November 16, 2023

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

Scrip Code: 543349

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

NSE Symbol: AMIORG

Dear Sir/Madam,

Subject: Transcript of Earnings Call for Q2 FY24 financial results, held on November 9, 2023

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 we hereby enclose the transcript of the Earnings conference call held on November 9, 2023 post announcement of financial results for the second quarter and half year ended on September 30, 2023.

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

This is for your information and records.

Yours faithfully,
For, AMI ORGANICS LIMITED

EKTA KUMARI SRIVASTAVA

Digitally signed by EKTA KUMARI SRIVASTAVA
Date: 2023.11.16 15:34:36 +05'30'

AMI ORGANICS LTD. ★ SACHIN ★

CS Ekta Kumari Srivastava
Company Secretary & Compliance Officer

Encl: As Above

“Ami Organics Limited
Q2 & H1 FY24 Earnings Conference Call”

November 09, 2023

MANAGEMENT: **MR. NARESHKUMAR R. PATEL – CHAIRMAN & MANAGING DIRECTOR**

MR. BHAVIN N. SHAH – CHIEF FINANCIAL OFFICER

MODERATOR: **MR. PRASHANT NAIR, AMBIT CAPITAL PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Ami Organics Limited Q2 FY24 earnings conference call hosted by Ambit Capital.

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 "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prashant Nair from Ambit Capital. Over to you, sir.

Prashant Nair: Good afternoon, everyone and welcome to the Ami Organics' Q2 earnings call. We have with us, Mr. Naresh Patel – Chairman and Managing Director and Mr. Bhavin Shah – CFO of Ami Organics. I will hand over the call to Bhavin for his opening remarks.

Bhavin N. Shah: Good afternoon, everyone. We are pleased to welcome you all to our earnings conference call to discuss Q2 FY24 financials. Please note that a copy of our disclosure is available on the investor section of our website as well as on the stock exchanges. Please do note that anything said on this call, which reflects our outlook towards the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. The conference call is being recorded and the transcript along with the audio of the same will be made available on the website of the company and exchanges. Please also note that the audio of the conference call is the copyright material of Ami Organics and cannot be copied, rebroadcasted, or attributed in press or media without specific and written consent of the company.

With that, I would like to hand over the floor to our Chairman and Managing Director, Naresh Patel, for his opening statement. Over to you, Sir.

Nareshkumar R. Patel: Good afternoon, everyone. I hope you all are doing well. A warm welcome to our Q2 FY24 earnings conference call. As we complete the first half of FY24, the global economy seems to be turning the corner. Despite persistent higher levels of inflation, there are emerging signs of inflation rates cooling in the coming quarter. Traditionally, a resurgence in demand is occurring in a wave of growth, which bodes well for the global economic outlook. Even as things seem to be swinging in the direction of the economy, geopolitical tensions continue to cast a shadow of uncertainty subtly impacting industry trends.

Turning our attention to the industry landscape, there remains a consistent oversupply from China across the chemical value chain. This has led to a decline in raw material costs exerting downward pressure on the pricing of the finished goods across the industry. Even as things seem to be improving, Chinese production continues to outpace demand. That said, we are starting to see a promising contraction in demand and supply gap. Consequently, there is a cautious stabilization in raw material prices. This external environment did have some impact on Ami

Organics' performance for the quarter. In Q2 FY24, we delivered Rs. 172 crores revenue from operations, which is 17% growth over the same period last year. While we were expecting higher growth this quarter, pricing pressure marginally scaled back the growth. In terms of margins, higher sales, lower margin products, and persistent pricing pressure throughout the quarter adversely affected our margins for the quarter. Nevertheless, with a clear order book in hand, we anticipate stronger performance in the second half of the year. I will let Bhavin discuss the numbers in detail later.

Moving to the business update, let me begin with the advanced pharmaceutical intermediates business. We faced pricing pressure that affected the business. Still, we were able to deliver 8% growth year on year. Additionally, the launch of one of our key products has been delayed by our customers, thereby impacting this quarter's growth. However, this is only deferred revenue that is expected to be realized in either Q4 FY24 or Q1 FY25. This is, again, one of the reasons for lower margins for the quarter, as this is a very high margin product.

On the Fermion deal, we have further extended the partnership with Fermion by adding one more advanced intermediate to our basket. We now have a total of 3 advanced intermediates for their product, which increases the total expected revenue considerably from this CDMO contract. For the previously signed advanced intermediates, we have already received the order and we will start shipping them out from the Ankleshwar facility from Q4 FY24. This will gradually translate to the revenue starting from Q4 FY24.

