August 17, 2022

To,
The Corporate Relations Department,
BSE LIMITED,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort
Mumbai- 400 001

To,
The Listing Department
National Stock Exchange of India Limited,
Exchange Plaza, 5th Floor, Plot no. C-1,
G-Block, Bandra Kurla Complex,
Mumbai -400051

Scrip Code : 543349

NSE Symbol : AMIORG

Dear Sir/Madam,

Subject: Transcript of Earnings Call for Q1 FY23 financial results held on August 10, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 we hereby enclose the transcript of the Earnings conference call held on August 10, 2022 post announcement of financial results for the quarter ended June30, 2022.

The same will also be available at the website of Company at www.amiorganics.com

This is for your information and records.

Yours faithfully,
For, AMI ORGANICS LIMITED

Ekta Kumari

CS Ekta K. Srivastava
Company Secretary & Compliance Officer

AMI ORGANICS LTD. ★ SACHIN ★

Encl : As Above

“Ami Organics Limited
Q1FY23 Earnings Conference Call”

August 10, 2022

MANAGEMENT:	**MR. NARESH PATEL - CHAIRMAN AND MANAGING DIRECTOR, AMI ORGANICS LIMITED**
	MR. BHAVIN SHAH - CFO, AMI ORGANICS LIMITED
MODERATOR:	**MR. AMEY CHALKE - HAITONG SECURITIES**

Moderator: Ladies and gentlemen. Good day and welcome to Ami Organics Q1FY23 Earnings Conference Call hosted by Haitong Securities India. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amey Chalke, Pharma Analyst at Haitong Securities. Thank you, and over to you, sir.

Amey Chalke: Thank you. Good afternoon, everyone. I welcome everyone to the Ami organics Q1FY23 earnings call. We are joined today by senior management members including Mr. Naresh Patel, Chairman and Managing Director and Mr. Bhavin Shah, CFO. I would now like to request Mr. Naresh and Bhavin sir to share their comments on Q1FY23 results. Thank you, and over to you, sir.

Bhavin Shah: Yes. Thank you, Amey. Good evening, everyone. We are pleased to welcome you all to our earnings call for Q1FY23. Please note that a copy of our disclosure is available on the Investors section of our website as well as on stock exchanges. Please do note that anything said on this call, which reflects our outlook towards the future, or which could be construed as forward-looking statement must be reviewed in conjunction with the risks that the company faces. With that, I would like to hand over the floor to our Chairman and MD, Mr. Naresh Patel for his opening statement. Over to you, sir.

Nareshkumar Patel: Thank you, Bhavin. Good evening, everyone. I am Naresh Patel, Chairman and Managing Director of Ami Organic. I would like to welcome you all to our Q1FY23 earnings conference call. I hope you all are doing well. The current global business environment remains uncertain and challenging, driven by geopolitical conflicts and the cold war which is affecting energy prices, commodity prices and input prices across the world. Specifically for the pharma industry, this has led to higher raw material costs with a limited ability to transfer incremental cost to the customer. In fact, we have witnessed a pricing war in the US and other markets as companies scramble to maintain their market share. For intermediate players, we are at the lower end of the value chain. We have been able to pass on the cost to customers albeit, with a lag.

Coming to Ami Organics, we have entered the financial year on a positive note, amongst all the global challenges. Our revenues for the quarter grew steadily at 16% on year-on-year basis to INR 131 crore. I would like to highlight here that if you look at our past records, you will notice that our Q1 is always lower than Q2 and Q2 is always lower than Q3 and Q3 is always lower than Q4. So usually our Q4 is always the highest revenue-generating quarter and Q1 is always the lowest revenue-generating quarter therefore, I would request you all not to review our results on sequential basis as you will always see a drop in revenue from Q4 to Q1.

Coming to margins, we have been able to increase our gross margin driven by a better product mix, cost optimization measures, process improvement, the use of new technology and most importantly, our ability to pass on the incremental cost to our customers. But the EBITDA margins remained steady at Q4 levels due to high energy prices, which continue to stay at elevated levels due to global issues. To conclude on the financial performance for the quarter, I believe we have been able to improve our margins and deliver strong growth in the first quarter of the year.

Coming to the business update. On a segmental basis, our Advanced Pharmaceutical intermediate business grew by 15% on a year-on-year basis, whereas the Specialty Chemical business grew by 26% on year-on-year basis. I will now discuss the Advanced Pharmaceutical business growth in detail, as it still continues to be our major business contributor - around 78% to the top line.

