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

BSE CODE – 524348

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

NSE SYMBOL: AARTIDRUGS

Dear Sir/Madam,

Sub: Transcript of Q2 FY25 Earning Conference Call

Please find attached herewith transcript of Q2 FY25 Earning Conference call.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR AARTI DRUGS LIMITED

RUSHIKESH VIVEK DEOLE
Digitally signed by RUSHIKESH VIVEK DEOLE
Date: 2024.11.02 17:28:36 +05'30'

RUSHIKESH DEOLE
COMPANY SECRETARY & COMPLIANCE OFFICER
ICSI M.No.: F12932

"Aarti Drugs Limited

Q2 & H1 FY '25 Earnings Conference Call"

October 25, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 25th October 2024 will prevail

Management: Mr. Adhish Patil – Chief Operating Officer & Chief Financial Officer, Aarti Drugs Limited
Mr. Harshit M. Savla – Joint Managing Director – Aarti Drugs Limited
Mr. Harit Shah – Whole-Time Director, Aarti Drugs Limited
SGA, Investor Relations Advisor – Aarti Drugs Limited

Moderator: Ladies and gentlemen, good day, and welcome to Aarti Drugs Limited Q2 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participants' 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Adhish Patil, CFO and COO. Thank you, and over to you, sir.

Adhish Patil: Thank you. Good morning, and a warm welcome to everyone present on the Earnings Conference Call of Aarti Drugs Limited. On this call, we are joined by Mr. Harshit Savla, Joint Managing Director; Mr. Harit Shah, Whole-Time Director of Aarti Drugs Limited; and Mr. Vishwa Savla, who won't be in the call; and SGA, our Investor Relations Advisor.

I hope everyone had an opportunity to go through the financial details, press release and investor presentation, which we have uploaded on the Stock Exchange and on our company's website. Let me begin with the highlights of Q2 and H1 FY '25 financial performance.

During the last quarter, on a year-on-year basis, there is a drop of revenues and profitability, mainly due to lower realization driven by negative rate variance and deeper market demand in the API business. The volumes have remained flat on year-on-year basis, whereas on a quarter-on-quarter basis, we have seen a volume growth of 8% in API segment.

Looking ahead, we are optimistic about further improvement in pricing, which should support continued growth in FY '25. EBITDA stood at INR68.5 crores with EBITDA margin at 11.5%. PAT stood at INR35 crores. Going away by the end of FY '25, we anticipate an improvement in margins, mostly driven by upturn in selling price levels and an anticipated demand growth in export sales.

On a stand-alone basis, the revenue stood at INR543.1 crores as against INR577.5 crores, down by 6% on Y-o-Y basis, with 66% of the revenues coming from domestic market and 34% from the export market. For the quarter gone by within the API business, the antibiotic therapeutic category contributed approximately 40%, antidiabetic around 18%, antiprotozoal around 17%, anti-inflammatory around 10%, antifungal around 10% and rest contributed around 4% to the total API sales.

Formulation segment revenue stood at INR65.6 crores for the quarter, with exports contribution of around 53%. In H1 FY '25, revenue from formulation segment stood at INR136.6 crores. The greenfield project at Sayakha, Gujarat for Specialty Chemicals is on track, which we plan to come in, in this quarter. With this, the operating leverage is expected to kick in from the second half of the year with improved capacity utilization and more backward integration. The production of Salicylic Acid had commenced at the beginning of this financial year. We are still to ramp up the capacity of Salicylic Acid to the full potential.

Currently, we are producing roughly around 100 tons per month. There have been certain teething issues and we expect to ramp up the production to 300-plus tons per month by the end of the current quarter. In total, we have capacity of 1,800 metric tons per month, which will ramp up in a phased manner throughout FY '25 and FY '26.

During H1 FY '25, the company has incurred capex of approximately INR90 crores, mainly towards capacity expansion and the greenfield projects, backward integration and new product launches. We anticipate a total capex of roughly around INR200 crores for the full year. This capex would be mainly through internal accruals and partly through term loans.