Coming to the specialty chemicals business, we have introduced one more product, UV absorber, for the paint industry. I believe we will see revenue from this product coming into the numbers from Q3 FY24 onwards. For the existing products, the volume growth was good, but pricing pressure continued to be there. Overall, the specialty chemicals business still delivered a strong 72% growth on a year-on-year basis.

Moving on, we continue negotiations with prospective customers in the electrolyte additive business. We are hoping to convert a couple of prospects in the current quarter.

Turning to our acquisition of Baba Fine Chemicals, we completed the acquisition of controlling partnership during the quarter. The firm is set to be succeeded by the newly incorporated entity, Baba Advance Materials Limited. It is important to note that the majority of H1 FY24 was dedicated to completing the acquisition followed by an integration process that, to some extent, impacted operations of Baba Fine Chem. Despite these operational challenges, we are committed to preserving the company's last year's revenue and we are poised for exponential growth in the forthcoming years.

Before I conclude, I would like to highlight that in our journey towards becoming a sustainable organization, the Board of Directors have approved a 16-megawatt captive solar power plant project entailing a CAPEX of somewhere around Rs. 65 crores to Rs. 70 crores. If you recall, we had already announced a 5-megawatt solar power plant previously and installation work for the same has commenced. This is expected to conclude by the end of this financial year. The new 16-megawatt solar power plant is in addition to the already work-in-progress 5-megawatt solar power plant. And I believe all this will help us nullify our electricity expenses once operational. Broadly speaking, deferment in product launches in certain markets by customers coupled with pricing pressure due to oversupply from China is expected to have some impact on the numbers. And even though we are expecting to deliver a robust H2 FY24, overall, we are modifying our growth target from 22% to 25% for the full year to 18% to 22% growth from FY24.

With that, I request our CFO, Mr. Bhavin Shah, to discuss the financials with you. Over to Bhavin.

Bhavin N. Shah: I would like to briefly touch upon the key performance highlights for the quarter and half year ended 30th September 2023. And then we will open the floor for questions & answers. I will begin with quarterly updates. Revenue from operations for the quarter was at Rs. 172 crores, up 17.3% as compared to Rs. 147 crores in Q2 FY23. The gross profit for the quarter was Rs. 71 crores, which was flat when compared to the same period last year. The gross margin for the quarter was at 41%. There are a few reasons for lower gross margins. Let me discuss them in detail. Starting with the inventory, we had some high-cost inventory coupled with lower finished goods price put pressure on gross margin. I would like to highlight that this impact was particularly for this quarter. And we will see our margins going back to previous levels from Q3 onwards as raw material prices have now stabilized. Another reason for lower gross margin was also our product mix. If you notice, the majority of sales for the quarter was to the domestic market. It is always 2% to 3% lower business. Also, if you see the specialty chemicals business, which is a low-margin business, has grown strongly during Q2, which also contributed to lower gross margin for the quarter.

Moving on to EBITDA for the quarter, it was at Rs. 25 crores, down 11.8% as compared to Rs. 28 crores in Q2 FY23. EBITDA margins for the quarter were at 14.4% compared to 19.1% in Q2 FY23. The degrowth in EBITDA margin was driven by gross margin as well as higher employee cost due to annual increment, ESOP cost, and hiring of employees for Ankleshwar factory. There was also a one-off cost due to machinery breakdown during the quarter, and this has led to pressure on EBITDA for the quarter. PAT for the quarter was negative Rs. 17 crores. Please note that JV with Ami Oncotheranostics was fully impaired on the grounds that it would take significant time to generate revenue due to its inherent long-term nature of its research activity and uncertain success rate, which resulted in negative PAT for the quarter. Adjusting for the impairment, PAT for the quarter Q2 FY24 would be at Rs. 14.7 crores.

Moving on to H1 FY24 updates, revenue from operations for H1 FY24 was at Rs. 326 crores, up 17.3% as compared to Rs. 278 crores in Q2 FY23. Gross profit for H1 FY24 was at Rs. 144 crores, up 7.3% on YoY basis. The gross margin for H1 FY24 was at 44.3%. EBITDA for H1

FY24 was at Rs. 59 crores, up 15.2% as compared to Rs. 51 crores in H1 FY23. EBITDA margins for H1 FY24 were at 18%. PAT for H1 FY24 was at Rs. 5 crores, whereas adjusting the exceptional item, PAT for H1 FY24 is Rs. 37 crores. Export for the quarter was at 54% whereas the domestic business was at 46%.

