NGL Fine-Chem Limited
Regd. Office 301, E – Square, Subhash Road, Vile Parle East, Mumbai 400057 Maharashtra, India.
Tel.: (+91 22) 40842222, Fax: (+91 22) 2610 8030, Email: info@nglfinechem.com CIN L24110MH1981PLC025884,Website www.nglfinechem.com

November 16, 2024

To,

Listing Department,
The BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai 400 001.
Scrip: 524774

Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1
G Block, Bandra Kurla Complex,
Bandra East, Mumbai 400050.
Symbol: NGLFINE

Sub: Transcript of concall with Investors held on 12th November, 2024

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that the Company participated in the Investors Conference Call on Tuesday, 12th November, 2024, enclosed herewith please find transcript of earnings conference call on unaudited Financial Results for the Quarter and half year ended on 30th September, 2024. No unpublished price sensitive information was shared/discussed in the meeting. Please note that this was a group meet.

Kindly take the same on your record.

Thanking you,

Yours faithfully,
For NGL Fine-Chem Limited

Pallavi Satish Pednekar
Digitally signed by Pallavi Satish Pednekar
Date: 2024.11.16 15:31:16 +05'30'

Pallavi Pednekar
Company Secretary & Compliance Officer
Membership No: A33498

Encl: As Above.

"**NGL Fine-Chem Limited**

Q2 & H1 FY25 Earnings Conference Call"

November 12, 2024

MANAGEMENT: **MR. RAHUL NACHANE**
MANAGING DIRECTOR
NGL FINE-CHEM LIMITED

MR. RAJESH LAWANDE
WHOLE-TIME DIRECTOR & CFO
NGL FINE-CHEM LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to NGL Fine-Chem Limited Q2 and H1 FY25 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Mehra. Thank you, and over to you, sir.

Abhishek Mehra: Thank you, Seema. Good afternoon, everyone, and thank you for joining this Q2 and H1 FY25 earnings conference call of NGL Fine-Chem Limited. The results and investor update have been uploaded on the stock exchanges. To take us through the results of this quarter and answer your questions, we have with us today, Mr. Rahul Nachane, Managing Director; and Mr. Rajesh Lawande, Whole-Time Director and Chief Financial Officer.

We'll be starting the call with a brief overview of the financial performance, which will then be followed by the Q&A session. I want to remind you all that everything said in this call reflecting any outlook for the future, which can be construed as a forward-looking statement, must be viewed in conjunction with the uncertainties and risks that the company faces. These uncertainties and risks are included but not limited to what we have mentioned in our Annual Report, which you'll find on our company website.

With that said, I now hand over the call to Mr. Rahul. Over to you, sir.

Rahul Nachane: Thank you, Abhishek. Good afternoon, everyone, and thank you for joining us for the NGL Fine-Chem Limited Second Quarter FY25 earnings call. We appreciate your continued support and interest in our company. I am pleased to share our financial performance for the second quarter of FY25.

Our revenue from operations reached Rs. 93.48 crores, marking a quarter-on-quarter increase of 3% and a year-on-year increase of 16.6%. However, as we navigate through this quarter, it is important to highlight that the operating environment has remained quite challenging.

Despite the positive revenue figures, our EBITDA for the quarter was Rs. 11.56 crores, which represents a decline of about 17% compared to the same period last year. Consequently, our EBITDA margin stood at 12.36%, down from 17.4% in Q2 FY24. These figures indicate the pressures we are facing from increased competition and lower prices.

Profit after tax for the quarter was Rs. 9.81 crores, reflecting a decrease of 6.35% year-on-year. This decline in profitability can be attributed to several factors, including soft demand from the European market and ongoing currency challenges in regions such as Africa, Latin America and Turkey.

The geopolitical tensions in the Middle East have also added to our operational difficulties alongside several elevated logistics costs that have affected our supply chain efficiency. As a result, we are experiencing a market landscape characterized by high supply levels and subdued demand.

On a more positive note, we are witnessing a strong recovery from China, which has provided a boost to our overall performance this quarter. Additionally, I am pleased to announce that we have received an additional certificate of suitability for a new project, bringing our total to 3 CEPs. This achievement underscores our commitment to expanding our portfolio for the European market.

Furthermore, we now have 4 Drug Master Files approved for the European markets, are actively working on 4 additional DMF/CEP filings, which we plan to submit by the end of this financial year. These initiatives are crucial as we aim to strengthen our position in global markets and cater to diverse customer needs.