We have been able to register strong growth in such a challenging environment for the pharmaceutical industry because of several reasons. One, preferred supplier. As informed earlier, we are the preferred supplier for our customers. We continue to get orders as planned from our customers, as we continue to lead the market for their respective products. Usually, second and third suppliers get most affected in the environment of muted demand. Two, innovator business. Our innovator business continues to be strong, with products in the patent as well as off-patent continues to lead the market.

And third and most important, product portfolio. Ami has more than 480 products in the basket with more than 90% of them going into chronic formulation. As informed earlier, around 30-35 products contribute around 80% of the pharma intermediate business and most of our top products continue to see strong demand, with a few exceptions. This shows the sustainability of our product portfolio. I would also like to highlight that we have firm orders in hand for the coming two quarters from the export business, and the domestic business continues to see good traction. So, overall business has remained strong for the Advanced Intermediates segment.

Coming to the Specialty Chemicals business, we had a good quarter. Revenue grew 26% on a year-on-year basis. The specialty business uses more of commodity chemicals, which continues to put pressure on the margins, but we have been able to keep our margins steady at Q4FY22 levels. I believe we will start seeing strong growth from this part of the business in the current financial year. We have a couple of focus areas for this business, which will drive the overall business for the year. Let me discuss each of them with you. Number one is new products. We are planning to launch two new products under our import substitute model in the Agrochemical space. Our products are already in the sampling stage with various customers and I believe we will see commercialization in the second half of the financial year.

Number two is new technology. As we said, we are shifting a few major products of the Specialty Chemicals business to newer technologies such as continuous flow reaction, which will help us ramp up our volumes as well as improve the margins. Also, increasing wallet share. Once we improve the yield for the products using new technology, we will be able to compete with the bigger players on volume and price, which will help us increase wallet share. Finally, operational efficiency. We continue to focus on operational efficiency as well as process improvement. We have a separate team that works on this. It is a continuous process that I believe will help us improve our margins. Overall, I remain excited about the Specialty Chemical business as we have a strong plan in our hand and I am sure we will execute it well.

Moving on to the update on electrolyte additives. Currently, our product is with various customers in China and Europe. Some of these are in a very advanced stage of qualification and I expect to see some revenue from this product in Q4 of this financial year. We are also engaging with various customers in Korea, as well as India for this product. We have already acquired a land parcel in Sachin, Surat for the future expansion of the electrolyte business. As of now, our capacities in Jhagadia unit are enough to cater to the initial demand for this product and if we see good traction from our customers, we will go for the dedicated plant for the electrolyte.

Overall, we are witnessing robust demand for our products and with firm orders in hand, I am very much optimistic about delivering sustainable growth of 25% for the financial year 2023. Please note, we have not included expected revenue from the electrolyte in these growth estimate. Now I will request our CFO, Mr. Bhavin Shah to discuss the financials. Over to you, Bhavin.

Bhavin Shah: Thank you, Mr. Naresh. Good evening, everyone. I would like to briefly touch upon the key performance highlights with the quarter ended 30th June 2022 and then we will open the floor for the Question-and-Answers. I will start with the quarterly update. Revenue for the quarter was at INR 131 crore, up 15.8% as compared to INR 113 crore in Q1FY22. The gross profit for the quarter was at INR 63.9 crore, up 31% as compared to INR 48.7 crore in Q1FY20. The gross margin for the quarter was at 48.8%, an increase of 572 basis points on Y-o-Y basis and 467 basis points on a sequential basis. As Mr. Naresh mentioned in his opening remarks, a better product mix, cost optimization measure, process improvement measure, the use of new technology and the ability to pass on the incremental cost to the customer has helped us in improving our margins during the quarter.

EBITDA for the quarter was INR 23.7 crore, up 7.1% as compared to INR 22.1 crore in Q1FY2022. EBITDA margins for the quarter were at 18.1% as compared to 19.5% in Q1FY22 and 18% in Q4FY22. We have been able to maintain our EBITDA margin on a sequential basis, which is suppressed due to higher energy cost, freight costs, as well as lower EBITDA margins of the specialty chemical business. PAT for the quarter was at INR 14.9 crore, up 8.3% on-Y-o-Y basis. The PAT margins for the quarter were at 11.3% as compared to 12.1% in Q1FY22. When you compare the PAT margins with Q4FY22 numbers, kindly bear in the mind that we had a tax benefit in Q4FY22, which led to a lower tax of 4% for the quarter. This expanded the PAT margin for Q4FY22. If you remove the tax impact from Q4 numbers, PAT margins are steady on a sequential basis.