Coming to the balance sheet, we have cash and cash equivalents of around Rs. 104 crores on consolidated basis as on 30th September 2023. CAPEX outlay for H1 FY24 was Rs. 105 crores. We are on track to operationalize block 1 in Ankleshwar unit from early part of Q4 FY24 and we hope to update CAPEX of remaining 2 blocks by end of Q4 FY24. Therefore, from FY25, we are expecting the full Ankleshwar block to come online.

Coming to working capital for half year, improvement in debtor days and better payable cycle helped ease our working capital leading to net working capital days of 100 days, an improvement of 16 days over 31st March 2023. Overall, as Naresh bhai mentioned, we have a strong order book for H2 FY24, and therefore, we should see strong recovery on sequential basis in the coming quarter. With this, I conclude my remarks and request the moderator to open the floor for a question & answer session.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Sudarshan Padmanabhan from JM Financial PMS.

Sudarshan Padmanabhan: My question is to understand a bit more of what is happening in the industry. You had mentioned in the presentation and as you have talked about the downward pricing pressure and China coming and dumping the prices, in your expectations, do you see this to be more transitional in nature or does it change something beyond the transition for the next couple of quarters. I just want your opinion on that.

Nareshkumar R. Patel: Basically, in the model of Ami Organics business, there is not much of a great impact of Chinese competitors. But the problem here is that our product competitors got cheaper raw material and that has quoted in a lower price to the customers. Domestic, where the spot business is there based on the current price, whereas we have the long-term at least 1 or 2 quarter stocks was there. That has impacted us to get the orders at a lower price compared to our cost. That is how our top line is compromised. This happened in the last quarter and before that quarter. But now we understand that, and we have already informed the customer of the same thing. And from here onwards, we see that it will not impact us wrongly, and we will be recovering in our positioning in the market with our own margins as well as price. We are reducing our inventory in terms of domestic requirements.

Sudarshan Padmanabhan: In terms of gross margin, you said there has been a mix impact and high-cost inventory. Two things here. How much of high-cost inventory are we still left with? And how do we see the recovery? Should it be a sharp recovery back to the 48% or would it be more gradual, over the next couple of quarters?

Nareshkumar R. Patel: High-cost inventory is not related to quote like that, but it is related to the spot business as well as short term only. So, it will very drastically go back to 48% in the next couple of quarters. That is already in line, and it is implemented like that.

Sudarshan Padmanabhan: On the Fermion contract. Now that we have signed a newer product. We are expanding our relationship here. How do we see the launches and the scale-up happening, in FY25 and beyond? And are we also looking at more such contracts with Fermion or even with other clients which we want to forge in and give more visibility to it?

Nareshkumar R. Patel: In our business plan and the relationships we have with the innovators, out of them one is Fermion. You can see also in the last 1 year, we have signed 3 contracts with them for multiple supply of different intermediates, and it is ongoing, and we are expecting a few more in the pipeline. And in that sense only, our new project which we are establishing in Ankleshwar, we are going to be inaugurating this facility in mid of December. Once it will be ready, then we have another few contracts with other clients as well in the pipeline in discussion. It will also be coming in the basket.

Sudarshan Padmanabhan: Now that Baba Fine Chem is in, basically the Advance Materials, and this is also going to be formed, on this exciting platform of electronics, how do we see the shape-up happening here? I am talking about more so from a 2-3 years' perspective.

Nareshkumar R. Patel: Baba Fine Chem is a statutory acquisition. This is in two ways, a niche market, a very strong position in the market in photo resistant chemicals as well as it can also be helpful for our other electronic chemicals business where we can use the Baba Fine Chem technology. It has a strong position. It has multiple products which are already developed in the system and yet not commercialized. With this joint venture, we will be trying to promote this molecule in the Rest-of-the-World market. And this is how we are targeting to grow the business in Baba Fine Chem in the semiconductor business.

Moderator: The next question is from the line of Ms. Dhara.

Dhara: Where is this pricing pressure specifically on our advanced intermediates portfolio? If you could throw some more light where we are facing problems here?

Nareshkumar R. Patel: In pharma, our main business is only in the advanced intermediates pharma applications. Overall pricing pressure was somewhere around from 10% to 30% based on the commodity. It's from (n - 10) to (n - 1) like that. Overall, it has been our EBITDA margin pressure of somewhere around 6% to 7% on total because as long-term supply contract is also related to the key raw material price variation. That has also impacted on the current price of raw material and that has revised the purchase order. This is how it has happened.

