May 17, 2024

To,
Listing/ Compliance Department
BSE LTD.
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

SCRIP CODE: 543748

To,
Listing/ Compliance Department
National Stock Exchange of India Limited
"Exchange Plaza", Plot No. C/1,
G Block, Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051
SYMBOL: AARTIPHARM

Dear Sir/Madam,

Sub: Transcript of Earnings Conference Call
Ref: Regulation 30 of the SEBI (LODR) Regulations 2015

Please find enclosed herewith the Transcript of Earnings Conference Call held on Wednesday, May 15, 2024 on the Audited Financial Results of the Company for the quarter and year ended March 31, 2024.

Kindly take the same on your records.

Thanking you,

Yours faithfully,
For AARTI PHARMALABS LIMITED

NIKHIL PANDURANG NATU

Digitally signed by NIKHIL PANDURANG NATU
Date: 2024.05.17 18:12:40 +05'30'

NIKHIL NATU
COMPANY SECRETARY
ICSI M. NO. A27738

Encl.: a/a.

Aarti Pharmalabs Limited
Q4 FY24 Earnings Conference Call
May 15, 2024

Moderator: Ladies and gentlemen, good day and welcome to Aarti Pharmalabs Limited Q4 and FY 2024 Earnings Conference Call hosted by Valorem Advisors. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anuj Sonpal from Valorem advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you. Good evening everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We manage the Investor Relations of Aarti Pharmalabs Limited. On behalf of the Company, I would like to thank you all for participating in the Company's Earnings Call for the Fourth Quarter and Financial Year Ending 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties that could result, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us in today's earnings call and hand it over to them for opening remarks. We have with us today, Mr. Rashesh Gogri – Chairman; Mrs. Hetal Gogri Gala - Vice Chairperson and Managing Director; Mr. Piyush Lakhani - Chief Financial Officer. Without any further delay, I request Mr. Gogri to start with his opening remarks. Thank you and over to you, sir.

Rashesh Gogri: Good afternoon everyone, I welcome all the analysts and investors to this earning call on the performance of Aarti Pharmalabs for the quarter and the year ended March 31st, 2024. Our results, and documents were shared with you earlier and I hope you would have got a chance to go through them. To begin with, let me provide you with the business highlights.

The company operates in three distinct areas within the pharmaceutical industry, one Xanthine derivatives, two API and Intermediates and three CDMO/CMO. The Xanthine derivative segment contributed to 44% of the turnover in Q4. As you know we have the largest manufacturing facility in India for the Xanthine derivative. In order to fortify our position we are undertaking brownfields capacity expansion and working diligently towards debottlenecking of our plants.

The API Intermediates business contributed 37.6% of the turnover in Q4. Out of the API and Intermediates turnovers, the regulated market contributed 54% and the rest of the world contributed 34% and the balance 12% was from the non-regulated market. The regulated business continues to remain our area of focus while offering higher profitability and stability to our business. Strategically we are present in lifestyle drug market, which is a low volume high value business. This category includes antihypertensives, anti-diabetic, steroids and oncology drugs, which are sticky in nature. We offer an advantage to the customer, that is one lower cost due to backward integration and two minimum dependence on China for KSM. This advantages position us as a favorable partner among global customers.

The third segment CDMO/CMO business contributed 18.4% of the turnover in Q4. In CDMO/CMO space, we are presently working with 16 customers on 40 projects of which 21 projects are commercial and 19 are under different stages of development at customers end. This highlights our presence in late phase projects. We are also working on expanding existing chemistry capabilities of peptides and Oligo**,** nucleotides, ADC Linkers, et cetera. In CDMO/CMO, our USP is strong expertise in commercial scale up, and manufacturing which enables us to form long-term supply partnerships with our customers.

Now, I will share the key financial highlights. Consolidated financials, I am pleased to announce that in Q4 FY24 we have recorded the highest EBITDA and net profit to date. In the Q4 FY24, the consolidated EBITDA from the operations stood at 117.5 crores as compared to 95.7 crores in the previous quarter. There is an increase of 23% Q-o-Q and on a Y-o-Y basis the consolidated EBITDA grew by 47%. The consolidated PAT for the quarter was 65.3 crores which was higher by 24%, Q-o-Q and 52% Y-o-Y.

For the entire year, FY24 the consolidated EBITDA stood at Rs.386 crores, this was 13% higher Y-o-Y, and the consolidated PAT for FY24 was higher by 12% at Rs.217 crores resulting in EPS of Rs.22.9. The consolidated net debt to equity as on 31st March 24 was 0.14%.

Standalone Financials. For Q4 FY24 the standalone EBITDA was 107.3 crores, this was due to 22% Q-o-Q and 40% Y-o-Y. Standalone PAT for the quarter was 63 crores which was 31% higher Q-o-Q and 58% higher Y-o-Y. For this entire year 24, the standalone EBITDA stood at 346.2 crore and this was 12% higher compared to the FY23. The standalone PAT for the financial year 24 was higher by 17%, equity is 201 crore and translates into a standalone EPS of Rs.22.1. The return on capital employed improved to 18% for the FY24 as compared to 17.7% for the FY23. The Board has recommended a final dividend of Rs.1 per share in addition to an interim dividend of Rs.2 per share paid earlier in this year.

Let me now share the updates on the ongoing expansion projects. We are expanding our relationships with several large corporations for suppliers of Xanthine derivatives primarily Caffeine. For the same purpose, we are in the process of enhancing our production capacity of Xanthine derivative units such that additional land parcels are likely to be repurchased and we target to complete this brownfield expansion project by the end of FY25. Thereby, a total production capacity of 750 metric tonnes per month will be achieved. This expansion will entail a capital expenditure and additional working capital borrowings.

