“Aarti Drugs Limited
Q2 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
Mr. Vishwa Savla – Managing Director, Pinnacle Life Science Private Limited

Moderator: Ms. Cyndrella Carvalho - Centrum Broking Limited

Moderator: Ladies and gentlemen, good day, and welcome to the Aarti Drugs Limited Q2 FY2021 Earnings Conference Call, 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 "*" 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 Faizsan. Good afternoon everyone, on behalf of Centrum Broking I Cyndrella Carvalho thank the Aarti Drugs Management team for giving us this opportunity to host the Q2 Earnings concall.

From Aarti Drugs management team we have today with us Mr. Harshit Savla, Joint Managing Director, Mr. Harit Shah, Whole Time Director, Mr. Adhish Patel, Chief Financial Officer and Mr. Vishwa Savla, Managing Director of Pinnacle Life Science Private Limited. At the outset I congratulate the management team on continuing to deliver excellent earnings in these unprecedented times. I now hand over the call to our Chief Financial Officer, Mr. Adhish Patel for their opening remarks. Over to you Adhish.

Adhish Patil: Thank you Cyndrella. We welcome you all for the conference call of Aarti Drugs Limited. Main purpose of the call like always is to brief you about the quarterly performance of the company and the current market conditions for the business.

In September 2020 quarter, company recorded a consolidated quarterly revenue of Rs.578.11 Crores with year-on-year growth of 21.07%. Domestic sales of the API segment grew approximately by 20.79% and exports by 8.5%. Around 55% of the year-on-year growth in the API segment was due to volume growth.

Formulation segment revenues grew by around 48.38% on a year-on-year basis on the account of high export growth. For the September quarter 2020 API segment contributed approximately 88% of the total consolidated revenues and 12% was contributed by the formulation segment.

Within API segment 66.17% of the revenues came from domestic market and 33.83% from the export market. In formulation division 32.77% of the sales came from exports in this quarter.

For the quarter ended September 2020 revenues from the API segment can be broadly classified into following therapeutic categories.

The antibiotic therapeutic category contributed to around 44%, Antiprotozoal around 16%, anti-inflammatory around 12%, anti-diabetic around 10%. Antifungal around 7% and the rest can be classified as other categories.

As compared to last financial year of 2019-2020 anti-inflammatory segment has increased from 10% to 12%, mainly on the account higher sales of products like Insulin, Diclofenac Sodium.

In September 2020 quarter consolidated earnings before interest, tax and depreciation is Rs.116.73 Crores up by 70.41% and consolidated profit after tax for the quarter ended September 2020 is Rs.75.27 Crores, up by 132.96%.

Despite the challenging condition, the company was able to maintain very good operational efficiency, which along with good realization and selling pricing led to increased gross margins. Debt to equity ratio of the company reduced further down to 0.47% as of September 2020 on a consolidated basis due to strong internal accruals.

Company has already scaled up its anti-diabetic and anti-inflammatory capacity and it will give impetus to revenue growth in financial year 2020/2021. This would be further supported by good growth in formulation exports, additional Capex is being done for introducing new products in anti-diabetic category towards the end of financial year 2020/2021. As the COVID-19 situation improves, the project work should pickup sales in coming quarters.

Company will soon announce its Capex plan for multiple projects, which will include active pharmaceutical ingredients, specialty chemicals and intermediates.

The company is actively bringing further backward integration of its products to reduce import substitute.

We would like to know to open up the session for question and answers and take questions from the participants.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Sir regarding the sustainability of our margin and the tailwind for the sector therefore we thought of the API sector, is it sustainable and how long would this last or already the pitching out has happened, and we have seen the best of it?

Adhish Patil: Yes, so well already the maximum prices were there in June quarter because of the shortages of supply are now the situation is since seems to be stabilizing a bit. So for Aarti Drugs Limited we feel that for our product line our margin should somewhat continue in December quarter also, we thought earlier that December quarter would be dull, but this they still at, that they still also be a good quarter in terms of margin and let us see how it appears in March quarter, but for December quarter we are very much confident.

Basically the tailwind still remain okay due to China plus one sector and China Blue Sky Policy and due to the COVID demand for API and the related pharma products remain strong and we also have that additional hope from the FDA approval for the US, any progress on that front that might also help us out, so any resolution on the FDA front that is definitely going to be a big kicker, means we are not even escalating any additional margin benefit which might come from that particular aspect.

So even after removing that we are very much confident with good EBITDA margins for coming year and the thing is Government of India is also taking very good steps today itself there was a announcement that in the PLI scheme they are going to incorporate export as well, earlier export was excluded from the scheme but then they hear from the industry players that if we want to be a global player get economies of scale and we want to compete with Chinese products then we need to cater to enter global market and not just Indian market so the government is also very proactive so we feel that even from macroeconomic factors it is very good for coming three to five years.

Vivek Gautam: Sir and our policy of making China import substitute products which no one else makes in the country and or less people make that is also helping around and bottom out the formulations players in the rest of the world through our subsidiary wherein we had the IP rights and we can contract out the manufacturing to other players so that capacity constraint does not come in, anyway we do not have that approval of environment right now but we can cater to the demand from rest of the world market how is that performing and what is the growth Capex at this yes, growth Capex also which you plan to raise the fund cost?

