August 9, 2024

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

SCRIP CODE: 543748

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

Dear Sir/Madam,

Sub: Transcript of Q1 FY25 Earnings Conference Call
Ref: Regulation 30 of the SEBI (LODR) Regulations 2015

Please find enclosed herewith the Transcript of Earnings Conference Call held on Tuesday, August 6, 2024 on the Audited Financial Results of the Company for the Q1 FY25.

Kindly take the same on your records.

Thanking you,

Yours faithfully,
For AARTI PHARMALABS LIMITED

NIKHIL PANDURANG NATU

Digitally signed by NIKHIL PANDURANG NATU
Date: 2024.08.09 14:37:03 +05'30'

NIKHIL NATU
COMPANY SECRETARY
ICSI M. NO. A27738

Encl.: a/a.

Aarti Pharmalabs Limited
Q1 FY25 Earnings Conference Call
August 06, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Aarti Pharmalabs Limited Q1 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 the "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Anuj Sonpal: Thank you. Good morning everybody and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors, we represent the Investor Relations of Aarti Pharmalabs Limited.

On behalf of the Company, I would like to thank you all for participating in the Company's Earnings Call for the First Quarter of Financial Year 2025.

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

Now, let me introduce you to the management participating with us in today's Earnings Call and hand it over to them for Opening Remarks.

We have with us Mr. Rashesh Gogri – Chairman; Mrs. Hetal Gogri Gala - Vice Chairperson and Managing Director; Mr. Piyush Lakhani - Chief Financial Officer.

Without any further delay, I request Mr. Rashesh Gogri to start with his Opening Remarks. Thank you and over to you, sir.

Rashesh Gogri: Good morning everybody. I welcome all the analysts and investors to this earning call on this performance of Aarti Pharmalabs for the quarter ended, June 30th, 2024. Our results documents were shared with you earlier and I hope you will have got a chance to go through them.

To begin with, let me provide you the business highlights. The Company operates three distinct areas within the pharmaceutical industry, Xanthine derivatives, API and Intermediates and CDMO/CMO.

In Xanthine derivatives segments, we contributed 54% of the turnover in Q1 and despite aggressive competition from China, we have been able to leverage our relationship with our customers and grow our international revenues for the Xanthine derivatives. As you may be aware, we are one of the largest Indian pharmaceutical manufacturer of Xanthine derivatives. Given our leadership position and favorable outlook for the demand from the large corporations, we are seeing strong potential for this segment.

The API and intermediate business contributed 44% of the turnover in Q1. Out of this turnover the regulated market contributed 55%, and the rest of the world market contributed 35%, and the balance 10% was from the non-regulated market. This split is in line with our strategy to focus on regulated business which offers higher profitability and stable demand. Given our strong focus in R&D and process innovation, we are able to provide necessary regulatory and IPR support to our global customers, and this gives us a edge over our competitors.

The third segment, CDMO/CMO has contributed 2.4% of the turnover in this quarter. We are presently working with 18 customers on 53 projects, of which 27 projects are on the commercial stage at the customer's end, and 26 are under different stages of development at customer's end. This highlights our presence in late phase projects. The sales contribution of CDMO/CMO in this quarter is comparatively lower on account of long lead orders which have deliveries scheduled later in this year. This Q-o-Q fluctuations are part of the business as the products are typically multi stage. We are thoroughly optimistic that we should be able to grow this segment by 25% to 30% Y-o-Y, in FY25. The new R&D center dedicated to CDMO/CMO is gaining good traction and has a strong pipeline. Harnessing advanced technologies and modern equipment, it is successfully catering to a substantial surge in the number of customer projects.

Let me now share key financial highlights:

Consolidated financials, I am pleased to announce that in Q1 FY25 the consolidated top line was Rs.555 crores, which was 27% higher Y-o-Y. For Q1 FY25 the consolidated EBITDA from the operations was Rs.96.4 crores as compared to Rs.84.9 crores in the corresponding quarter of previous year and that is an increase of 14% Y-o-Y. The consolidated PAT for the quarter was Rs.65.3 crore, 18% higher Y-o-Y.

I will now share the progress and updates on the key expansion projects:

Given the demand from several large corporations, we have announced the capacity expansion of Xanthine in the last quarter, and we are in the process of acquiring adjacent land for the brownfield expansion of the project. We expect to complete this project in the beginning of FY26 and thereby achieve a total production capacity of 9000 metric tonnes.

