issues which come up but overall factories are now at near normalcy in terms of operations.

We are ready to take calls. We can take the questions now.

**Moderator:** Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Rahul Jain from Credence Wealth.

**Rahul Jain:** You mentioned about raw material availability, so for the four products we were facing some challenges in Quarter 2 and Quarter 3 also, so how is the situation now and typically what percentage of our raw material comes from the imports from China if you could share some details on it?

**Rahul Nachane:** Our total imports are 15% of our material cost and most of these come from China except for couple of items which come from other countries. We were affected due to COVID in China started in late December - early Jan and China was shut down in Jan and Feb so we did not have raw material coming in. Most for our shipments then got delayed. But China is now back to normal so as of now everything is coming on time.

**Rahul Jain:** How is it in terms of pricing?

**Rahul Nachane:** There has not been any significant change in pricing.

**Rahul Jain:** Most of the companies in human API segment have been quite positive and the undertone has been quite strong human API companies are concerned. Are we witnessing any kind of similar situation in veterinary API segment or how do we look at veterinary API segment?

**Rahul Nachane:** In what way, I have not understood the question?

**Rahul Jain:** The human API players, the commentary from those companies have been very strong, the human API. I was trying to understand whether in veterinary API also are we seeing similar kind of traction or how is the demand in the veterinary API segment?

- Rahul Nachane:** The COVID has not really affected the demand as such; demand continues to be quite strong right now. We had problems in producing mainly, April was more or less the write-off for us but May onwards we have been regular. It's been regular production for us.
- Rahul Jain:** You had spoken earlier in the AGM with regards to our aspirations of our 250 crores top-line as we utilize this new plant at optimal capacity, this year which is gone by FY20 has been a very tough year for us. So can you talk about what timeframe do we see now to take our top-line, any timeline where you feel this is achievable going ahead and what timeframe?
- Rahul Nachane:** Last year we had mentioned that it will take us roughly about 2 to 3 years to get to that particular level, at least 2 years and we stick by that sort of thing. I think we will see that probably around 2023 that sort of a top line.
- Moderator:** The next question is from the line of Dhwanil Desai from Turtle Capital.
- Dhwanil Desai:** The question is that I think there is some closure order issued by MPCB few months ago, so any update on that, has the issue been resolved and are we back with our operations on that side?
- Rahul Nachane:** That closure was in February and it was lifted within about I think just about two to three weeks time.
- Dhwanil Desai:** So that part is operational now?
- Rahul Nachane:** Yes.
- Dhwanil Desai:** In our latest release we have indicated that we are operating at around 60%-70% capacity utilization, so this is like across our facilities including our new facility in Tarapur or its like Tarapur's capacity utilization is on the lower side?
- Rahul Nachane:** No, it is including the new capacity.
- Dhwanil Desai:** We were waiting for some validation for our own products from the Tarapur plant and I think it was to happen towards the...
- Rahul Nachane:** So most of the validations are through, for two products the validations are through, two are undergoing right now but with this COVID we have had some delays because people were not able to come in. So work on new products has been little bit put to the side and we are concentrating more on the existing products. We will restart that from the current month onwards now.
- Dhwanil Desai:** Our gross margins have held up very well throughout this period and the only reason why our margins have dropped is because of the underutilization and higher overhead. So our guidance of 18% to 22% margin over a longer period remains, is that valid from the business model point of view?

- Rahul Nachane:** Yes, we need to be back at that level from the current year onwards itself.
- Moderator:** The next question is from the line of Ankit Gupta from Bamboo Capital.
- Ankit Gupta:** In our Q2 call we had indicated that the raw material availability for few of our products was supposed to be rectified by Q4 of last year. So how is the raw material availability for those products now?
- Rahul Nachane:** So what happened is it got okay by Q3 and again we had problems in Q4 because of the pandemic in China. China was shut down late December onwards, so we again had problems but now China is working perfectly well from March onwards. So right now as of now there is no issue, now everything is going on smoothly.
- Ankit Gupta:** So now things are back to normal and we are producing those four products as well?
- Rahul Nachane:** Yes.
- Ankit Gupta:** In last Q2 call we had indicated that we plan to reach 40% to 50% capacity utilization for the new Tarapur plant in FY21, so do we still stick to that or there has been some delays because of COVID?
- Rahul Nachane:** No, will be reaching that.
- Ankit Gupta:** One question on the overall veterinary API side, globally on the human API side we are seeing that there has been a significant shift which is happening from China to the Indian players and because of that the Indian players are seeing increasing demand. How is the scenario for the veterinary API space with respect to shift from Chinese companies to India?
- Rahul Nachane:** Of the products which we manufacture, we face competition from China for barely about 20% of our product range. For 80% of product range the competition is from Indian companies only. We haven't seen any significant change because of this. No significant trend or change from China to India is being seen.
- Ankit Gupta:** And approximately how much would have been the dip on our revenues in Q4 because of deferment of export orders like you are seeing from March 15 onwards. Any ballpark numbers on the impact on sales because of delay in shipments?
- Rahul Nachane:** Ballpark number meaning roughly half a month sale went, so roughly about average between 12 to 13 crores per month, so about half of that.
- Ankit Gupta:** Our inventories have also gone up compared to last year by almost 10 crores as on March 31, 2020. So are this largely finished goods inventories or these are raw material which helped us?