Export for the quarter was at 57% whereas domestic business was at 43%. We have maintained our EBITDA margins in the specialty chemical business at Q4 levels even as raw material prices for the products remained elevated. As Naresh bhai mentioned, we remain optimistic for the year and believe that we will continue to grow at the historical growth rate of 25%. I will now conclude my remarks and request the moderator to open the floor for question-and-answer session.

Moderator: The first question is from the line of Sudarshan Padmanabhan from JM PMS. Please go ahead.

Sudarshan Padmanabhan: Sir, my question is to understand a bit more on the other costs and raw material costs. If I look at the transportation cost or other similar costs, it peaked out in the early part of FY22 and then it started to come down; similarly the crude prices have also come down. So, if you can give some color on the trajectory of the other costs and the raw material cost; whether from the first quarter, are we seeing the costs coming down on an absolute basis? My second question is that you talked about the benefits of the specialty chemicals kicking in the second half, but also, we have an operating leverage. If you can break your other cost, you will also have fixed and variable cost. So, given that the first quarter is the weakest in terms of pulling down the absolute sales as we move through the second, third and fourth quarter, shouldn't the other costs get rationalized? Sir, if you can give some color on where do you see the margin trajectory moving from the current 17.5%, 18% for the first quarter?

Nareshkumar Patel: I will give a brief answer. After that, more detailed numbers will be given to you by Bhavin. Basically, our business is fairly seasonal. Every year, quarter one is very low compared to quarter four. So, every quarter we have an incremental revenue growth that will directly impact the variable cost; fixed cost will be minimal for quarter four against quarter one. So this is directly adding to the margin of the company. In that sense, incremental growth from 17% to 20, 21, 22% will be possible, because this is directly adding benefit into lowering the fixed costs. In terms of energy and other costs, I think Bhavin can give you a better idea on that.

Bhavin Shah: So, Sudarshan, as mentioned by Naresh Bhai, our gross margin will be hovering roughly around existing margin, 1% or 2% up or down due to product mix. As we move forward, our other costs will be improved as energy cost, freight cost and other costs will normalize over the period. And as we go along, our sales and volume will improve. So, that will benefit us and our margins will improve further through that.

Nareshkumar Patel: Also, we are changing the source of energy from furnace oil to coal. So, by this way we can a reduce sizable amount of the energy cost in our Jhagadia plant.

Sudarshan Padmanabhan: Last year, when I look at the full-year EBITDA margins, we were sitting at around 20%. Given that we are talking about lot of benefits in terms of cost cutting, as well as the absolute intensity of the fuel costs coming down, should we actually see 100 bps, 200 bps improvement from FY22 to FY23 if I look at it on a full year basis?

Nareshkumar Patel: Yes, you are right, and if you see this quarter also, our gross margin has improved by 4%, but energy cost and import freight cost has impacted a little badly on the margin. That's why we are at a muted level against Q4. But yes, definitely the going three quarters have been helping us. We are working on that as well as some post measures that will give you the results in Q2, Q3 and Q4. So, definitely what you say is right that our margin will be improved by 100 or 200 bps in full year portfolios.

Sudarshan Padmanabhan: One final question before I log off. While the electrolyte is still not a part of the financial numbers, the application of electrolyte seems to be quite exciting. If you can give some color -not necessarily quantitatively, but even qualitatively- in three years, would this be a substantial portion of the business? How is the profitability of the electrolyte business?

Nareshkumar Patel: Basically we have developed electrolyte additives, which is mainly used as a solid electrolyte interface (SEI), which is very important for making the electrolyte solutions. This is very important for lithium-ion batteries, where you make the cells with lithium-ion and carbon as an anode and there is an electrolyte which is used as a fuel between that. So till now, the two products we have developed is vinylene carbonate and fluoroethylene carbonate. We had not disclosed the name till now because it was not matured, and we wanted to avoid any further competition in the market and now samples are approved in China and we are also circulating samples in Europe.

We have several interim customers from automobile, from battery storage manufacturers and also the solar industry. There is huge potential for this product, and we have started circulating samples. There is a slightly longer process of qualification here because it's not only the matter of qualifying the chemical, but also it is the safety aspects accordingly. So they are trying to test also the safety aspects. So that's why it will be delayed by one or two quarters, but we are very optimistic since we are one of the first companies outside China who produce this. Because of the geopolitical situation, European, Japanese and Korean companies want to have a source outside China. So there is a great advantage for Ami Organics to promote this product into the market. This product has huge potential because the green energy sector is growing very fast.

