



Aarti Drugs Limited

Manufacturers of : Bulk Drugs & Chemicals

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May 16, 2022

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

BSE CODE – 524348

Dear Sir/Madam,

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

NSE SYMBOL: AARTIDRUGS

Sub: Transcript of Q4 FY22 Earning Conference Call

Please find attached herewith transcript of Q4 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's Q4 FY'22 Earnings Conference Call”

May 10, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on May 10, 2022 will prevail.



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

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY'22 Earnings Conference Call of Aarti Drugs Limited.

This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on date of this call. These 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 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 -- Chief Financial Officer. Thank and over to you, sir.

Adhish Patil: Good evening, everyone and thank you for joining us today to discuss our financial results for the quarter and financial year ended March 31st, 2022.

Before I take you through the performance highlights, let me remind you that as communicated in the earlier earnings call, the financial performance on a year-on-year basis is not exactly comparable especially in terms of realizations and margins because of elevated API margins, driven by sudden supply disruptions due to COVID-19 related lockdown during the financial year 2021.

The Company reported resilient set of performance with improved product mix even though the entire globe continue to face unparallel challenges in the business environment.

I will now take you through Segment-wise Performance:

First, we will discuss Standalone Business Performance. Revenues for Q4 FY'22 stood at Rs.642.1 crores as against Rs.452.9 crores, a healthy growth of 42% year-on-year. Standalone business contributed approximately 90% to the consolidated revenue. Approximately, 61% of the revenue came from the domestic market, while the remaining 39% came from the export market for Q4 FY'22 for a standalone business. Domestic revenue grew approximately by 37% while exports grew by around 50% year-on-year for Q4 FY'22.

API volume grew considerably by around 23%, led by healthy growth in chronic therapies especially in Anti-Diabetic segment. Within the API segment, the Antibiotic Therapeutic category contributed around 43%, Anti-Diabetic around 17%, Anti-Protozoal around 14%, Anti-Inflammatory around 12%, Anti-fungal around 9%, and the rest contributed around 4% to the total API sales of Q4 FY'22. Going forward, the growth in chronic therapy is expected to

outpace the growth in acute therapies, mainly driven by recently commissioned anti-diabetic capacity.

Formulations segment performance for the quarter, the revenue stood at Rs.69 crores, growth of approximately 11% year-on-year. Formulations segment contributed around 10% to the consolidated revenue for the quarter, about 39% of the formulations revenue came from exports during the quarter. Exports continues to be a key focus area for the formulations.

Now, we'll discuss Specialty Chemicals and Intermediates Segment Performance: For the quarter, revenue from operations for speciality chemicals and intermediates stood at Rs.56 crores which grew 17% on a year-on-year basis. For the FY'22, the revenue from operations stood at Rs.210.8 crores, a growth of 28% year-on-year basis.

Company's strong chemistry skills along with the niche presence in chloro sulfonation products led to this healthy growth. The growth trajectory for this business is expected to continue further, driven recently commissioned Brownfield expansion at Tarapur facility.

On a consolidated basis, FY'22 revenue stood at Rs.2,500 crores, a growth of 16% year-on-year basis. Also, the Company posted robust revenue growth of 39% in Q4 FY'22, which was primarily driven by a 46% year-on-year growth in API business along with 17% in speciality chemicals, intermediates and others. EBITDA and PAT grew by 9% and 7% respectively. EBITDA margins were affected due to continuous upward momentum in the raw material prices and power and fuel cost, especially the coal cost.

The Company's overall product mix, especially in API products improved considerably along with improved operating leverage, which helps the Company to partially offset the impact of higher raw materials. However, multiple headwinds such as ongoing Russia-Ukraine conflict, continuous inflation in the input cost, especially solvents which are related to the crude price, supply chain disruptions, recent China lockdowns due to spike in COVID-19 cases, etc., had an impact on margins and profitability in Q4 as well as for the entire FY'22. The Company is closely monitoring the evolving geopolitical events.

The Company has undertaken multiple price hikes during the quarter partially offset the impact; however, these price hikes were not sufficient as the velocity and volatility of increase in input cost due to the reasons just mentioned remain very high. The Company's expectation in the margin is, once the input price is stabilized which we expect by the end of Q2 FY'23.

The Company is also focusing to increase the revenue contribution from chronic therapies, especially from anti-diabetic products, anti-fungal products which would help the Company to regain the sustainable long-term EBITDA margin level.