- Rahul Nachane:** No, mainly it has been semi-finished goods. There is long order which we were executing in the current quarter for which we had a little bit of inventory built-up plus FG dispatches did not move to from mid-March onwards. So these two things ended in increasing inventory.
- Ankit Gupta:** On our four products which we were validating in Tarapur, two also included the poultry products that we plan to venture into in FY21, so these two products which have been validated are these poultry products or these are mammal veterinary?
- Rahul Nachane:** No, out of these two one has validation is completed, one is going on right now because for 3 months we have not concentrated on new products at all for these last 3 months. It is more important to get business up and running for the normal products. So later this month or probably from next month we will go back and change our focus once again to the new products.
- Ankit Gupta:** But the one product that we have got validation, have we started selling it in the portal product?
- Rahul Nachane:** No significant quantities yet, but sales have started.
- Ankit Gupta:** How has been the traction for the product or the order backlog for that product?
- Rahul Nachane:** Because we really have not scaled up significantly, so we have not really committed in a big way, but we are getting some orders and we are able to meet the orders. We should see some decent quantities coming in only from next year onwards from this. It is going to be more or less still stabilizing things on that.
- Ankit Gupta:** Given how we are utilizing the Tarapur plant and you are confident of making 40%- 50% kind of capacity utilization, so for the full year do we expect any growth in revenues as compared to FY20 for FY21 if there are no longer any disruptions?
- Rahul Nachane:** Yes, definitely we expect growth in current year in terms of sales.
- Ankit Gupta:** Any ballpark number that you can provide us?
- Rahul Nachane:** We should get to at least 15% growth.
- Moderator:** The next question is from the line of Ayush Mittal from MAPL Value Investment.
- Ayush Mittal:** In this quarter we have seen a disproportionate hit on the profitability like even if I add back the M2M hit that we got, still our operating margins would be like 10%-12% odd, is this because of the under utilization of the new plant and the fixed cost that you had shared earlier, is that the reason that continues to remain the same?
- Rahul Nachane:** You are talking about EBITDA?
- Ayush Mittal:** Yes.

- Rahul Nachane:** EBITDA is 17.5%, it is not 12%. If I work this 3.2 crores mark to market into the profit then we are looking at around 17.5%.
- Ayush Mittal:** Sorry, I didn't get that number it in maybe. So this was how much?
- Rahul Nachane:** This quarter EBITDA is better than the December quarter.
- Ayush Mittal:** So we are back to that 17%-18%-20% margin, EBITDA margin range?
- Rahul Nachane:** Yes, last quarter we were at 17.5, hopefully we should be back between 18 and 20 in this year.
- Ayush Mittal:** From the new plant we have talked about those validation that is going on in the last quarter and that we expect to start commercialization in Q4, has that happened for us now, anything pending on that?
- Rahul Nachane:** No, as I said we just covered that a little earlier, validation for two products is completed, two products is still going on. But for the new products we called a halt to the activities with this COVID lockdown because we had severe manpower constraints in April and May. So we wanted to get the basic operations going on first. So for two products the validation has been pushed forward now. We will probably start only next month.
- Moderator:** The next question is from the line of Rajat Sethia from Vriddhi Capital.
- Rajat Sethia:** Just wanted to check because of COVID you mentioned we lost some sales, was that a complete loss of sale or we could deliver that in the month of May?
- Rahul Nachane:** Yes that went in May.
- Rajat Sethia:** And in terms of the demand situation, is it just like the pre-COVID level kind of situation or there is some bit of impact on demand?
- Rahul Nachane:** No, there is no impact on demand. It's like pre-COVID only.
- Rajat Sethia:** We acquire a company last year Macrotech, so if you can talk a little bit about it. We booked some losses of around 2 crores because of that company in our consolidated books, if you can talk a little bit about it, what's the status, what's happening, how we see that company?
- Rahul Nachane:** What happened is that we had to refurbish the factory quite a bit and then we have to carry out trials of our products and all this expenditure is not been capitalized. It's charged to revenue, so this year we expect the company to again start contributing towards profits. In fact it turned profitable—not profitable actually—but the losses came down in the March quarter.
- Rajat Sethia:** And I think all the things that we are going to do from that entity is going to come to us only?

