"Aarti Drugs Limited
Q3 FY2021 Earnings Conference Call"

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Management: Mr. Harshit Savla, Jt. Managing Director
Mr. Harit Shah – Whole-Time Director, Aarti Drugs Limited
Mr. Adhish Patil - Chief Financial Officer, Aarti Drugs Limited
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Moderator: Ms. Cyndrella Carvalho - Centrum Broking Limited

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of Aarti Drugs Limited hosted by Centrum Broking Limited. 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 “*” and then “0” on your touchtone phone. Please note that this Conference is being recorded. I now hand the conference over to Ms. Cyndrella Carvalho from Centrum Broking. Thank you and over to you, Madam!

Cyndrella Carvalho: Thanks Margreth. Good evening everyone. On behalf of Centrum Broking, I Cyndrella welcome you all on the Q3 FY2021 earnings Conference Call of Aarti Drugs. I humbly thank the Aarti Drugs management for giving us this opportunity to host the earnings call. From Aarti Drugs management team, today we have with us Mr. Harshit Savla - Joint Managing Director, Mr. Harit Shah - Whole-time Director, Mr. Adhish Patil - Chief Financial Officer, Mr. Vishwa Savla – Director Pinnacle Life Science. At the outset, I thank the management team for delivering consistence performance on earnings and I hand over the call to Mr. Adhish. Over to you for the opening remarks!

Adhish Patil: Thank you, Cyndrella. Good evening everyone. We welcome all of you on behalf of entire management of Aarti Drugs Limited for the earnings call for December 2020 quarter. In the December 2020 quarter, the company recorded consolidated quarterly revenue from operations of Rs. 530.25 Crores with year-on-year increase of 11.98%.

API segment contributed approximately 87% and formulation segment around 13% of the total consolidated revenue. Within the API segment 66.89% of the revenues came from domestic market and 33.11% from the export market. In the formulation division, 31.01% of the sale came from exports in this quarter. Domestic sales of the API segment grew by approximately 13.5% and exports by around 13.77%. Around 66% of this growth in the API segment was driven volume growth due to good demand across multiple therapies. Formulation segment revenues grew by around 5.21% on a year-on-year basis.

For the period ended December 2020, revenues from the API segment can be broadly classified into following therapeutic category. The antibiotic therapeutic category contributed to around 44%, anti-protosol around 13%, anti-inflammatory around 14%, anti-diabetic around 10%, anti-fungal around 7% and the rest can be classified as other category. As compared to last financial year of 2019-2020 anti-inflammatory segment has increased from 10% to 13% mainly on the account of higher sales of product like insulin, Diclofenac derivatives and Ciprofloxacin.

In this financial year, due to lockdown paid off whatever diseases was led and hence in general lower demand of anti-protosol segment was observed. Post vaccination once people start travelling more, this demand is expected to grow. If you look at the 2020 quarter, consolidated earnings before tax interest and depreciation is Rs. 107.76 Crores up by 59.11% and consolidated profit after tax for the quarter ended December 2020 is Rs. 68.03 Crores up by almost 144.88%.

Consolidated EBITDA margin improve from last year to around 20.25%, debt to equity ratio of the company reduce further down to 0.39 as of December 2020 on the consolidated basis due to strong internal equity. This puts the company in a very good position for raising long-term date in addition to strong internal accrual to finance upcoming dream Greenfield projects. Recently , we expanded anti-inflammatory capacity is contributing to growth. The company is also in the process of commissioning new anti-diabetic production line for new product launches later this year.

In addition, Brownfield expansion of one of its antibiotic products would also be completed in near future. Topline growth will be further supported by good traction in the formulation exports. The company is also ramping up its R&D facility both in API as well as formulation segment to support future growth and innovations. In efforts to support environment, the company has recently converted two more of its facility to zero S1 discharge category and has already applied to the position growth promising and we are adding two more units to this category in coming weeks.

Now, we would like to open up the discussions for question and answer and take questions from the participants. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pranay Dhelia from Panchatantra Advisors. Please go ahead.

Pranay Dhelia: What is the total debt of the company at the moment?

Adhish Patil: It is around 334 Crores right now and around 186 would be term loan.

Pranay Dhelia: Thank you.

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

Saravanan: Thanks for taking my question. Could you please provide an update about how the pricing in APIs and how is the change from Q2 to Q3 and even as we speak and how is it going to pan out in Q4 because you had last time mentioned that in June, you were able to see the prices had peaked and accordingly we could see in Q3 EBITDA margins have come off although the gross margins have remained at higher levels, so could you please comment on the same?

Adhish Patil: Yes, last time we did say in concall that in September quarter during the middle of the quarter, the pricing had gone down a little bit and then it had stabilized, so fortunately as of today, the pricing has been same from that point of time that is during the month of August, the pricing had come up a little bit but after that the pricing is quite stable as of now and that is why the gross contribution is also healthy even for the December quarter. So, as of now we do not see any price erosion.