In September 2024, the company has completed the buyback of 665,000 equity shares at a price of INR900 per share. Face value of INR10 each fully paid up in September 2024. The company continues to strive to maintain payout to the shareholders while continuing to invest in the next leg of growth. The pharma API manufacturing industry is constantly evolving and we are committed to staying ahead of the curve.

We continue to expand our capabilities and enhance our confidence to meet the ever-changing needs of our customers. We also plan to invest in new technology and equipment that will help us streamline our processes and improve the efficiency. As we navigate through short-term challenges, our commitment to overcoming obstacles and achieve long-term success remains steadfast.

Our journey may be marked by uncertainties, but it is also defined by collective ability to adapt, innovate and emerge stronger. I reiterate on the positive outlook for both our API and non-API business. Our ongoing projects, coupled with optimized capabilities will serve as a cornerstone of steady growth in coming years. Importantly, we anticipate continued growth in exports within the formulation business as well.

I would also like to point out that this was the first year where we had published our sustainability report. It is published on our website. Please have a look at it because we strive to reduce our carbon footprint in spite of having the leading capacity in manufacturing sector of API industry. We would still like to reduce our carbon footprint and contribute to the environment.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Rashmi Shetty from Dolat Capital. Please go ahead.

Rashmi Shetty: I just want to know what was the negative rate variance in quarter 2 on a Y-o-Y basis? And how much was it in H1 FY '25 in the API segment?

Adhish Patil: Rashmi, so Y-o-Y basis, we have seen around 7%, 8% negative rate variance for the quarter 2. For the quarter 1, it was a little higher. But now as quarter-on-quarter, the rate variance is hardly 0.5% at a composite level. So we have seen some products going up, some products going down. So it has more or less stabilized. However, I would like to point out that in certain antibiotic products, we are still seeing a slight decline in selling prices as we start the current December quarter.

Rashmi Shetty: But can you quantify how much is the negative rate variance in this quarter 2, quarter 1 as well as in first half? And how much are you expecting that it should come up in the second half of FY '25?

Adhish Patil: Yes. So the quarter-on-quarter is approximately -- there is no rate variance. On quarter-on-quarter, it's hardly minus 0.5% or something in June quarter versus September quarter. Whereas September versus September '23, there is around 7%, 8% rate degrowth.

Rashmi Shetty: And in first half?

Adhish Patil: Composite level, I don't have the number right now.

Rashmi Shetty: Okay. How much are you expecting in H2 that this 7% to 8% should come up to what number on a Y-o-Y basis?

Adhish Patil: It should go down because last year, from September month onwards, the pricing had started correcting as far as raw materials are concerned. And December also a lot of -- December quarter, a lot of things were corrected and which continued till I think month of January and then it got stabilized last quarter -- last year that is. So it will be I think low single digits probably.

Rashmi Shetty: Low single digits. Okay. And the Salicylic Acid, the sales which has commenced, it will be part of your API segment, right?

Adhish Patil: Yes. But the applications of Salicylic Acid is quite varied in the sense it goes in manufacturing of various salicylates, which have application in flavor and fragrance industry, perfumery industry as well as cosmetic industry. So it's tough to classify as API because it also goes as an intermediate for manufacturing of aspirin as well. So it will be a mixed category.

Rashmi Shetty: Understood. So how should we look at the API segment growth for FY '25, because in first half we are showing a decline of around 10% but your rate variance could come off -- the negative rate variance could come up in second half. At the same time, volume growth is also improving. So for the full year, we will still see a decline or there could be some flattish growth, because I'm just talking from an API segment perspective, excluding your Specialty Chemicals?

Adhish Patil: Okay. The current utilization of the API segment is roughly around 78% roughly for the quarter of September. So with 543, if you subtract the Specialty Chemicals, then that is roughly around 78% of the utilization. So it still has a scope to increase, whereas we are adding a certain capacity for antidiarrheal products of Metronidazole, then we are planning to increase the capacity going forward. And we have added Fluconazole, which is an antifungal product involving product basket so that would contribute and rest would come from the higher utilization of the current capacities.