Turning now to our capital expenditure plans. I can confirm that we are progressing well with our initiatives aimed at enhancing production capabilities and operational efficiencies. Our capex remains on track with Phase 1 expected to be completed by the fourth quarter of this financial year and Phase 2 scheduled for completion by the third quarter of next year.

While we remain cautiously optimistic about our future prospects, we acknowledge the hurdles posed by the current operating environment. Our commitment to navigating these challenges effectively is unwavering, as we continue to focus on growth and operational resilience.

In conclusion, I would like to reiterate that while there are significant challenges ahead, we are confident in our strategies and capabilities to overcome these obstacles. We appreciate your support as we work towards attaining sustainable growth and delivering value to all stakeholders.

I would like to open the floor for questions or any further discussions you may have regarding our performance or future outlook. Thank you.

Moderator: Shall we begin with the Q&A?

Rahul Nachane: Yes, please. We can start with the questions.

Moderator: We take the first question from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Sir, can you talk about how is the operating environment currently, or have you seen some improvement in the beginning of the second half? And sir, one thing on the gross margins. You have seen some recovery in the gross margins also in this quarter, where they have increased from almost 48% in Q1 to 52%, almost touching 53% in the second quarter. So if you can talk about that as well. And thirdly, on the employee cost, there has been a sharp jump of almost 40% in the employee cost. So was it pertaining to the new expansion that we are doing? And if you can just talk about that as well.

Rahul Nachane: The current operating environment is challenging. We see a situation where supply exceeds demand in the market, and there are price pressures. But having said that, we have been able to maintain and guard our market share pretty well in this period. And that is being reflected in the sales growth, which you can see. Going forward, we expect the market to be remained in a situation where there is oversupply for at least the next few quarters. Unfortunately, I can't quantify how many quarters that would be. But we expect this to continue for a few quarters at least.

Gross margins have definitely improved in the current quarter. We have been able to raise prices selectively for a few products. And that is what has resulted in this improvement in margins. But since this is just the first quarter after feeling the pressure for the last 3 quarters, I would prefer to be a little bit cautious about this to see how it pans out in the future. We hope to maintain this going forward also at the same levels.

With regard to employee cost, there is no great increase as such. It was just some arrears, which have been paid during the current quarter, which is why we can see this spike. Overall, going forward, we expect it to return back to the traditional level of about between 12% and 13%. I hope that answers your questions.

Ankit Gupta: Sure, sir. Just one follow-up on this. Sir, I think we've reached an optimal capacity of our existing plant where I think given our revenue levels, we will be around 80%, 85% of capacity utilization. So the new plant is expected to come only during like FY27 will be our first year of full operations. So in the meantime, let's say if the demand revives, you were talking about some opportunity that you were working on in terms of acquiring a small plant or de-bottlenecking and increasing our outsourcing. So any updates on the same? Or given the operating environment, which continues to be challenging, we are not looking for that?

Rahul Nachane: No. Actually, I would correct you that we are actually at close to about 90%, 95% capacity utilization in our plants, not in the range of 80%, 85%. Definitely facing a challenge going forward with regard to improving efficiencies. We continue de-bottlenecking plans as and when the opportunity arises. But we are definitely looking forward to some inorganic opportunity, where we can acquire a ready plant where we will be able to commence production within a time frame of between 6 to 8 months. So we are looking at such opportunities.

Unfortunately, nothing has concluded at this particular moment, but we will update as and when such opportunity is closed by us. In the meanwhile, we are also -- if there is a return in demand, we will not let demand go unsatisfied. We will look for outsourcing part of our production. So we are actively looking at the combination of all these options, outsourcing plus acquiring and we are on track with regard to meeting customer demand.

Ankit Gupta: Sure, sir. Just one last question on the new upcoming plant. We have got 4 DMF approvals now and 4 more are in the pipeline. So given that, hopefully, by the time we start our operations of the new plant, we'll have at least 6 to 8 kind of approvals for the European markets. Do you think these 6 to 8 molecules will be enough to cater toward the -- or we will be able to utilize the plant to optimal capacity by the 6 or 8 molecules? Or we will also need further molecules to utilize -- to optimally utilize the new plant, which is coming up?