Adhish Patil: So in terms of formulation again the export division is performing well, we like we said we have the increasing the investment in creating IPs so our R&D is developing many new products and we are working in many emerging markets in Latin America, Africa and Asia as well as now we have started through partners in Europe and Canada as well. So that as per the intent to the regulated markets so we are going with the strategy of owning IPs and contracting out key manufacturing for many of the products, which is working well with us. Our margins are also as per our expectation and the sales growth is also taking place. In terms of our own utilization of our plant, currently our utilization is quite high so we are almost at a 75% to 80% utilization so at the moment we are continuing with the strategy with major investments being in R&D and IT however in future we will later stage once we have enough product in our pipeline we will maybe in the future financial years look at investing in the further capacity enhancement.

Vivek Gautam: Thank you Sir, keep up the good work Sir, thanks a lot.

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

Anand Bhavnani: I have two questions, one is with regards to this fund raise, are you having some newer Capex plan other than what you had at the start of the year that you are doing this fund raise and if you can elaborate a bit more on that?

Adhish Patil: So our Capex plans are more or less in line with what we had decided in the start of the year definitely the new processes are that we have made a lot more development in the R&D as of now so the projects are much more clear as compared to you can say four to five months back. So there are lot of projects around 7 odd projects which we plan to go ahead with one, around 60% of the projects would be I would say API base mainly anti-diabetic and skin treatments related therapeutic areas then the rest would be in sulfonated products and chlorosulfonated products and also a couple of intermediates.

Anand Bhavnani: So and this fund raise it is imminent like, are you planning to raise it like in next quarter or so or is it more like an enabling that resolution, you might raise as and when you need?

Adhish Patil: Yes, you are correct, so this is an enabling resolution what we have passed. So as of today for the company both option remains of debt as well as equity, so at the time when we are raising the Capex we will see whether the equity we are getting good valuation or not or else we always have a very cheap debt option with us our long-term debt proposals are below 7% for more than six years, which is very good plus the fact that our internal accruals had been very strong since last year and right now also our debt to equity has reduced to 0.47 so even if we get the entire debt for taking up this project even then our debt to equity ratio would not go beyond 0.7.

Anand Bhavnani: And Sir can you share some timelines you had mentioned that about 7 projects if I heard correctly, what is the timeline for these projects like for API, the sulfonation and chlorosulfonation and we are doing it…

Adhish Patil: Yes, we are doing it in two phases so mostly first phase will be the majority of the Capex will take place in first phase itself it is a timeline of 18 months to 24 months and the second phase will most probably start in third or in fourth year like that and so…

Anand Bhavnani: Yes, so I wanted to check is the first phase already started and what is the timeline for commissioning and commercialization?

Adhish Patil: Yes, so the thing is we just acquired another 9-acre land in the Tarapur itself though auction in last quarter, it is adjacent to our existing one of the biggest facilities which we have in Tarapur. So that will give us very good operational efficiency because we have common department they will expanding on the already big location, in fact that is one of the biggest contributing location for us in Tarapur and the land parcel we have taken is two times the existing land parcel of that location. So that will be a very good area for expansion for API product and plus rest of the products we are expanding in Gujarat and so there, there is another scheme also capital subsidy scheme also and plus there also, there is a project which we might go for PLI scheme because that particular product is also there in PLI scheme. So we can say that around 20%, 30% of the projects will kick start in Tarapur rest will be in Gujarat.

Anand Bhavnani: And the time?

Adhish Patil: 18 to 24 months is the timeline we are keeping starting the production.

Anand Bhavnani: Okay, I will come back in the queue for any questions.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Thank you very much for nice result. Can you raise the more debt instrument of equity for new Capex 350 Crores you have mentioned today? So why not you go for debt instrument of equity?

Adhish Patil: Yes, so that option is always open so what the resolution what we have taken is a feasible one so we can also go for debt and we can also go for equity it is like that. So as you said the debt option is always open for us.

Ravi Naredi: Thank you very much.

Moderator: Thank you. The next question is from the line of Sriram Srinivasan from Sincere Syndication. Please go ahead.

Sriram Srinivasan: Yes, my hearty congratulations to the management for this stellar performance during the quarter. I have two to three questions for the management. First is that what is the quantum or percentage of our supply is coming from China first thing is that, will this margin going to continue for upcoming quarters for us what will be the revenue therein from the bottom-end wherein that we can expect from the management for the next two years down the line?

Adhish Patil: Sriram we will take one-by-one. So first you said that how much supply is from China right?

Sriram Srinivasan: Yes.

Adhish Patil: So it is dynamic but anywhere between 15% to 20% of our RM consumption would be from China and we are taking a good amount of steps to develop alternate vendors in India, either by way of contract manufacturing or identifying new vendors, we are also doing tie-ups wherein we are helping with some of the vendors which take up the plant for the technologies to supply to Aarti Drugs and in some cases where we find that, that business is lucrative we are also going ahead with backward integration. So what was your second question?

Sriram Srinivasan: We have been posting an EBITDA margins of almost at 23% last quarter and this quarter it was 20% is this margins sustainable going forward and in last con call we have mentioned that the margins are likely to get stabilize in the upcoming quarters because there will be a surge in the API cost from China last quarter is that trend has been started or is it in same mode?

Adhish Patil: Yes, so towards the end of first quarter that is June quarter already we had seen some tightening up of the prices and that is why you have seen that upwards of 24% EBITDA for the API side 24.6% EBITDA was there for the first quarter now it is upwards 21% of the API segment. So what we have seen is that if now the prices are more or less stable see the thing is there are always couple of products where supply driven issue will be there and the prices will go down, but that apart more or less we are seeing that for December quarter the margins should continue so the things are going well. March quarter it will be difficult to say as of today, typically December quarter is lean in terms of the therapeutic areas where we play, March quarter is usually good for us in terms of demand so I think March quarter will be good in terms of topline.