Coming to the important update, in the US FDA inspection for Tarapur import facility. The Company has successfully completed the third-party mock audit recently. The audit was

carried out by the US FDA consultants who are the ex-US FDA inspectors themselves. The final response will be submitted to the US FDA towards the end of H1 FY'23, most probably by the beginning of August month and the US FDA inspection is expected to be done by the end of this financial year.

The Company remains confident of the positive outcome. Apart from this, the same facility has cleared Australian TGA inspection audit recently, which will enable the Company to expand the business further in Australia as well.

The Company incurred a CAPEX of Rs.145 crores during the year. The Company is planning to further invest Rs.250 crores to Rs.350 crores in FY'23 after witnessing sluggish construction activity in H1 FY'22 owing to prolonged monsoon, the pace has picked up in H2 FY'22. For the Gujarat project, the civil construction activity has picked up the momentum which is expected to operationalize towards the end of current financial year.

Expansion for Tarapur Brownfield Specialty Chemicals has come in successfully. Scale-up batches have been undertaken since the start of the current month.

For Tarapur Greenfield API facility, boiler and zero liquid discharge treatment plants, would be operational by this month end and the Company is planning to scale up the production by the end of FY'23.

Net debt-to-equity as of March 31st 2022 stood comfortably at 0.52x.

The working capital cycle however got elongated as the Company strategically increased raw material inventory owing to high inflationary nature in the raw material and probable disruptions in the supply chain. There is some increase in the finished goods inventory as well due to anticipated pickup from the customers in Q1 FY'23.

As a Company policy of rewarding shareholders, the Company has paid Rs.81 crores in FY'22 in the form of dividend and share buyback. The Company remains committed to create the value for the shareholders by enhancing the strategic value proposition through capacity augmentation, cost rationalization, backward integration, strong focus on R&D and optimal capital allocation.

With this, we can now begin the question-and-answer session. Thank you.

Moderator:

We will now begin the question-and-answer session. The first question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan:

Last year, our CAPEX is Rs.145 crores. Can I get the breakup of this CAPEX in terms of the therapies and what is the another CAPEX that we are looking for next year?

- Adhish Patil:** The main projects which are going on, one already has been started, the Brownfield expansion of a chloro sulfonation facility at Tarapur, we just commenced with that project in the month of May. Then, there are two main Greenfield projects which are going on. One is going on in Gujarat, that is for the backward integration and intermediates space. Tarapur Greenfield project is focusing on dermatology-related API. So, both these projects will be done mostly by the end of current financial year and that is where the majority of the CAPEX will be going and a very small portion say Rs.40 crores to Rs.50 crores of the CAPEX will be utilized for general Brownfield expansion (**Inaudible**) GMP enhancement and some bit for the maintenance CAPEX.
- Ankush Mahajan:** So, we can say this year 250 to 350 crores CAPEX will go for this Brownfield expansion and other expansion?
- Adhish Patil:** Apart from that say Rs.40 crores to Rs.50 crores of Brownfield and maintenance CAPEX, the major CAPEX is for the same projects which we have highlighted before, that's Rs.500 crores to Rs.600 crores CAPEX which we had, so it is going for the same projects, mainly for the Greenfield projects, one at Tarapur and one at Gujarat.
- Ankush Mahajan:** We already invested Rs.145 crores and we were looking some five-time turnover on CAPEX. But this year, our incremental sale is on the lower part. How do you see the scenario next? My second question is related to gross margins about the raw material prices. How do you see the increase in raw material prices going onwards, I mean to say when we can expect things could get stable?
- Adhish Patil:** To answer the first question related to CAPEX, the Brownfield expansions which we are doing, they are definitely giving that five times revenues to asset turnover, but for the Greenfield ones, it is somewhere in the region of 2-2.5x. And other question regarding the raw material prices, I would like Harit bhai to answer your question.
- Harit P. Shah:** Very difficult to give any view, but looks like inflation is at top and all the governments are trying to control inflation, so demand may come down overall on commodities cycle. We expect price to come down by another three to four months, but not at the original level, but it will come down.
- Moderator:** The next question is from the line of Rashmi Sancheti from Dolat Capital. Please go ahead.
- Rashmi Sancheti:** Adhish, one question again on gross margin front. With this kind of pressure, can we believe that our operating margin can be sustained at around 12% or you believe that there is a scope of improvement with the Brownfield capacity coming in place with the better product mix? So, the Q4, I think we reported around 12% operating margin, so I'm asking regarding that is this kind of margin also will be able to sustain because I think you all mentioned that till another two quarters, there is a likelihood of seeing high raw material prices pressure, so are we going to sustain this or there is a scope of improvement in the overall operating margin?