Saravanan: Okay so does that mean EBITDA margins which are seen in this quarter which is Q3 of 20%+ without considering the other income, so do you think this will be a new normal for Aarti Drugs because earlier you had mentioned that 18 is what you would target but now is 20% becoming the new normal?

Adhish Patil: We also thought that by December the pricing might come up but then as per the current market scenario, we have seen that a 19%-20% seems to be doable but let us see means for two more quarters to go once the entire globe is out of COVID problem then I guess will get the long-term normal.

Saravanan: Thank you and my second question is on the volume front I mean how are you seeing the demand progressing, is that why you are outing up new capacities or is it because your existing capacities are almost peak utilization, so almost any comments on the demand scenario for Q4 as well as for the next financial year?

Adhish Patil: As we had discussed last time, so our current API capacity without considering this Brownfield expansion which are going on can give us revenues up to 2500 Crores and plus coordination revenues would be extra but with this Brownfield expansion which is going on right now plus we are putting up anti-diabetic production line also, so that too double with Greenfield projects what we are putting up, those will be the main growth drivers for the next three years to five years, so that is as putting in capacities so that we can achieve revenue target of around 45000 upwards in five years.

Saravanan: Okay, this is on the capacity front, do you think that volume growth will be as good as what has happened in the current year or could it stabilize in the next year?

Adhish Patil: So actually speaking, we felt that antiprotozoal and antibiotic segment the volume growth could have been much more than what we saw in this particular and mainly it has grew with lockdown and people not moving out, less interaction between the people that is as a spread of diseases, infectious disease, so we feel after vaccination this demand will again become strong and even as of today on an aggregate basis, in December 2020 quarter also we observed 66% of the 12% growth seen in API segment is given by volume growth.

Saravanan: Okay and any updates on the capital raising plans? Have you appointed any merchant banker?

Adhish Patil: No, the thing is as of today the internal accruals and the debt situation, debt to equity ratio is so low 0.39 and we want to keep a target of around 0.7 kind of a debt to equity ratio because that is a very, very comfortable situation for the company and ROEs will be much higher because the cost of debt for us is very, very low. In fact long-term capital is available almost 6.7 or something like near about debt level 6.7%, so we feel that we can raise term debt along with internal accrual to fund our Greenfield projects.

Saravanan: Okay, H1 you had mentioned that you had completed 40 Crores of capex and what is the targeted capex in H2?

Adhish Patil: In H2, we feel another 40 Crores will go but the main Greenfield capex that will start in we are estimating in like couple of months' time it should start in s big way.

Saravanan: Like you mentioned last time that is the 600 Crores capex over total?

Adhish Patil: Yes.

Saravanan: The diabetes capacity referring to Gliptin or Metformin itself?

Adhish Patil: Gliptin, the Metformin will be the much better expansion that will commence in one- or two-months' time.

Saravanan: Come back the queue. Thank you.

Moderator: Thank you. The next question is from the line of Chirag Dagli from DSP Mutual Fund. Please go ahead.

Chirag Dagli: Thank you for the opportunity. On the PLI Scheme, we have a couple of products, can you just highlight broadly the kind of investment that can potentially require. I know we have not been awarded yet but just broadly your thoughts on the kind of market opportunity that exists, and the kind of investments needed?

Harshit Savla: We have applied for few products and we are hopeful that one intermediate product we will get but we are not announcing anything because since the results are not out mostly the month of February, they will be out but if everything goes well, we have around budget of around 120 Crores to 150 Crores of capex related to PLI scheme.

Chirag Dagli: What is the kind of opportunity for this 120 Crores capex?

Harshit Savla: One of the products is our own for consumption and another product that particular yet to be applied because that is second level of PLI scheme is yet to be announced that second product will come in that, so the first one where we have applied there we have around 60 Crores – 65 Crores of revenue potential from external thing and plus similar kind of captive consumption would be there of the same product.

Chirag Dagli: Understood. This is for what you will spend the 120 Crores or one product?

Harshit Savla: No, that is for the entire basket. This I was talking about only one product.

Chirag Dagli: Okay so for that one product where you are saying 65 Crores internal plus 65 Crores external, what is the kind of capex in that one would need?

Harshit Savla: We are not giving product wise capex as of now but n the 600 Crores capex plan what we have announced, there are 7 main projects in it, so, it is like that. Product wise capex and we are not giving out details, but I will tell you broadly what all 7 projects are. Two of them are related to the intermediates which we will be consuming on our own, one would be our Metformin expansion itself, another would be Sulphuric acid plants which will be again mainly use captively for our chlorosulfonation products and another would be skin treatment API which would be more or less import substitute.

Chirag Dagli: Sir recently there was a Cipro process in anti-dumping duty levied, can you quantify this is relevant at all and what is the kind of impact that became?