Sriram Srinivasan: And one more thing Sir what is the quantum of Capex that we are allocated for this FY2021?

Adhish Patil: So FY2021 so by half year end we have done somewhere in 40 Crore or something but that is also to do with one of the land acquisitions which we did.

Sriram Srinivasan: 140, right?

Adhish Patil: No, this year we may not be able to do that much, maybe if we buy a land or something maybe that much, but otherwise it would not be above 100, but majority of the Capex will accelerate in the calendar year of 2021 because as of now the things are little slower now they are kicking up phase for the Capex, but the calendar year 2021 will be the year where we will be doing majority of the Capex.

Sriram Srinivasan: Almost we have been proposed to raise some of 350 Crores how this 350 Crores will go for a Capex is going for the next two years or else we have a plan to distributing some other areas on products developments or kind of things?

Adhish Patil: So the thing is the 350 Cr which we raise we are also getting lot of good opportunities in inorganic space, for the inorganic growth so that area is always there, our Capex plan itself is to the tune of 600 Crores plus so that is another area and product development that is something which is we are doing continuously so that we take care in the part of regular Capex also, so these are the main objectives.

Sriram Srinivasan: So we are rightly running at a more than 25% to 35% of revenue growth we are talking for the first half year of this year, will this moment continue going forward?

Adhish Patil: December quarter it is difficult for me to predict because generally it is a lean quarter but then year-on-year we should be doing good growth no doubt about that March quarter we are very much confident for very good sales growth and the one thing I would like to point out that we are very strong in antibiotic and anti-Protozole segment in fact one of the world leaders in the kind of molecules we are operating in and because of lockdown this June quarter and September quarter just trade-off infectious diseases was very low so franking speaking the full potential of our product line was not explored in this particular year, during the COVID period so what we expect after vaccination is out for COVID when the people start going out that time again this particular range of products will do better in terms of quantity sales as compared to FY2021.

Sriram Srinivasan: If my understanding is correct means once the footfalls of the clinics has started happening then the domestic anti-therapies segments will also come to the market, I am right Sir?

Adhish Patil: Yes so lot of growth potential is still not unlocked I would say.

Sriram Srinivasan: And the last question from my side what will be the potential growth for the next two years in terms of business growth where we have been looking forward?

Adhish Patil: I did not get that, sorry.

Sriram Srinivasan: For the next two years what will be the potential business growth that we are looking forward in terms of our growth potential for next two years, both revenue as well as the profitability?

Adhish Patil: Yes, next two years we will be doing good incremental growth no doubt about that and because the lot of debottlenecking projects we continuously keep on doing apart from the big Capex which we have planned and plus one anti-diabetic production line will become active towards the end of this financial year which is other than the main Capex which I talked about so that will also drive future growth. How much, in terms of, I will give you potential, our current capacity what we have as of today not considering the antibiotic line will be coming towards the end of this year without considering that line our current product capacity has a revenue potential of around 2500 plus Crores if we consider September month selling prices, not even the entire quarter I am just talking about September month.

Sriram Srinivasan: So we can do almost 2500 Crores of topline by end of this fiscal year, right?

Adhish Patil: Not at the end of this fiscal year, but that is the potential which we have.

Sriram Srinivasan: For next fiscal?

Adhish Patil: Yes, last quarter we did 81% for September and plus by the end of this year additional anti-diabetic facility will come in so that will increase the potential further up and plus do some debottlenecking projects.

Sriram Srinivasan: Thanks for answering that. Thank you.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Congratulations on good numbers. Sir my question is on Capex you have highlighted about this but if you can just give the number in terms of the amount of Capex which is already planned and something which you might be planning if you can give some color on the same as well. So something which you have planned and the future Capex also which is under the drawing board currently?

Adhish Patil: So overall plan for the Capex for next three, four years as of today means there are about 7 projects it will be around 600 Crores of Capex and it will be done in phases but majority of the Capex will take place in the first phase that will be in 18 to 24 months and apart from that whatever small debottlenecking projects which we are taking up in the existing location that will keep on happening so they may not take more than 20, 25 Crores per annum for those kind of projects so that will keep on happening apart from that is for the big green filed project which we are planning.

Resham Jain: And Sir if you can just broadly explain us the Capex which we are doing and the product which you have selected how are those projects or those products being selected in terms of opportunity size and what is the thought process behind selecting those specific products?

Adhish Patil: So the 7 projects which we have selected many of them are integrated with one another so one of the main thought process is we are creating an ecosystem of products it is not just that we will be going ahead with one product, all these products will be somewhere link to each other and because of this linkage we will be able to have very big capacity and it will be easy to sell some of the products some of them will captively use so being a integrated manufacturer that will give us lot of competitive advantage also and that is the main strategy going ahead with these products. Obviously, some of them are independent also like there are some API for scheme treatment and everything but other than that this is like chemicals intermediates and API all mix are taking place.

Resham Jain: And Sir if you can just help us just giving the ballpark number out of this 600 Crores you mentioned a lot of projects are in a way backward integration kind of projects so out of this 600 Crores what will be that ballpark number for backward integration?