Our project at Atali primarily focusing on CDMO/CMO and Intermediates manufacturing is progressing as per plan and we expect the commissioning by Q4 FY25. As discussed with you last time, we are nearing completion of semi commercial block at our USFDA intermediate manufacturing site at Vapi and this is expected to become operational in the current quarter. I would also like to share that we have undertaken a project in Akola, to set up a solar power plant. This will help us to get the clean and green electricity, which is estimated to fulfill 1/3 of our power requirement and reduce overall manufacturing cost at the same time. It will support the sustainability goals by reducing the carbon footprint.

Underscore our deep and continuous commitment to business expansion, sustainability, self-reliance, and keeping up with the customers needs. Talking about the future outlook we expect to achieve EBITDA growth of approximately 10% to 12% in FY25 and remain well-positioned to achieve a long-term goal of around 15% annual growth in the next two years. I now request the moderator to open the forum for the Q&A session. Thank you.

Moderator: Thank you very much, sir. We will now begin with the question-and-answer session. We take the first question from the line of Rahul Jain from Credence Wealth. Please go ahead, sir.

Rahul Jain: Sir my first question is with regards to CDMO/CMO. We have done exceptionally well in this segment of the business for the last two quarters and in the current quarter we have almost reached about 76 crores of sales from CDMO/CMO versus 53 crores and for the full year today, it stands at 177 crores compared to around 100 crores last year. So sir two questions, what is the sustainability of this segment to grow further from here, in the previous call you had said that, we expect this segment to grow around 40%, or 50% for the next two, or three years. So, can you share some more details on the sustenance of and the growth of this segment?

Rashesh Gogri: Yes, as I mentioned to you earlier and as we reported, now we are working with more than 19 companies on 40 projects out of which 21 have become commercial. And with this expansion and the way in which the progress of these projects happens with our partners, we will see growth in this business area. That's why in the last call, I had projected and we see that kind of a number possibility in this business segment. So, we have done all the right things. So, now we have a new R&D center, which is completely focused on innovators, we are also investing in a new manufacturing facility that can cater to the additional requirements of manufacturing capacities. And, with the right regulatory focus, we can grow this business faster.

Rahul Jain: And sir with regards to margins again, this quarter we have recorded record margins both on the EBITDA and the gross margins. Our gross margins today stand for the standalone entity at almost 55% and on a console basis at 50%. So, how do we see the sustainability, what is driving this margin? So, it is only on increased CDMO of contribution. And secondly, what do we feel are the sustainable gross margins?

Rashesh Gogri: Yes, definitely the CDMO business is more lucrative than the rest of the businesses that we are operating. However, our overall other business segments are also, API and Caffine business segment is also having reasonable gross margins. Quarter-to-quarter as we deliver and meet the customer's requirement the quarterly there would be ups and downs, but we are hopeful that we will be able to maintain close to 50% gross margin.

Hetal Gogri Gala: At annual basis.

Rahul Jain: 50% on console basis right?

Hetal Gogri Gala: Yes.

Rashesh Gogri: We generally talk about annual standalone because console, we have one trading entity also which gets consoled and in that trading activity we may not have that kind of gross margin, so.

Rahul Jain: Because standalone gross margins are 55%, that's why I asked that question.

Rashesh Gogri: So, that will rationalize to around 50, longed off.

Piyush Lakhani: Just to add to it, apart from the margin, percentage margins we normally track the absolute numbers because the percentage margin is again a function of FG prices, which in turn is a function of RM prices, so at least in some of the business, when the RM prices goes down, like in renting, or for consolidation we have Ganesh Polychem where the pass through mechanism is, when the RM prices go down we pass that advantage on to the customers. So normally, we track the absolute growth in the profit numbers.

Rahul Jain: Sure. Sir with regards to your guidance on EBITDA growth, previous presentation and concalls you were talking about EBITDA growth of 12% to 17% for next two, three years. And in the current presentation, you have mentioned that we expect EBITDA growth of around 10% to 12% in FY25. Now, if I just take the average of last two quarters EBITDA, even if I sustain that average of last two quarters, we can be at around 10% EBITDA growth for the full year FY25 compared to FY24. So, are we trying to be a bit more conservative on giving guidance for FY25 for the EBITDA growth?

Rashesh Gogri: Yes, for the FY25 we are already sitting on two good quarters and of course, the market is volatile as you know the pharmaceutical industry however, we are trying to be more and more investing in the business and with a profitable business. So, generally we want to be moderately conservative in all our guidance's.

Rahul Jain: Okay. And last question sir, with regards to the CAPEX which has been completed till date, because this CAPEX which has been completed, you had done some bit of it in FY23 and also FY24. So, typically as we speak today at today's prices of all these segments, typically what kind of business can be generated on a standalone basis from all the three segments put together at optimum utilization?

Rashesh Gogri: Currently, we are almost utilizing our Xanthine plant at 90% capacity utilization and other plants are also utilized at 85% capacity, currently with the expansion but now going forward in next one and a half year, we will have a lot of CAPEXs which are upcoming like Atali manufacturing plant and new block at USFDA location Vapi as well as a debottlenecking of Xanthine plants, so all these three projects will entail a lot of capacity unlocking or new capacity addition which will come up for the FY26 and that is when we will see a growth 26 onwards as we occupy more and more of these capacities with the production.

Moderator: Thank you. We take the next question from the line of Pratik Banthia from Girik Capital. Please go ahead.