Harshit Savla: We got five years antidumping duty from the government, so definitely it will get benefit against China they were dumping it, so we will be steady, and margin will be improved on that.

Chirag Dagli: Can you quantify the kind of impact that one can see broad numbers?

Harshit Savla: They have put the duty from $1.5 to $3 from the different suppliers, so that much will be quantify. It is per kilo of $1.5.

Chirag Dagli: At this the way we should think about this is that this flows straight to your bottomline Sir?

Harshit Savla: That is the antidumping duty. Now you cannot I mean yes you can say that but there are other local player also in India, so we have to compete with them also.

Chirag Dagli: Yes, so that was the question, do you think the local players will also raise prices to the extent of this?

Harshit Savla: Yes, ideally it should happen like that.

Chirag Dagli: Okay and when do you think we will start and end it?

Harshit Savla: I think it is already started because antidumping duty was already there forming the month of September then previously, they are given for six months, now they are given for five years.

Chirag Dagli: Okay so the quantum does not change?

Harshit Savla: It will be.

Chirag Dagli: Understood and Sir can you help me with the nine-month volume growth in API?

Adhish Patil: Nine month as of I know this quarter, it is around 66%, last quarter it was around 55% or something. I do not recollect the first quarter number. I will get back to you on that.

Chirag Dagli: No worry Adhish and just a last question if I can squeeze, how many of your products or prices, for your prices coated in dollar, in Yuan or in INR if you can throw some light?

Adhish Patil: Yes, domestic market is entirely INR and in export market almost 95% business is being done in USD, very rarely some are in Europe and few in AED for the Middle East country.

Chirag Dagli: So, dollar then flows through your P&L, right Adhish I mean you will get a clear benefit out of that?

Adhish Patil: I did not get your question?

Chirag Dagli: I am saying that rupee dollar moving from 70 to 75 is that Rs.5 is flowing to your profitability?

Adhish Patil: It does but then we also have imports on the opposite side, so what we have seen that more or less we are hedged but definitely in longer term when the rupee depreciates, we have a little bit more competitive than Chinese suppliers, so that definitely helps us.

Chirag Dagli: Thank you.

Moderator: Thank you. The next question is from the line of Atul Abdul Puranwala from Anand Rathi. Please go ahead.

Atul Abdul Puranwala: Thank you for the opportunity. What would be the cash flow from operations for the nine months FY2021?

Adhish Patil: I will get you this figure now. So, the cashflow from operating activities should be around 140 Crores for the nine months.

Atul Abdul Puranwala: My second question is basically as we have mentioned that the 600 Crores capex plan what you have envisaged, I mean just wanted to understand that what proportion of this could be from internal accruals considering where you have started generating very healthy cash flows, would we see what would be the quantum of debt I understand you said that it would be 0.7 so maximum size where you can take you off I mean just wanted to understand on this cashflow perspective?

Adhish Patil: The thing is ample amount of room is left for us to raise the money from debt because of our internal accruals itself will be very strong in fact they will be strong enough to even do little bit of shareholders payout, so cashflow front we are absolutely not worried, we already have tied up long-term loans from couple of times and the thing is mostly internal accruals we may not require more than 40% debt frankly speaking but then it all depends upon the time because the more quarters will go, more and more internal accruals will achieve so less and less that will be required. So, there is no quick answer to that but then what we are saying is that even if we fund entire through debt, our debt-to-equity ratio may not go beyond 0.7.

Atul Abdul Puranwala: Understood, my last question would be on this topline target what you have said for next five years to about 4.5 Crores, how do we see mix between API and formulations by next five years, would it be largely driven by formulation or we will see the similar kind of run rate being followed ahead as well?

Adhish Patil: The growth opportunities are on both the sides in fact on the standalone side also API as well as specialty chemicals will grow at more phase than the API, so specialty component will grow and formulation will also grow definitely, so we are estimating anywhere between 15% and 20% would be from formulation and rest could be from API in terms of segment.

Atul Abdul Puranwala: That would be all from my side. Thank you for answering my questions.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Congratulation on good set of numbers. Adhish on the specialty chemical I mean what kind of opportunity are we really looking and how that it is an EBITDA margin versus currently what we have at company level and when it will start really showing in the contribution in the topline as well as bottomline?

Adhish Patil: The new projects especially specialty chemical, I would give in aggregate for all the seven projects which we are thinking of so the EBITDA margins if we consider entire sales as external sales then the EBITDA margins are anywhere between 24% and 25% from the product mix but I would like to add it one thing that and the revenue potential is around 1500 Crores of external but then considering the fact that some of the products will be consumed captively, the external revenue potential will anywhere between 1170 Crores and 1200 Crores in the external fields.

Bharat Sheth: And this is you are referring with the 600 Crores capex, correct?

Adhish Patil: Correct.

Bharat Sheth: The specialty chemicals it will be more of enhance consumption, captive consumption or it will be external sales?