- Rahul Nachane:** Yes that entity will only do a job work for us; the sales will reach to NGL only.
- Rajat Sethia:** You mentioned we booked the loss of around 2 crores because of M2M situation in the investment books. Just wanted to understand why would that reflect in the cash flow statement? Whether it's an M2M thing so there is no cash outflow, right?
- Rahul Nachane:** No, there is no cash outflow.
- Rajat Sethia:** It still reflects in the investment cash flow from investment activity, so I was just wondering about it.
- Rahul Nachane:** No, we did not sell anything, so there is no cash flow from investment activity.
- Rajat Sethia:** From the current capacity whatever capacity we have after this Tarapur expansion so what is the revenue potential for the company at current price levels?
- Rahul Nachane:** With the expansions which we have done the complete capacity we should be between 250- 260 crores.
- Moderator:** The next question is from the line of Karthikeyan VK from Suyash Advisors.
- Karthikeyan VK:** This is my first interaction, so excuse me if I'm asking you basic questions. I wanted to understand your revenue mix better as well as your geographical aspirations better in terms of say for example the US markets and in terms of product contribution to revenue. I see that the top 3 products accounted for roughly half the revenues, can you talk a bit about how you are looking to diversify on both these elements, some thoughts?
- Rahul Nachane:** First of all we don't sell anything to the US and that is not our intention at this stage also to start selling to the US. The regulatory requirement is completely different if we are to sell to the US, it would render us uncompetitive in the other parts of the world due to the increased cost. We will not be able to pass on these increased costs in the other rest of the world countries. So that is not a focus area for us at all right now. Our focus area continues to be in the other parts other than US.
- Karthikeyan VK:** And what would the current composition be if you're willing to share?
- Rahul Nachane:** Composition of?
- Karthikeyan VK:** Geographical composition of revenues.
- Rahul Nachane:** I need to check on that. I don't have it right now off hand to give it to you.
- Rajesh Lawande:** We have disclosed it this time with the results, it is 33% EU, India is 26%, Asia 29% and ROW 12%.

- Karthikeyan VK:** And your product mix changes how do you see that evolving over a period of time? As I said top 3 products it seems is about half of your revenues, so I'm just wondering if you could throw some more...the new products in the pipeline, the existing ones which are scaling up some thoughts on how that's happening?
- Rahul Nachane:** Probably not for another couple of years because there is still very strong growth in these 3 products and when there is such strong growth coming from these 3 there is no point in diverting attention to some other products. So probably for at least couple of more years it will continue like this and then hopefully the new products will start picking in more.
- Karthikeyan VK:** In the animal health space one little question, the field is interesting. It is a fairly concentrated industry, so in your customer segments what is the profile of the customer you deal with, some thoughts on that and how do you see that and which is happening over a period of time for you?
- Rahul Nachane:** Our customers are essentially the Pharma companies. Our business is completely B2B, we make the APIs. We sell to other Pharma companies who make the finished products, the finished dosage, the injections, tablets, etc. So we are selling to all Pharma companies all across the world now. We have over 300 active customers right now.
- Karthikeyan VK:** Would people like Zoetis be part of your customer list currently?
- Rahul Nachane:** We are not selling to them.
- Rajesh Lawande:** We work with big Pharma companies as well as small ones where top 10 customers would be about 36% of sales for us.
- Moderator:** The next question is from the line of Ayush Agarwal, an Investor.
- Ayush Agarwal:** I would like to know that I can see in the P&L the year end and for the quarter-on-quarter P&L, our other expenses have risen substantially. You mentioned that it was because of overheads but can you just mentioned that which line item in the other expenses have contributed to this rise?
- Rahul Nachane:** Prices what?
- Ayush Agarwal:** In the other expenses we can see a sequential increase in the other expenses quarter-on-quarter and year-on-year.
- Rahul Nachane:** Other expenses have gone up from 993 lakhs in the previous quarter to about 13 crores. These other expense basically include the mark to market losses. So that is 2.5 crores on mutual fund investments and 70 lakhs on FOREX exposures.
- Moderator:** The next question is from the line of Saurabh Shroff from QRC Investments.