According to the reports we had from the professionals, they are expecting $2 billion of the revenue of this molecule in the year 2028 and we are expecting to capture 10% from that. So this is what we are expecting from this molecule. And that is why we are proactively ready with the land, so we can finish our environmental clearance and other matters so that as soon as the demand rises in a quicker mode, we can do the expansion in 2024 or 2025.

Moderator: The next question is from the line of Abhishek Singhal from Naredi Investments. Please go ahead, sir.

Abhishek Singhal: My first question is about the CAPEX plan for FY23 and FY24. If we do INR 1 of CAPEX, how much of a topline growth will we be able to see? My second question is regarding how much we may grow in next three to five years.

Nareshkumar Patel: Okay, regarding the CAPEX: for INR 1, we can generate INR 3, INR 3.5 of revenue. We have always been conservative in our projections. Additionally, over the last 10-11 years of revenue profile, we have been growing at 25% CAGR. We continue to claim the same growth rate here as well. So you can use these to understand what level we can reach in '24, '25.

Abhishek Singhal: Okay. And sir, last question. What level of margins are you expecting?

Nareshkumar Patel: We want to go to our normalized margin of FY21. That is our target because pharma is our high-margin portfolio, whereas specialty chemicals – given that it is relatively new- we have raised from single digits to double-digits. Right now, even with a very adverse market situation of raw materials, we are maintaining it at 11% in this quarter. We want to grow the specialty segment every quarter by 100-200 bps. That will help us to get close to the Pharma margin. Our target is to eventually get to 22-23%.

Moderator: The next question is from the line of Jay Shah from Capital PMS. Please go ahead.

Jay Shah: Congratulations sir for a good set of numbers despite Q1 being the weakest. Sir, I had a couple of questions. First, on the pharma side, could you throw some light on what kind of therapies are calling for more of our raw material? It would be great if you could throw some light on the end-customer profile. Secondly, as you mentioned the name of the two electrolytes, I wanted to understand whether we are backward integrated when it comes to the manufacturing of these electrolytes. Given that one of the electrolytes is fluorine based, are we procuring fluorine locally?

Nareshkumar Patel: Your first question is about which therapeutic areas are giving us growth?

Jay Shah: Yes, that's right sir.

Nareshkumar Patel: We work on 17 therapeutic areas, but our top 5 product lines come from antidepressant, anticoagulant, anti-parkinson, anti-retroviral and anti-diabetic. These are the segments where we are growing very well and our business is very well distributed between regulated and generic as well as export and domestic. So, in that sense, we are very well balanced in our demand of our product in the world. Coming to your second question related to the backward integration of our electrolyte. We are not dependent on China for any raw material in either of the electrolytes. While there is one raw material imported, it is imported from Europe in quantities ranging in the hundreds of tons every month by the industry as a whole, so there is no issue of shortage of that raw material. Related to fluorine, our chemistry is not using any fluorine but we use potassium chloride, which is readily available in India and we have a good relation with the potassium chloride supplier. So that will not be an issue for us. In terms of positioning of the product, the product is already developed, and the vinylene carbonate is in the final stage of approval, with some others in the initial approval stage and fluoroethylene carbonate currently going through into the market for sampling.

Jay Shah: Okay. Do we have any kind of process patent for these two electrolytes? Have you applied for a patent?

Nareshkumar Patel: We had not planned it yet because we want to retain our positioning. But it is under write-up right now.

Moderator: The next question is from the line of Kumar Saumya from Ambit Capital. Please go ahead.

Kumar Saumya Singh: Hi, Sir. Good afternoon. Just a couple of questions. Firstly, on the one-off expense that you have highlighted in the presentation regarding the construction of civil structure that is in place - if you could quantify the impact of this constructions through numbers?

Nareshkumar Patel: Your question is what will be the impact of civil construction upon the financials, right?

Kumar Saumya Singh: Yes, sir.

Bhavin Shah: It is INR 74.6 lakh. You can say INR 75 lakh.

Kumar Saumya Singh: Okay. And sir, what was the export share in the revenue for this quarter as compared to last year?

Bhavin Shah: 57% is our export revenue.