Adhish Patil: The Sulphuric acid close to some products will be captively consumed whereas some will be sold outside as well and the chlorosulfonation entire will be outside I mean mainly it will be external sales.

Bharat Sheth: Okay, how do we even really because of this and all say intermediate captive consumption as well as Sulphuric acid or you are talking so can really have EBITDA margin from say 20%, how do we expect to grow over next two years to three years?

Adhish Patil: This particular projects will kick in little later may be third year from now maybe FY2023 onwards this particular projects will come into pictures, Metformin might come sooner but rest of then will take time but along with this we are also doing lot of expansion of our existing products in the same units as well Brownfield expansion, so like antibiotic also we have done almost 40% expansion, anti-inflammatory we have done 70% expansion of one product, Gliptin is totally new, so all these capacity are also coming up then we are also thinking of expanding Clopidogrel which is our cardio vascular product.

Bharat Sheth: Okay, so how are the profitability of those new Brownfield expansion as well as operating leverage use expect to kick in and suggest that price although at current level, so going ahead I mean FY2022 do we expect some kind of improvement in EBITDA margin?

Adhish Patil: Typically, when we do Brownfield expansion, the immediate impact is that there is little bit of excess capacity in the market little bit, so there is downward featuring price but at the same time because it is a Brownfield expansion, our cost per unit also goes down, so our margins increase, so our products becomes profitable in that way, so we are able to capture more and more market and after year or two when one of competitors goes off then again the margins expand for that product so that is the entire the strategy what we follow, so whatever products we are taking lead, we want to achieve more and more market share, so that nuclear will not come in.

Bharat Sheth: Okay and is it expansion of a Brownfield and Greenfield capacity so this 4500 Crores kind of topline that you are anticipate expecting is in FY2025 is it fair or for FY2026 and that is surely without formulation?

Adhish Patil: No that is including everything. Obviously yes that is including everything more on a consolidated basis.

Bharat Sheth: It will be by approximately FY2025 or FY2026?

Adhish Patil: Mostly FY2026 because this FY2021 is almost over so we expect FY2026.

Bharat Sheth: And that is some kind of expansion in the margins correct?

Adhish Patil: Yes.

Bharat Sheth: Okay and now Greenfield expansion is coming under separate company or it is part of Aarti Drugs because to avail that tax benefit?

Adhish Patil: We had a detailed discussion on that. As of now what feel is that we might go under the same name, under Aarti Drugs itself.

Bharat Sheth: Okay and that will start kicking I mean capex are in from Q1 FY2022?

Adhish Patil: Correct exactly, you are right in Q1 itself.

Bharat Sheth: Okay. Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.

Subrata Sarkar: Most of my question has been answered. I am just reconfirming it that target which we are giving like for five years achieving 4500 Crores, that is sufficient or if we consider the existing

Brownfield expansion as well as new 600 Crores capex on the Greenfield project, is it my understanding perfect Sir?

Adhish Patil: Yes, it is including both of them, correct.

Subrata Sarkar: Around 500 Crores will come from Greenfield projects or residual will come from the existing Brownfield project which is going on?

Adhish Patil: 500 Crores of capex you are asking or revenues?

Subrata Sarkar: No, what I am saying 1500 Crores of revenue will come from Greenfield and the balance will come from Brownfield?

Adhish Patil: Correct and the formulations also.

Subrata Sarkar: And formulations also, perfect Sir, coming to your seven projects as you told Sir, can you give some indication of like out of these seven projects which will have greater share in terms of revenue. Like the way we have mentioned like as per my understanding this Metformin as well as these Gliptins projects should have higher margin and may have higher contribution. So, if you can throw some at least the ballpark understanding where is this sulphonation and Sulphuric Acid may not add so much to our external top line as well as may not have that kind of margin and may be this scheme treatment API will have a higher margin so if you can have some understanding on that side?

Adhish Patil: Yes, the thing Sulphuric Acid and Chlorosulphonation products some of products are already doing with the existing process and what we are about to launch is with a newer process with much lower cost of production. So, the margins expected in Chlorosulfonation i.e., speciality chemicals is very high actually that will be over profitable and in fact Gliptins will be just starting so, we are not very much optimistic that we will achieve high margins right away in the first year itself but definitely as the processes improve there is a capacity scale up, they will definitely become major profit drivers for us no doubt about that. Metformin for domestic markets, the margins are more or less similar to the company level, but the export markets are very profitable for Metformin products and definitely with CEP approval we are getting more and more export approval for Metformin product and that is how the margin expansion will take place in the Metformin products for us.

Subrata Sarkar: Sir, regarding this scheme care treatment API that should be higher margin business, whereas may be from our topline perspective will be lower?

Adhish Patil: So, that as of today it is more than the company level margin.

Subrata Sarkar: Perfect Sir. I am done with.