Rahul Nachane: We have plans for a total of between 15 and 16 products, which we want to register in the EU markets. Currently, we have got 3 CEPs and 4 DMFs approved, so there a total of 7 approvals which we already have. 7 more filings are commencing now and will go on until March of next year. That will take our total to 11. And over the next 1 year, we will be filing for another 5. So the idea is that by end of '26, we should have approvals for at least 15 to 16 products in the EU.

Ankit Gupta: Okay. So 4 -- 3 CEPs and 4 DMFs. So 7 approvals we have currently?

Rahul Nachane: Currently, yes as of now.

Moderator: The next question is from the line of Kiran from Table Tree Capital.

Kiran: Sir, I have a slightly long duration question. Sir, if we look at the last 5 to 8 years, I mean, except for the COVID years, our gross margins have compressed not by a lot but substantially, by 500 basis points. So I just want to understand, is our product strategy different? I mean we were in the Rs. 50 crores size molecule of veterinary. And has that changed? Has that product strategy changed substantially in our current revenue, where the gross margins are lower because the competition is higher? What exactly has happened?

Because the market size of our molecule, of course, many molecules, but Rs. 50 crores size, I'm a little surprised as to -- on the gross margin compression, sir. So if you could just paint a landscape around the size of the molecules we are currently doing? Is the product strategy very different, or are people actually so hungry for growth and they have come into the Rs. 50 crores market size as well?

Rahul Nachane: Yes. You've got a very interesting viewpoint to add over here, and you actually got it right with the last statement, that people are hungry for growth today. And even the smaller molecules are now getting interesting for them because they want to cover the market widely. Having said that, there are now a lot of -- quite a few more companies now, which are actively engaged in the veterinary market, in the veterinary space. So we are seeing at least in the last probably about 2 years, at least about 6 to 8 new entrants in this field or in this market because they see that there is a large scope now in the veterinary market. So supply is growing quite well.

At the same time, demand is also growing, but supply has grown at a much faster pace. So until we see the supply-demand equilibrium forming again, there will be a continued pressure on the margins. And this decrease in margin is just because of competition currently. We expect it to recover. So right now, we are seeing too many different factors coming into play in the last 1.5 years, 2 years. We saw the post-COVID de-bottlenecking. The companies had to -- ended up with very large stocks and they have to reduce their stock levels. Market growth had slowed down at the same time. Chemical prices went up drastically. So our raw material cost increased.

During COVID, a lot of companies thought that the play in the market is permanent, and considerable capacity has been built during that time. A lot of unrelated players have also got into the market, thinking that pharma and veterinary manufacturing is very interesting. So we are seeing currently a scenario, which is very different from what it was pre-COVID.

And when you add the geopolitical issues, which have risen in the last couple of years, together with the currency risk, which a number of countries have faced, we are in a very different sort of space currently as compared to, let's say, 5 or 6 years ago. So margins are compressed more because of all these different macroeconomic factors rather than just the product mix which we are dealing with.

Kiran: Sir, then another strategic question is from an animal health perspective, from Europe or U.S., of course, I heard your initial comments where we had a very good performance in China. But our primary, probably all the filings and the good margins will probably come from Europe or U.S. or any other Latin American countries.

So from a strategic perspective then, do we understand that the animal health competition in these regions where margins are higher, size of the molecules are higher is much more than that in China or Southeast Asia? I mean, how are we targeting from a filing perspective? Just wanted to understand the overall animal health landscape, along with the filings, of how we are doing it. So how are we thinking about it?

Rahul Nachane: So any new entrant in the market can start selling in the ROW market because there is very little entry barrier to manufacture and scale, whereas the entry barrier to enter the European and US market is fairly high. So the competition is, therefore, much lesser when it comes to Europe and US. So we are looking at basically moving up the value chain from the ROW market to the more regulated markets, wherein the business changes then becomes more long-term contract in nature rather than spot driven.

Kiran: And the supply dynamics in those 2 regions are fairly limited because of approvals required. Is that understanding correct in the animal health space?

Rahul Nachane: It is restricted as compared to the rest of the market, rest of the world, yes, definitely.

Moderator: We take the next question from the line of Naman Jain from Pioneer Investcorp.

Naman Jain: I just wanted to ask if you could give some idea about the order book and the deliverables.

Rahul Nachane: Order book and…?

Naman Jain: The deliverables. How soon do we plan to execute those orders?

Rahul Nachane: Naman, we mainly work in the spot market. So our order book is never for the next 1 year or 2 years. We normally have orders which are basically to be executed in the current month or within the next couple of months.