The Atali project, primarily focusing on CDMO/CMO and Intermediate manufacturing, is advancing as planned, and we expect to commission the site by Q4 FY25. The semi commercial block production at our USFDA Intermediate unit at Vapi is in final stages of completion and is expected to become fully operationalized in Q2 FY25, as briefed last time. This expansion will address the gap of small to medium batch sizes in the current system. In line with our plan of offering gram scale to turn scale level batch sizes, ultimately aiding our CDMO/CMO business.

Lastly, setting up of a new solar power plant at Akola Maharashtra is progressing well and estimated to get commissioned in the current quarter. This project is estimated to generate 1/3rd of our power requirement, and it will reduce our overall manufacturing cost. We remain optimistic about the future and maintain our guidance to achieve EBITDA growth of approximately 10% to 12% in FY25 and long-term goal of around 15% annual growth in next three years.

I will now request the moderator to open the forum for Q&A session. Thank you.

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

Rahul Jain: Sir, first question is with regards to CDMO/CMO business, of course you have mentioned in your initial comments about the drop in the business, and you have maintained your guidance of around +25% for CDMO revenues this year. Sir what we have been hearing and reading is, there is some kind of shift from China to some of the large Indian companies with regards to CDMO/CMO orders coming in. So, with regards to this, are we seeing any kind of new inquiries, or larger inquiries coming, which probably you would not have anticipated a year ago. That is my first question.

Rashesh Gogri: Yes, as we have informed you, that earlier we were having close to 40 projects that we were doing, and this quarter that number swelled to 53 projects. So, this showcases that we have traction of new projects coming in our fold. And of course, we are filling a large number of RFPs out of which these are the projects that we have won with our innovator partners. So, we are seeing a large traction towards India, away from China and Aarti Pharmalabs is also, able to get more inquiries and projects.

Rahul Jain: And one more thing about this. Typically, what kind of average size of contracts or inquiries used to be coming to Aarti Pharma say, 6 to 12 months ago and how has it changed recently?

Rashesh Gogri: Basically, any CDMO/CMO project will require at least 6 to 12 months of cycle before you start commercial supplies and you understand overall demand. So, we have a mix of commercial projects which are getting shifted and also late phase projects also coming to us. And overall, the inquiries have increased, if you see the number of additions that we have got this quarter have been significantly good, and we anticipate that, speed to continue.

Rahul Jain: Sir, I was just trying to understand the size of each of these projects. Some of those inquiries, have they changed in last six, 12 months in terms of the ticket size which you are talking to your customers, or probably you are talking to much larger customers, and thereby the size of each inquiry or order has changed?

Rashesh Gogri: Yes, so we are having projects in the entire spectrum. So, we have some projects with specified technology and certain projects which are getting shifted on the commercial, so the commercial projects have higher ticket sizes. And the newer projects where we are plugged in the system earlier, they have smaller ticket but as the product gets launched, the overall size of the business, depending on the product growth improves. So, we have a mix of both and overall it really depends on the product and how big it is. But we have had bigger inquiries, which are over 1-2 million range in recent past as well.

Rahul Jain: Sure. And sir with regards to CAPEX, so you have mentioned in your initial remarks about the various CAPEX phase, if you could break down the amount like Xanthine last quarter you had mentioned that we will freeze the exact number somewhere and share in this call. So, what is the amount of CAPEX being done for Xanthine from 5000 to 9000 tonnes, and the other CAPEX specifications?

Rashesh Gogri: Yes, so we are anticipating close to Rs.150 crore CAPEX for the Xanthine project. This will be spent across two sites that we use for the Xanthine project and the other projects that we have, as we have shared earlier, the Atali project has a total outlay of approximately Rs.375 crores. And the solar project, which is on the verge of completion, is around RS.90 crores.

Rahul Jain: So, this year you spent somewhere around Rs.150 on Xanthine and Rs.375 in Atali?

Rashesh Gogri: No, the Xanthine also will get spread over next year. Atali will be spent this year, because we will start, Atali facility. Of course, it is a very large facility so we may phase it. Basically, in a couple of months, one-by-one the entire facility can start. So, in a quarter it will gradually the momentum will gain, and we can operate the full Atali facility.

Rahul Jain: Sure. And last thing, sir. There is a sharp increase in employee expenses, anything to read over there. And also, with regards to other expenses like this quarter, we had 70, previous quarter it was 86 so anything to read in this?