Pratik Banthia: A couple of questions from my side. So firstly, in the last quarter we were supposed to start the backward integration for Xanthine which would reduce our dependence. So has that led to some bit increase in the margins. And was it planned started in the fourth quarter?

Rashesh Gogri: No, that manufacturing asset is operationally ready. But looking at the current manufacturing costs and the prices of product availability from China, we are not opting to continuously operate that plant, looking at very lower pricing availability from the market. So we are keeping it ourselves ready, but there is a upper cap, so if the prices go above a certain value, then we will always operate our facilities. So that has not impacted on our margins per se.

Pratik Banthia: Understood. So how should we understand the improvement in the EBITDA margin. It's driven by, if you could in terms of which was like the segment which has the highest impact followed by the next segment, if you can just line up that way. Which segment has impacted the highest in terms of incremental EBITDA for the quarter?

Rashesh Gogri: Yes, we have seen improvement of overall performance in CDMO/CMO segment and also API and Intermediates segment has also done well. So, occasionally our Xanthine segment was doing well but now overall with this growth percentage, Xanthine has peeked in terms of with the current capacities that we have and we are anyways further, going to enhance our capacity next 12 months or so. So then we will again have more improvements from that segment going forward.

Pratik Banthia: Interesting. And you mentioned Q1 25, our factory at Vapi is going to see some expansion. So is it the API or is it going to be on CDMO side in Q2?

Rashesh Gogri: Q2, this current quarter we will have an expansion. So, we are going to have additional manufacturing block which will basically it's a semi commercial block and we will have more of these capacities so that we can do more feeding projects for the early requirements of the customers up to 100 kg can be max from this manufacturing side.

Pratik Banthia: Okay. So it will reflect in Q2, the revenue?

Hetal Gogri Gala: Yes.

Rashesh Gogri: Q2 onwards.

Pratik Banthia: And it is around 28 reactors of 28,000 liters capacity right?

Hetal Gogri Gala: Yes. So, they are very small reactors and that was a gap that we had in our current setup of intermediate manufacturing to have this size of the reactor which is predominantly required for the customers for their development stage. So which we are trying to fulfill.

Pratik Banthia: Okay. And, again on the CDMO, so incrementally two new molecules have been commercialized in the quarter if we just go by the commentary made in the presentation. So what sort of incremental revenue would those two new molecules be contributing and can you just give us again your outlook on CDMO, which therapies is more focused upon and what sort of are we share of innovator, you look over the next two year because it's CDMO/CMO both.

Rashesh Gogri: Yes, we are operating both the segments of CDMO & CMO and largely it is more CMO which brings larger revenue repetitiveness in the business, we are currently working with 16 innovators or the partners. And as you see that, there are 40 products that we work with them and these products have grown over a period of this entire year we started the year with close to 28 products and now we are at 40 products. So, we have added 12 new projects in this year and these projects normally take two, three years to full grow minimum. So, as the projects grow and depending on the product outlook of the customers, we have some good projects with large customers which has shared good outlook with us.

Pratik Banthia: Okay. So, should we assume around, you mentioned around 30%, 35% growth in CDMO for the next two, three years?

Rashesh Gogri: We are projecting that kind of, overall we are projecting higher growth in this segment.

Pratik Banthia: Interesting, okay. So, since Xanthine it is 90% in the fourth quarter exit, so until our new expansion comes which will take our capacity to 9000 per annum, then this number 220 crores which we did in Xanthine should remain at this right for the next fourth quarter till the time we have capacity?

Hetal Gogri Gala: Yes, the product shall remain same.

Rashesh Gogri: Yes, the top line is dependent on the overall pricing and the metrics, how the prices are sustained in the marketplace, but in the spot market the prices have now bottomed out. So, we are not going to see further prices going down that is what is the current understanding of the market. And we will have the expansion only next year. So, the expanded capacity will come up, till there is a possibility that we may further increase our utilization to 95% also. So, that may happen in this year, but later on. Next year, we will have higher capacity.

Pratik Banthia: And sir last question on the cash flow statement. We have taken a R&D project right above 6.76 crore, what is it regarding?

Piyush Lakhani: Pratik that is the projects that, basically we stop working on, we think that there is not enough market or we don't want to pursue, so then we do this exercise every quarter. And whichever projects we are not going to pursue in future, we take that as an expense in the P&L.

Moderator: Thank you sir. The next question is from the line of Vikas Sharda from NT Asset Management. Please go ahead.

Vikas Sharda: I have two questions. One is, what is the CAPEX guidance for FY25 and secondly, in your opening remarks you mentioned about the brownfield expansion of Xanthine. So could you, I didn't get it correctly could you repeat that please?

Rashesh Gogri: Yes, in total for the FY25 going to be CAPEX heavy for our overall size, we are going to have a total CAPEX of around 600 crores happening in this year with the three big projects as we mentioned in my speech, and out of these the Xanthine overall capacity which is currently at 5000, we are debottlenecking it to 9000 metric tonne in the existing assets that we have by taking adjacent plots and doing a brownfield expansion.

Moderator: Thank you. The next question is from the line of Mr. Ahmad Madhav from Unifi Capital. Please go ahead sir.

Ahmad Madhav: Sir just wanted to understand the CMO business a little better button. So, the kind of products we have in the pipeline are this the full APIs or just the key starting materials and intermediates for the NCE?

Rashesh Gogri: In the CMO business we have largely the products are in KSM, RSM regulated starting material, key starting material, large component of them, we still also operate in few APIs, but 80%, 90% of the portfolio is in this first two segments.