Moderator: We take the next question from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: Just carrying forward this question which the previous participant asked that there has been an increase in competition around new entrants. Around 6 to 8 new entrants have entered into the market. Sir, what we're used to earlier when we used to interact, you used to highlight that for a Rs. 50 crores, Rs. 70 crores molecule, the large companies were not focused yet because of their smaller size. So is it that even for such a small size molecule, the competition has increased significantly now?

Rahul Nachane: So I wouldn't say it's, I mean, all of them are not in direct competition with us. They are some are doing a different set of products as compared to what we are doing. But there has been a greater interest in the veterinary field, and we have seen the number of players increase. But at the same time, the number of players in the finished dosages for our field has also increased. So we see an increased market also in terms of players in the market because Indian, we are B2B. We are selling to other pharma finished dose companies, and we see the increase in the players over there also.

Ankit Gupta: And just have you seen increased competition, like these 6 to 8 players or the new players which have entered in the market, are they largely Indians or the Chinese competition is also intensified now in terms of the products or new entrants have also come in?

Rahul Nachane: China commands a very large share of the world API market, whether it is human or it is veterinary. So the Chinese are definitely far bigger than, they have operated at a far bigger scale than we do. And yes, there is an increased activity from China also. But in fact, a large amount of capacity creation has occurred in China in the last 3 years.

Ankit Gupta: In some of the new molecules that we are working on, we have increased our product basket from around 17, 18 veterinary molecules to almost 30 now. So we are planning to introduce at least 5 molecules every year. So some of these molecules, like the new molecules that we have entered, like as you have been highlighting in the earlier call that the market size of these products is quite bigger than what we're used to do.

And the competition is also there from -- like more competition is also there from China. So in some of those new molecules, how has been our performance? Some of the products that we have launched over the past 2 years where the market size was bigger and there was some Chinese competition, so how has been our performance there? Have you been able to take a decent market share there? How are the margins there? And if you can talk about it.

Rahul Nachane: So I will just draw your attention to our investor presentation, which we have uploaded. If you see, top 10 products are accounting today for about 70% of our sales. And so that means roughly about 20% are accounting for 30% of our sales. Now the sales pie as compared to last 2 years has grown by almost about Rs. 80 crores, and so the new products are also keeping pace in terms of the sales growth. So it takes close to about 4 to 5 years for any product that which we launch to reach its maturity in the product life cycle.

In fact, the actual growth starts only for the third year. The third year to the seventh year is what we see as the rate where we see the maximum growth. So these are all products which are actively contributing to our top line. And the newer products, especially the ones where we are doing more number of synthesis steps, are always higher-margin ones. So it's a combination of the old and new, which add to our margins.

Ankit Gupta: And sir, in like some of the higher revenue or the higher market size molecules that you were saying that we are also looking at larger sized molecules, has there been higher competition there as well? And like of course, the significant revenue from them will come over the next year or so. But how are the margins in this segment? And how is the competition intensity over the past year or so in these new molecules?

Rahul Nachane: So the high-volume molecules normally have lower margins, but they make do in terms of higher volumes. So these are typically, let's say, if you talk about a product like Albendazole, it's almost 5,000 ton per annum product worldwide. But the prices are much lower for that. Sorry, the margin in that product are much lower to some other products. So it's always a payoff between the volume in each product.

So even a smaller volume product, it has higher margins because your back share and operating costs are higher in small volume products. So we haven't really made big inroads in those high-volume products yet right now. It's something which we have to work for in terms of building our higher capacities also. So once we are able to move within the next 2 years our entire regulated demand to the new plant, we will be re-purposing our existing plants to meet higher-volume production also.

Ankit Gupta: Since we have approvals for the European markets also and I think like our existing plant also can supply products to them, given how the competition and the scenario is in the rest of the world market, are we intending to supply to regulated markets also now given we have recent approvals for these molecules?

Rahul Nachane: So our intention is to start supplying immediately. We have started the process of registering our products with different customers. Sampling has already started. The typical process is once the registration comes through, we submit samples to customers. They will first test the product to see whether it meets their specifications. Once the specifications are met, they will buy some pilot batches from us. With that, they will carry out their pilot manufacturing and then carry out stability and field studies.