Piyush Lakhani: Piyush here. Employee expenses have increased in-line with the growing business, and we are also employing more people because of the expansion at Vapi that is happening. This also includes the commission amount also to the directors. So, that is in line with the increment that we normally give every year. And other expenses, what was the question?

Rahul Jain: Other expenses, which were last year around Rs.62 crores, fourth quarter it was Rs.85, Rs.86 crores. And then this quarter, it has come down to Rs.70 crores. So, is this just a quarterly blip, or is there anything to read in this other expenses?

Piyush Lakhani: See, basically the variable expenses will move in tandem with how the top line is moving and the power cost is something which has gone up, because it is going up in Maharashtra mostly every year. So, this year also it has increased so compared to quarter one of last year, it will be definitely higher the power cost, the freight also has been going up and down. So, quarter four, the freight cost was much higher, which has slightly come down in this quarter. And if you remember, in quarter four of last year, we had done some R&D, product impairment also. So, that's why the other expenses in the last quarter was higher which has slightly come down.

Moderator: Thank you. The next question is from the line of Mahesh Vyas from UTI Asset Management. Please go ahead.

Mahesh Vyas: My question is on, when we look at the numbers, how one should read on, let say on a standalone or consolidated basis, standalone it's around INR394 crores. And console, it's around RS.556 crores. So, in our presentation how one should read the segmental breakup on standalone, the 2.4% of CDMO is of standalone or on a consolidated?

Rashesh Gogri: Standalone.

Mahesh Vyas: Sir, then what about the difference of this Rs.150 crores, how it comes?

Rashesh Gogri: Yes, so we have associate Company and a subsidiary Company so, these are consolidated in the Aarti Pharmalabs results. So, we have an associate company called Ganesh Polychem Limited and also we have a 100% owned subsidiary Aarti USA Incorporation, and which has some trading business, legacy business of the chemical trading business which is still being undertaken in that entity, which eventually will shift or stop by the end of this year, once Aarti Industries sets up its own subsidiary in USA. So, this is a legacy subsidy which got transferred to Aarti Pharmalabs. That's why I request you to look at the standalone because in the consolidated result, almost Rs.100 crores is the trading sales.

Mahesh Vyas: And sir, when we look at the Aarti Pharmalabs how one should understand in terms of gross margins profile given that we are in three segments. So, I am not asking the actual numbers, but how one should look at the gross margins of the Company, and given the differential segments are there?

Rashesh Gogri: So, at the overall level we have a gross margin of around 50% to 55%.

Mahesh Vyas: Okay. And sir, if you can just help us understand how one should read on an API in Xanthine, how the margin profile stands, mid-teens, mid 20s, or like?

Rashesh Gogri: EBITDA margin?

Mahesh Vyas: No, I am asking on the EBITDA margin.

Rashesh Gogri: So, gross margins are better in API and Intermediate than the Xanthine. CDMO/CMO enjoys the highest gross margins. And then it is average out in, it depends on number of stage product that I do for that particular quarter, and so that varies quarter-to-quarter.

Mahesh Vyas: Okay. And sir how things stand on, in the Xanthine derivatives markets, whether those Chinese aggression has come down or slowed down, or how one should look at going forward?

Hetal Gogri Gala: Hetal here. So, China is as aggressive as ever, and the pricing have been reduced in the spot market, so we have a balance of contract and spot. So, it is challenging for the spot business. China is becoming very aggressive still.

Rashesh Gogri: But still, as you have seen that we have been able to grow our export business overall. And this quarter we have been able to do almost 57% of the Xanthine was exported. So, given the relationship and the connects that we have, we are able to increase the market share.

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

Vikas Sharda: I have one question on the pollution control notice which you disclosed for the Dombivli plant. So, what were the reasons, and what's the plan for resolution or any financial impact for the year, if you could comment?

Rashesh Gogri: Yes. So, we received a pollution notice from the MPCB at our Dombivli site. So, in Dombivli site, we had MPCB come in and issue notice for some gas related issue, basically the natural gas-based boiler startup related issue, and which we had resolved immediately. So, the issue was resolved within seven days and we could get the startup of the facility in 30 days. 30-35 days for us to get approval from them to restart. So, now the facility has restarted, and we are operating all our facilities.

Piyush Lakhani: So, Vikas, as you would have read, it is something which impacted many companies in the same business area or industrial area.

Vikas Sharda: Understand, but the impact was only like 30, 35 days that 1%, 2% of revenue, so not material.