Moderator: Thank you. The next question is from the line of C Srihari from P C S. Securities. Please go ahead.

C. Srihari: Thanks for the opportunity. Firstly, on the pricing front you said that because furnishable for the quarter across the board. But that if you can just give break out in terms of, they would have been perfect, or the pricing would have been lower whereas in some other pockets it would have been slightly higher so if you could give a breakout and secondly the Metformin unit that we are talking about, can you please give an intimation what is the kind of capacity we intend to set? Thank you.

Adhish Patil: So, your first question was more from products point of view or the market point of view?

C. Srihari: Yes, policy wise because you divert policy wise in each policy, we say that pricing therapy?

Adhish Patil: So, frankly speaking with anti-inflammatory definitely is doing well as of now, anti-diarrhea as I said because of the lockdown the demand is little less, so obviously that reflects in the pricing also. So, as of now anti-diarrhea will be doing little lesser than the company level margins but the anti-inflammatory is doing better than the company level margins and as far as Metformin is concerned, we already have around 1100 tons per month capacity, so our first phase expansion will be taking it to 2000 tons per month capacity and the second phase would be two and half year later that could take it to 3000 tons per month capacity.

C. Srihari: Okay, on this pricing front Goa report that in certain pockets Chinese supply has commenced so, any particular product has permission?

Adhish Patil: Yes, we also import quite a few raw materials chemicals from China. So, that supply started right towards the May end onwards, so we have not faced any problem in terms of supply from China. So, the same is applicable for API supply also from China. So, all the factories have started but then we have not seen any later impact in terms of price erosion because of the Chinese supply because that has started long back, I would say in Q2 itself the supply had started.

C. Srihari: Because one leading company is saying that there is a pressure during this quarter, so I was at the lock down period?

Adhish Patil: Yes, it might be product specific may be because of that.

C. Srihari: That is all. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Good evening and thanks for the opportunity. Sir, my question was on the PLI you mentioned that we would be doing Rs.120 Crores of capex and you mentioned two products are in the pipeline. So, are there more products in the pipeline or is it like for two products we are doing Rs.120 Crores capex if you can just clarify that?

Adhish Patil: Yes, one of the products we are yet to apply because that PLI scheme is yet to be announced and another few product we have already applied for two- three of them. So, that Rs.120 Crores-

Rs.150 Crores ballpark figure which we were talking about that is considering two big products actually, while it is yet to be applied, that PLI has yet to come and one which has already been applied.

Nikhil Upadhyay: Okay, but overall, you would be applying for say four products - five products but these two would be the larger.

Adhish Patil: Larger, the more significantly.

Nikhil Upadhyay: Just if you can help me understand with the PLI the scheme and proposals which are there on your working how competitive you become vis-à-vis so Chinese or some other competitors on pricing side or how does it improve our pricing as such vis-à-vis other players?

Adhish Patil: Because of PLI scheme?

Nikhil Upadhyay: Yes.

Adhish Patil: Yes, PLI scheme that the logic is very simple. What they said is whatever is the selling price and we do have to give that selling upfront while applying for the PLI and 10% of that selling price would be given by the government in the next six years and the thing is there is one more condition that they will consider only increment sales incremental to as compared to 1920 sales, so whatever extra you sell on that 10% government will give and for various products they have put caps also, for your API there is a cap of around Rs.2.5 Crores something like that per annum for intermediate they have a cap of Rs. 10 Crores per annum for chemically synthesized one. So, that caps are also there, one very good thing is that government amended that scheme to include exports as well, earlier exports were not covered in PLI scheme but now they have covered exports also which is very good.

Nikhil Upadhyay: For us for these two products how does the pricing scenario or competitive scenario improve, that is the only thing I want to understand?

Adhish Patil: So, basically on selling price 10% you will get more margins to be competitive like that.

Nikhil Upadhyay: Most of the people had this issue that after six years the PLI scheme goes out so the industry will again become uncompetitive but how do you see in your business place?

Adhish Patil: I would answer this question the citing or a historical performance in the sense 2013-2014 onwards we are introduced to import subsidized product like, Norfloxacin, Ofloxacin and Levofloxacin. So, at that point of time India's almost 90% of the consumption was coming from China and then we had put backward integrated facility for these three products and then slowly even without the existence of PLI scheme we were able to capture almost 70%-80% of the market share. So, we are proud to say that already we have taken so much market share from China in the absence of PLI scheme. So, basically this PLI scheme will help us in the initial stage and definitely based on our R&D competency we have to improve upon the production cost and compete against China at the end of six years our production processes should be so much efficient that even in the absence of PLI scheme we should be able to take care of Chinese competition.

Nikhil Upadhyay: Okay, fine. Thanks a lot.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal and Broacha. Please go ahead.

Charulata Gaidhani: Hi! Congratulations on these numbers. My question pertains to Metformin, what is your existing capacity of Metformin?