- Saurabh Shroff:** I am meeting the company for the first time so just wanted to understand a few things. So first on the China raw material issue that you had, is there any plan to diversify away from that source and cultivate in other source, is that something that's already been done or you don't feel that need to do something like that?
- Rahul Nachane:** There are some areas where China has got a clear cut advantage in terms of costs. Some intermediates where Indian companies have also started supplies, we have replaced vendors but for quite a few we continue to be dependent on China, so Yes it will continue.
- Saurabh Shroff:** And this 15% of your raw material bill as you said?
- Rahul Nachane:** Yes.
- Saurabh Shroff:** Again on this other expense of hit that you have taken mark to market, what kind of a hit this is in particular of the rupee I am asking because I would have imagined that in a depreciating rupee scenario you should not have taken a hit if you are an exporter. So just wanted sort of try and understand that is there a structured product here or what is the particular thing that has caused a hit?
- Rahul Nachane:** No, there is no structured product. It is a straight-forward forward cover. So we have a forward cover for about 30% of our sales, for roughly about 6 months at a time. The rupee depreciated very sharply around 15<sup>th</sup> of March it was in the range of 70-71 and it went to 77 by 31<sup>st</sup> of March. So these are forward covers but it's 30% of only of our sales, so 70% is un-hedged which will result in better realization in the current quarter in the next quarter.
- Saurabh Shroff:** The 250 crores number that you mentioned that full utilization, could you maybe just help me understand what would be the broad breakup of that how much of that would be sort of existing products which you are being selling for a few years, how much of that would come from new products that are currently like you said in validation or maybe in the future pipeline to understand and in which field, whether it's going to be poultry, mammal etc.?
- Rahul Nachane:** Our entire product range is for mammals. We don't have any product for poultry except two which are under development right now. Currently these two don't contribute anything to the top line meaning the sales are probably less than half a percent of our total turnover. But going forward we hope that it will contribute to at least between 8% to 10% of our sales by the time we reach the 250 crores turnover.
- Saurabh Shroff:** And margins on those are similar to what you would achieve in your existing products if not better?
- Rahul Nachane:** Margins are a bit lower as compared to existing products.
- Saurabh Shroff:** For poultry in general or these two products that you are mentioning?

**Rahul Nachane:** No in poultry in general and these two products which we are doing, for one product the margins are more or less the same as the products which we do, for one which is a lower value product the margins are little lesser. But then it comes up in the sense that we can get more volumes in that.

**Saurabh Shroff:** You mentioned that you think that there is room for a 15% odd growth this year. I just want to understand where is that visibility coming from so as I understand there has not been any impact on demand per se barring the disruption of COVID, so is it just better penetration with our clients? What gives us that visibility in general I'm trying to understand that I guess it's not an order book per se but where do we derive that comfort from?

**Rahul Nachane:** Basically we have been able to grow at 15% over the last so many years at the CAGR. This year we have had a bad year in terms of Q1-Q2 we had raw material disruptions, again in Q4 we had raw material disruptions and again probably about 6-7 crores worth of sales got pushed from last quarter into current quarter. We could have probably closed that last year also at 10%-12% growth and if not been or these issues and the current year is already looking better. No raw material supply issues, the COVID disruption is also now behind us, factories are working properly and demand is there. So we don't anticipate any this thing in that sort of a growth.

**Moderator:** The next question is from the line of Ankit Gupta from Bamboo Capital.

**Ankit Gupta:** Just wanted to check with you in Tarapur we say that we have two products which have been validated and we will be manufacturing out of that. One is poultry product and one is the mammal product which we are doing. So despite that we have been able to of bread both the capacities at 60%-70% capacity utilization, so is it that the capacity utilization from one mammal product is decent enough to give us good traction for capacity utilization?

**Rahul Nachane:** What we do is all our plants are multi-purpose plants, so we can do multiple products in one particular production line. So there is a complete fungibility in moving one product out and pushing another one in and because of these problems in March and April we were facing backorders. So we started producing our existing products even in the new plant, so we had to fill in the back orders. Otherwise 1.5 months sale loss would have been a big problem for us.

**Ankit Gupta:** But we can manufacture old products in the new plant without validation, is it the fair assumption to make?

**Rahul Nachane:** That we can produce because it's produced in the same site and what we could actually do is we could increase the batch sizes because the sizing of reactors is different in the new plant, so we moved two of our existing products over there. Of course it took time because people took a long time to get back with this COVID though the factory was opened we had barely 8% attendance till 15<sup>th</sup> April then towards end of April it went up to about 25%-30% and it is only June onwards that we have now, even today we have got about 15% people who are still not coming in. So some people when the problem started went to their native places and were unable

to get back as there was no inter-district transport available. Another issue is that in Boisar they are very strict about this lockdown, so person who comes in is not allowed to step out of his housing society and is kept under isolation for around 15 days. So if he comes back he is not able to report to work for 15 days. So challenges continue, so what we did was we prioritized in terms of ease of manufacture and profitability and started getting one-one products back into production. We reached normalcy on the end of June early this year but anyway lot of ground could be covered because we used new capacity and started larger batch sizes.

**Ankit Gupta:** Given we haven't been impacted much because of the COVID and we had earlier planned that if we reach 200 crores of revenue we might look for future expansions as well for our third plant, so any color on that it's too early to say anything?

**Rahul Nachane:** I think this year is little uncertain. We need to see how it pans out before we start making big decisions because the worst of COVID is still not behind us and right now Pharma is doing well but we really don't know what's going to happen 6 months down the line. So at least this year we will wait out and see how it goes and then on start making plans.

**Ankit Gupta:** But our ECE will remain valid, we don't have to go back and take EC again?

**Rahul Nachane:** EC is valid for 5 years, after this period we will apply for extension of the EC and it remains valid for another 5 years after that.