Rashmi Shetty: Yes. So any sort of guidance if you can give, like on FY '25 and FY '26 basis, how this API segment growth should look like?

Adhish Patil: Actually, we'll have to rework on these numbers based on current pricing level. But I can give you one indication that with current pricing level and our current capacity, it will roughly give now a potential revenue of around INR2,750 crores on a stand-alone business, which will include both API and spec chem.

Rashmi Shetty: API and spec chem.

Adhish Patil: This is excluding the greenfield projects.

Rashmi Shetty: Okay. And this is below you are targeting for this year?

Adhish Patil: No. We are not targeting for this year. Out of this only as of now, around 78% is being done as far as quarter -- September quarter is concerned.

Moderator: The next question is from the line of Raaj from Arjav Partners.

Raaj: How much is the price drop in quarter 2?

Adhish Patil: With respect to -- last year, it was around 7%, 8% same quarter. And with respect to June quarter, it is hardly minus 0.5%.

Raaj: So Q-on-Q prices dropped by 0.5% and year-on-year, it has dropped by 7% to 8%, right?

Adhish Patil: Correct.

Raaj: Even in the earlier calls, we have guided for INR4,200 crores to INR4,500 crores of sales in the next 3 years' time. So I wanted to know the outlook for the full year FY '25 and FY '26.

Adhish Patil: So the thing is with the total guidance, that was the potential guidance for coming 2 to 3 years' timeline. So we would like to revise it down because of the current API prices. So what we feel that -- now I think that the current potential will be anywhere between INR3,500 crores to INR4,000 crores as far as current pricing levels are concerned. But if there is any increase in the pricing, that will definitely help us bring in that original number.

Raaj: All right. And sir, about the EBITDA outlook for the next 3 years?

Adhish Patil: So EBITDA, our efforts will always be to reach a target of around 14.5% to 15.5% because that is what we historically used to manage. Definitely, there were a lot of challenges in the last couple of years in terms of volatility of pricing of raw materials plus the coal was very high, but now that has also corrected plus the power rates have gone up. But there also, we are taking steps to release our power rate by going into renewable energies. So with all those efficiencies back in place, we feel that we should be targeting around 15% to 15.5% EBITDA in the long term.

Raaj: All right, sir. And sir, about the price drop in the API. So what exactly is the issue? Is it an oversupply situation? Like is it a demand issue or there's excess inventory stocking?

Adhish Patil: Yes. So the primary reason would be the fall in the raw material prices, that is the primary reason. However, that is coupled with a lot of secondary reasons. Like in first quarter, there was a bit of overstocking issues and there was lack of demand, both in domestic as well as export market, especially in the export market, which was also because of the fact that there are a lot of elections going around in most of the export geographies.

So now the export demand should come back. We have already seen a little bit of uptick in the number of inquiries as far as the export markets are concerned. So there are a lot of secondary reasons as well like, overstocking or the elections, other macro conditions. But the primary reason continues to be the raw material prices.

Raaj: Understood. So, sir, do we see any sales growth for FY '25? Or will it be a year where sales will go down slightly?

Adhish Patil: The sales should be flattish because the thing is earlier, we had thought that even if at the entire for the year, at the composite level, even if there is 7% to 8% negative rate variance, by having around 15% volume growth, which we should still be able to post a high single-digit growth number as far as value was concerned but that was our outlook at the beginning of the year when we started the year.

But right now, because the first two quarters, there was lacklustre demand, so we were not able to recover that loss in value because of the negative rate variance. So we feel that this FY '25 might look flattish by the end of the entire FY '25 versus FY '24.

Raaj: All right. And sir, about FY '26?