Adhish Patil: Our existing capacity is around 1100 tons per month.

Charulata Gaidhani: Okay, and in case of are you seeing pricing pressure in the international markets because China has eased out and started supplies of the API's?

Adhish Patil: I will ask Mr. Harit Shah to reply to this query.

Harit Shah: So, you are asking specific to Metformin or in general?

Charulata Gaidhani: In general?

Harit Shah: So, yes China has opened up but then in spite of that we are seeing a very healthy growth in exports, even this time almost more that around 14% export growth was seen, and majorly good party's almost entire growth has come from the volume growth for exports. Which means that the demand for Indian products is growing in exports and that China plus one strategy seems to be playing out definitely it will play out in a much better way once the travel restrictions are lifted because when we want to sell to some new customers or establish new relationship, once the travelling becomes open then it will be even more easy to get more and more new clients. However, for companies like us what is there we are already selling some other products to a particular company and we just want to introduce one extra product in that product basket then it becomes relatively easy because you already have relationship with that company. So, that is why we feel that with China plus one strategy will definitely help for company like us because we have very diversified clients as far as export is concerned.

Charulata Gaidhani: Interesting yes, in terms of exports what is the kind of the expected growth going forward?

Harit Shah: Yes, for export size we expect sell to 15% growth for next year.

Charulata Gaidhani: Okay, so in line with the domestic market?

Harit Shah: Yes, domestic market.

Charulata Gaidhani: Okay, and can you give me the geographic result?

Harit Shah: It will account the hold, it depends because many countries we are still facing lock down situation countries like, Brazil, Europe and USA, so it depends on the country because now export to African countries have gone up considerably this, in last year we were getting so much. So, average if you see in all there will be a growth some months this lockdown is over in Mexico, in Brazil we expect lot of growth in that county also.

Charulata Gaidhani: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Rajdeep Singh from ASK Investment managers. Please go ahead.

Rajdeep Singh: Adhish Sir just reiterating your call of Rs.4500 Crores of revenue after five years i.e., FY2026 that is approximately doubling our revenue as long FY2021 base transmitting to 15%-16% kind of topline growth. Just wanted a little bit clarity on this margin trajectory when we reach Rs.4500 Crores of revenue by FY2026 we will have margins be closer to 25%-26% range of current 20%-21% range, because by that time all are brown field, green field backward integration projects would be in place?

Adhish Patil: What you say is correct because the newer projects we are having better margins. Obviously, to achieve that level of margins we will need reach almost 80% utilization levels because only then the operating leverages kick in. so, definitely in the base case scenario's the margins should increase means, considering the fact that if the current margins remains where they are right then addition of new products should take it nearer to 24%-25%. So, let us see how it plays out because it is too far to estimate right now how it will look nice but then it should move at that direction. I understand the volatility between the quarters and in the medium term just to get the longer quicker correct at Rs. 4500 Crores of in 25%-26% kind of margin is achievable for us the kind of capex that we are putting in.

Rajdeep Singh: Right, and the Rs.600 Crores of capex is entirely towards API and intermediate there is nothing only formulations, right?

Adhish Patil: Yes, this Rs.600 Crores is entirely towards API, intermediate and Specialty chemicals and the formulation one will be extra that we will be doing through Pinnacle Life Sciences.

Rajdeep Singh: Okay and how much are that?

Vishwa Savla: On the formulation front we are expanding into us capacities in our existing facility like brown field project. So, there the approximate capex would be around Rs.40 Crores to Rs.50 Crores that is in the near future and apart from that there are no immediate plans of investing in capex but our strategy of investing into product development and more into IP and R&D will continue.

Rajdeep Sigh: Okay, so this Rs.40 Crores-Rs.50 Crores is for two years or three years, right?

Vishwa Savla: Yes, for two years.

Rajdeep singh: Cumulatively Sir?

Vishwa Savla: Sorry?

Rajdeep Singh: Cumulatively Rs.40 Crorres-Rs.50 Crores?

Vishwa Savla: Yes, cumulatively for two years.

Rajdeep Singh: Right, that is helpful. Adhish Patil Sir, just one request that if you could release the presentation even before time it is helpful for us to go through.

Adhish Patil: Okay, we have not yet received the presentation yet next time we will do that.

Rajdeep Sigh: Yes, thank you so much and all the best.

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

Saravanan: Thanks for taking my follow up. Just more of clarification does this Rs.600 Crore capex includes this Rs.120 Crores capex pertaining to the PLI?

Adhish Patil: Yes, it does.

Saravanan: Okay, so these seven projects that you have mentioned two intermediates for captive consumption Metformin and Sulphuric Acid again for captive consumption and skin treatment API so, the balance products of PLI. So, we have 3-4-5 products?

Adhish Patil: And Chlorosulphonation product also.

Saravanan: Okay, Chlorosulphonation products also just the total debt that you mention if Rs.320 Crores is it as now?