Kumar Saumya Singh: And last year same quarter how much was it?

Bhavin Shah: Last full year, it was 58%.

Moderator: The next question is from the line of Kartik Iyer, an Individual Investor. Please go ahead.

Kartik Iyer: Congratulations sir, on a good set of numbers. I am sorry, I couldn't catch the names of the electrolyte molecules that you mentioned. Could you please repeat the same?

Nareshkumar Patel: The first one, which is in a very advanced stage, is vinylene carbonate and second one, which is going to be in the market is fluoroethylene carbonate.

Kartik Iyer: Okay. And my other question was related to the integration of Gujarat Organics. Have we done everything we need to seamlessly integrate with the Gujarat Organics facility or is there still a ways to go on that exercise?

Nareshkumar Patel: The integration of the Gujarat Organic is a three-phase operation. First step is to centralize and consolidate the production from two locations to one location, which we had finished in Q4FY22. Now we are in the process improvements phase, where we focus on operational efficiency as well as improvement in the yield; if there is a technological in-efficiency, we need to mitigate it. One of the largest products - Methyl Salicylate; we have converted from that from batch to continuous, and equipment has already been ordered. Now we are in phase of installation of that setup. Once that is installed, our capacity to make methyl salicylate will be huge and that gives us a cost leverage to hold our position in the market.

So we are currently in the second phase, where we are now improving the technology for each molecule of Gujarat Organics; whether it is a flow reaction, a change in the process to give better yield, or to avoid major generation of environmental affluence. These are all activities going on right now that will be finished by Q2FY23, following which we will be focusing our thoughts on dominating the market by putting in large-scale production.

Kartik Iyer: And sir, what is the percentage of raw materials that we import right now?

Bhavin Shah: So the percentage of import is 35%.

Nareshkumar Patel: Just wanted to add that it is 28% for the pharmaceutical business. Since Gujarat organic is now a part of Ami organic, that has added another 8% import, resulting in a community import of 36%. Pharma still remains at 28%.

Moderator: The next question is from the line of Hardik Shah from Taurus Mutual Fund. Please go ahead.

Hardik Shah: Sir, in your opening commentary, you have mentioned that we are planning to launch two Agrochemical products under the import substitute basket. Could you throw some more light on what these products could mean for us in the future in terms of revenue contribution and the market size?

Nareshkumar Patel: Right from IPO -and even during our last three calls- we have said that two products are commercialized and another three are in the pipeline. Out of these three, two products have now been moved to the pilot. One of these has Agro applications and is mainly used by big Agro manufacturers in India, like UPL, Coromandel, GSP, who are completely importing these intermediates. These intermediaries are under sample approval stage. 2-Cynophenol is the name of the molecule; that molecule has huge potential. The final API is still under patent by Syngenta so once it goes out for patent, there will be a huge volume of demand.

Hardik Shah: Understood, sir. So, we are planning to launch multiple products in the import substitute basket, sir. Where do you see the import substitute basket landing after a period of three or four years in terms of overall mix?

Nareshkumar Patel: Import substitutes is mainly in our specialty chemical segments because we can get large volume and large value as well. We can dominate that through better technology, better chemistry and better yield, which makes us competitive against companies based outside India. We expect it to contribute 5% to 10% every year. We are targeting revenue contribution of 20-25% from these segments in 3-4 years.

Moderator: The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: I had a question on the other expenses for the quarter. If I compare it to Q1FY22, other expenses and employee costs are up pretty sharply; even sequentially, they are up. So can you break down the increase in other expenses? How much is due to higher utility cost, how much due to higher freight costs and how much is because of the Gujarat Organic's OPEX coming on?

Bhavin Shah: Gagan, on the first part you have asked about personnel/manpower cost. So, during the quarter we have rolled out annual increments, where the effect is coming during this quarter on a sequential basis as well as on Y-o-Y basis. Now, on the other part of other expenses, there is a higher freight cost for the import of materials; so freight cost increased by 2- 2.5%. Our conversion cost and electricity cost also increased by around 5% to 6%. These are the two major factors resulting in expenses being on the higher side on a sequential basis. On a Y-o-Y basis, it is not comparable, because during Q1FY21, our unit 2 and unit 3 were not fully operational and integration process was still ongoing, so other expense figure is not comparable on a Y-o-Y basis. On Q-o-Q basis if you see other expense, it is higher by 10%. Conversion and manufacturing cost, power/ electricity and freight, these are the three main items which had a higher impact. There is some contribution from consumables also.