Dhara: What would be the margins for both the segments, pharma intermediates and specialty chemicals, for the quarter?

Bhavin N. Shah: Specialty, it was 9.5%. And pharma intermediates, it is 11.25%.

Moderator: The next question is from the line of Karthik Iyer an individual investor.

Karthik Iyer: I just wanted to know the jump in the cost of RM and the change in work in progress. Because, it has gone up maybe 2x to 2.5x QoQ and YoY. Is that because of the acquisition of Baba Fine Chem or is it just pricing pressure from China and headwinds that you experienced this quarter?

Bhavin N. Shah: RM, when we compare on QoQ basis, it has moved from Rs. 78 crores to Rs. 100 crores. And we explained, this is mainly due to change in the product mix and higher sales of our low-margin specialty products. There is pricing pressure in pharma. So cumulatively, change in product mix, higher sales of specialty, and there is a pricing pressure. This has changed our raw material cost.

Karthik Iyer: How much CAPEX have we done for the year and how much is left for the balance of the year?

Bhavin N. Shah: Till now, we have done around Rs. 104 crores of CAPEX and another Rs. 100-110 crores will be coming by the year-end.

Karthik Iyer: Has there been any traction with regards to the electrolyte business and where do we stand on that?

Nareshkumar R. Patel: In the electronic business, we are now in a good position. In this quarter, we will begin our production. We have already placed an order for the raw materials, and we are looking for supply starting from Q4. Once we start our production, we will announce the supply All the audits and everything is finished by the customers and now we have got the greenlight to go ahead for the production. The first trial order is already confirmed but production will start once we get the raw material in our warehouse.

Karthik Iyer: Ankleshwar will start ramping up from March, I assume.

Nareshkumar R. Patel: No, Ankleshwar will be inaugurated by mid-December, and it will be ramping up by January. First, we will start with the products which are qualifying. It is validation of the facility. So, we will start production from January for the validation batches and then on full-fledged basis it will start by Q1. But Q4, Ankleshwar will start contributing to revenues.

Moderator: The next question is from the line of Rikin Shah from Omkara Capital.

Rikin Shah: I just wanted to ask, in the last 3 months, what impacted the base business of advanced intermediates so drastically? I know you expanded on the RM pressure, but did we lose market share by any chance in some of the products?

Nareshkumar R. Patel: No. If we lose the market share, then we will not be growing. To avoid losing the market share, we compromise on the top line, and this is how we maintain the market share. The volume is already there. Only to remain as the market leader, we have to compromise on the top line. That is the reason why the raw material prices you see is a little bit higher.

Rikin Shah: In terms of the UV absorber product, which you have mentioned, can you please give some details into the size, nature of the product, and margin profile? How different is the margin profile from your paraben and salicylic acid?

Nareshkumar R. Patel: The UV absorber is not for regular paint which we use in the household. It is used in metallic painting which is for the automobile. It is a new product which is developed by Swiss scientists, and we have a collaboration with them. This application is used by worldwide automobiles, and they have a very good presence. These scientists are well known in this industry. We have finished the validation batches and we already supplied a few quantities to them for distribution. Once it will be approved by everywhere, we will be expecting somewhere around 600 to 1,000 metric tons of business on this. The margin will be similar to what we are saying in the specialty chemicals segment of 18% to 19%.

Rikin Shah: In terms of your Fermion contract, your basket of products has increased. I know you cannot comment in terms of value, but if in percentage terms with 2 molecules, you had X amount of value. So, with the 3 products coming in, how much the percentage of value would have increased?

Nareshkumar R. Patel: It will be increased but the exact number I can't disclose because both are listed companies and it is part of the contract. So, I can't disclose the numbers, but definitely it will be higher than what we have today.

Rikin Shah: Percentagewise if you can share?

Nareshkumar R. Patel: I have not actually worked on that.

Rikin Shah: In the electrolyte business, you mentioned about Q4 being the start of the supply. What I am trying to understand is the LOI was signed much before and now the execution will start. Is that what you said earlier for electrolytes?

Nareshkumar R. Patel: We sign so many LOIs, but LOI is not valued. That’s why we don't disclose it. Once if there is some affirmation or valued quantity or something like that, then we disclose that. Now, we are in the stage of converting these LOIs into firm contracts. Before converting into firm contract, the customer has visited and audited our facility in the last 2-1/2 months. We were having a lot of inspections in the facility, and it went well. Now we got a greenlight to go ahead for the production. That's how we ordered the raw material from the supplier. And once it will be in our warehouse, we will start the production.