Adhish Patil: For the next two quarters? API standalone EBITDA margins were around 13.2% for March quarter. We believe that at overheads level also, we can easily improve around 0.5% to 1%, but apart from that at a gross margin level definitely, the current commissioning of chloro sulfonation plant, Brownfield expansion, that segment is more profitable for us. So, the product mix would be favorable in terms of the betterment of the gross contribution for the first quarter. Definitely, it will help more in the second quarter, because the production has just started. As far as the price hikes are concerned, so we were doing the analysis, means in the March quarter, if we see, we definitely have taken price hikes, about 85% of our products have maximum prices, if we compare all the four quarters and even in the March quarter itself if we compare three months; January, February, March, then around approximately around 50% of the finished goods were having higher prices in the month of March. So, definitely, price hikes will also help us regain some of the gross contribution. Because the situation is so dynamic, though it will become better, but then it is not that easy to forecast as of now.

Rashmi Sancheti: I understand that there is still uncertainty regarding that, but whatever growth that we have seen in API segment during this quarter around 45%, 46%, that is all because of the price hike, Gliptins products and all have been commercialized or have started supplying?

Adhish Patil: Gliptins, we launched those products, but they are not yet significantly impacting our turnover as of now, but we expect them to do that in coming future To your second question, in the domestic market, we recorded a growth of around 36% to 37% in value terms, out of which 50% of the growth was due to volumes, whereas in export where we recorded the growth of around 50% in the last quarter around 30% or 32% of the growth is because of the volumes and rest 18%, 19% is because of the freight rate.

Moderator: The next question is from the line of Rahul Jha from Bay Capital. Please go ahead.

Rahul Jha: In last year's presentation, you had said that you have around 1,500 plus employees, in this year presentation, you are saying you have around 1,000 employees, so around 500 employees left, but your employee expenses are higher for the year. So, what is the disconnect?

Adhish Patil: There might be some mistake in it. We will get it corrected. We haven't reduced the workforce essentially. There is some typo error. We will get it corrected. Thank you for pointing out.

Rahul Jha: Second, on the capacity. So, you have done some around Rs.150 crores of CAPEX but your installed capacity has increased by just about 0.5%, even less than 1%.

Adhish Patil: So, most of this capacity in the cash flow was in capital WIP. That is the reason why the capacity enhancement was not seen to that extent. But now in the month of May, we have come up with a chloro sulfonation capacity and in the last quarter of the financial year we will come up with two more capacities. So, that is the point when you will see.

Moderator: The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

- Ranvir Singh:** My question relates to that US FDA inspection we are awaiting on Tarapur facility. So, if successful, what kind of scope we can expect from this facility?
- Adhish Patil:** So, there are a couple of indirect benefits as well, other than the fact that a couple of products, our ANDAs are still active, so for those products commercial (inaudible) can be started. Definitely, in the beginning it will be slow, but then it can pick up, but apart from that there are a lot of indirect benefits in the terms that (previous word inaudible) facility also has EU GMP approval and CEP approvals for a few of the big products which we manufacture and we are pretty strong in. So, there are a lot of those products in European market but because of this import alert cracking that market has been little difficult. So, if import alert is cleared, even for the European market from that facility, we can achieve a lot of growth.
- Ranvir Singh:** Can you highlight the number of products currently readily we can start supplying for US or Europe?
- Adhish Patil:** For Europe, we have three good products like the Ciprofloxacin, Celecoxib, Clopidogrel from that facility. There are other products as well like Zolpidem Tartrate, which are doing quite well for us.
- Ranvir Singh:** So, this is for Europe or US?
- Adhish Patil:** Same products we'll be doing for US as well.
- Ranvir Singh:** Earlier when import alert came, at that time there were two facilities and one of the facilities was already delisted with the US FDA as per your press release and one facility has got import alert. What is the status of another facility?
- Adhish Patil:** That facility was never intended to be US FDA facility, which got inspected at that point of time. So, that was the reason why we de-listed that facility. However, that is a very big and important facility for us for rest of the market which includes Latin America as well. But going forward we are planning to get a EU-GMP certification for that facility, but that facility is never intended for the US market. So, there are no plans to convert that facility into US facility, but for Europe, we do have that.
- Ranvir Singh:** For this year, we have CAPEX of Rs.145 crores. You mentioned some projects but I think some of these projects are not complete. So, for up to FY'22, that Rs.145 crores, on what project actually we have?
- Adhish Patil:** We had done a lot of debottlenecking. So, we spent in that and a couple of Greenfield projects, so that money is still lying under capital WIP and there was one big Brownfield expansion for Chloro Sulfonation which was also going on as of 31st March, but that project has now been completed. So, it will be put to use in the month of May, that was in the Greenfield.