Ahmad Madhav: Okay. And whatever shipments or the scale up which has happened in the last two quarter, so can you give some sort of understanding on what kind of products are there or what kind of products we are selling. Number two, will the consistency in the volumes will be there in the CMO every quarter or it will be fluctuating in second half or in one or two quarters, how will it function?

Rashesh Gogri: Basically, we will see quarter-to-quarter fluctuations, because normally these are multistage products that we produce and if we have orders of this product, then it may take more than a quarter to do the manufacturing and these are all campaign based products that our innovators, partners order with us. In terms of the profile of the products, these are all we are working with 21 which are already commercialized products, 19 products are under development. So, that is the current profile that we have.

Ahmad Madhav: And we will be the only sole supplier for the KSMs which we are supplying or there will be multiple suppliers?

Rashesh Gogri: Most of the innovators and the manufacturers they have multiple sources that could be a Chinese source or other European source possibly for these products.

Ahmad Madhav: Okay. So, are we seeing an shift from the other suppliers to us?

Rashesh Gogri: We are also basically trying to pitch in phase two, three when the innovators are looking for more commercially viable sources and that is where we are trying to pitch in and the movement is basically between the medicinal chemistry companies to those which are operating in that space to us, where we are more commercialized focused company. So, that is a shift which we are seeing. Geographically also, innovators have been largely dependent on China for KSM, RSM and they want to reduce their dependence on China for sure.

Ahmad Madhav: Okay. The second question is on the Xanthine derivatives. So, if I look at the standalone numbers and I look at the annual reduction in the top line, is it above 15%. So, can you share how was the volume growth in the price decline this year, the breakup between the volume and the prices?

Hetal Gogri Gala: Yes, there is definitely a volume growth or vis-à-vis last year as earlier we explained that one brownfield expansion that we did last year. However, the Xanthine prices have reduced drastically and along with that the raw material prices also have reduced so, because of that you are seeing the top line de-growth.

Ahmad Madhav: Can you quantify the price decline a broad range about 20%?

Rashesh Gogri: Price difference is around 20% to 25%. So, it will be around 20% to 25% price reduction and capacities have gone up by around 12% to 15%.

Ahmad Madhav: Okay, got it. And just want to clarify the CAPEX you said 600 crore CAPEX, so can you just break it down in the three projects which you are doing?

Piyush Lakhani: Yes, so the major one is going to be the Atali project, that is the greenfield project that is coming up at Atali in Gujarat, so that is going to be about 300 crores or so. Then additionally as Rashesh clarified in the beginning itself. We are expanding the Xanthine capacity at Tarapur and then there are additionally we are also going to continue to spend on intangible asset development also, another 40 to 50 crores will go on that.

Rashesh Gogri: Yes, and we are also spending almost 80 to 90 crores on the solar project this year.

Ahmad Madhav: 80 to 90 crore on solar plant?

Rashesh Gogri: Yes. So, that will basically take care of our 1/3 of our power needs, so once we have our own solar we will have huge savings in electricity, energy consumption, and spends that we have.

Ahmad Madhav: I just want to deep dive little bit in the CAPEX part. So, in Xanthine the capacity will go from 5000 to 9000, what will be the CAPEX for?

Piyush Lakhani: We are still working on the numbers. So, we are not saying, but the numbers would be in 130 to 180 crores in that range. So, we have still freezing those numbers.

Ahmad Madhav: And between solar plant what kind of ROI you are looking at, based on 80 crores, 90 crores CAPEX, number is large considering the size of our, so what will be the savings roughly?

Piyush Lakhani: Yes. So, the payback on that one would be less than five years, between four and five years and the terms rate of return could be about 20%.

Ahmad Madhav: Okay. This is my last question, so intangible development 40 to 50 crore costs. So all this we are capitalizing on our books or how?

Piyush Lakhani: Yes, so it goes under the intangible assets and the development initially and when the project is handed over to the plant then, at that time it gets capitalized and amortized over a period of this.

Ahmad Madhav: So, this year we had about 40 crores intangible asset cost, so how much did we book in the P&L?

Piyush Lakhani: See 43 crores was the total spend of which 17 crores was capitalized around 7 crores was digitally written off to P&L, and the other is still under development. So it remains under intangible assets under development.

Ahmad Madhav: Just finishing on this part. So, as soon as we commercialize the project we will book for cost on P&L is it?

Piyush Lakhani: Yes, correct.

Rashesh Gogri: Cost, it is amortized over five year.

Piyush Lakhani: It is amortized over five years so it goes into the block.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead sir.

Ankit Gupta: Sir, my first question was on the CDMO segment so, during the year if you look at our commercialize molecules have gone up by, like we have added five molecules in our already commercialized molecules of 16 which was there at the start of the year. So, the scale up that we have seen in the CMO CDMO segments has that been primarily because of this five new commercialized molecules which have been added. And, second part to that question was, do we have the commercialized molecule portfolio that we have, are there any molecules which have a potential to become blockbuster molecules and scale up to 200, 300 crore kind of revenue per molecule over the next few years?

Rashesh Gogri: Just to give clarity on this number. So, this is a cumulative number of the products that we are mentioning is that 21 commercialize we may not operate all 21 manufacturing may happen in the entire year. So, these are the projects which are still viable, and they are in the commercial stage. Whereas 19 products are in the developmental phase at our end. So, that is a breakup and every year, we may do some of them or we may do more of them. So, it depends on how the customer's requirements are and how they request us to produce these products. But these are the commercial products that we have with the extreme customers that we have. And in terms of overall, we have good projects of course, we can't share confidential details about the size and because we are bound by the confidentiality agreement with our customer.