Adhish Patil: So FY '26 should be a turnaround story because of our Salicylic Acid plant once is streamlined because of the steaming issue. Because that is a big project for us, it does impact the bottom line quite heavily. So in fact, even this quarter, I would point out that around INR5.5 crores impact was there at the bottom line just because you can say we are not able to absorb those increased overheads because of the lower production and the potential. So once that is ramped up, the capacity increases, the operating leverage will kick in, that will help us reduce those losses.

Raaj: All right. And sir, when do we expect to ramp up the production of Salicylic Acid?

Adhish Patil: So it's going on step by step. So in October month itself, we will be slightly ramping up. Then in November month, we are internally targeting at least to go beyond 200 to 300 tons per month. And then we will sequentially keep on ramping it up. And once the problems are solved, then the ramping up would be quite faster.

Raaj: Understood. So sir, how much is the sales per ton and EBITDA per ton in this product segment?

Adhish Patil: So the sales potential with the reduced prices would be anywhere between INR275 crores to INR300 crores market potential is there for Salicylic Acid. However, there are a lot of derivatives of Salicylic Acid like methyl salicylate, acetylsalicylic, hexyl salicylate and benzyl salicylate. In fact, those derivates go for export market, whereas Salicylic Acid, if you want to sell, we'll be selling in the domestic market.

So with the fall in prices in the Salicylic Acid, that has mainly come because of the dumping from China. Earlier, the prices were at the level of INR150 to INR160 per kg. It has now come down to INR125 to INR130. But because of the fall, now the salicylates are looking more attractive. So we are thinking of going ahead to have capacity for salicylates in case we are not able to make money in salicylic acid, then definitely salicylates will definitely make more money.

Raaj: All right. And sir, you have an outstanding CWIP of around INR300 crores. So when exactly all this capex is expected to come on stream?

Adhish Patil: Yes. It is slightly lower than that now. So this mostly should come by this December quarter because our Saykha plant, the big greenfield project will be going online. So once it is done, then it will get transferred to fixed assets.

Raaj: All right. So, we are expecting around like INR300 crores of capex to come on stream by Q3 FY '25 end?

Adhish Patil: Roughly. Mostly Q3 itself, if not then, at max Q4, but this year itself.

Raaj: All right. And sir, do we have any further capex plans for FY '26?

Adhish Patil: So we have been doing small brownfield expansions like enthroning blocks, putting more production work. So, we do have a land parcel for cardio protectants and for anti-diarrheal, we have already taken the steps. Anti-diarrheal will come online in a month's time. We already got a CTO as well, to operate for that facility.

And plus, we do have some plans for long-term expansion. And then the plan for future growth, I would say beyond INR3,500 crores to INR4,000 crores of turnover, the plan is still on paper. And once we decide, finalize the products, which we want to go ahead with and then we'll start launching those in the land parcels, which we already have in the industrial sector.

Raaj: Ok sir, thanks, all the best.

Moderator: The next question is from the line of Chirag Dagli from DSP Mutual Fund.

Chirag Dagli: How is our metformin production scaling up?

Adhish Patil: The metformin demand has picked up well, frankly speaking. So, we are selling around more than 1,000 tons to 1,200 tons per month for the last quarter.

Chirag Dagli: Understood. And here, if I remember correctly, we can be at 1,800.

Adhish Patil: So right now, we do have a capacity of around 1,350 to 1,400 tons per month in between. So the plan was to scale it up to 1,700 to 1,800 in a very short term. But for that, we also have to go through the amendment of EC and everything.

Chirag Dagli: But there is no hurdle on that one?

Adhish Patil: Not right away, but then there is one challenge, that we were supposed to get the land parcel adjoining that facility. So that was a little bit delayed because of some other reasons, the governmental reason. Once you get that, then it will be much easier for us to scale up quickly.

Chirag Dagli: And Adhish, is there visibility beyond 1,800 for this product? Or do you think...

Adhish Patil: No, definitely. So once you get that land parcel, frankly speaking, we have visibility of around 3,000 tons per month. It is possible we have to go probably forward integration is need probably for this product because most of the competitors in this line are going that way. Because fortunately, we do have our 100% subsidiary incremental. So that support is there. So ultimate potential, the long-term gain is about 2,000 to 3,000 tons per month.