Adhish Patil: See it is difficult to say because the thing is some of the projects what we are doing, half of it like maybe 30%, 40% will be like captive consumption but rest we will have to sell outside also so those kind of things are also there, but to answer your question in a reverse way I would say the external sales potential of this captive would be say very roughly making around 1500 Cr the external sales potential.

Resham Jain: And because you are doing backward integration also your normalized margins will be slightly better than what you have done historically?

Adhish Patil: Correct that also is right.

Resham Jain: Yes understood Sir that is the only thing I wanted to ask. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Hemant Sriram from Bearing Advisors. Please go ahead.

Hemant Sriram: I just have two questions regarding the industry and competitors' actions. Firstly you mentioned China as you are on in the call. Could you maybe elaborate a little bit on whether you expect the China factor to be a temporary source of competitor edge or do you think it is a structural change in your industry?

Adhish Patil: Frankly speaking someone asked this question to me back in the month of February or March and that time we said it is a temporary thing, but as of now the things look like it is structural thing what has happened in 2017/2018 there was string of closure in China because they wanted to move like US more towards service industry closedown all the polluting industry, so there was lot of shortages happening in 2017/2018 and at that time also there was quite a bit structural change in terms of many of the foreign clients started looking towards more and more Indian suppliers and in the very short span of three years again this COVID thing happened and initially it was not that big of it will but then it turn out to be such a pandemic and most importantly has created lot of discontent in lot of countries on China and because of that we feel now it looks like a structural change and even the Indian government started taking steps, they had planned it I would say maybe four, five years back but right now they are really going ahead and starting to implement everything. So our macroeconomic factor is looking very good for next three to five years, so we feel that the business turned out to be a specific thing for the industry.

Hemant Sriram: The second question is on competitor action in light of the structural change that we would expect the industry to enjoy over a three to five year timeframe and you have been on a Capex program how do you expect your competitors to react as well and would that have any adverse effect on margins?

Adhish Patil: You are talking about Chinese competitors?

Hemant Sriram: Chinese as well as Indian if you have.

Adhish Patil: I mean the reaction I think it will remain same I mean whenever we in past also for few of our products and when we expanded or doubled our existing capacities it was mainly because we were confident of getting more and more market share from the competitors so that is always going to be there, competition will always be there in place and we are not opted of it means and our each strength is making bulk production making the cost of production low we also on our regulatory things are quite strong we have got lot of growth so the thing is overall the I would say Aarti Drugs as a company has a good skill set to capture on volume, so we are not afraid about the competition as far as the volumes are concerned.

Hemant Sriram: Thank you very much and I will get back in the queue and all the best for the future.

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

Bharat Sheth: Congratulation on good set of number. Again I mean you say that we have a potential with existing capacity to go up to 2500 Crores and now we are also doing some debottlenecking so what would be with that debottlenecking our potential and at what capacity utilization level and second the line which we are aiding for this diabetic so what is the potential of the contribution from that, that is second question so the I mean topline potential in over next two years before any Greenfield Capex start contributing?

Adhish Patil: Yes, so the thing is, the kind of products which we are looking basically so their market potential is very good means obviously if the capacity which we are planning as of now are more like getting the good set in that market for those products and once we start doing well there will be a second half of expansion for those products you see, which will be like the global capacity so that is our action plan. So the debottlenecking and we expand we are speaking we have not put it on paper but it can be anywhere like incrementally what we have seen in past 200 to 300 Cr when we put all the debottlenecking projects together in a year or something like that we usually keep adding revenue potential of around 200 to 300 Cr something like that.

Bharat Sheth: And with this new diabetic Gliptins that we are talking I mean which will come in the end of FY2021 financial year so what will be the potential of that?

Adhish Patil: Including that as well because that is not very big capacity frankly speaking I think it will be good decent capacity but not a very big one and this molecules are going off patent and they will be growing so as soon as we have seen the capacities starting filling up then we have enough land parcel to immediately go for a big Greenfield project because the process will be similar so it will be very easy for having the quick setup done in the Tarapur itself and now that we have a land adjacent to our existing facility the common utilities and everything ETPs are already there so in that case that becomes kind of half Brownfield half greenfield but the speed of that Capex will be very fast so it is more about we are creating an opportunity.

Bharat Sheth: And what will be the potential of this formulation I believe this we are talking of for API only correct and formulation first half we have already done I mean 132 Crores is against 172 Crores last year full year. So how do we really see this formulation business growing?

Adhish Patil: Yes Vishwa will answer this.

Vishwa Savla: Yes so like Adhish majorly the growth in formulation is coming because of increase in exports at the same time we are also now seeing some volume growth so both in terms of domestic and export we are anticipating volume growth for the remaining six months as well as in the next financial year and we are also increasing volumes at our third party manufacturing sites so in terms of revenue growth we see with our current set up revenue is growing at about anywhere between 350 in the next financial year and thereafter considering some of the new capacity that will add and considering more registrations that will come in about two years we can foresee our revenues of anywhere around 450 to 480 Crores.

Bharat Sheth: Okay so 350 you said for FY2022 potential correct?

Vishwa Savla: Correct.

Bharat Sheth: And then around whatever backward integration we are talking so that will take us our backward integration what level currently say if we are relying say in API around 15% to 20% on China so what APIs and how many percentage is backward integration and what level we reach was your full Capex will start?

Adhish Patil: So backward integration is the thing is around two, three projects from the seven projects are backward integrated projects but in that also some of the products we might be selling outside because the kind of capacity which we will be putting in they would not be totally used by captively so we have to sell outside also that is a mix of both the integrated projects and process.