Ankit Gupta: And the second part of the question, do you have some focus on your innovator that, some of these molecules, these molecules have a potential to become blockbusters and reach a scale of 200, 300 crores from a single molecule, not in the near term, but let's say, three, four years down the line when they scale up?

Rashesh Gogri: Yes. So, I did reply to you that we can't share that information, there are some good potential products that is what we can share with you now.

Ankit Gupta: Okay, sir. Sir, my second question was on the Xanthine part, Xanthine we are doing, despite significant decline in prices we are expanding our capacity in our business from around 5000 tonnes to almost 9000 tonnes and so, what is leading to this expansion such a big expansion and how are we seeing the growth in the segment over the next two, three years?

Hetal Gogri Gala: Typically, all our customers are looking at us as a sustainable partner and to have a significant portfolio on their purchasing list, we find it, it is important for us to expand and be a world standard capacity for Xanthine business and that is a reason why we are expanding. And as everyone also is seeing, China Plus One is very important criteria for all the customers in current times.

Ankit Gupta: So, we already have tied up for this incremental capacity which is coming up, like we have indications from our customers for that?

Hetal Gogri Gala: Yes, the indications are there and beyond that it is confidential to share more details.

Ankit Gupta: On the API Intermediates part we saw top line growth of around 9% last year. So, what is the outlook for this segment, how do you see this segment shaping up for us over the next two, three years?

Hetal Gogri Gala: Yes, so there is, as Rashesh explained in his speech, we have a lifestyle APIs which are sustainable and which are seeking nature where, anti-cancer, anti-diabetic range of products, which we are looking at some growth potential in coming years.

Moderator: Thank you. We take the next question from the line of Nitesh Dutt from Burman Capital. Please go ahead, sir.

Nitesh Dutt: My first question is, is it possible for you to quantify the economics for your three segments differently, so basically ROE or ROCE, gross margin and EBITDA respectively for Xanthine and non-Xanthine, CDMO and APIs I understand it might be clubbed, but for Xanthine and non-Xanthine, if you can separately clarify.

Piyush Lakhani: Currently we are not doing this classification, maybe we will look at it if there is a possibility of doing it in future.

Nitesh Dutt: Got it. Sir on Xanthine side. So, the end market demand of Xanthine derivative in my understanding is growing at a 5% to 7% CAGR. Now, with 15% to 20% market share, you are a sizable player already globally. So, if I look at a longer term horizon right, five to seven years, will you be growing at a similar rate as the end market or are you looking at a much faster growth rate and what will support this growth?

Piyush Lakhani: As you know that we 15%, 20%, in terms of market share with these large customer, but they are definitely requesting more quantities for us, from us. And that's why we are expanding and as Hetal mentioned that, we wouldn't be doing this expansion wisely to ensure that we remain a very sizeable player in this market among top three in the world. So, that is the endeavor that we have, we have sizeable capacity available for their requirement. Overall, we see developed market growing, Indian market is also growing in terms of demand and we also see diverse usages of these Xanthine derivative in home and personal care and we have also, I was reading an article today that there is a possibility of usage of Xanthine derivative in the EV space also. So, there are newer end usages which we anticipate may come apart from the traditional end usage of the Xanthine derivative there is a possibility of that also.

Nitesh Dutt: Si, you were previously also hinted at new capacities for Xanthine in China, et cetera and now as you are also significantly adding capacities, so do you foresee any kind of overcapacity scenario in the market and especially competition from Chinese players and also this 9000 empty capacity how soon do you think you will be able to utilize that effectively?

Hetal Gogri Gala: Since it is a brownfield projects, just to answer to your second question, the capacity utilization can be relatively faster, though the approval gestation period will be there, but we see that we will be able to have the capacity utilization within two years' time and yes, there is going to be a significant capacity. And as I mentioned earlier, the strategic geographical which we would want to bring in and our customers are also excited on the expansion front with us.

Piyush Lakhani: So, basically the advantage that we are giving to our customers is completely non-dependence and also the green and sustainable manufacturing assets that we have, with the green power that we are now investing in and our overall total carbon footprint also much better than the other competitors.

Nitesh Dutt: Got it. So, sir basically you don't foresee that overcapacity might be a challenge because of non-China and sort of green product your value chain and second, if it is active at the end of FY25, expansions happen by the end of FY25 by FY27 you are expecting to utilize it fully. If I got it correct?

Piyush Lakhani: Yes.

Nitesh Dutt: Okay. And sir on your P&L, this quarter OPEX has seen a drastic increase of 35%, Q-o-Q and 27% Y-o-Y so that is one, what do you see as a normalized level and second, our tax rate has also been 32% in Q4, and 28%, for FY24. And there are some deferred tax liabilities of +100 crore, so want your input on OPEX and tax rate?

Rashesh Gogri: Yes, so the OPEX in this quarter has been higher. The major component we earlier also touched upon was, there's a write down of R&D, the projects in R&D as to the tune of almost 6.5 crores and also in line with the increase in the sale there has been an increase in the freight. So these two are the major components which has basically contributed to the increase in OPEX, quarter-on-quarter and Y-o-Y but if you see year-on-year it has barely grown by four crores, so from 303 to 307 on consolidated basis.

Moderator: Thank you sir. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead sir.

Dhwanil Desai: Sir my first question is on the CDMO, so you talked about development on the peptide side. So, if you can talk a bit about capacity development on some higher entry barriers things like ADC, peptides, sterile, where are we on that capacity and capability building. And, a question tied to that globally with GLP one thing, there is a lot of shortage on the API side, which are peptides and bill to finish side. So are we anywhere there in that value chain present?