Gagan Thareja: All right. But do you feel that the other expenses reported in Q1 is sustainable or is there a possibility of it going up? I understand, as sales move up, they might move up in absolute terms, but in percentage terms, would other expenses remain stable as a percentage of sales going ahead or will they drop?

Nareshkumar Patel: The percentage of sales will be incremental for next three quarters. Operating costs will go down and will normalize in Q3 or Q4. Since Gujarat Organic's unit two was using gas with another unit using FO, there is a high impact from that since neither are good fuels. We have already obtained the environment clearance to replace furnace oil with coal and we are already in the process of installation of the coal boiler there. So in this quarter only we are targeting to commission it. Once it has been commissioned, there will be sizable decrease in the energy cost in unit 3. So that will be giving a good advantage to us. Coming to freight, everybody is having problems from a logistic point of view, but we are expecting that to normalize in the next couple of months, so that would reduce too.

Gagan Thareja: Also, can you give us the segmental EBITDA numbers? You have reported segmental sales I think in the past, you used to report segmental EBITDA also?

Bhavin Shah: EBITDA for Pharma is 19.62% and for Specialty 10.14%.

Gagan Thareja: Okay. And what is the current utilization levels of Gujarat Organics? Is it more or less where it was in the last couple of quarters, or has it improved?

Bhavin Shah: It is the same 40% in Gujarat Organics.

Gagan Thareja: For the year, do you expect it to rise going ahead and what would be a reasonable number to think of in terms of Gujarat Organics utilization?

Nareshkumar Patel: It will rise by around 10% but there also we are putting some continuing flow operations which will be replacing batch process to continuous. So, it is very difficult for me to say that utilization will become very high or will remain at this level, because our new products are also being introduced in that area. But it will go up to 50% in this year.

Gagan Thareja: Okay. And this 15% growth that you have reported on your pharma intermediates, can you split it up into volume growth and price or mix-led growth? Likewise for Gujarat Organics business also, can you split it up both in volume growth and price growth?

Bhavin Shah: So, Gagan, majority of our growth is coming from volume only. Volume growth is more than 90%.

Gagan Thareja: About the Agrochemicals that you intend to launch in the second half of this year, can you give us some idea of what is the current market size of those two molecules? You have indicated one is an intermediate for an under-patent molecule of Syngenta, could give us some more idea there?

Nareshkumar Patel: Currently it's under patent so is not that great; somewhere around INR 20 crore, INR 25 crore currently. However, it is very important from the side of Agrochemicals, so it will be grow maybe 2x - 3x in the upcoming years.

Gagan Thareja: When does the patent expire on this one?

Nareshkumar Patel: I don't know the final API patent expiry history, but it will be in next couple of years - maybe next year or maybe '25. I am unsure of the exact date, but I have been hearing from buyers that the demand will be very huge in '24 and we need to have a capacity to cater to that.

Gagan Thareja: All right. And the other molecule; could you discuss something about that I mean whatever you are comfortable.

Nareshkumar Patel: That is from the Pharma side, it is an anti-inflammatory, which is purely being importing from China, and we are now in a pilot stage. So once we get a commercial order for that, I will disclose the name.

Gagan Thareja: Any potential market size that you can give?

Nareshkumar Patel: Given that it is a single molecule, it will not go beyond INR 40 crore, INR 50 crore if it is completely mature.

Gagan Thareja: Okay. And by when do you expect these to give you full potential?

Nareshkumar Patel: FY24.

Gagan Thareja: On Pharma, the sales momentum has come down relatively, although it's still healthy at 15%. Likewise, your listed peer which supplies intermediates has also had a relatively soft quarter in Q1. How should we think of the pharma intermediates business for FY23? Do you think this is just a transitory phenomenon, and then things will start recovering going ahead once inventory buildup starts happening by the pharma company?

Nareshkumar Patel: You rightly said that pharma currently is having the pressure of sustainability in terms of positioning in the market. Luckily, we are not in an acute business, we are more in a chronic business where there is always a daily demand for doses. So, we have good export firm orders in hand, whereas domestic -which is on a spot basis- is getting also good orders with good visibility of what we had planned. Our budget and other matters are in line with that. So I hope that will remain the same for our end buyer as well.

Gagan Thareja: So essentially, you are saying that your order book gives you visibility for the guidance/aspiration of 20-25% top line growth?

Nareshkumar Patel: Yes.