Bharat Sheth: And for this PLI what our Capex will be you are doing are we going to form a separate, separate revenue or will be done on Aarti Drugs only?

Adhish Patil: Yes, that is a good question, so we will be thinking of that because this will be new we can definitely go ahead with the 100% subsidiary so that is always an option for us because we do have a chemical subsidiary 100% so there is a possibility having a new company.

Bharat Sheth: And in first quarter call you said that we have our capital turnaround ratio asset turn ratio in case of API is around 2.5 to 3 times and of course formulation is a much more so still we stand there two and a half time to three time?

Adhish Patil: Yes so this particular quarter what we saw if we see our asset turn to make 3% not the gross block so now that cross 3 because it is of course above 3 for last quarter and the for the news which is what we have see we are getting anywhere between 2.5 to 3 but that is also because of the fact that some of the production will be captively consumed so that is why the asset turn seems to be lower but then the profit potential is much higher.

Bharat Sheth: And last question on this operating cash flow this quarter I mean this first half you have reported around 54 Crores and Capex of around 45 Crores only so is there any dip I mean vis-à-vis the first last year I mean around 196 Crores operating cash flow so what do I mean of course sorry 195 was the full year so first half is around 54 Crores operating cash flow. So is there I mean some kind of a strain on our cash flow?

Adhish Patil: Not really so the main reason for the cash flows means operating cash flows being low in the first half was because our sales has increased tremendously in the first two quarters that was the main reason so what we are estimating that considering the second half if we repeat the performance then the cash flow generation for the second half will be much higher is almost 2.5 times more than the first half probably for the industry like this.

Bharat Sheth: Thanks that is all from my side.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Incred AMC. Please go ahead.

Aditya Khemka: Adhish I just wanted to ask you on the same lines as the previous participant where if while your cash flow remains for rest seems like mostly because of two reasons one is your trade receivables have gone up significantly around 114 odd Crores in trade receivables so just trying to understand this incremental business that we are getting what is the nature of the customers to whom we are selling these products and what is the credit period that we are along with customers?

Adhish Patil: Yes, so the thing is the main reason why the receivables have gone up is because typically our credit period is around 90 days it hovers from 60 days to in very rate set of quantity but on an average, it is in mid 90. So whatever usually what happens is if a particular quarter has an exceptional even in terms of sales then all the sales usually fits in the receivables and that is why our because of the mix that is why the net operating working capital requirement for the first half we are look pretty high because that is because of September quarter has done of course more than around 574, 575 Crores of sales that is the main reason why it is and the customer mix that question it is more or less the same means it does not change anything as compared to the previous year.

Aditya Khemka: I understand what you are saying, but Adhish on the same thing your credit payables have actually come down in the sixth month while your sales and your procurement must have also gone up would it be fair to say that your suppliers are gaining bargaining power versus your franchise date because their products are also in high demand therefore we have paid in earlier person?

Adhish Patil: I think Harit bhai will be able to answer your question.

Harit Shah: No actually typically it has not come down significantly but the small percentage it has come down but we will be able to again regain that credit terms further some of the raw materials which were in short in first quarter because of that cash flow has got affected but we should be able to recover that at earlier levels.

Adhish Patil: Yes, and Aditya the thing is, yes Aditya one more thing, the thing is in the March quarter towards the end of March because of the lockdown all the payments were stopped for last segment is when because we are comparing this with 31st March it looks little bit skewed. So that is the main reason why it is.

Aditya Khemka: So but that was the case with your receivables as well right so enough of this year…

Adhish Patil: Yes, receivables it was not impacted that much.

Aditya Khemka: So thanks Adhish bhai for that answer but just a follow up so if the materials were in shortage but let your suppliers to ask for money quicker but if they also ask for a higher price along with the quicker payment terms during the last six months?

Adhish Patil: No, ultimately even if raw material cost goes up we definitely pass that raw material cost to customers so net to net we are not getting affected for the raw material because everyone has to get higher price if I am paying higher price someone else will pay little more higher by generally because our volumes but net to net the raw material prices are actually at lower levels than earlier year except some of the raw materials which are Chinese predominantly having monopolies some raw materials but otherwise ours due to low crude price our solvent prices and other chemicals are at lower levels in first six months actually.

Aditya Khemka: So just a follow up on that, just to understand this better sorry for that. I just want to understand when we enter into procurement contracts with our suppliers is the price next for say three months, six months, nine months and we commit volumes or is it that we do spot buying depending upon spending at what price?

Adhish Patil: If some of the contracts are based on raw material pricing for example if some raw material based on that volume so we take that volume price as a base price and then based on that we fix the price on monthly or quarterly basis normally. So it will be all purely raw material driven price.

Aditya Khemka: So you basically give your supplier or mark up overhead's raw material cost?

Adhish Patil: Yes.

Aditya Khemka: And then if I were to invert the question to your customer side and you get to your customer does your customer treat you the same way they give you a mark up over your raw material is your pricing of your end product determined by the product market?

Adhish Patil: No both actually because ultimately, we are into API space where we have now the only one so whenever the raw material cost goes up, we normally pass it on to the customer normally.

Aditya Khemka: It is an immediate pass on there is not any pass on?

Adhish Patil: Yes, not like this, normally not like.

Aditya Khemka: Understood Adhish bhai thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Kunal Pawaskar from Indgrowth Capital. Please go ahead.