**Ankit Gupta:** So it might not take much time?

**Rahul Nachane:** No, normally its gets renewed once without much issue.

**Moderator:** The next question is from the line of Aman Vij from Astute Investment.

**Aman Vij:** My first question is regarding your exports; you have mentioned the geographical breakup, so only Europe degrew rest of the geographies did well, so could you throw some light on that?

**Rahul Nachane:** Only Europe did what?

**Aman Vij:** Degrew that means there was loss in sale year-on-year but rest of the geographies actually there was growth in Asia, in India. So could you throw some light on that compared to last year?

**Rahul Nachane:** I don't have any data to give you an answer straight away. But that would be more a seasonal sort of a thing of with one or two products going down but that said we should see it back full strong on again.

**Aman Vij:** The loss in sale which we had in Q2 as well as in Q4 was it among our top 3 products only or it was the remaining products?

**Rahul Nachane:** No, other products, not the top 3.

- Aman Vij:** Top 3 roughly maintain their sales compared to last year?
- Rahul Nachane:** Yes.
- Aman Vij:** And when we reach this 250 crores topline which is your target in 2-3 years, any rough indication, will it be Europe and Asia only or will India be the growth driver more?
- Rahul Nachane:** Frankly we don't concentrate on any one country as such. We are selling to over 40 countries across the world and our sales mix at 75% export, 25% local give a couple of percentage points here or there and has remained stable for almost the last 15 years now. So I really don't think there is any issue...its steady sort of a 75-25 across so many years that I really don't foresee any country to country problem as such.
- Aman Vij:** So you expect the demand in both, you are seeing demand in both Europe, Asia as well as India?
- Rahul Nachane:** Yes.
- Aman Vij:** Top 3 products do they only get exported or is there demand of the same product in India also?
- Rahul Nachane:** No, it is local sale also.
- Aman Vij:** And you mentioned there is still healthy demand of this product, so is it rough to assume like 10% to 15% growth in that product is expected for next 3-4 years?
- Rahul Nachane:** Yes, it is still growing well. The market is growing very well for these products.
- Moderator:** The next question is from the line of Paras Adenwala from Capital Portfolio Advisors.
- Paras Adenwala:** I just had couple of questions; could you give a split between how much of sales is for products for humans and how much is for veterinary purposes?
- Rahul Nachane:** The human product is less than 5%.
- Paras Adenwala:** And you mentioned about in the last one-year has been disruption in the raw material three quarters out of four, what was the kind of disruption that you had?
- Rahul Nachane:** Availability from China for close to about three or four of our raw materials was affected. I think they were having some pollution problems in 2018 and 2019, so early part of 2019 we had disruptions and then it normalized towards September-October and it again got affected because of COVID lockdown in Jan-Feb.
- Paras Adenwala:** Do you have any—just to ensure that you don't suffer once again if there is this kind of a disruption do you have any—alternatives in place?

- Rahul Nachane:** No. China is the sole supplier for these products.
- Paras Adenwala:** And within China the suppliers that had these issues, do you have any other options out there in China?
- Rahul Nachane:** Most of the Chinese factories are pretty large producers and normally there will be something like three or four factories producing our products. If one factory has problems, it results in a shortage and then the others take advantage of it. For most of the raw materials we have got at least two different sources approved. But in times of shortage, the factories have supply issues and our incoming line gets affected.
- Moderator:** The next question is from the line of Avinash Wadhwa from M3 Investments.
- Avinash Wadhwa:** I think last time we had a con-call I took down some notes which read like 'the older the vintage of your products, the higher the market share'. So something like products launched prior to 2007 market share is about 60% but those that are launched after 2012 the market share is less than 20%. Could you help me understand is dynamic better?
- Rahul Nachane:** The longer we have been making our products the more well-known we are for that product and therefore we are able to attract better traction and customers.
- Avinash Wadhwa:** So what generally happens is that your competitors get out of the market as the product vintage becomes older and therefore the product becomes more genericized, how does it work basically and why does that happen?
- Rahul Nachane:** There are probably couple of reasons for that. The longer we make a product we are more invested in the product in terms of understanding its chemistry and the R&D is a continuous process for us. So it's not that once a product goes into production, the development on that stops. Development continues to determine if there are more economical ways in making a particular product and as the scale starts going up we become much more competitive as compared to the others. So part of it is when the product grows we are able to take market share from other companies also and today we have a fairly good standing in the market, so we are also the first preference as a supplier for quite a few customers.
- Avinash Wadhwa:** So I would think that if a product is new we are all at the bottom of the learning curve. As the product gets old you go higher on the learning curve but so does your competitor, so I am still pressed for thoughts on why the market share escalation should be as steep as less than 20% if it's launched after 2012 but more than 50% if the product has been launched prior to 2007. So why are others not benefiting from that learning curve that you are benefiting from or why aren't they showing as much tenacity as you are showing towards older products?
- Rahul Nachane:** I can't say what is the logic which drives my competitor, but we stay invested in a product for a long period of time even when there are issues in pricing. There are times where a particular

disease does not come and demand falls, when demand falls there is a pressure on pricing. People start cutting prices because they want to push as much product as they want. Meaning elsewhere a person comes with their own strategy in those kind of cases. But I really don't have a perfect answer for your question. It just happens. That's the way it happened for us.