- Ranvir Singh:** One was the intermediate project which was under PLI Scheme. So, is that project complete?
- Adhish Patil:** That particular project we opted to not go for PLI, but we still have expanded the capacity for that particular product. The reason we did that was because at the time when we applied for PLI, there was a commitment of some around Rs.70 to 80 crores for implementing that project, but then due to advancement in the technology, we were able to complete that project at a very, very nominal cost. We had requested government that we will implement the same project at the same capacity at a lower cost, but then they said that no, you will need to meet that CAPEX requirement which we thought that unnecessary spending money upfront, there is no point and then apply for the PLI scheme. So, that is the reason why we opted to go for that CAPEX without PLI, and already first stage of expansion for that particular product has already been done.
- Ranvir Singh:** So, what is the CAPEX on that Rs.70, Rs.80 crores?
- Adhish Patil:** Yes, it will be less than that, correct.
- Ranvir Singh:** (inaudible)
- Moderator:** The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.
- Aejas Lakhani:** Could you just repeat this amount you spent for the CAPEX on the PLI?
- Adhish Patil:** I said much less than Rs.20 crores, means we are not giving out the exact number.
- Aejas Lakhani:** The first is could you give a broad gross margin guidance or a range for the APIs for the spec chem and intermediate and for the formulations for Aarti Drugs as a Company?
- Adhish Patil:** Guidance is for a long term definitely for API, right now we have a composite gross margin for API –
- Aejas Lakhani:** Broadly, the API basket, what is the broad gross margins on formulations and spec chem and intermediates? The reason I ask this is so that we get a sense of how your gross margins may move in the future?
- Adhish Patil:** Spec chem is the maximum, but then again since you are asking only for the gross margin, spec chem will be much higher; in some cases it will be as high as 50% as well in those particular products. As far as the APIs are concerned, on an aggregate level, I would say it should be somewhere in mid-30s to late 30s targeted gross contribution whereas in formulations it is slightly lower. Vishwa, would you like to answer that?
- Vishwa Savla:** Currently, formulations gross margins would be between 25% and 28% depending on the quarter and we do see in the coming quarters improvement in that, because our gross margins

are quite lower on the domestic front and substantially higher on export. Right now, we have about 38% to 40% export revenues which we foresee to grow to a larger number and that will improve the overall gross margin and take it a little closer to early-30s.

Aejas Lakhani: You've done Rs.145 crores CAPEX. You mentioned five times asset turns. How much of that should we expect from a capacity utilization in '23.

Adhish Patil: Four to five times asset turn is for the Brownfield expansion, not for the entire.

Aejas Lakhani: Yes, you did Rs.145 crores as a Brownfield, right?

Adhish Patil: No, see in Rs.145 crores a lot of money has gone for the Greenfield project as well which are still in capital WIP.

Aejas Lakhani: So, how much of this could you quantify went for the Brownfield and for the Greenfield?

Adhish Patil: Very roughly, around half of it must have gone for the Greenfield and half would be for maintenance as well as Brownfield and some bit I think went for the land parcel which we procure I believe.

Aejas Lakhani: Also, the other thing is you mentioned that there are more capacities which is coming on stream at the end of FY'23. So, are you referring to the Greenfield CAPEX which is for the intermediates, of which you've already spent Rs.70 crores give or take and the Rs.250 crores which you are going to spend in this year, all of that will come on stream in FY'23 end?