Kunal Pawaskar: My question was the top ten products of the company are around 3/4th of the total sales today the question was that in generally I mean if you could give it at a more granular level that will be helpful but in each of those products is at top ten what things are standing at a global level be it for the company without taking names of the products which countries you are competing within each and what is the size of Aarti Drugs at a global level in each of those ten products. Is it in number one position or is it in top three, or is it in top five, ten some detail like this shared with us please?

Adhish Patil: Yes, most of the products of top ten products we are either number one or two or three means so all the ten products we are number one, two or third number.

Kunal Pawaskar: Just to follow up on that then the competitors are broadly from which country are they local or are they China or some other country?

Adhish Patil: Either China or domestics either...

Kunal Pawaskar: Okay and then just to add to one question that an earlier participant asked you are confident of adding Capex today because of the changed environment?

Adhish Patil: Yes.

Kunal Pawaskar: How do you mitigate the risk of these competitors also coming in with a supply response or the change demand environment what are your thoughts on that so is there a risk that say 18, 24 months down or 36 months down there is suddenly a glut in certain also products that you have and what is the chance of that happening in certain products I mean and how do you think about that?

Adhish Patil: Yes, I answered this question. So frankly speaking the government policies is not the main factor for us to which is driving the Capex the fact that our internal accrual the cash flows are tied as the company is also gown that this much Capex can be taken immediately by the company that is one reason another main reason I would say is also Metformin because Metformin has done really well for us in last year we expanded the capacity to 1100 tonnes per month and now and the market of the Metformin will also growing in double digit, so we will be doing at two phase expansion of that product so the final capacity what we are having is 3000 tonnes per months for Metformin but we will be doing it in two phases initially we launch means total of cumulative of 2000 tonnes right now we already have 1000 so it will become 2000 tonnes per month on, in a very near-term and then final would be 3000 tonnes per month so that is one so that has nothing to do with the PLI scheme or anything like that then we had a idea means we are going into sulfonated and chlorosulfonated products so frankly speaking that is an integrated project that product line you already had we always had an means in fact we had given an idea of increasing chlorosulfonated products last year itself this what the schemes we had announced fortunately all the ideas which were on drawing board suddenly that this lot of macro factors which are becoming more conducive for the ideas which were already there for us so that is what the reason why we are speeding what but our main strategy we are not diverting just because some benefit is available that is not the vision why we are doing that.

Kunal Pawaskar: No Sir my question was not from that perspective that PLI has announced and once you are doing it but in general anyway from the supply response that can be anticipated that you anticipate that can be a potential risk and capacity finding gone is to you?

Adhish Patil: Means the thing is even if PLI is not there tomorrow we do not have any risk on the project that is what we are saying means the difference which we are making is irrespective of all the schemes which the government is taking place.

Kunal Pawaskar: And like you said top one, two, three in many of the top ten products are your competitors also similarly backward integrated in most or not?

Harit Shah: I would say the main reason I will just add up to that point the answer of Adhish bhai that for the top ten what I would say top 12 products which we have globally as we said that in all of them either we are one, two or three whereas domestically baring one or two products we are number one in all of them baring one or two products in terms of capacities and the main reason of that is because we have either similarly backward integrated on more backward integrated than the competitors because that is the only way you can keep the cost of production lower and capital more and more market there.

Moderator: Thank you. We will take the next question is from the line of Palak Agarwal from The Tycoon Mindset. Please go ahead.

Palak Agarwal: My question is regarding the API industry outlook and our companies guiding with respect to that?

Adhish Patil: So means you are asking about the earnings guidance for the year?

Palak Agarwal: Earnings guidance and sorry.

Adhish Patil: Or in the API industry outlook.

Palak Agarwal: In general I will ask with respect to earning also what could you for company can get from that and what is the guidance for that to?

Adhish Patil: So the thing is we use to get as compared to 2020 FY2019/2020 means 2021 and future years are looking much better for API and intermediate industry must better in fact I would say this industry has gets lot of shocks in the past year let it be like currency fluctuations out that is more on the financial level but of the various countries that is then there was short from the supply of raw materials from China then there was another shot of two that is falling twice in last five years because of which lot of oil to getting economy the demand from those countries had gone down then there were lot of pollution crisis in India which is good impact we think that is a necessary cost sustainability but that has happened over last seven, eight years so in fact of all these shot the Indian industry had done quite well and now that the government is taking additional steps for Atma Nirbhar policies and everything and let it be antidumping duty let it be PLI scheme let it be subsidy schemes which few of the state governments are infusing so from means from all perceptive I think the API industry and the intermediate industry could do very well in coming years so the outlook is very much positive is about pupil as far as we are concerned so definitely means I think a quarter back we had given a guidance that trial growth will be around 80%, 90% so that is definitely on start in fact if everything goes well if we might do even better.

Moderator: Thank you. We will take the next question is from the line of Jenson Son from Monarch Networth Capital. Please go ahead.

Jenson Son: Just wanted to know you have mentioned in your Capex that a lot of your Capex is going towards anti-diabetic and skin related therapies just wanted to know in the sulfonated and chlorosulfonated products as well what is the endues going to be what is the potential in the sulfonated and the chlorosulfonated products category if you could delve more deeper into that?

Adhish Patil: Harit bhai can you answer this.

Harit Shah: Yes, actually it is multipurpose, so it is also look for pharma, agro and speciality chemicals so we have multiple use actually and we are able to have raise of chlorosulfonated products, so they are different, different application actually. So it is what basically all into one segment but agro and pharma is the major.