Rashesh Gogri: Yes, not material.

Vikas Sharda: Understand. And it will be nice if you could disclose the Ganesh Polychem revenues and EBITDA separately in each quarterly results, because that's also quite significant for you now?

Rashesh Gogri: Yes, so we will. Of course, in annual it is getting disclosed, but we will disclose the Ganesh Polychem data also from next time.

Moderator: Thank you. The next question is from the line of Dhiresh from White Oak Capital. Please go ahead.

Dhiresh: So, you have like 27 commercial projects in CDMO/CMO right?

Rashesh Gogri: Yes.

Dhiresh: Sir, on a per project basis, the average value is less than like a million dollar. So, it looks low to me, so can you just explain on that little bit like?

Rashesh Gogri: The commercial projects are at the commercial stage at the customer end that we have started supplying to them.

Hetal Gogri Gala: Second alternate source lot of places.

Rashesh Gogri: Yes, so what happens is that, it takes some time for slowly building up, because we will give them the validation quantity, and then they will move us to the actual market as their product gets launched, or the product site transfer happens from one vendor to the other, and that is when they plug in new vendors. So, we are in that process. So, I wouldn't say that all the products are commercial and at their full potential, out of which the half of the projects are still at the early stage. So, this potential will grow significantly.

Dhiresh: How would this be split between patented products and generic products?

Rashesh Gogri: All are patented products only, whatever we are saying in CDMO/CMO are all patented products.

Dhiresh: Okay. And they are a combination of APIs as well as intermediates, or they are largely skewed towards one?

Rashesh Gogri: Only intermediates. Intermediates are classified as early-stage intermediate and late-stage intermediate. There will be GMP intermediate and key starting raw material, so we are present in both the segments. We also offer GMP intermediates.

Dhiresh: Okay. And how would it be split between development projects and commercial projects?

Rashesh Gogri: That we have mentioned, so it is a 50:50. Approximately 50% on path to become commercial, whereas 50% are still developmental project where initial work is being done at our end and at the customers' end.

Hetal Gogri Gala: It has gone Phase-3.

Moderator: Thank you. The next question is from the line of Tujan Shah from Molecule Ventures. Please go ahead.

Tujan Shah: Total CAPEX, which will be outlaying for the FY25 would be Rs.375 crores plus Rs.90 crores, but assuming Xanthine derivatives would be around Rs.75 crores?

Piyush Lakhani: So, basically the outlay, what we are saying is around Rs.500 to 550 crores would be the CAPEX that would be done in this year.

Rashesh Gogri: Rs.500 would be a good number

Tujan Shah: And we have been commissioning the Vapi in Q2 FY25, what could be the revenue potential in FY25 and how we have been out looking in terms of revenue in FY26 as well?

Rashesh Gogri: So, basically, the total volume that will get generated, volume per KL in this manufacturing block that we have put up is only 30-40 kL, but it is going to bridge the early stage or R&D requirements of our customers for the clinical phase development, where they need smaller batch sizes. So, overall, it may not add too much value, but it will accelerate the pipeline at our end.

Tujan Shah: Okay. And sir in the CDMO side, if we look at the, if our contribution is just 11% that is 41 crores on standalone basis. So, assuming we have been like, we are giving a guidance of 25%, 30%

growth. Are we due to like in the even though we have been many molecules on the commercial side, so we have been very conservative on that basis, because the FY24 the base is very small?

Rashesh Gogri: See FY24 we did close to 170 crores of CDMO/CMO business, and we have guided for a 25%, 30% growth over and above that. So, it will not be a Q-o-Q growth that every quarter you will see 1/4 of that. You know that certain quarters may have higher sales and certain quarters may have lower sales, and then we are also taking up multi-stage products. So, multi stage products takes time. Overall we have a good order book, and that's why we have given this guidance on the call.

Moderator: We will move on to the next question. It's from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Again, a question on the CDMO/CMO side. So, I was looking at your data for molecules which are on the commercial stage. So, last year in Q1 we had 16 molecules in the commercial stage, and we ended Q4 at 21 molecules and now in this quarter itself we have added six more commercial molecules at around and we are ending at around 27 molecules in the commercial stage. So, there has been a significant addition which is happening on the commercial stage molecules as well. So, normally what we have seen in CMO/CDMO is that, most of the innovators tie up with CMO/CDMO during the development phase itself, at phase one or even at the discovery stage. So, however, in our case we have seen significant shift, or significant addition in the commercial stage molecule. So, if you can explain this, and secondly on the same segment in commercial stage molecules normally in the year three, year four is where we know we start seeing significant pickup in sales. And sales for many large molecules reach their peak. So, where are we in that phase for our commercial molecules, out of this 27 when do you see peak sales coming in for many of them?