Rikin Shah: This is the first trial production is what you are saying?

Nareshkumar R. Patel: Yes.

Rikin Shah: The Fermion contract in the presentation you have mentioned will start from Q4 FY24. How would that scale up gradually? If your contract is for, let's say, 100 tons, for example, then how do you scale from Q4 FY24 onwards?

Nareshkumar R. Patel: First is the qualification in Q4, where we do some validation batches which would be used by Fermion to make further synthesis and then final formulation. Once the approval will come from the final regulatory authorities, then it will be ramped up. FY25 will be the year where we will have all the qualification stages everywhere, and then FY25 second half, it will be fully ramped up.

Rikin Shah: Full utilization in the second half of FY25?

Nareshkumar R. Patel: Yes.

Rikin Shah: Now that Baba Fine Chem is integrated, now what do we see? We have the long-term guidance of taking it to Rs. 200 crores. But just sort of a myopic question for H2 of this year, are we seeing any scale-up over there?

Nareshkumar R. Patel: This year is a consolidation and integration year where we do all the integrations, transferring our system there, digitalization and customer approvals because there are management changes. Customers need to also give some approvals for management changes. That's the reason why this year is a little bit on the muted side, but from next year, it will be ramped up very exponentially.

Moderator: The next question is from the line of Nilesh Ghuge from HDFC Securities.

Nilesh Ghuge: If I look at the chemicals business performance in the first half of FY24, it has shown very robust performance. This quarter also, if I knock off your subsidiary performance, the YoY growth was 32% and 1Q it was 25% YoY. Do you think that this kind of growth will sustain for next few quarters in chemicals business excluding the subsidiary performance?

Nareshkumar R. Patel: When the base is small, the growth is very high, but when the base is becoming sizable, the growth will be reduced. Anyway, we are targeting to at least 2.5x our specialty segment in the next couple of years and that is where we are marching towards. And you can see the performance is coming in specialty chemicals and now every segment is recognizing and approving us. We are having some big numbers under negotiations with big buyers. If it will be happening in the next couple of weeks or maybe we will make an announcement, then you can see that yes, it will be really a good move in specialty chemicals as well.

Nilesh Ghuge: And still you have reduced your revenue growth target for this year from 25% to about in the range of 20%. Is it only because of the advanced intermediates or also because of the muted performance in your subsidiary company?

Nareshkumar R. Patel: This has nothing to do with anything about our projections or our growth or our volume. This is really because of the top line erosion. At the end of the day, your revenue growth is based on the top line, and this is where the price is eroded on the sale side. That is the reason why this target is revised. Our volume will definitely grow at 20% to 25% and it will remain like that. It will be only because the value of the sales is eroded. That is the reason we revised the number. It may go up if the situation will go from right side.

Nilesh Ghuge: In your opening commentary, you did mention that the volume growth was very strong in FY24 first half but because of the prices, there is a decline in the top line. But can you quantify to some extent how much was the volume-driven growth and how much was the impact because of the realization?

Nareshkumar R. Patel: Right now, it's not on my hand. But I can give it to you one-on-one whenever you are free.

Nilesh Ghuge: Last quarter, our exports were about 39% of our top line. And I believe in the last quarter, that number excludes the export from Baba Fine Chemicals. Now, you have restated your numbers for the previous quarter. If you could help me out and get the exports for the last quarter.

Bhavin N. Shah: Export last quarter without Baba was 37%. Again, I need to work with Baba. So, I can come back to you with that number separately.

Moderator: The next question is from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: I just would want to know that because the majority of our business would be contracted for our advanced pharmaceutical intermediates, but just as a percentage, how much is contracted, or do we do some kind of spot business as well?

Nareshkumar R. Patel: Our most of the export business is contracted and domestic business is fully spot business. Not only that, some of the new molecules which we are working with in export as well is spot like. Our regular businesses like our business with Angelini and Fermion and Medichem, these all are with the contract signed but with the relation with the price of the raw material.

Jason Soans: As a percentage, how much would it be roughly?

Nareshkumar R. Patel: It will be somewhere around 30% to 40% of the revenue of the advanced intermediates.

Jason Soans: 30% would be spot?

Nareshkumar R. Patel: 30% to 40% depending on the product mix.

Jason Soans: 30% would be spot of the advanced pharmaceutical intermediates, right? And 60% contract?

Nareshkumar R. Patel: No, 40% is contract and around 50% is spot.