Adhish Patil: So, the Tarapur facility seems like it will come onstream say a couple of months or three months before the Gujarat facility. So, the Tarapur facility, we are hoping that we will be able to come in the trial production by last quarter of this financial year; however the Gujarat facility we feel that by the end of this financial year we should be able to complete the project, so maybe immediate start of the next financial year we should be able to start the trial production.

Aejas Lakhani: Out of the Rs.70 crores that has already been incurred and 250 to 300 crores that you're incurring this year, how much of that is towards Tarapur and how much is towards Gujarat in terms of cap?

Adhish Patil: Coincidentally, the allocation is almost equal for both the Greenfield projects.

Aejas Lakhani: Sir, you generated about Rs.70 crores of operating cash flow this year, give or take your run rate for the coming year. Basis that given the high amount of CAPEX that you're incurring along with the dividend payouts you're doing, how much will be incremental debt and how will you fund this CAPEX really if you could give some more color on that?

Adhish Patil: So, the major reason why the operating cash flow is looking less in this financial year is that we have done historically highest sale in the last quarter about Rs.697 crores and typically our latest cycle been somewhere in 90s. So, all of that has went and sat in the receivable portion. So, that is the reason why suddenly the increase in receivables is more and that is why the cash flow from operations is looking less; however, what we are foreseeing is that our debt-to-equity ratio will go as high as 0.7 for the upcoming Greenfield projects when we implement that partially through internal accruals and partially through external, but the targeted debt-to-equity number is around 0.7. And once the project start giving revenues, then it will again come down.

Aejas Lakhani: You had mentioned that you have a contract with an MNC for the speciality or intermediate products. So, is my understanding correct that the recently concluded Brownfield expansion that you have done for which you spend about Rs.70, 75 crores as you indicated, is also the capacities that are going to be used for this contract?

Adhish Patil: A very small portion of that went for the debottlenecking for incremental expansion of that product, whereas some other portion also went for the big Brownfield expansion for another chloro sulfonation product of ours. So, there are two products involved where Brownfield expansion happen.

Aejas Lakhani: You mentioned I think in last call the aspired guidance of EBITDA being around 18%. So, do you see that run rate being hit in probably 3Q, 4Q of this year?

Adhish Patil: The problem is that we were hoping 17%, 18% EBITDA margins should be sustainable however, the increase in the input cost is so high, almost we were doing an analysis of FY'22 versus FY'21. So, the rate variance in the raw materials is as high as 25% in terms of the increase in the prices year-on-year basis for the entire year. Because of that now we are taking hikes at the prices at the selling end, but then the thing is for many of the products, formulations people they have a cap at which they can sell in market. Those cap is increased by 10% or so every year, but nevertheless the hike in the chemicals and the APIs has been more than that. So, definitely, we will face some hit as far as demand is concerned. However, once the price ease of from this level, then everything should be back at normal. So, by Q2 or Q3, 18% would be too optimistic but first we will try to achieve that 16% EBITDA margin by Q2, Q3 and then from there onwards, with the introduction of this newer more intermediates, then probably we can look forward to increase it further.

Aejas Lakhani: Sir, the chronic APIs that you are having, are there gross margins say 300, 400 bps higher than the acute therapy APIs?

Adhish Patil: A good question, but then the thing is situation has been so dynamic, so the margins changes, I mean, usually chronic products had a better margin but if there is a change in market dynamics as in some of the intermediates of a particular product goes high suddenly, then suddenly in one particular quarter some other products look more profitable than this product. So, it keeps

on changing. The situation is very dynamic, but I would say before all these macroeconomic factors hit us, the margins in the chronic segment was high, but then with the current scenario, it is all up and down and sometimes one product looks better, sometimes other product looks better.