**Rajesh Lawande:** Our focus is strongly on unit economics for each of the products we make, so as we learn more about it we try to get better at it and produce the more efficiently and that's how we improve in that. that's the answer to it.

**Avinash Wadhwa:** Now with respect I think earlier in response to somebody's question you said that we focus on the unregulated market and that is a function of our strategy. Is it that the unregulated markets offer a very large headroom for growth such that you don't need to concern yourself with the regulated markets at this point in time, why aren't you focused on regulated markets apart from that the cost dynamics that you spoke about?

**Rahul Nachane:** But why should we be focused on the regulated markets? Related markets are barely 30 countries out of 150, so there are 120 countries to sell to otherwise, so why focus on regulated markets?

**Avinash Wadhwa:** So my question comes out of this that we're growing at 15% per annum. That's been a long-term sustainable growth rate, so is that a limit for our ambition that we continue growing at that or we could be more ambitious and step on the gas and accelerate growth further. So what are the constraints to growth therefore?

**Rahul Nachane:** Constraints to growth are probably limitation of capacity because every time you want to grow you have to create more capacity for production. Secondly having a product pipeline - we need to keep on investing in developing new products and getting them successfully marketed. From conceptualization to marketing of a product is a pretty long process, it's close to about 3 years. I guess product pipeline and creating capacity these are the two major constraints to growth. It's how well we are able to manage these two things which will drive the growth for us.

**Avinash Wadhwa:** And so there is nothing we can do in terms of capacity building that will allow us to enhance our capacities in both these areas or is this like a more slow burn biological process whereby you have to grow at these rates?

**Rahul Nachane:** It takes time and money to create capacity and what we do is we don't create capacity until we see that existing capacity is fairly well occupied. Companies have a strategy that if they want to grow faster instead of creating their own capacity they outsource quite a few processes. But our strategy is to in-house produce which is why we are able to guard our margins also well. So I think it's a philosophy which gets developed.

**Avinash Wadhwa:** In terms of your revenue breakup where 5% comes from human API and the balance comes from veterinary APIs, so the human APIs are adjacencies to veterinary APIs, is that how it is or

you're venturing into something new and more it is in terms of human APIs thinking that there could be something in terms of optionality going forward, how do you think about that?

**Rahul Nachane:** These are products which we started doing because of similar chemistry actually. So they really weren't focus in terms of sales but they are doing well but it's been around 5% sales for us for almost about in the last 5 years now. So the human products are also growing at more or less the same pace.

**Avinash Wadhwa:** So you get into these because they are similar chemistry that's the impetus?

**Rahul Nachane:** Yes.

**Avinash Wadhwa:** The sales to Europe account for around 40%-45% of your total sale but you also sell to Europe through distribution companies from where you say the product travels all over the world. So when you provide this geographical breakup of sales where this year you said we've done 50 crores sales to Europe, are these destined for Europe or they get rerouted from Europe?

**Rahul Nachane:** Our sales to distribution companies is not really that significant now any longer. Most of it is now to actually users. I would need to look at the numbers. I won't be able to give you off-hand right now but I seriously don't think we are selling any significant quantities to distribution companies any longer.

**Avinash Wadhwa:** So when you show sales of 50 crores which is what you've reported at the end of your result in notes to accounts, 50 crores to Europe. These are again firms domiciled in Europe that are purchased your product?

**Rahul Nachane:** Yes.

**Avinash Wadhwa:** And Europe does not qualify as a regulated market or these are those parts of Europe which remain unregulated?

**Rahul Nachane:** We are selling to quite a few European companies and they continue to be our biggest—most of our top customers are companies based in Europe—now the way it works in Europe is that if a product is bought by a company and the intent to re-export it out so then we don't need to do a DMF filing or register it in Europe. But if they intend to purchase the product and sell the end product in Europe then they need a DMF filing and even a API producer like us will need a DMF filing. So all the European companies which are buying from us also are re-exporting their finished products. Let's say if it's a French company they will take from us and probably they will be selling the finished product into Russia or the Eastern Bloc or Africa or Latin America. We don't know where their sales will be going but we know for sure they are not buying it for consumption in Europe because we make mainly products which are more for diseases more prevailing in topical areas.