Rashesh Gogri: Yes, as you rightly mentioned that these are high barrier research which requires us to enter the segment and endeavor with the new R&D center and the newer capabilities of the customers that have joined us in this new R&D center is to establish this business going forward, and it will take couple of years two to three years for us to gain confidence and have more skill sets and some manufacturing assets being put up simultaneously to develop these segments in future. So, that is what I mentioned that we have started the journey, it will take two, three years for us to see some light of the day in this area.

Dhwanil Desai: Okay. So it's safe to assume that Atali expansion in current form doesn't include any of this. That's safe to assume?

Rashesh Gogri: No, we are investing in R&D assets. Currently, we are investing in R&D assets for the peptide R&D and we are also investing in the flow chemistry and other newer chemistry where we can do the high barrier research.

Dhwanil Desai: Okay, got it. And second question sir on the API side, the API expansion, the validation and everything should start and kind of get completed. So, API moved from 550 to 600 crore this year. So, do we look at slightly better growth, ones this, because now this capacity will come on stream and we will start utilizing that and when do we expect 60%, 70% utilization of this additional API capacity that we have put up?

Rashesh Gogri: Yes, Hetal do you want to take this question?

Hetal Gogri Gala: Yes. So, most of the validations are completed and we have DMS got approved and from this year onwards we will see the growth coming in from the additional blog that we put up last year.

Dhwanil Desai: Okay. So, 10% growth that we had last year. So, should we expect better growth because now the capacities are in place?

Rashesh Gogri: Yes.

Hetal Gogri Gala: Yes.

Moderator: Thank you, sir. The next question is from the line of Rahul Agarwal from Himalaya Investment Advisors. Please go ahead.

Rahul Agarwal: My question is also on the CDMO side, you said that the main work that you are doing maybe KSM and RSM so, are you supplying these to the API manufacturers who in turn make the UPIs and sell to innovators or are you working directly with innovators?

Hetal Gogri Gala: We do both.

Rashesh Gogri: Yes, in the space of CDMO/CMO whatever the API's are made by whichever partners all the rights and patents are assigned to the innovator only, and innovator completely understand who are the KSM RSM provide. So, whoever may be working ultimately we are working with the innovators at the end of the day. So, an innovator is aware that Aarti is working with them directly, indirectly and collaborating with them for this project.

Rahul Agarwal: I understand and typically in the CDMO space, what stage do we get involved in, do we get involved in after the innovator has received commercial approval or we get involved a lot more during the phase one, phase two trials as well?

Rashesh Gogri: See, there is a preclinical phase and there is a clinical phase and then there is a commercialization phase. So, there are three phases. So, we largely do and we are not doing too much work in the preclinical phase, we do clinical phase largely late clinical phase and the commercial phrase. So, most of the projects that we are getting entry and where we are working more closely is the middle segment, clinical phase where we are partnering with them and then once the product become commercial we can see large growth happening in the projects which are passing through this clinical phase approvals.

Rahul Agarwal: Understand. And the choice of working with Aarti's made by the intermediate supplier or by the innovator who makes that decision?

Rashesh Gogri: Innovator is making decisions.

Rahul Agarwal: Understand. And typically what would be our market share for the molecules where we are working, you mentioned we won't be the sole supplier, but like typically also supplies of the KSM or RSM that we are supplying what percentage would be from us and what percentage would be from other suppliers from China and Europe? So, sir you mentioned that the primary raw material facility for Xanthine is currently non-operating because we are sourcing the raw materials and metal grinding from China. So sir, can we use that facility for any other product?

Rashesh Gogri: Yes, we are trying to develop new projects also based on that capability and in future coming years we will see that happening also. And those products will be value added products.

Rahul Agarwal: And sir next question sir, you mentioned the big rationale for investing into lancing incapacity is because a lot of innovator companies and our customers are trying to find an alternative other than China, sir but is it not like because we ourselves are sourcing the raw materials from China, so that doesn't directly reduce their dependency on China. So, just wanted to get a bigger picture on how are the customer guiding us on Xanthine and what is the big rationale for expanding into this?

Rashesh Gogri: We have capabilities of completely being zero dependence on China so only one intermediary that we have an option to buy from China or manufacture ourselves, but other than that all other 30 raw materials are being sourced from elsewhere. So, that is the rationale that they have and we have developed and demonstrated the capabilities to do that also, and we are operating time to time that facility also because we have to keep that ready just in case.

Moderator: Thank you. We take the next question from the line of Gaurav from KCM. Please go ahead sir.

Gaurav: So, I have two questions. So, first as you said that, we have increased the capacity from 4000 to 5000 in the Xanthine so, that 1000 in the FY23 we have increase the capacity so, whether it is for export or we are consuming it domestically?

Rashesh Gogri: Export.

Hetal Gogri Gala: Export.

Gaurav: Okay. And the second one is, are there any approvals required for this increasing capacity from 5000 to the 9000. And what are the price delta for the pharma and food and beverages end use, because in the report, it is mentioned that we are increasing the end use as a food and beverages?

Hetal Gogri Gala: Yes, so the difference is pharma, currently we are not present in the regulated pharma space in Caffeine and Theophylline for CEP and USDMF. But with the new expansion we will enter into that space as well along with an increase in the food and beverage. The volumes are much bigger in food and beverage relatively compared to the pharma. So, pharma has a better realization, but at the same time the volumes are lower.

Gaurav: Okay. So, are there any pending approvals for?

Hetal Gogri Gala: This is regarding to the, since we are doing a brownfield project the approvals for the new capacities will be easier compared to the Greenfield project.