Gagan Thareja: Right. And if the input costs remain at where they are at current level as you scale up your sales in the future quarters, you are confident of being able to improve your operating margins as well?

Nareshkumar Patel: Yes.

Gagan Thareja: And sir, finally, if you could give me the name of I think one molecule, you mentioned for the electrolyte – Vinylene Carbonate and the other was fluoroethylene carbonate or flurorovinylene?

Nareshkumar Patel: It's a fluoroethylene carbonate.

Moderator: The next question is from the line of Tarun Shetty. Please go ahead.

Tarun Shetty: So, just wanted to know the performance of some of your top molecules like Trazodone, Entacapone. How have they performed in the current quarter and how do you see them performing in the coming quarters?

Nareshkumar Patel: So Trazodone has contributed around 21%. Entacapone has contributed 7.69%, and we see the steady growth in this molecule for the year.

Tarun Shetty: Okay and in Dolutegravir, you had lost substantial traction in the last year. Currently, how do you see this panning out?

Nareshkumar Patel: See, Dolutegravir this year has contributed 6% and we are expecting it to remain in this range, but the new molecules like Apixaban and Darolutamide is showing good potential in this year as well as the upcoming one.

Tarun Shetty: Okay. And I believe you also launched Sitagliptin in the import substitute product. So is the traction substantial in this particular product as you had mentioned to one of the participants?

Nareshkumar Patel: Yes, we have got several tons of orders for that molecule and one customer has already started placing orders on a regular basis, so we are highly focusing on that intermediate with all the customers regarding Sitagliptin.

Tarun Shetty: Okay, that's good. Salicylic acid is supposed to be one of your intermediates that was supposed to show decent growth this year. So how have these intermediates performed?

Nareshkumar Patel: I can say this salicylic acid is our major raw material, which we are importing in Gujarat organics products.

Tarun Shetty: Okay. Sir, lastly on the Ankhleshwar facilities, is the timeline for FY24 still on? Have you started the hiring process for that facility?

Nareshkumar Patel: Yes. Timeline is still on track. We have already started building the civil structure and begun hiring for that facility.

Tarun Shetty: Okay. But majority of hiring will happen in the year-end FY24?

Nareshkumar Patel: Yes, FY24. When it is reaches the stage of installation and commissioning.

Moderator: The next question is from the line of Hemang Dagli from Verenium Capital. Please go ahead, sir.

Hemang Dagli: I wanted to understand what our top five products would be contributing to the overall sales.

Bhavin Shah: It is 47%.

Hemang Dagli: We had a tax rate of 26.9% this quarter. For the full year, will we be closer to 24 - 25% - what number should we work with?

Bhavin Shah: Yes. Our normal tax rate is 25.16% and for full year, it should be in the same range. This time, we have one off write-off, which is not allowed in taxation. So, it is 1% higher than normal tax rate.

Hemang Dagli: Okay. So, on the CAPEX front, we have INR 190 crore of CAPEX at Ankleshwar where the full capacity will come in during Q4 FY24. Along with this, do we have any other CAPEX during the year in FY23 that would increase our capacities?

Bhavin Shah: So during the year, we have a budget of INR 30 crore for other modification and maintenance CAPEX.

Hemang Dagli: Okay. And as you said, the INR 190 crore of CAPEX will give us a revenue of 3x going forward after FY24. Is my understanding right?

Nareshkumar Patel: Yes, 3x, 3.5x, depends on the product mix.

Moderator: The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: Sir, first question is, you said that the EBITDA for pharma is INR 19 crore and specialty chemical is INR 10 crore. Did I heard right?

Bhavin Shah: No, it is 19.62% and 10.14%.

Amar Maurya: Oh okay. Perfect. In terms of the ongoing CAPEX, like in Ankleshwar and the expansion of pharma, those are on track and are they likely to come on schedule?

Nareshkumar Patel: For the time being, yes. Till today, it is going on as per the plan.

Amar Maurya: Okay. And third, sir, given your guidance of 20% to 25% top line growth, this quarter, the growth rate was little tapered. So should we expect the major kick off happening in the second half or from the second quarter?

Nareshkumar Patel: It is a gradual increment. So Q2 will be more then Q1, Q3 will be more than Q2 and Q4 is the highest one.

Amar Maurya: Okay. And by that time, few of your new capacities will also come right?

Nareshkumar Patel: Yes.

Amar Maurya: Okay. And when you say that the margin will gradually improve. So this quarter, there was some one-off cost also right into your EBITDA? How much was that?