- Aejas Lakhani:** Competitive intensity in chronic API is lower or higher and who are your key competitors?
- Adhish Patil:** So, in metformin markets, there are around eight players or so. The bigger would be three or four and the rest would be smaller. We expect that will be kind of consolidation in coming couple of years. The smaller players ideally will exit. It will also depend on the fact how fast we scale up the capacities further and how fast the market grows, because typically what happens that if market is growing at x percentage and the introduction of fresh capacities are more than that, then typically the weaker players start exiting the business. So, that is how it will shape up.
- Moderator:** The next question is from the line of Saravanan from Unifi Capital. Please go ahead.
- Saravanan:** What sort of volume growth are we targeting or expecting to achieve in FY'23 as well as FY'24 in API segment?
- Adhish Patil:** Ideally, we should get about 10%, last year also on a year basis around 10% volume growth we were able to achieve in FY'22 and similar kind of volume growth we hope to achieve in the coming years.
- Saravanan:** This Rs.90 crores per quarter is like a base EBITDA and we would be able to grow on that. So, I'm talking not as a margin term, I'm talking as an absolute EBITDA. Is Rs.90 crores per quarter a sustainable number?
- Adhish Patil:** Yes, Rs.90 crores is very much doable, but we hope that we do more than that.
- Saravanan:** In formulations, what is the prognosis there, would you grow faster in the formulations segment than API segment in the coming years?
- Vishwa Savla:** In the formulations segment as well, we are undergoing our CAPEX expansion for a new oncology plant which will be commissioned in the coming three months as well as we are also increasing our full product portfolio with a good pipeline of products and expanding our market reach in terms of more international markets. So, we do foresee to grow at a faster pace in the next three years. The projection is to try and double our revenues in the coming three years and in terms of our resources, we are on track for that.
- Saravanan:** The US FDA plant currently although we are under alert, it is getting utilized for other geographies or you are still waiting for the clearance and then you will use it only for the US business?

Adhish Patil: As of now, it is being utilized for other products, but then the utilization is fairly low and moreover (inaudible) will happen if we sell more to regulated markets. That will be the key factor for driving profit growth from that particular unit.

Saravanan: So, that's an important lever to look forward to right once the US FDA clearance happens by end of this year, so your regulated markets would get fast track which will improve the margin trajectory overall?

Adhish Patil: Correct.

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

Runjhun Jain: Sir, just two questions. One, you have said that you have taken the price hike and most of the price hikes which were probably taken during the March. So, you believe that the gross margins what we have witnessed during this Q4 is kind of bottomed out and we can see quarter-on-quarter improvement on that?

Adhish Patil: One thing I noticed that in the month of March also, when we were negotiating order, that time also the margin was low. For the month of April and May, whatever we are negotiating, the margins have slightly improved for a few of the major products of ours, but then the impact to come, it takes around two months probably I'll exit the first quarter, maybe June month might be better, that is what I have a feeling but the Q1 will definitely be impacted, in fact, it means more or less similar kind of margins.

Runjhun Jain: But even what you are saying, have you seen the impact in the raw prices that month-on-month also, there is any increase in that or that is kind of stabilized right now?

Adhish Patil: On raw materials, we haven't seen a decline yet –

Runjhun Jain: But there is an increase or this will stabilize? The question is coming because if the raw material prices have stabilized and whatever improvement you take or hike you take on the finished goods, so that improvement whatever small should be visible. So, that is what my understanding is that we should see some improvement in margins at least for Q1?

Adhish Patil: I will answer a little differently means on taking orders means negotiations which are happening in the month of April is better than March; however, these are the orders being taken but for exports our pending order is around three months, for domestic it is somewhere 20-40days and similarly raw materials for imported it will be a couple of months, for domestic it would be 15 to 30-days. So, for that to come into the **(Inaudible)**.

Runjhun Jain: For the March to December, is there an improvement in volume in API or for the whole Company?

- Adhish Patil:** We will do that. I don't have the figure, but overall on the entire year basis, the volume growth is 10% for FY'22.
- Runjhun Jain:** On quarter-to-quarter, I will take it offline from you, sir.
- Adhish Patil:** That I will send out.
- Moderator:** The next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.
- Ankush Mahajan:** I just try to understand this CAPEX of Rs.250 to 350 crores. Can you give a more breakup for this CAPEX this is for which therapies actually we are going to use this CAPEX and what is the timeline for this?
- Adhish Patil:** The timeline is one year. The thing is if you remove say around Rs.40, 50 crores, then rest of the CAPEX will be equally divided into two portions; one will go in Gujarat Greenfield and other will go in Maharashtra facility equally and I will be covering up with the backward integration and a few other intermediates. So, there will be speciality chemical intermediates kind of a thing and some bit of it we will be using captivity as well, whereas the Tarapur Greenfield would be more of the API and a few derivatives of the APIs.
- Ankush Mahajan:** Can you give us names of the therapies?
- Adhish Patil:** It goes in derma segment in the skin care treatment.
- Ankush Mahajan:** For the API. For the speciality chem products?
- Adhish Patil:** Mainly could be pharma intermediates and some of it might go for, those products might also go for animal feed category.
- Ankush Mahajan:** How much is the Brownfield and how much is the Greenfield?
- Adhish Patil:** Major would be the Greenfield for coming year. That Rs.40, 50 crores which we are earmarking, the part of that would be used for Brownfield.
- Ankush Mahajan:** So, can you give me some names of the raw materials like that we are using like, I'm just taking example of the benzene is the one?
- Adhish Patil:** We use a lot of raw materials from acetic acid, nitric acid, so many. There are more than three hundred raw materials which we are using.
- Harit P. Shah:** Actually we are into antibiotics, so we use a lot of flouro benzene chemistry intermediates and also Piperazine is one of them, and then a lot of basic chemicals we use and it depends on the