Chirag Dagli: Understood. And this product is fundamentally more profitable than the rest of the business?

Adhish Patil: So see -- so in a bad business cycle, the other products have done better than this. But on a steady state, we still feel that this -- because this is anti-diabetic segment, so it should be like growing product. Even now, it is growing at a good pace. So we are committed to this particular product. So we think the future is better than rest of the products for this particular product.

Chirag Dagli: The second one is on the capital working progress of slightly less than INR300 crores. Does that include the Derma facility, the Derma thing is already online, right?

Adhish Patil: Yes. The thing is in Derma, probably 1 or 2 plants, means 1 or 2 sections, that has to go online.

Chirag Dagli: On that, we are already taking the depreciation?

Adhish Patil: Yes. We are taking the depreciation. In fact, we are taking almost around some INR3.5 crores to INR4 crores per quarter. We are taking a hit in interest plus depreciation.

Chirag Dagli: You said INR5.5 crores impact on -- that was on PBT level, is it?

Adhish Patil: That was on PBT level, correct.

Chirag Dagli: PBT. So of that PBT, INR4.5 crores is depreciation interest and about INR1 crores...

Adhish Patil: No. INR3.5 crores to INR4 crores.

Chirag Dagli: INR3.5 crores to INR4 crores is interest depreciation and the balance may be INR1.5 crores - INR2 crores

Adhish Patil: Around INR2 crores is the EBITDA.

Chirag Dagli: And the INR600 crores capex that we embarked on starting FY '22, it looks like most of that is already including

Adhish Patil: Correct. Most of it will be done by this year itself.

Chirag Dagli: We should broadly be done with that capex?

Adhish Patil: Yes, it should be. Correct.

Chirag Dagli: And -- so INR300 crores resides in the CWIP. The other INR300 crores, which has already been capitalized, is that -- when you think of profitability on that piece, is that optimal, suboptimal? How should we think about what is already in the ground and commercialized?

Adhish Patil: Whether it is already running at optimal level that is what you're asking?

Chirag Dagli: Yes. Because I mean, INR300 crores

Adhish Patil: So no. So the Derma is not -- right now, it is not optimally working. So once we streamline the production by November, then definitely the negative thing will go, first of all, there's a breakeven view and once you go through 700, 800 tons per month kind of thing, then it will turn profitable as well. So INR6 crores will go and plus some additional profit should come.

Chirag Dagli: So how much of the INR300 crores capex that we've already commercialized is on the Derma piece, which is suboptimal?

Adhish Patil: It would be roughly around INR200 crores, roughly.

Chirag Dagli: INR200-odd crores. And the balance INR100 crores is optimal in some sense?

Adhish Patil: Yes. So the thing is not entire INR600 crores -- so the INR600 crores plan was like one of the products got delayed. So mainly it was -- then the INR400 crores plan, the 2 Greenfield projects, roughly INR200 crores each. So the INR200 crores going to Derma and this Derma one has come online, but it has to perform optimally.

Chirag Dagli: Sorry, I didn't catch this comment right. If the Derma and Specialty piece were INR200 crores each, and Derma is obviously still not optimal, but the Specialty piece is also not yet optimal.

Adhish Patil: No. But the next we have to still put to use.

Chirag Dagli: It's part of the CWIP?

Adhish Patil: Yes.

Chirag Dagli: Okay. Fair point. And this revised guidance of INR3,500 crores to INR4,000-odd crores, this is by when?

Adhish Patil: FY '27, mostly.

Chirag Dagli: FY '27. Understood. And just conceptually, we've been in this INR65 crores, INR70 crores kind of EBITDA run rate for almost 9, 10 quarters now. When do we move out of this range? I understand the long-term guidance. But when you think of the near-term business, how should we think about the near-term next 2, 3 quarters kind of? I know it's a tough question to answer...