Adhish Patil: And just if I could squeeze one more your gross margin just compare to quarter on quarter they have been under pressure little bit with your raw material cost also increasing and employee cost also as if you just compare line by line just wanted to know what exactly happened in this quarter is your realizations down as compared to quarter on quarter or what exactly to transpired?

Harit Shah: Yes, the thing is in this particular quarter we also gave some couple crores so apart from that we had additional one crore expense for ownership issue also which happened so that was one of the reasons why the expenses they are little higher as compared to quarter on quarter and as compared to when if you are talking about gross margins we had indicated as last quarter itself that whatever we achieved in June quarter was exceptionally high because of the shortages which were there in the market at that time and we had given the guidance plus overall EBITDA margins or longer-term means earlier last year we use to give that 16% but now feel that 18% to 20% is something which is more feasible given the fact that the outlook is so positive for this.

Moderator: Thank you. We will take the next question is from the line of Kunal Dhamesha from Emkay Global. Please go ahead.

Kunal Dhamesha: Just one question out of the 600 Crores Capex that we have indicated for next three, four years how much of that would be for the PLI Scheme?

Adhish Patil: PLI very broadly if I have to tell you it would not be like more than 150 or 200 Crores is that a very broad amount has been 150 to 200 Cr.

Kunal Dhamesha: So within that our margin should be even higher because we are getting incentives right.

Adhish Patil: We will get incentive, even other products also we are hoping for very good margin I mean because the increasingly the business is good for the other products.

Kunal Dhamesha: Okay thank you.

Moderator: Thank you. The next question is from the line of Kavitha Thomas from First Global. Please go ahead.

Kavitha Thomas: I just have just one question I wanted to understand in terms of what our dependence is clearly on raw materials from China and what is the impact of this antidumping duty on the raw material for Ciprofloxacin.

Adhish Patil: Yes, has they discussed with this that the Chinese dependency in terms of overall RM where we do not have much option is around 15% to 20% and there we do not have option and antidumping duty that is definitely means very helpful because it protect Indian players from the dumping of the products from China sometimes what happens just to play the market sometimes there is a temporary dumping from the Chinese player and because of which government is being protect with the sales. So it is positive in fact.

Kavitha Thomas: So it is positive but for the raw materials which we deepen on then sir how is that is that having is that coming under equity.

Adhish Patil: No, nowadays whatever we are importing is not coming under antidumping duty.

Kavitha Thomas: Okay fine sir thanks you so much.

Moderator: Thank you. The next question is from the line of Shivam Sanghvi, Freelancer. Please go ahead.

Shivam Sanghvi: Sir I have two questions. So as I can see if the API revenue grew by 20% year-on-year so can you tell us whether it is volume driven or price drive?

Adhish Patil: Yes it was around it is at 55% of volume driven and 45% was price driven.

Shivam Sanghvi: And Sir it will be formulation business?

Adhish Patil: Formulation business was majorly price driven, volume price and it was actually the sales and the product mix because the kind of products and the market where we were having change so that is the major reason for the growth.

Shivam Sanghvi: And I have one more question sir I can see in 2018 and 2019 the export revenue was around 38% overall and I think see from the last two, three quarters it has reduced to 34% right, so can you just shed some light on that?

Adhish Patil: Yes, so the thing is our domestic market has done exceptionally well and in the last few quarters obviously we had also given pressure or a domestic market because we do have export demand as well but the domestic market has done exceptionally well and we have given projections for the debt market for last year, but there is growth in both the markets even for export.

In addition our customers were export lot of formulation based on our API so indirectly we are exporting APIs indirectly yes.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: I just wanted to know the status of the FDA approval status for our application and about the rest of the world export performance of the IP and we do not have the constraint in terms of the FFT because we are able to outsource to our contract manufacturer? Thank you.

Adhish Patil: Formulation export I think Vishwa can answer that look at in IP.

Vishwa Salva: Yes, so like you said we are basically investing in the IP we are developing products for global market and many of them specially for aggravated markets we are outsourcing the manufacturing so that way because the basic control of the development as well as the marketing is with us and there are enough capacities available where we can outsource so that limitation in term of capacity is not just however our own manufacturing plant is also available which we are upgraded in terms of current GMP requirements and we are triggering international plant so our own manufacturing plant was also be capable of exporting to many more countries from the next financial year.

Moderator: Thank you. We will take the next question from the line of Deepak Khatwani from Girik Capital. Please go ahead.

Deepak Khatwani: This was one question on pricing so we still have like 45% of growth coming from pricing so I just wanted to know when do you think will return to pre COVID level pricing and whenever we return to that level will our growth be significantly imparted or will it be taken over by volume growth and has it not will still look good?

Vishwa Salva: Yes, so definitely as we say that infectious diseases like antibiotics and anti-Protozole those categories will do better means upon the nation about and people starts going about as of now people are staying in so even from doctors we have heard that the scale of this infectious diseases has been quite low so that is one positive which is yet to come then some other benefit which will come in since because the government policies so that should also take care even if the prices come down a little bit but then the thing is as of today we there is no indication as well where the prices will collate sharply from here there are few products which is this much issue because of the supply demand treatment but overall the prices are stable.

Moderator: Thank you. The next question is from the line of Vaibhav individual investor. Please go ahead.

Vaibhav: The potential of 2500 Crores with the September pricing which we talked about is that, that is at what capacity utilization level?