product-specific basically, many of the other intermediates we are using. It's very difficult to give names, but there are at least 200 chemicals we are using at least a month here

- Moderator:** The next question is from the line of Ravi Ludha, an individual investor. Please go ahead.
- Ravi Ludha:** My question is whether Aarti Drugs is able to get the revenue target of Rs.4,500 crores in FY'26 or '27?
- Adhish Patil:** That is fairly doable.
- Ravi Ludha:** Actually sir, in last concall that is of Q3 FY'21, you told Rs.4,500 crores revenue target will be achieved in five years and now you are saying this target can be achieved in nearly next five to six years. So, whether this target will be delayed?
- Adhish Patil:** FY'26 means, that is four years from now considering this year, it should be fairly easy.
- Ravi Ludha:** In your revenue, nearly 43% consists of antibiotics. So, whether these antibiotics are somewhat import substitution from China?
- Adhish Patil:** Partly yes, many of them.
- Ravi Ludha:** Whether we can believe that the EBITDA margin which we are getting this year that is nearly 13% do you believe that in future it can cross more than 20% or it will remain 20% to 25%?
- Adhish Patil:** EBITDA margins, once all our Greenfield projects come into picture, then definitely we can aim for like something near to 20% and also the regulated markets playing off, we can target crossing 20%.
- Ravi Ludha:** And sir, whatever we are doing the CAPEX, that is Rs.600 crores, so it means more margin products or less margin products?
- Adhish Patil:** With the CAPEX, they are generally higher margin products because the thing is right now even our existing products are performing below what they usually perform. So, even from the existing basket also, we are hoping for a recovery of around 300 basis points, around 3%.
- Moderator:** The next question is from the line of Rahul Jha from Bay Capital. Please go ahead.
- Rahul Jha:** I was looking at again on the R&D slide. So, last year you had some 57 M.Sc. graduates and 11 graduates, but this year again it has come down like 27 M.Sc. graduates and 28 graduates. Is there attrition happening like senior people are leaving on the R&D side, gross margins also like you have been saying that backward integration is happening, so gross margin to EBITDA margin flow should not be weaker na, it is getting weaker, your gross margins should expand or the volume should grow up, nothing is happening in that.

Adhish Patil: About the R&D part, I will definitely check all the slides. There is no attrition as such in the R&D. But then the thing is on the shop floor level the ground reality is that we haven't reduced any R&D, in fact, we have put up one more floor in our centralized R&D center at Tarapur. We have expanded the R&D last year in fact by one more floor. There is no cut down in R&D or anything like that. We have put up pilot plants also last year to do R&D of the bigger projects which we are launching right now. Your other question was regarding the gross margins, right. Backward integration projects which we are putting up, mainly that is happening in the Greenfield location at Gujarat. So, that facility hasn't commenced yet. Secondly, other backward integration we had put up the capacity, but the thing is there is some problem in pricing parity of few of the very basic chemicals which are available in India and China and that has also happened because of this geopolitical situation right now and because of disparity of the basic chemical prices in India and China is where we are facing the heat as of now. From technological standpoint, the top-15 products in which we are operating, most of them we are either at par or even better than China. It is a temporary phase because of which this gross margins and EBITDA margins have been impacted but that has happened across the board for all the API companies.

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

Adhish Patil: Thank you everyone for being with us on this call. Please reach out to us or our IR consultant, SGA should you have any further queries. We can now close the call and thank you once again for participating in this call.

Moderator: Ladies and gentlemen, on behalf of Aarti Drugs Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.