Adhish Patil: Yes. So this quarter, there is still a lot of story. Probably not -- I would say, probably may not look very good. I'm not saying -- but it will bring a lot of clarity to the table that how things will shape up in the future. I'm talking about this current December quarter. Because a lot of things are happening. I mean salicylic is almost like -- we are hoping now that November shall be very good for salicylic.

In fact, October itself, we have ramped up a little by doing few experiments. Now, November, hopefully, we'll be doing one step better. And then Sayakha one also starts in November. So -- then we will get a lot of clarity. And plus another positive aspect on the existing business is that at least the export market has started showing some demand uptick.

Chirag Dagli: So from the fourth quarter onwards, we probably move out of the zone is how you're thinking about?

Adhish Patil: Probably, yes.

Chirag Dagli: Just the last question on the U.S. FDA status, if you can just update what is happening on?

Adhish Patil: Yes. So we had an audit as expected in the month of September. In fact, we were expecting that the financial year for U.S. FDA from 1st October to 30th September. So we had been telling that we were expecting an audit before that, and it happened just like that in the last month. In fact, they came very late for us, they came in September. It was surprise audit. So it was quite long that way, 7, 8 days.

We got 7 observations, but we see we are quite confident about the observation. In fact, in the closing meeting we did ask him, what they feel about the API facility. So he was like, it is like any other API facility, any other API facility. So that way he was not negative about it. But nevertheless, they did tell us that you give a very strong CAPA cover for this within 15 days, and it might get through. That is what they said.

Now we have already submitted the response within 15 working days and that response had gone in last week or so, two weeks back we are saying that response. So now we are waiting. I mean they will come back to us after that -- and we have taken the help of U.S., based consultants as well for making the response. So we hope that is quite holistic. They will give positive results.

Chirag Dagli: And this -- were there any repeat observations in this...

Adhish Patil: Repeat observation was not there. They say that we have to improve the documentation part of the investigation. So that was there. And I think that it will be there on the U.S. UK website.

Chirag Dagli: Correct. But none of the observations were what they already called for at the time of imported.

Adhish Patil: No. In fact, the impact -- the way the audit started was first facility round, they checked all the scrap and everything if anything is there. And just a day before the audit, they said that, okay, the audit is done. And then suddenly last day in the morning, they again said, okay, we again want to see that E21 facility which is adjoining and they went there also and they checked that unit also, again, the adjoining unit. It was like another surprise, but then there was absolutely no point regarding that in the form or anything?

Chirag Dagi: So assuming this improves for the better, Adhish, what happens in the first six months as that market opens up for us? How should we think about the financial impact of...

Adhish Patil: The financial impact for the first 6 months might be a little difficult. However, it will help us at the company level as well to improve our image in the export market, especially the European market. Because of the US FDA problem, even though we have a written approval for that particular plant, we were not able to sell certain products in the Europe market because of this US FDA hurdle. So before even the US business kicks in, our European business also will show some signs of improvement from that particular plant.

So first 3 months, I don't expect anything that, frankly speaking. Next 3 months, that is from out to 6 months, probably some approvals -- more approvals will be on the way. Because in the regulatory market to get approval and start supplying at commercial level, it does take around 5 to 6 months, frankly speaking. Once the project is initiated by the quality people of the customer for getting the vendors approved, it takes time.

But at least the old projects which we have should start in 6 months time. But first 6 months, very unlikely to show any significant impact on financials.

Chirag Dagi: And conceptually, like you've said in the past, US, Europe are higher realization markets...

Adhish Patil: Definitely higher. Much higher, yes…

Chirag Dagi: The lowest hanging fruit is essentially to divert some of your current volume from the less realization markets to some the...

Adhish Patil: Absolutely. I can't -- that is also underutilized. So the underutilization will also be higher.

Moderator: The next question is from the line of Ravi Shah from Opal Securities.