Adhish Patil: Rs. 334 Crores on consolidated basis.

Saravanan: Rs. 334 Crores okay and out of that Rs.180 Crores is term debt?

Adhish Patil: Around Rs.186 Crores is term debt.

Saravanan: Okay, so considering the day your markets have shaped up, your capex has come online, the H1 as well as H2 will come online and considering the pricing scenario also is it fair to expect that next year will be more of a volume growth rather than a price led growth?

Adhish Patil: Correct, so next year I think it is all about the volume growth, we also believe this in.

Saravanan: Okay, so are you expecting 10% plus, or would it be high single digits or 10% to 15%?

Adhish Patil: Yes, we are expecting a targeting 10% plus no doubt about that the volume growth.

Saravanan: Okay, that is useful and from our next year perspective this 20% to 21% margins can be sustained, right?

Adhish Patil: As of now we do not see any downward pressure in fact we thought that the margins would come off by Q2 itself once the things normalize but even after all the supplies have started most of the companies are operational now but still, we see that the prices have stabilized. So, at least as of now it seems like it should continue like this for a while.

Saravanan: So, in your assessment what do you think is the reason, how come suddenly the pricing scenario has gone up the higher level and it is able to sustain. What is the key risk to this assumption?

Adhish Patil: For us definitely this antidumping duty has also come in that has also helped us little bit. The kind of products we are operating in China is one of the major competitors for us because the Indian competition in most of the products in all but in most of the products is very less for our product profile and what we have seen there the Chinese Yuan has also become very strong. So, overall, China seems to be less competitive. So, that is why the prices are up for our product profile.

Saravanan: Thanks a lot, and all the very best.

Moderator: Thank you. The next question is from the line of Anant Sigh an Individual Investor. Please go ahead.

Anant Singh: Thank you for the opportunity. I have three questions, Sir first question is about exports now, in Q3 we heard that a lot of companies in Q2 and Q3 faced container issues did we face any such challenges and are there any revenues which are unrecognized because the shipment just standing at the port or we were in the shipment of any time?

Harit Shah: Actually, we faced some delays but overall, we were able be able to manage whatever containers we required. So, all is in was a sale has gone up the CI freight has gone up continually in some cases it is more than double so that we are considering while quoting for while quoting for the next quarter's requirements. As far as our shipments are concerned there is a delay, but we are able to manage.

Anant Singh: Sure, Sir my second question is about specialty chemicals prime kind of opportunity now, in a previous there was some indication that we have connections in Japan or something where we can potentially have cramp kind of an opportu9inity in specialty chemicals. So, any update on that if you can provide?

Adhish Patil: I would like to clarify which more about is just a contract manufacturing not exactly crank. So, the thing is in fact we have been doing good business with them. We have also expanded our capacity by 50% to supply more material. So, that business is going well but though it is made for a particular client but then it is more like a buy-sales model, stock and sale model for us. But then that relationship has grown definitely.

Anant Singh: Is it leading to any specific dedicated capex for them in the Rs.600 Crores capex that we are doing?

Speaker: No, in that Rs. 600 Crores no.

Anant Singh: Okay, if any such opportunity on those specialty chemicals arrives then we will have to do additional capex other than the Rs.600 Crore capex?

Adhish Patil: Other than this, yes.

Anant Sing: And sir, in terms of this Rs.4500 Crores numbers is it fair to assume that this is like the base case kind of number and if things surprise on the upside, we might even end up with higher number so this is something which is very much achievable, right this is not an aspirational goal that we are selling, this is doable target that we have, my reading is right?

Adhish Patil: Yes, correct.

Anant Singh: Okay, and in terms of pricing since we have not seen any significant erosion from Q1 or Q2 levels, what is your strength like is their shortage in the market or is there some raw material constraint that is holding the prices up and when they should come back or is it like new normal?

Adhish Patil: No, I would like to correct on one thing on this one, that since Q1 the prices have come down no doubt about that, in the mid of Q2 the prices came down a little bit and after that they have stabilized from the middle of second quarter till date the prices have stabilized.

Anant Singh: Okay. So, do you see any specific risk like any competitor starting in China or any Indian competitor scaling up capacity which can lead to margin pressure over in the foreseeable 12 months – 24 months?

Adhish Patil: Yes, we do not foresee any new Chinese competition frankly speaking and even in case of domestic market the kind of molecules in which we are operating the newer ones definitely like say for example Metformin that is a very popular product and there are lot of players more than 7 player-8 players could be there Indian players in the market. But definitely in couple of years' times may be two year- three years' time the things will consolidate like for other API's what we have seen. Typically, what we have seen in a county in the longer run around three players remain to manufacture a particular API that is what we have seen for most of the products bulk drug. So, we do not see much of competition because once we grow to a certain stage then the economical scale starts picking in and then it becomes very difficult for a new entrant to come in in that product.