Jason Soans: Of the advanced pharmaceutical intermediates?

Nareshkumar R. Patel: Yes.

Jason Soans: I just would want to know, of this business, how much it exports to the Chinese competitors? Of course, we know that the Chinese also are very large players in intermediates. How much of your portfolio is basically exposed to Chinese competitors? As you had mentioned that you were facing price erosion due to pricing pressures, how much of this is exposed to Chinese competitors?

Nareshkumar R. Patel: There is no Chinese competitor issue. It's our local competitor who knows what price we are selling from the data available in the export, which is a very bad thing and then they don't have a contract; so, they have spot price. Based on that, they quote on a reduction in the price with our customer. Customer is using it as a platform to negotiate with us.

Jason Soans: Just to clarify you did mention in the call before, pricing pressure was 10% to 30% that led to EBITDA decline of 6% to 7%. Whatever your long-term contracts are, due to the prevalent spot prices which are reduced, they have been renegotiated and hence there is a pressure on margins. Is that right?

Nareshkumar R. Patel: Yes. In the next quarter, it would have been already discussed during this 1 to 1-1/2 months and it is recovered everything in that sense.

Jason Soans: I just want to mention your Ankleshwar capacity, I believe you have invested around Rs. 190 crores, close to that, with an asset turn target of around 3x to 3.5x. This Ankleshwar facility you had acquired from Gujarat Organics. I understand that a certain portion is allotted to the Fermion block and there is a certain portion probably you will be doing specialty chemicals as well. Could you just give me a breakup as to what revenue can you generate in what segment? What are you looking for? What's the total plan for the Ankleshwar capacity?

Nareshkumar R. Patel: Ankleshwar is not for specialty first of all. It is only for pharma. There are 3 blocks. Out of that, 33% capacity we had allocated to Fermion which is fully booked. And we still have 66% capacity free for us which will be fulfilling our future demand till FY27.

Jason Soans: And that's totally for API with the advanced pharma block?

Nareshkumar R. Patel: Yes, this Ankleshwar facility is only for pharma.

Jason Soans: You said your business in terms of 40% is contract and 50% to 60% is spot in your advanced pharma intermediates, right?

Nareshkumar R. Patel: This is a product mix. We have a lot of products. So, it will vary. This quarter is like this, next quarter may be changed.

Moderator: The next question is from the line of Dharmil Shah from Marcellus Investment Managers.

Dharmil Shah: On the Fermion component. I believe we would be supplying 3 intermediates to Fermion. One we are already started, and if you could just give some timelines about the other 2 intermediate products? When could we start commercially supplying these 2 remaining intermediates?

Nareshkumar R. Patel: We are going to start validations of the other 2 intermediates in Ankleshwar facility in the 2nd half of December, and it will be supplied for validations to Fermion in Q4 FY24.

Dharmil Shah: Both the 2 intermediates or just the second one?

Nareshkumar R. Patel: Both. It is a program like that. It will be validation, then commercial supply will be starting in H2 FY25.

Dharmil Shah: As far as your domestic business is concerned, you mentioned there were some price cuts by the domestic competitors. But I just wanted to understand more on that. Your customers who would have named you in the business filing, then how would they switch to your peers?

Nareshkumar R. Patel: It's very simple. It's a buyer and seller. A reference price is used to negotiate. That’s it.

Dharmil Shah: Just wanted to understand if there is any lock-in in the domestic business we are present in or is it purely based on the price?

Nareshkumar R. Patel: We know that we are part of the DMF, but we don't know who the other part of the DMF is. They use the reference price. What we have done is that we have not lost the business. Though we compromised a little bit in the margin, but we get the business. That is what we have done in the last quarter.

Dharmil Shah: How did we account for the Baba Fine Chem acquisition? There is still goodwill increase in the balance sheet. And how much would be the corresponding asset increase?

Bhavin N. Shah: For Baba Fine Chem, our investment value is around Rs. 68 crores. And after getting real asset from there, our goodwill is around Rs. 54 crores.

Dharmil Shah: So, asset increases would be around Rs. 68 crores, right?

Bhavin N. Shah: Yes.

Dharmil Shah: And if you can just maybe give the breakup for this Rs. 68 crores? What would be the key assets?

Bhavin N. Shah: We have paid Rs. 68 crores as an investment value and there is a corresponding goodwill of Rs. 56 crores. After removing assets and liability from their existing balance sheet, this goodwill has been created. It includes fixed assets, it includes some of the debtors over there, minus creditors, and other liabilities.