Gaurav: Okay. And in the past if you see in the two to three years, the size of the Caffeine was very high and that was the reason why we were able to achieve the good margins. So, are there any, now that the prices are reducing day-by-day so, are there any preparations done by Aarti to overcome that and sustain the margins?

Hetal Gogri Gala: Yes, so along with the finished good prices, the raw material prices also have come down to relatively same level and at the same time with these solar projects. And we are continuously working on the improvement on manufacturing cost as well as on the raw material cost. So, that is a continuous practice at our end and we will see going forward, our endeavor is to be always competitive.

Gaurav: And are we trying any backward integration for the manufacturing of synthetic Caffeine?

Hetal Gogri Gala: So, we manufacture synthetic Caffeine only and as we have earlier mentioned that we have an option to be fully independent of China and have a lot of our intermediate manufactured in-house by Aarti and the group companies of Aarti apart from and the other intermediates to be bought from India alone.

Gaurav: Okay. And now we are increasing capacity to 9000. So again, 4000 tonne capacity so are we seeing any opportunities domestically or exporting the whole?

Hetal Gogri Gala: It will be both good.

Moderator: Thank you. The next question is from the line of Ashish Agarwal an Individual Investor. Please go ahead sir.

Ashish Agarwal: So, I just wanted to know like, the brownfield expansion that we are doing in Atari for 300 crores kind of thing, how much is the asset term that we expect there in a year's timeframe?

Piyush Lakhani: Atali is a greenfield expansion, it is not a brownfield expansion.

Ashish Agarwal: Yes, sorry greenfield.

Piyush Lakhani: Yes. So, in the greenfield expansion, the endeavor is to get +1 asset turn, 1 to 1.2 depends on the number of stages that we are doing ultimately the idea is that how do we get the gross margin improvement with these newer assets. So, gross turn even if it is lower, the number of stages that we are adding and the margin profile of the product that we will do there will define the profitability of these new assets. And as you know, once we are doing more and more CDMO/CMO work and that side gets operationalized with those large requirements of the customers we will have good overall gross margins may not have great asset turn of more than one, we will see how it goes.

Ashish Agarwal: Okay. And how about the other greenfield CAPEX apart from this, you had a total of 600?

Piyush Lakhani: So, there are only two greenfield CAPEX is that we are doing, total Atali project was the 375 crore apart from the land cost. And the greenfield project that we are doing with the solar where we are spending close to 80 to 90 crores for the solar. So these two timeline projects are close to 500 crore.

Ashish Agarwal: And solar you have mentioned.

Piyush Lakhani: We have already spent some money. Solar will be operation in the currently year only, that will be operational within end of this year, last quarter it will get operationalized.

Ashish Agarwal: And pay back would be five to six years payback will come?

Rashesh Gogri: Four to five years.

Moderator: Thank you sir. We take the next question from the line of Rahul Jain from Credence Wealth. Please go ahead sir.

Rahul Jain: Sir with regards to the Xanthine project of 5000 to 9000, in how much time do we expect to start this project or by when do we start the project?

Rashesh Gogri: It will be done in phased manner; we will have 12 to 15 months in which we will be able to complete the expansion.

Rahul Jain: 12 to 15 months from today?

Hetal Gogri Gala: Yes.

Rahul Jain: And typically how much time it will take to ramp this up to the optimum utilization?

Rashesh Gogri: Two years after the expansion is completed.

Rahul Jain: Okay. And sir this year that is FY25, because that means the new additional capacity will start generating sales from FY26 onwards. So, current year for FY25 so do we feel the volume growth given the optimum utilization, what kind of volume growth do we expect this year FY25 on Xanthine, or will we be short of capacity?

Piyush Lakhani: So, whatever current utilization is 90% so, we will try to increase the utilization, our endeavor is that how we can go to 95% or more. So, that is what the endeavor is, but however as it is a brownfield expansion we will also be carrying out certain modification in the existing assets. So, with that and we will have more disruptions also so it's a mixed bag, we will ever see how best we can utilize our assets.

Rahul Jain: Okay. And sir, just to clarify in the previous call, we have been mentioning about Atali CAPEX giving an asset turnover of somewhere around 1.6 to 2 times. So, just to understand you just mentioned it is around 1 to 1.2 times. So is there some change in what we are doing?

Piyush Lakhani: That 1.6 to 2 number needs to be revisited.

Rashesh Gogri: No, I don't think that number, there is some confusion for that number.

Moderator: Thank you. We take the next question from the line of Ahmad Madhav from Unifi Capital. Please go ahead.

Ahmad Madhav: Just one question, if you look at the amount of CAPEX we have done in the last three odd years and also in the next two years which you have guided, my guess is you have roughly doubling the gross block between FY22 and FY26. And if we look at the guidance which you are giving in terms of 10%, or 12% to 15%, are you being too conservative or how should I look at because I am not able to synthesize between the CAPEX we are doing and the growth guidance we are giving?

Rashesh Gogri: Currently, our gross block is close to 1000 crore and we are going to add another 600 crores of gross block in this next year or 15, 18 months. So, with that we will have a sizable almost 50%, 60% additional gross block and this is definitely going to add an overall, it is going to add to the bottom line and profitability of the company. So, the guidance that now we have, earlier it was 12% to 17%. Now, we are saying that it will be 16% and more. So, that is what we have done is, we have improved the guidance overall.

Ahmad Madhav: Okay. And in terms of working capital, is there any scope for squeezing or no, improving it, from the coming tonnage or this is the steady number?

Piyush Lakhani: No, in terms of number of, the absolute amount we think it will remain at this level, but in terms of number of days, we are trying to get it down.