**Moderator:** The next question is from the line of Sonal Minhas from Prescient Capital.

- Sonal Minhas:** I have two quick questions; just wanted to understand and see that the receivables of the companies have gone down from 33 to 26 years, is there anything we have done intentionally over the year which has helped us reduce the debtor profile? And secondly as I see your outlook for Q1, you mentioned that you're still working at 60% capacity utilization and your staffing is tad less than what it should ideally be. So if you are expecting 15% growth for the year you would basically be growing faster in Q2, Q3, Q4 and Q1 would be less than what it would be last year. Is that correct or not? So I'll just pause here.
- Rahul Nachane:** I'm not able to give you numbers because we don't give guidance numbers that way and that will be some price sensitive information, so I will not be able to comment on that on the actual sales but we have reached the capacity utilization including the new plant so actually it's still more than what we had last year.
- Sonal Minhas:** And if you could throw some light on the receivables actually going down just wanted to understand that little bit more.
- Rahul Nachane:** It is nothing separate which we have done as such. I guess we just pushed out more products where we had advance payments coming in Feb and March. Beyond that I can't think of any it is just because in December the receivables were still above 30. So I think it's just a momentary drop this quarter probably we'll be back at the same levels. It's not something which we have done or anything of that sort.
- Sonal Minhas:** Got it. That's what I wanted to understand. I see the impact of that in the cash flows like the cash flow from operations so that's why I wanted to just check because those have gone up significantly because of the working capital. So thought maybe there is whether that's permanent or there is something which temporary.
- Rahul Nachane:** No nothing like that.
- Moderator:** The next question is from the line of Ayush Mittal from MAPL Value Investments.
- Ayush Mittal:** Say it's good to hear that we are having positive outlook despite so many disruptions due to COVID and those things, so wanted to understand and just like how are we getting this visibility like is it that our customers are increasing or is it that our customers in itself are growing or you also said that some of our products, key products continue to grow well. So what is driving this growth which in this environment where people are very unsure about future?
- Rahul Nachane:** Pharma markets largely have been untouched by this in fact earlier somebody was saying that human API companies are in fact bullish on their growth in the current year. So Pharma has been largely untouched because of COVID and we have not seen any drop in demand and world over most of the countries are under lockdown as such right now but almost everywhere pharma companies are still operational because it comes as part of essential commodities and the shutdown is mainly for medical reasons so nobody can afford to stop producing medicines.

- Ayush Mittal:** During this lockdown period many of the companies have been able to bring some changes in their organization or do some new things, anything that we did at our end?
- Rahul Nachane:** No we didn't do any changes in organization. Only work from home has worked well for us. All our Bombay office is largely closed and everybody works from home. Factories we can't do work from home people have to come in to work. So office continues to be work from home but the factory is operational.
- Moderator:** The next question is from the line of Aman Vij from Astute Investment.
- Aman Vij:** Just wanted to understand in our top 3 products are we greater than 50% market share in all the 3 products?
- Rahul Nachane:** Yes
- Aman Vij:** The second or third player are they comparatively like 10%-15% share or are they as big as we are?
- Rahul Nachane:** Probably the second producer would be in the range of 15% or 20% market sale, 15%-20%.
- Aman Vij:** And these will be out of China or India or Europe?
- Rahul Nachane:** As I said earlier for most of our products the competition is India based.
- Aman Vij:** India based okay. And you roughly in the last 5-6 years you have introduced number of products so any ballpark contribution to the sales of the products introduced in the say last 5 years.
- Rahul Nachane:** I don't have that number for you right now. I can't give it unfortunately.
- Aman Vij:** Let me phrase that in another way. So apart from top 3 products have you seen are there 1, 2 or if you can give the number of products who have scaled quite well for us in the last 3-5 years apart from top 3 products?
- Rahul Nachane:** We have seen growth almost in every product right now. Smaller products also are growing quite well. So we see growth almost all through.
- Aman Vij:** But given the small ways is there any product which is likely to become as close as top 3 products in the next 3-5 years?
- Rahul Nachane:** See in the next 2 years at least I don't think the product mix is going to change significantly. Actually the top 10 products are doing very well and all of them are showing signs of very strong growth, so there is no big upheaval we expect at least for the next 2 or 3 years.
- Aman Vij:** And top 10 contribution you mentioned in the AGM is around 70%-80%?