Rashesh Gogri: Yes. So, as you rightly mentioned that we have been growing our overall commercial product basket. So, the number that we are giving here is the number of projects which we have cumulatively which are active. So, we have 27 active projects, we may sell in particular quarter, in few of them, and we may sell few of them in certain years. But these are the active projects where the drug is still active, and we have been approved as a source for the drug product via intermediates or CGMP products. So, and these may be in phase three and above, so that is what we call, the products which are going for commercialized close to 27. And, as you rightly mentioned that lot of partners are getting selected, early phase, but there is always a shift which is happening when the product is getting bigger and bigger and approvals are coming in, the innovator changes its strategy and then decides who is going to be the reliable supplier for them for the future of the patent life of the product, and that is phase three plus stage, and that is where we are trying to get more projects. And at that stage, also the medicinal development, which they have done with early phase, gets knocked off, and the new vendors get entry.

Ankit Gupta: Yes, so normally for this commercial molecule that we have, how many suppliers will be there for the intermediates that will supply to innovators on an average if you can tell like, there will be like, normally we have seen it's normally not more than two, three.

Rashesh Gogri: Yes, it's not more than two, three suppliers.

Ankit Gupta: Okay. And the earlier supplier would be the ones which had worked with the innovators at the development stage, and now because of the increasing volumes we have been added as a vendor?

Rashesh Gogri: Either increasing volume or China plus one, or the current vendor is not qualified to do anything which is very large volume, commercial requirements or commercial grade production. So, that is where we specialize, our specialties is how we are able to commercialize the projects which are at phase three and support the innovator for the entire patent life of the product.

Ankit Gupta: And, given the kind of pace we have seen in addition of molecules in Q1, do you think this will continue for the near to medium term given the legislation which has been passed in US recently against China for the CDMO?

Rashesh Gogri: Yes, the Biosecure Act has forced US companies to shift away from China, and that's why other non-Chinese suppliers of these intermediates and the GMP intermediates are seeing more inquiries, and we are benefiting from this.

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

Nitesh Dutt: First question on CDMO/CMO, so we have been hearing a lot of chatter around by Biosecure Act that you just mentioned. Are you seeing any specific opportunities opening us for you as well because of this act?

Rashesh Gogri: Yes. So, that is what I mentioned to the previous caller also that in six months we have added commercial projects from 16 to 27 and we have a strong pipeline of early phase projects also. So, now we have total 53 projects which are currently live with 18 customers. So, we have added two more customers, and also added more projects from our existing customers. We are getting more and more traction from our current customers which have seen the advantage of placing these projects with us because of our previous supplies to them.

Nitesh Dutt: Got it. Second question on Xanthine, this quarter I believe we have done a revenue of Rs.210 crore versus Rs.180 odd crore in the last five to six quarters, and this despite the pricing pressure, et cetera you mentioned from China. So, what has led to this jump in revenues, any volume uptick we are seeing, or one of prices in this quarter?

Rashesh Gogri: So, overall, we have seen in Xanthine and allied segments more volume, that we have been able to do, and Xanthine is not only caffeine. So, there are other products also which are part of this segment, the way in which we are reporting. So, overall, we have seen good growth, overall for the current quarter and we are pretty confident that we will continue doing similar or better going forward.

Nitesh Dutt: Okay. This last question on gross margins, there is some compression there. This quarter, we are at 48%, I am talking about standalone versus 54% last quarter and your guidance of 50 to 52 so, the 48% number this quarter is it because of lower contribution of CDMO/CMO or any raw material pricing pressure that you are seeing, and should it get back to 50% levels by next quarter?

Rashesh Gogri: Yes, so that is definitely the CDMO/CMO segment revenue is less this quarter, and of course it will get picked up in subsequent quarters of this year, and which will rationalize overall percentage. But as you know that the industry is becoming more and more competitive, so overall there is of course pricing pressure as well on the API segment.

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

Dhwanil Desai: Sir my first question is on Xanthine, Hetal ma'am mentioned that Chinese aggression continues in that segment. So, in the last call we had a view that the prices have almost bottomed out. So, are we, are the prices falling from last quarter basis also, and also this competition or the aggression is only on the caffeine side or the other products in the Xanthine basket as well?