Bhavin Shah: It is INR 75 lakh.

Amar Maurya: Okay, that's all.

Bhavin Shah: Yes.

Amar Maurya: Okay. When you see EBITDA margin improvement, should we see the improvement from the second quarter onwards, or it would be again back-ended; more in the third and fourth quarter?

Nareshkumar Patel: It is same as revenue growth. Similarly, it would be going in the same trajectory.

Moderator: The next question is from the line of Rajdeep Singh from ASK Investments. Please go ahead.

Rajdeep Singh: Sir. You said Dolutegravir contribution is 6% to growth or is it a contribution to the revenues?

Nareshkumar Patel: It is revenue 6% contribution. Precisely, 5.96%.

Rajdeep Singh: Okay, sir. On this ARV piece of the business, it is well known that there has been pressure on the end formulation of ARV business. How does it trickle down to you? In formulation there is pressure that trickles down to the API manufacturer. For you, how has the volume or price growth been in this, and how has the contribution been over the last few quarters?

Nareshkumar Patel: See, Dolutegravir is still under patent and is highly dependent on the tender business. Last year when tender was an issue, dolutegravir was not in a great position. Even this year, there has been lower amount of tender issued. So that is the reason why dolutegravir is not in our top three products currently.

Rajdeep Singh: Okay. But it is there in top five?

Nareshkumar Patel: Yes.

Rajdeep Singh: Okay, sir. How do you see the volume and price currently, and going forward, not only for Dolutegravir but other ARV products as well?

Nareshkumar Patel: We don't do any other ARV. We only have Dolutegravir.

Rajdeep Singh: Okay. Could we have the outlook for the same?

Nareshkumar Patel: This year we expect the same as FY22 and we are expecting that by next Q3 or Q4, these people will get good demand, and then we can start. Currently, we are working with only two customers based in Hyderabad.

Rajdeep Singh: Okay. And sir, from a medium term perspective between your two businesses, the pharma intermediates and specialty chemicals, how do you see the growth rate between the two over the medium term? Strategically, how are you positioning yourself? In what percentage of your business does the client choose you and what percentage do you choose your clients?

Nareshkumar Patel: Very good question. My aim is to bring the specialty chemicals somewhere around 35% of the total revenue, and we are on track with that. We are working on chemistry, technology and infrastructure to achieve this. Since specialty chemicals don't have high value, it is only through high volume gain that we can grow and we are targeting to reach 35% revenue contribution in the next two to three years. Coming to choosing the customer, in Pharma, the customer mainly asks us because we are very well established in pharma; we are the first choice for any molecule sourcing as we are very strong in documentation, FDA approved only chemical manufacturing facility in India.

So that is where customers prefer us, and we have more than 160 - 170 customers in pharma. Specialty segment is a new segment for us, where we approach the customer, and also Gujarat Organics has done a wonderful job with more than 600 customers there. There are big names like Bayer Corp Science, Pfizer etc. as their customers, so we are trying to increase the volume there as well.

Rajdeep Singh: Fair, this is helpful. And lastly, sir, you mentioned that on the energy side, you will be switching from FO to coal. What kind of savings would this bring? Do you then plan to alternatively switch between the two? How do you plan to maintain the energy mix and does any of your plants operate on gas currently?

Nareshkumar Patel: Yes. We have a plant operating on gas in all areas - Jhagadia as well as in Surat as well as in Ankleshwar. So basically, Ami is very highly focused on environment compliances and we have a policy not to violate anything. Furnace oil is not a good fuel, but we could not immediately replace it because we needed to obtain environment clearance, which we have got the approval from the MOEF.

Rajdeep Singh: This is the GOL plant you are talking about?

Nareshkumar Patel: Yes, GOL. The same boiler can't use coal and fuel, so we procured new boilers for coal, which is under installation right now. Once it is installed, it will result in a sizable amount saving in energy as well as meeting environmental compliances.

Rajdeep Singh: Sir, what would be the saving that you would incur?

Nareshkumar Patel: That depends on the coal price and other factors; once we commission it we can disclose that as well.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Tarun Shetty for his closing comments.

Tarun Shetty: Yes, on behalf of Haitong, I would like to thank Mr. Naresh Patel and the team of Ami Organics for answering all the questions and giving us the opportunity to host this call. Thank you once again.

Moderator: Thank you. Ladies and gentlemen on behalf of Ami Organics and Haitong Securities that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.