- Rajesh Lawande:** It is about 75% plus. 78%.
- Aman Vij:** And it has remained same compared to last year also.
- Rahul Nachane:** Yes.
- Moderator:** The next question is from the line of Keshav Garg from Counter Cyclical Investments.
- Keshav Garg:** I wanted to understand how is your pricing arrangement I mean how does it work? Do you have a fixed price contract annually for your customers or is there an annual price reduction? Is the raw material pass though is the forex passed through?
- Rahul Nachane:** We don't have any long term contracts with pricing. There are probably just two or three customers who do price negotiation once a year. Rest of the businesses mainly spot business and prices keep on fluctuating based on what the market is and we don't have monopoly situation so there are other competitors also. So we have to follow the market.
- Keshav Garg:** Sir but if you are over 50% market share in your top products and the second player is basically 15%-20% market share so basically then the industry that segment is quite consolidated basically so then in that case and sense you are the biggest player so basically are you determining the prices?
- Rahul Nachane:** No because others want market share they keep on challenging the price positions. So we believe in being very cost competitive and offering customers very sharp price. So if we have improved our process and we have been able to get the product more efficiently we pass on the benefit to the customer. So that the next best person who is there is not able to challenge us only on price. It becomes too difficult for him to challenge us on price.
- Keshav Garg:** Sir and in last let's say 3-5 years what has been the realization growth and what has been the volume growth approximately?
- Rahul Nachane:** I don't have that number right now to give it to you straight away unfortunately.
- Keshav Garg:** So mostly it would be volume growth only or realization growth would also be there significant part?
- Rahul Nachane:** Actually prices go down over a period of time. Prices don't remain up. But the rupee has depreciated so it's a combination of both. There is a price growth also and there is a volume growth also. But how much I can attribute to which that I am unable to tell you because I don't have data right now in front of me.
- Keshav Garg:** Has there been any products in the past that you have exited due to low margins?

- Rahul Nachane:** Probably not in the last 2 or 3 years, not in the last 5 years. Earlier yes but not in the last 3-5 years no.
- Keshav Garg:** r I hope that of your top 3 products no competitor is creating new capacity which on coming on stream then they will try to cut price and get volumes?
- Rahul Nachane:** Not to our knowledge no.
- Moderator:** The next question is from the line of Aditya Mittal an individual investor.
- Aditya Mittal:** You said that you are very well known for a certain product in the market. So would you say that there exists a certain brand loyalty amongst the buyers or the product still say is price elastic?
- Rahul Nachane:** Well we can't say brand loyalty as such but there is definitely a preference for NGL as a supplier.
- Aditya Mittal:** Would you say that is some sort of leverage over the prices that we charge our customers?
- Rahul Nachane:** So see we are selling to, it's a B2B business. So the person to whom we are selling to is also a Pharma company. The purchaser is also very educated and very well experienced person. I have not come across any buyer who is willing to give a higher price because of any brand recall of that sort. Only thing what he will do is, all things being the same he will give preference but he will first challenge on the pricing.
- Aditya Mittal:** **(Inaudible) 1.12.25** is important right?
- Rahul Nachane:** Yes.
- Aditya Mittal:** Secondly what has since you said there is no plan for diversification like product diversification by the company what has been the focus of R&D of the company?
- Rahul Nachane:** We are creating a new product line for ourselves mainly every year we tried to put in at least 4 products, 2-3 products into the plant by developing them.
- Aditya Mittal:** And when can you say that the new plant would come to like the most efficient capacity that you want to operate it at?
- Rahul Nachane:** This year we plan to hope to reach 40%-50% capacity utilization in that.
- Aditya Mittal:** Just a very small request sir, if the Rahul Nachane could provide us with the recording of this particular meeting we would be very grateful.
- Rahul Nachane:** A transcript will be put up on our website in the next 2 days.
- Aditya Mittal:** Perfect sir.

- Moderator:** The next question is from the line of Karthikeyan from COS Advisors.
- Karthikeyan VK:** Some thoughts on the formulations part of the business, what is your current presence and how and how do you intend to scale it up?
- Rahul Nachane:** We have no intention of scaling it up.
- Karthikeyan VK:** What was the contribution correctly this time if any?
- Rahul Nachane:** Formulation is barely 3% of our sales.
- Karthikeyan VK:** And what would be the mark up vs. the API to the end product? So is the effort worth it? I'm just trying to understand.
- Rahul Nachane:** There is no great thing is there. Obviously it will lead to better realisations. But we do the formulation only for two of our products and that too because there are some customers who don't want to set up plants in Europe for it. So they prefer to buy the finished product from us.
- Karthikeyan VK:** So is there a wide level manufacturing? You manufacture for somebody else?
- Rahul Nachane:** Yes. We don't have our own product in the market.
- Moderator:** The next question is from the line of Keshav Garg from Counter Cyclical Investments.
- Keshav Garg:** So like you said you are planning to grow at a steady pace of 15% so since you already have over 50% market share in our major products which contribute around 75% of our sales so that means that these products need to grow for us to attain that kind of 15% growth rate. And sir so is the market itself growing that fast or you expect to take market share from the second or third player?
- Rahul Nachane:** The market is growing. Market growth is very strong right now.
- Keshav Garg:** So market is growing at 15%?
- Rahul Nachane:** For these products yes.
- Keshav Garg:** That's very great to know. Sir best of luck and one last thing is there any thought at your end about doing a share buyback?
- Rahul Nachane:** No plans right now.
- Moderator:** There are no further questions. I now hand the conference over to the management for the closing comments.

**Rahul Nachane:** Thank you everybody for joining us in this call. As I mentioned earlier we will put up a complete transcript of this call on our website in the next couple of days. Good day to all of you.

**Moderator:** Thank you. Ladies and Gentlemen on behalf of NGL Fine-Chem Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.