Ravi Shah: Sir, actually just 2 questions. The first one is, can you provide some insights on the current state of the entire API industry in India as of now? That's number one.

Adhish Patil: Harit Bhai?

Ravi Shah: So can you just explain the current demand scenario of API industry in India?

Harit Shah: Yes. Indian market looks very stable. We -- there is -- there are a lot of new producers in Gujarat and Hyderabad in recent last 2 years. But overall demand looks okay. There is no issue in demand.

Ravi Shah: So I'm not understanding why are you saying the revenue growth even though demand is stable, prices are stable or revenue de-growth, I'm not understanding that.

Harit Shah: Revenue de-growth is coming because of the lower realization per unit in the lower selling prices as compared to last year.

Ravi Shah: So basically, the pricing, when you expect it to stabilize? Any idea on that?

Adhish Patil: Yes. So -- see, what happened was the prices have been falling every quarter since last 12, 15 months. So if we compare to current September quarter versus previous June quarter, the prices are almost stable, hardly around 0.5% of price decline is there on an average level. So prices look stabilized. But however, if we look at October month's data, we can see that certain antibiotic products and one of the antifungal product price has been further gone down.

But then the raw material pricing of the product has also gone down. So a little bit here and there. But more or less, it is seen that prices are -- have stabilized at a composite level on an average level.

Moderator: The next question is from the line of Raj Malhotra from JL Financial Advisory.

Raj Malhotra: So sir, I had only 2 questions. So the first, for the project of Specialty Chemicals, when is that -- when are we planning to actually start that? And what kind of benefits are you expecting from the plant in the coming like, say, 2 years?

Adhish Patil: Yes. So the Specialty Chemicals plant at Saykha is complete. We have already started trials, we are in of the derivative plant. And the main plant will be starting trials in the month of November after Diwali by the mid of -- end of November mostly. So once that trial is successful and it comes into the production, most of the production will go for captive consumption. Some of it will go for external sales as well. Nevertheless, roughly -- if you talk about potential, around -- it might have a potential of adding around INR40 crores to EBITDA in the long-term level – and for long term…

So that is one. And nevertheless, good that you asked about Specialty, I forgot to mention one point. In this particular quarter Spec-Chem segment did not do that well because of some less offtake of campaign-based products from a few of the M&C's because their demand was a little low. So because of that also, we feel that we have lost around 0.25% to 0.3% in the gross margin at the company level for this current September quarter.

Raj Malhotra: And sir, one more question. Like how do we see the formulation business growth in like coming few years? Like, can you elaborate a little on that?

Adhish Patil: Yes, yes. So at formulations, we are doing a very good job in terms of registering more and more products across different geographies. Even our Chilean subsidiary is doing quite good. This particular -- so for the first half of the financial year, there were 2 major audits at our formulation plant in Baddi. First one was the US FDA audit for the new oncology block, which we have put in.

So that audit it is through, and we got US FDA approval for that oncology block. That was in first -- towards the end of first quarter. And then we had -- in the beginning of the second quarter, we had another UK MHRA audit for the OSD facility. The OSD is our first facility which we had for Pinnacle. So that also got approved. So -- and because of that, those 2 big regulatory audits, changes were being done. And we had lesser output production from the plants.

Also from demand perspective also, it was -- a slight impact was there, but mainly because of these 2 audits. Though we made very nominal sale of around $2 million to $2.5 million in the quarter of September, but we have a very strong order book of around more than $12 million for the formulation business. So the export potential is very much there, we have a lot of orders in hand. So it will pick up, the formulation business, in coming quarters -- in coming 2, 3 quarters.

Moderator: Ladies and gentlemen, we'll take this as the last question. I now hand the conference over to the Management for closing comments.

Adhish Patil: Thank you, everyone for joining us today on this earnings call. We appreciate all your interest in Aarti Drugs Limited. If you have any further queries, please contact SGA, our Investor Relations Advisor. In advance, we would like to wish you all a very happy Diwali and a prosperous New Year ahead. Thank you. Bye.

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

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