Dharmil Shah: What is our revenue recognition policy for the export business? Do we recognize once we ship the products from here or do we recognize on the date when the customer receives your products?

Bhavin N. Shah: Primarily, we completely follow IndAS-115. And it will depend – FOB, CIF, Incoterms. When we pass on the liability, at that point in time, we recognize this according to IndAS.

Dharmil Shah: If I see the inventory days, they have almost increased from 100 days to 145 days. Any possible reason why is it the case?

Bhavin N. Shah: We have now stocked up inventory specifically for the Fermion contract. There is a strategic inventory built up for upcoming supply to Fermion. That's why you can see a rise in the inventory days.

Dharmil Shah: 145 days would not come down significantly or would remain the same for coming quarters?

Nareshkumar R. Patel: Strategically, we need to because validations must be started on time and it has to be met. Otherwise, you will miss the qualification window in the authorities. This window is open for a very short time. We have to be ready for everything.

Moderator: The next question is from the line of Nirali Gopani from Unique PMS.

Nirali Gopani: Naresh bhai, most of my questions have been answered. Just a question on this write-off that we have taken. Why a sudden decision to write-off? And just a little bit of more background will be helpful.

Nareshkumar R. Patel: In the early stages of evaluation, we had done a one-off investment in a drug discovery platform, and Ami Organics came into existence in partnership with Photolitec. The focus of the JV was to work on small oncotherapeutics and it went very well. The JV has done good in PET scan, and it moves to phase II now 1 molecule and one is phase I. But our main focus is in our chemistry area. And the drug discovery is not a cup of tea for Ami Organics, and once we have seen that, it's moving very sluggishly. So, we decided to not to have more carryover of this investment. And during the public offering also, we said that we are considering this company as just a side investment and so we decided to focus more on our current chemistry and over the investments which we are focusing more to grow that. We decided to write-off this investment.

Moderator: The next question is from the line of Kalpit Narvekar from EFG Asset Management.

Kalpit Narvekar: Sir, my first question was on the inventory levels. Some of the API manufacturers commented that there are elevated inventory levels. Are you seeing that in your customers?

Bhavin N. Shah: Kalpit, as I answered earlier, our inventory levels for the current quarter are on a higher side because there is a specific buildup of inventory for the upcoming Fermion contract.

Kalpit Narvekar: The customers who you sell the pharma intermediates to, are those customers having elevated inventory levels? Are they having high inventory therein?

Nareshkumar R. Patel: We don't know that actually.

Kalpit Narvekar: It could be due to some sluggishness in the demand maybe?

Nareshkumar R. Patel: No, if demand is the issue, then we should not be having a top line incremental. Demand is not an issue for us from our customers. Yes, there is a request of price negotiation, but demand is still there.

Kalpit Narvekar: My question is basically what is your manufacturing cost difference compared to Chinese suppliers in some of your key molecules?

Nareshkumar R. Patel: The manufacturing cost, our technology, and our approvals, these are the 3 factors which are making us different than the Chinese manufacturer. In our top 10 products which are contributing to our revenue, we are dominating against China and that is cumulative of our production capability, our documentation and approvals, and above all is our positioning in the DMF as well.

Kalpit Narvekar: In your top 5 molecules, are you seeing a lot of Chinese supply coming into the market? And can you talk a little bit about near-term trends on this? Is it improving in the last month or so or is it getting worse?

Nareshkumar R. Patel: Our top 5 products are mainly trazodone, dolutegravir, rivaroxaban, and entacapone. They all consistently are performing at the growth and still in the same situation. We don't see any issues in the final product. But there are some pressures, maybe from the raw material side because raw materials are common and maybe some competitor is using this raw material as a cost, and it will be impacting on our final product price.

Moderator: The next question is from the line of Nilesh Ghuge from HDFC Securities.

Nilesh Ghuge: Sir, just one follow-up on Baba Fine Chem status. As you said that in the next 4-5 years, our top line may go to Rs. 200 crores to Rs. 250 crores, but looking at the current assets and the current chemistries, do you expect that our revenue will go to normalized level of FY23 in maybe the second half of FY24 or it will take more quarters to reach to that level? At least FY23 level?

Nareshkumar R. Patel: FY25 will be better than FY23 levels. FY24 will be the muted one. FY25 will be better than FY24.

Moderator: The next question is from the line of Suraj Nawandhar from Prithvi Finmart.

Suraj Nawandhar: Sir, are we in talks with our customers for the rest of the 66% capacity that we have at Ankleshwar facility?