Anant Singh: Okay, and Sir what time we understood this Rs.600 Crores capex to be completely banned as of today that is the timeline that on MI?

Adhish Patil: Correct, so by FY2023 90% of it should be done.

Anant Singh: Okay.

Adhish Patil: But some projects will finish earlier, some will take time it will be like that.

Anant Singh: Sure. Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Jayson Soans from Monarch Networth Capital Limited. Please go ahead.

Jayson Soans: Sure, thanks for taking my question Sir. Just a repetition, just wanted to confirm few details, the capex for seven projects, I will just confirm with you the seven products are basically first is the anti-diabetic, second is the skin related, third is Sulphonated products, fourth is Chlorosuphonated products, fifth is Metformin and sixth one and other two PLI products, is that my understanding corrects?

Adhish Patil: Yes, correct.

Jayson Soans: That is more or less yes, and in your last Conference Call you had also mentioned that this total capex is a total revenue potential of around Rs.2500 Crores in the next two years, we still stick to that, right?

Adhish Patil: Current potential is Rs.25 Crores for our API segment.

Jayson Soans: For your API segment right, and Sir in this you have also mentioned that external sales of this projects have a rough potential external sales have a rough potential over on Rs.12 Crores emanating from this capex?

Adhish Patil: Correct.

Jayson Soans: Yes, sure. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Anand Padmanabhan from PGIN India Mutual fund. Please go ahead.

Anand Padmanabhan: Thanks for taking my question. Sir, could you give some color on what is the average raw material to increase that you are maintaining today and how do you expect it to progress in the coming quarters and similar color on what is the kind committed inventory that you see your clients are doing. The reason why I am asking question is because at the risk there was some impression that at the time COVID when there was lot of disruption across the board many formulations manufacturers had increased the average API inventory that they maintain at that if you could give some color on this?

Harit Shah: Yes, our normal inventory is about 30 days including import of raw material and we have not increased the inventory in recent past because the raw material liability is quite abundant so do not see any shortage on the raw material front and as far as finished goods are concerned also, we have inventory about 21 days approximately, here is average of our last two year-three years.

Anand Padmanabhan: Now, could you also give some color on what is the side do you see any sense any do you your customers in maintaining higher inventory then they were maintaining initially they found?

Harit Shah: In second or third quarter they have started reducing the inventory which was there in March-April-May quarter, April-May-June quarter but now things are okay. They are on the normal.

Anand Padmanabhan: So, Q3 stocks are very normal as inventory at a customer end also?

Harit Shah: Correct.

Anand Padmanabhan: Okay, thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Hi! Thanks for the opportunity. Just on the pricing point Sir, you said in the post-Q1 and Q2 and Q3 the prices have stabilized. Now, there are two points which I wanted to understand is one is like how if we consider the pricing versus pre-COVID how higher the prices are in general and secondly would you say this is still an issue because of the supply not being commensurate or as a result the prices are higher or is it because of the things which have been happening in China for the last three year- four years that the environmental issues and the companies shutting down their facilities and as a result the prices are higher and vis-à-vis today if we have see a cost of production in China would their cost of production or their price of selling would be similar to what we are selling?

Adhish Patil: Yes, you are very much correct, you are reading about that structural change in China since last three year- four years is very much correct because the cost of production for the Chinese manufacturer has gone up but at the same time because more and more Chinese companies are also getting listed, they are trying to attract external investors or here Chinese companies used to work on a paper-thin margins line 4%-5%. But now for them also margins have become important because if they want attract investors then they have to show good margins. So, overall, what we have seen that that competition which we used to face from China from 2005 to 2010 almost 15 years back that has drastically reduced in last 4 year- 5 years and that is also one of the reasons why we were able to capture that import substituted product in the absence of PLI scheme also we were able to capture that much market from the Chinese players. So, cost of production is very much comparable I would say but I would like to add that it will be comparable only if the Indian manufacturer is manufacturing that particular product to a big scale, means say for a small-scale company may not be able to compete with the cost of production with China. But one who is a very big player in that particular product they will be able to compete.

Nikhil Upadhyay: And on how higher the prices would be versus pre-COVID in general?

Adhish Patil: Difficult to say.

Nikhil Upadhyay: Sir, just put it simply like last year same quarter if the prices were X for the basket of products would it be now 1.3, 1.2 times of that X or?

Adhish Patil: Our overall growth was around 12% and around 36% of that was driven by the price. So, 0.36 multiplied by 12 around that many prices are more.

Nikhil Upadhyay: Okay, thanks a lot Sir.

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

Adhish Patil: Thank you everyone for participating in the call and asking the questions. It was quite insightful for all of us and to the management team of Aarti Drugs also and we do look forward interacting with you in the next conference call very soon. Thank you.

Moderator: Thank you. On behalf of Centrum Broking Limited, that concludes the conference call. Thank you for joining us. You may now disconnect your lines.