Once all these proceed in the right direction, then there is the time when they can start actually buying from us. So from the registration to the actual sales coming in can be anything from 18 months to 36 months, depending on the company and the market. All our registrations are in the current year, so we expect that real benefits from these to start accruing end of CY25 and more specifically in CY26.

Ankit Gupta: So they'll mostly be going from the new plant itself because the approvals and all will not come before your new plant starts?

Rahul Nachane: So we plan that even if the approvals come in 2026, probably at that time, we will still service from our existing plants because we didn't want to wait for the registration to go and then we will also add the new plant as an additional site in 2026. So then gradually, we'll at that time probably manufacturing both the sites. And gradually, over a period of 1 year, 1.5 years, move completely to one site. But we would like to keep the other site as a backup site so that there is always continuity planning available to every customer.

Ankit Gupta: And sir, have we also seen increased competition in the regulated markets as well? Or the regulated markets relatively have been untouched by the competition that we have seen in the ROW markets?

Rahul Nachane: So for most of the products, typically, there are already 2 or 3 registrations. We are going as a third or fourth registration in most of the products. So there is already an existing supply chain registration done in some products. In some products, there is only one registration. We go as a second alternative.

For those products, it becomes easy to get customers. In the others, we have to present a very strong value proposition to customers to break in over there. But yes, it's not that as if there are going to be multiple suppliers like probably 10 or 20 suppliers that exist in the ROW market. Here, the maximum number of registrations, which we have seen in any product is about 4.

Ankit Gupta: Just last question from my side. In terms of gross margins, for a very long time, we have been in the range of around 55% to 60%. And like last 2, 2.5 years, because of the challenges we have seen, our gross margins have been below 55%. So any timeline or any view on when can we get back to 55% plus kind of gross margins that we have seen earlier?

Rahul Nachane: It's a very difficult question to answer because there are so many different factors at play currently, and the future is very uncertain. So it's very difficult for me to answer that question.

Moderator: The next question is from the line of Kavish Ranka, an individual investor. As there is no response from the current questionnaire's line, we move on to the next question from the line of Rupesh Tatiya from Intelsense Capital.

Rupesh Tatiya: So my first question is this Europe registrations you are doing. In 2-3 years, what kind of revenue, I mean, potential do we have from these new registrations say in 2-3 years?

Rahul Nachane: Europe is probably the second largest API market in the world in terms of regulated markets, the top one being the US. The market size over here is close to over $1 billion. It depends on us how we are able to penetrate this market, and we go ahead. We are targeting personally revenues of close to about Rs. 150 crores over the next 3 to 4 years from the European markets.

Rupesh Tatiya: That is good to know. What will be the margin differential between, let's say, ROW or our company average today and European business?

Rahul Nachane: EBITDA should be roughly double of what we are currently doing.

Rupesh Tatiya: And sir, other question is now, current business, I mean, without Europe and U.S., current business, I think in the past, we have always said that we expect to be in the margin band of 18% to 22%. Now structurally, has that margin band now moved to, let's say, 12% to 16%? Is that a fair assumption to make?

Rahul Nachane: In the current conditions, yes. If the conditions improve, we definitely see that the margin should also improve.

Rupesh Tatiya: And then, sir, finally, a strategic question. So one is moving into regulated is, I mean, we've been forced -- our hand has been forced due to situation competition in ROW. But what we see in larger pharma landscape is a lot of CDMO deals are happening, where a lot of innovator companies are looking for reliable suppliers from India due to China Plus One, due to some other things, and that is a much more stable and high-margin business.

So I mean, I don't know if you have strategically have started discussing this. Have you started? Have you seeded some team to look after this? How do you look at CDMO piece in animal health? Because we have very good chemistry skills, we are a very reliable supplier, so how?

Rahul Nachane: The CDMO space is not something which we have explored currently, so I am unable to answer that. Our first priority is first to get this plant up into operational mode, get our current registrations and start filling the plant with capacity over there and a CDMO is something which we are yet to explore, frankly.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Rahul Nachane for closing comments.

Rahul Nachane: Thank you. Abhishek will be making closing comments, I think.

Abhishek Mehra: Thank you, everyone, for joining this call. If you have any further questions, you may please feel free to reach out to us. Our email IDs are present at the back of the investor presentation. On behalf of NGL, this concludes this earnings conference call. Thank you.

Rahul Nachane: Thank you very much. Everybody, have a great day.

Moderator: Thank you, sir. On behalf of NGL Fine-Chem Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines, ladies and gentlemen.