Moderator: Thank you sir. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: Sir, I had a pending question on our taxation rates. So, for Q4, we had a tax rate of 32% and entire year 28%. So, want to understand what is the normalized tax rate for us and also there are 107CR of deferred tax liabilities. So if you could just elaborate on that and these have increased from 80CR earlier?

Rashesh Gogri: Yes. So, let me answer that. So basically, to answer the question on the normalized tax rate t should be around between 25 and 25.5 of PBT. The reason why along in Q4 and the entire year, the tax rate has gone up is because of the operationalization and capitalization of the new R&D center which has come in in Maharashtra. So, in R&D as you know, in tax we get 100% deduction, whereas in books it has just come in Q4. So that has created the difference and that different goes as a deferred tax liability.

Nitesh Dutt: Alright. And sir on Atali as you mentioned 1 to 1.2 times effect on. So, if we just assume 20% odd EBITDA margins which you have been making and roughly 180 days sort of working capital. Our ROIs would likely be in low teens. So, what kind of ROCE ROE are we targeting from this project on optimal utilization?

Rashesh Gogri: We will see, because the Atali project is largely directed towards the CMO CDMO also so overall as the pie increases we will see uptick in the gross margins also. So with that, we will have a better number than what you are.

Nitesh Dutt: Okay. Also sir, on the intangible assets side which you had elaborated on earlier on the balance sheet. I want to understand the nature of these capitalizations that you are making, what kind of expenses are these, so both intangible assets and the development of 58 crore and also other intangible assets of roughly 17 crore that you have?

Piyush Lakhani: No, see other intangible assets are the capitalization of these products which we do R&D on. So, once they are handed over commercialized, they move under intangible assets from intangible assets under development.

Nitesh Dutt: If you can just elaborate on what kind of expenses are being capitalized like, is it the salary of employees, material expenses?

Piyush Lakhani: Yes, so the expenses which are directly attributable to the R&D activity, so, as you rightly said it is salaries of all these people, scientist working on the development as well as the consumables, the RMC, the raw materials that are used, the other direct attributable costs like consumables.

Nitesh Dutt: Understood. Last question from my side is on Vapi, the CAPEX that you are doing. So, how big is the unit, how much are you planning to spend and again what kind of revenue potential or traction do you expect from it?

Rashesh Gogri: Semi-commercial block expansion is not a very large expansion, but it is going to fill in the gap that we had and it may not have too big material impact on overall top line or bottom line but it is going to provide us more seeding projects which can have future potential for our Atali and Vapi assets.

Nitesh Dutt: Got it. And sir would you like to give any EBITDA margin guidance for the standalone business?

Rashesh Gogri: 20% to 22%

Nitesh Dutt: No, I am asking about margin.

Piyush Lakhani: We are basically tracking more the absolute number increase as we earlier said, margins is a function of top line which in turn is an function of, at least in some segment the function of finished goods price.

Moderator: Thank you. The next question is from the line of Pratik Banthia from Girik Capital. Please go ahead.

Pratik Banthia: Just want some clarification on your CAPEX. So, in FY25 how much is going to be the actual cash outflow on account of CAPEX?

Piyush Lakhani: Around 550 crores on tangible and around 50 crores on intangible So, we are looking at some, anywhere between 550 and 600 crores of CAPEX on both intangible as well as tangible assets.

Pratik Banthia: Okay. So, in our previous presentations Atali project CAPEX is about 350 to 500 crore in phase one is what is written, so is there any change in that number?

Piyush Lakhani: So, there is no change but then some of that CAPEX has already happened in this year.

Pratik Banthia: So, how much has happened out of that, so what is the Atali CAPEX total for?

Piyush Lakhani: The total estimated CAPEX that we had anticipated is about 375 crores.

Rashesh Gogri: Apart from the land.

Piyush Lakhani: So, land acquisition had happened a couple of years back.

Rashesh Gogri: 50 crores

Piyush Lakhani: Yes, that was another 50 crores.

Pratik Banthia: Okay. So, that was spent before?

Piyush Lakhani: Yes.

Rashesh Gogri: It's a very large land parcel that we have, we have close to 80 acre land and where we can do current expansion kind of 10 expansions. So, we can put 10 blocks of +100 crore CAPEX in the same site. So, now the trend is that we put a large site which does not require re-audit, or re-approvals from the innovators or the regulatory authorities and that is the concept that we are driving with this Atali expansion, the deal we won very large site where we can rationalize the cost of manpower due to consolidation of manufacturing assets.

Pratik Banthia: Okay. So, 375 is the actual Atali CAPEX and how much you spend in 24 out of this?

Piyush Lakhani: Around 30 crores.

Pratik Banthia: Okay. So, largely you will be spending the entire CAPEX in 25 and then this 80, 90 crores solar is something new?

Hetal Gogri Gala: Yes, that was approved during the FY24.

Pratik Banthia: Okay. So, this 340 of Atali you will be spending and plus you will be spending 80, 90 crores on the solar?

Piyush Lakhani: Correct.

Pratik Banthia: And plus 40.

Rashesh Gogri: Plus brownfield of Xanthine.

Pratik Banthia: Okay, and how much will be Xanthine 150 crore odd?

Piyush Lakhani: As it was clarified it is still being frozen but that's the kind of numbers. it would come to.

Moderator: Thank you. Ladies and gentleman, we take that as the last question, and I now hand the conference over to the management for closing comments.

Rashesh Gogri: I would like to thank all the investors and analysts for joining our concall, good day.

Piyush Lakhani: Thank you.

Moderator: Thank you. On behalf of Aarti Pharmalabs Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.