Rashesh Gogri: Yes. So, what has happened is that overall, the prices are falling from last quarter and of course the raw materials are also falling from earlier quarter. So, we are seeing, overall cost of goods also coming down, so that we are able to maintain our overall margins in this segment.

Hetal Gogri Gala: Apart from caffeine, the other prices have come down.

Rashesh Gogri: Yes, other prices are also coming down.

Dhwanil Desai: It is more of an adjustment for the RM price falling, it's not the price war kind of a situation?

Rashesh Gogri: Yes, it is more of a raw material correction.

Dhwanil Desai: Second question on the CDMO side, we ended last year with almost 11%, 11.5%, contribution. And this year and next year, we had guided for a very strong growth. So, at an overall revenue mix the proportion will get higher. So, last year, on a standalone alone we ended with 50% gross margin. So, at CDMO proportion grows let us say at 20%. We should move up in the gross margin trajectory, is that a right assumption to make and if so, will it be like 53%, 54% kind of a range or can you guide something on that?

Rashesh Gogri: No, it depends on number of stages that we are doing in the CDMO/CMO projects. And the gross margin is a function of number of stages. Suppose I have a seven stage product, then my gross margin goes up to 70% also, because everything I am doing in-house, whereas there could be a two stage product where my margin is less, so depends on the number of products that are there, in which kind of segment and how many stages we are doing. Typically, we end up doing three, four stages in the CDMO/CMO space. But we have few projects where we have much more longer stages which we have been processing currently and which will have a positive impact on the overall gross contribution also and gross margins from coming. But overall gross margins, we can't give real guidance. Overall, we can give guidance on the growth because overall occupancy our facility is a function of how many stages we are doing, and as we occupy more and more of our facility the gross margins will go up for the particular product.

Moderator: Thank you. The next question is a follow up question from Mahesh Vyas from UTI Asset Management. Please go ahead.

Mahesh Vyas: When we look at the CDMO business, how would have been our capacity utilization in last couple of years, and how, once we are coming up with the Atali project how the capacity utilization and the asset then one should take off on it?

Rashesh Gogri: See, currently we are using the facility for CDMO/CMO and Intermediate and API combined. So, overall our occupancy is 85%. Atali we are going to add almost 400 to 500 KL, close to 500 KL of volume capacity and which will significantly increase our capacity almost by 25%, 30% from the current level. So, and this is going to be phase one of Atali and of course we can build multiple every year. We envisage to build similar block, or at least 250 to 300 KL capacities in Atali, so we are well poised to match the capacity and keep certain free capacity so that we can meet the demand and surge of demand from our CDMO/CMO customers, as well as API and Intermediate customers.

Moderator: Thank you. The next question is from the line of Dhiresh from White Oak Capital. Please go ahead.

Dhiresh: Just following up from the earlier question, the current reactor capacity in combined, excluding Xanthine, is about 2000 KL right?

Rashesh Gogri: It is not 2000 or 200, we will get you the real number offline. So, currently we are adding close to 500 KL, 450 to 500 KL in Atali which will be around 25% addition. So, we have close to 1000 KL.

Dhiresh: Okay. And right now it was combined for API and CDMO. With the new block, you will carve out CDMO capacity separately, or still be fungible across both?

Rashesh Gogri: It will be fungible between Intermediates and CDMO/CMO, because both the businesses require multi-purpose assets, and this multiple-purpose for example, currently our Vapi side has hydrogenation block, which was commercialized in last year. So, that we don't propose to put up a hydrogenation block in Atali, because here we have got sufficient capacity to do the hydrogenation. So, depending on the requirement of the project, we will move the product stages around both the facilities.

Dhiresh: Okay, understood. And sir, one last question, so you were explaining that we moved from 16 to 27 commercial projects, and we are doing mainly patented products, only intermediate so, are these, can you just give a qualitative understanding of are they in the early stages of their commercial launch, or are in their life cycle management of from a patent early stage?

Rashesh Gogri: Most of them are in early stage of the commercial but there are few in life cycle also, but more than 50%, 60% is in early stage.

Dhiresh: By revenue?

Rashesh Gogri: Yes.

Moderator: Thank you. The next question is from the line of Pranav Shikari from Navneet. Please go ahead.