Vishwa Salva: That is usually what means the 95% I would say 95% something like that.

Vaibhav: In getting we can reach to that or we need to do more debottling to reach there?

Adhish Patil: No, it is reachable but then the thing is what happens means not all product do well at the same time sometimes but then we do have the flexibility of converting 1 plant into other but that is the potential which can be receive, usually what we do is when we calculate capacity it is rated at 28 days, 29 days. So based on that we have taken that number 28 days in a month time.

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

Saravanan: Congrats on goods set of numbers. So one clarification and it was technology partner for chlorosulfonation have you identified the partner?

Adhish Patil: Yes, we have.

Saravanan: No, see I mean so you are going to buy the technology, or will that be a royalty or profit share arrangement?

Adhish Patil: No, it is not like that we will be so it is like some kind of form of confidence we might think that is about it but rest of the process we will develop in-house.

Saravanan: That is good to know and see now the to insulate from EBITDA margin fluctuations because we are mostly on the spot side would you be able to undertake more longer-term contracts in our business profile is that on the cards now you have the capacity scale and the customer reach so are your conversations are becoming more longer-term in nature?

Adhish Patil: I think Harit bhai will be able to answer this.

Harit Shah: I think most of the contracts there are customer they continuously buy from us only the pricing we have already suggested based on certain raw materials we fix the price so it is not that because of there is a lot of fluctuation in raw material as well as the currency so it is very difficult to do contract for takes price so what we do is normally we fixed a quantity and based on this is raw material price we tell them these are the pricing and based on for example DCDA one decide the price of maximum price in DCDA price goes up we increase the price for money accordingly something like that.

Adhish Patil: So most of the contracts are very long-term but only pricing we decide on monthly or quarterly basis basically is that okay.

Harit Shah: Yes, so the specialty chemicals you had highlighted long-term contract from a Japanese customer I mean I was trying to find out if there are more such conversation happening.

Adhish Patil: No chlorosulfonation our project also got delayed as because of the COVID actually we were suppose to start in first quarter but now I think we will start and it is now I think we are talking to them it is not signed actually contract is still not signed but we are talking to them actually.

Harit Shah: Okay fine thank you all the best.

Moderator: Thank you. The next question is from the line of Palak Agarwal from The Tycoon Mindset. Please go ahead.

Palak Agarwal: Sir I wanted to ask you regarding the product pipelines and among that product pipeline which product can give us 100 Crores mark or like that?

Adhish Patil: The upcoming products you are asking?

Palak Agarwal: Yes, and that which are in our pipeline?

Adhish Patil: I think yes whatever new launches which will take place in future in fact most of them I would say all of them are above 100 Cr market position because then otherwise if the production will be too small for the topline means about 2000 Crores topline 100 will be just 5% so now here eyeing for products which are minimum like kind of 300 Crores or more upwards of that 300 Crores of revenue per year.

Palak Agarwal: And then when we can have the chemical charge or like that?

Adhish Patil: No, so okay you are asking about the formulation products or the APIs?

Palak Agarwal: Formulation as well as API which can give us better off.

Adhish Patil: Yes what I told you just now was related to APIs, formulation Vishwa will answer you.

Vishwa Salva: In formulation we are basically targeting many of the blockbuster molecules which will be going off patent from 23 onwards or between 23 to 26 so many of those are similar to our API pipeline so that we again mainly in anti-diabetic and anti-coagulant range of products we will be targeting those kind of molecules so I will be potential is very high because these are at the moment multibillion dollar products globally so basically we will be targeting day one launches for those products.

Moderator: Thank you. The next question is from the line of Yogesh, an individual investor. Please go ahead.

Yogesh: My question is we have been doing consistently quarterly good results especially from last two, three results so means I have been so recent investor so even after this result or so was very good so what was in this particular event that there was a marked gap between the results and share coming down?

Adhish Patil: It is very difficult for us to comment why the share price react the way they do but only thing we can say that it is not that anything has changed drastically even as of now and that margins which are there right now they should sustain for a quarter and even for long-term point of view we are very much confident that the kind of projects we are taking is the kind of margins we are getting by increasing market share of the existing products above 18% is very much feasible even everything settles down even after like means everything settles down even after that it should be in very much cautious.

Yogesh: So because there are some key announcements coming in the quick sessions like earlier there was a bonus announcement and then there was a recent dividend and this expansion fund rising announcement so these announcements coming in quick session so was there any kind of a particular long-term or view on this immediate quick announcements?

Adhish Patil: So bonus was pending means since lot of years because last bonus was quite some year time back and it was pending since long do and the company has started doing well so we thought we show that right year to do the bonus and dividend is something which is part of our payout policy. The shareholder payouts that looks as either is a form of dividend or buyback so this year also means more or less the percentage share of the payout percentage is will be remain same the form might change here or there we are not sure as of now so this is just the interim dividend which we have given to shareholders, that is a part of our long-term strategy and that the Capex is purely based on the outlook and the we have very good opportunities right now to take leverage of the current financial situation of the company the market outlook and the R&D which we have done so that is why we are have been putting up and the fund raising is just a part of means it is a natural progression of Capex.

Yogesh: Okay thanks.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will take that as a last question I would now like to hand the conference over to Mr. Adhish Patil for closing comments.

Adhish Patil: Yes, it was pleasure interacting with you all, very nice set of questions and it also makes us think and we will continue to do our best and hopefully our December results will be as good as this and look forward to communicate with you all after our December results. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Centrum Broking Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