Nareshkumar R. Patel: Yes, we have some pipeline discussions with other customers for exclusive manufacturing for them.

Suraj Nawandhar: When can we see any concrete agreements regarding that capacity?

Nareshkumar R. Patel: It will come when it will be matured. We are talking with them; we are in the process of qualifying our samples and everything. Once it will go through, then we will announce, but we are working on that.

Suraj Nawandhar: I was just asking for a very rough timeline; 4 to 6 months or 6 to 8 months. Any ballpark timeline if you can give.

Nareshkumar R. Patel: Our ballpark is not on the contract basis, but we are targeting to operate at full capacity by FY27.

Suraj Nawandhar: How big is the opportunity in our new product that we have launched – the UV observer? How big is the opportunity over there?

Nareshkumar R. Patel: It will be equivalent size of current base of Gujarat Organics.

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

Gagan Thareja: Sir, the first question is on the impact of the delay in the launch of the product from one of your customers. Can you enumerate on what was the impact for the quarter and how has the product been delayed?

Nareshkumar R. Patel: The thing is that one of the products which is going to be off-patent by '26, and one of our first-to-file generic players with whom we are working, he had qualified us since, 10 years back. We started supplying this molecule expecting that they will get the approval in several geographies, but the originator sewed them and they won one territory but they lost second territory. And because of the lost battle, the flow which had to go had to be retarded. It will be postponed by the next year. So, by FY25, it will be once again in a full phase. So, these 3 quarters Q2, Q3, and Q4, we have a little bit on a muted side of the sale of that product.

Gagan Thareja: Is it possible to tell which product this is?

Nareshkumar R. Patel: I can tell you, but I am not allowed to do that because we have some long-term supply agreement with them. It is a very big product for us and an important product for us.

Gagan Thareja: Is it in the anticoagulant?

Nareshkumar R. Patel: Yes.

Gagan Thareja: Secondly, I think you also mentioned that there was an impact of machinery breakdown. How much was the impact of the machinery breakdown on outside?

Nareshkumar R. Patel: It is this machinery breakdown in terms of waste management area. We have an approval from the Government of Gujarat Pollution Control Board that if we have a breakdown, we can dispose of it to the common effluent treatment plant. So, some quantity we had to treat at an outside territory. Because of that, some incremental cost has impacted on the balance.

Gagan Thareja: When you reported Q1 last quarter and now when you are reporting Q1, there is a restatement for Baba Fine Chem. Can you give the contribution of Baba Fine Chem to the top line and net profits in both Q1 and Q2?

Bhavin N. Shah: For Baba, Q1 top line was Rs. 11 crores. And for Q2, it is Rs. 9 crores.

Gagan Thareja: And net profit?

Bhavin N. Shah: For Baba Fine Chem, net profit is around Rs. 14 crores.

Gagan Thareja: For H1?

Bhavin N. Shah: Yes.

Gagan Thareja: Rs. 14 crores net profit on Rs. 20 crores top line?

Bhavin N. Shah: Yes.

Gagan Thareja: I am saying if you adjust for the write-off that you have taken and just look at the recurring profits without the write-off and you look at the tax rate both for the quarter and for 1H, it seems that the tax rate is higher year on year. I am just trying to understand have I got it correct? And if so, then what is the reason for the higher tax rate?

Bhavin N. Shah: Gagan, tax rate is the same. We will not get any deduction for this write-off. On consolidated basis if you are saying that there is a different tax rate for Baba.

Gagan Thareja: What is the tax rate for Baba?

Bhavin N. Shah: It is currently a partnership. So, it will be done based on the applicable rate for partnership, which is on a little higher side.

Gagan Thareja: Is it possible to understand the breakdown of the top line growth in terms of volume growth and what has been the price impact on the top line? Just to understand volume versus value how it is?

Nareshkumar R. Patel: In a broader way, it is between 6% to 7% on the EBITDA margin. On the retail breakdown, we can provide you one-on-one when we meet.

Moderator: Ladies and gentlemen, due to time constraints, we will not be taking any further questions. I would now hand the conference over to the management for the closing remarks. Over to you, sir.

Nareshkumar R. Patel: Thank you Ambit team for hosting our conference call. Thank you everyone for your patience and we hope we have been able to answer most of your queries. If we have missed out on any of your questions, kindly reach out to our IR advisor E&Y and we will get back to you offline. Thank you very much and have a good day and Happy Diwali and Happy New Year to everyone.

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

(This document is edited for readability purpose)