Pranav Shikari: Sir my question is on regarding on the margin front. So, we had around 21% margin in last quarter, and this time we have dipped to 17%, so any guidance on that, why there is so much of fall in the margins and any guidance on hitting the peak margins again?

Piyush Lakhani: Yes, I didn't get the name, but this particular question has already been answered. So, basically, if you look at quarter-on-quarter, you will see some up and down, because the CDMO/CMO business, which basically contributes, or which is the highest margin business for us, that basically goes up and down on quarter-on-quarter basis, as you have seen in the last quarter, it was 18%, its contribution to the overall revenue of the quarter, which has come down to 2% in this quarter. So, that has been the major reason.

Rashesh Gogri: Another major reason is also, if you are looking at consolidated number, better view to look at the gross margin for the Aarti Pharmalabs will be standalone. So, in the standalone our margins are more consistent, if you see 22, 21 to 23% it will move around with the CDMO up and down in terms of EBITDA margin. So, that will be a better number for tracking than the consolidated, because consolidated has some trading activity also, which eventually will get stopped by the end of this year.

Moderator: Thank you. The next question is from the line of Harsh Nagda from Vivid Financial Services. Please go ahead.

Harsh Nagda: I just wanted to ask about the xanthine prices trend last year and this year, and what are we anticipating the trend moving forward?

Rashesh Gogri: Xanthine has many molecules, so we won't be able to share but overall, the pricing has come down by around 15%, 20% over last year in the spot market.

Harsh Nagda: Okay. So, what are we expecting the trend to move on further?

Rashesh Gogri: We expect the trend to, the prices to stabilize at this level, as long as the raw material prices are stable or go up only. So, we don't anticipate it coming down, unless the raw material prices fall further.

Moderator: Thank you. The next question is from the line of Jay Shah, an Individual Investor. Please go ahead.

Jay Shah: I had a broader question on the business front. So, like you just said that because of the US Biosecure Act and even China Plus One, you are seeing a lot of inquiries, but at the same time, we are kind of congested on the capacity utilization, at least in terms of the near future. So, what kind of conversations then keep the customers engaged, because we will not be immediately able to at least start the CDMO phase for them. So, how are they showing confidence in us, apart from our chemistry skills and our lineage because of Aarti Group. So, how is it that customers are willing to wait six or nine months till Atali is ready?

Rashesh Gogri: So, as we have mentioned that our facilities are fungible across Intermediate as well as the CDMO/CMO. So, we have flexibility to buy those Intermediates and substitute the capacity for CDMO/CMO and give the customer the capacity availability. So, that is one thing. Another thing is that, these projects whatever increase that we are seeing of course will take six to eight months or a year to get mature, and by that time we will also have our facility so early phase, as we mentioned. We have now this smaller reactor up to from 50 liter to 2 KL. We have already added one block in our Vapi site, which got commissioned in this quarter. So, with that, we will be able to meet their validation requirements, or early phase requirements to qualify our product for future, so we have those capacities in place. So, we don't see any concern on the capacity front for the CDMO/CMO business for now.

Moderator: Thank you. The next question is from the line of Amit Luri, an Individual Investor. Please go ahead.

Amit Luri: My question was regarding the trading business, which we have discussed right now. So, can you please throw some light on, what is the actual the annual turnover of the so called Company and the profit margin currently, quarterly, as well as annually, and what impact it will have going forward, as you said that the same business will not going to continue from next year?

Rashesh Gogri: See, we have a subsidy called Aarti USA Incorporation, which was constituted prior when it was a combined business of Aarti Industries and Aarti Pharmalabs, and essentially we were catering the customers in US, generally door delivered products. So, all the door delivered products were catered for both the businesses using this Company. And then in pharma, we have certain registrations and investments from this entity as well. So, this entity was retained in Aarti Pharmalabs as a subsidiary, and Aarti Industries was supposed to create a new Company in USA to handle their door delivered business in USA. So, that will happen by end of this quarter hopefully. And the large portion of turnover, around 80%, 90% of the last year we did close to 190, 200 crore of this turnover, and this year also this quarter we have done a large turnover in this segment, so that will get shifted. But of course, the margin profile is only 1% to 2% in this business, so it will not have an impact on profitability or EBITDA of the Company, only the top line, which we have been just helping Aarti Industries meet the customer requirement, will get shifted.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to the management for their closing comments.

Rashesh Gogri: Hi, I would like to thank all the participants on this call to attend this call. Thank you very much.

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