July 30, 2022

Ref. No.: **AIL/SE/33/2022-23**

To,

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai-400001, MH.

Scrip Code: **543534**

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai-400051, MH.

Symbol: **AETHER**

Dear Madam / Sir,

Subject: Transcript of the Earning Conference Call

In accordance with Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, the transcript of the Earning Conference Call scheduled on Tuesday, 26th July, 2022, on the financial performance of the Company for the First Quarter ended on June 30, 2022 is enclosed herewith.

We request you to kindly take the information on your records.

Thank you.

For Aether Industries Limited

Chitrarth Rajan Parghi
Company Secretary & Compliance Officer

AETHER INDUSTRIES LIMITED
SURAT

Encl.: As attached

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Factory: Plot No. 8203, Beside Shakti Distillery, Near Rajkamal Chokdi, Road No. 8, Sachin GIDC, Sachin, Surat-394230, Gujarat, India.

"Aether Industries Limited
Q1 FY23 Earnings Conference Call"

July 26, 2022

MANAGEMENT: **DR. AMAN DESAI – PROMOTER AND WHOLE-TIME DIRECTOR**
MR. ROHAN DESAI – PROMOTER AND WHOLE-TIME DIRECTOR
MR. FAIZ ARIF NAGARIYA – CFO
MR. RAVI BHOJANI – LEAD, INVESTOR RELATIONS

MODERATOR: **MR. NILESH GHUGE – HDFC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Aether Industries Limited Q1 FY23 earnings conference call hosted by HDFC Securities. As a reminder, all the 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nilesh Ghuge from HDFC Securities. Thank you and over to you, sir.

Nilesh Ghuge: Good evening all. On behalf of HDFC Securities, I welcome everyone to this Aether Industries conference call to discuss 1Q FY23 results. It is pleasure of having with us top management team from Aether Industries represented by Dr. Aman Desai – Promoter and Whole-time Director, Mr. Rohan Desai – Promoter and Whole-time Director of Aether Industries, Mr. Faiz Nagariya – CFO, and Mr. Ravi Bhojani – Lead, Investor Relations for Aether Industries. Without further ado, I will now hand over the floor to the management for making opening comments. Over to you Ravi.

Ravi Bhojani: Good evening everyone. On July 25, 2022, our board has approved the result for quarter first FY23 which ended on June 30th and we have released the results on the stock exchange as well as updated on our website.

Please note this conference call is being recorded and the transcript of the same will be made available on the website of Aether. Please also note that the audio of the conference call is copyright material of Aether Industries Limited and cannot be copied, rebroadcasted, or attributed in press or media without specific and written consent of the company.

Let me draw your attention to the fact that on this call, our discussion will include certain forward-looking statements which are predictions, projections, or other estimates of the future event. These estimates reflect management's current expectations on future performance of the company. Please note that this estimate involves several risks and uncertainties that could cause our actual results to differ materially from which is expressed or implied. Aether Industries or its officials do not undertake any obligation to publicly update any forward-looking statement whether as a result of future events or otherwise.

Now, I hand over the call to Dr. Aman Desai to share the updates. Over to you, Dr. Aman.

Dr. Aman Desai: Good evening everybody. I hope everybody is doing well and I am very happy to connect with you to discuss the performance of our company for the 1st quarter of the fiscal year 22-23. Let me begin by sharing the ongoing expansions and the near future strategy of the company going forward. And then I will request our CFO, Mr. Faiz Nagariya to cover the financial highlights for the period under review, and then finally Mr. Rohan Desai will wrap up and talk on a very high level about Aether's business.

I wanted to get touch base upon the various expansion activities that we have already talked about in the previous call and that are going on aggressively on the R&D front at the pilot plant and the production front and these are on track and as planned. The third manufacturing facility at site #3 which is the next greenfield manufacturing facility which we have talked about always and showed to many of you is completed in the civil construction and we have started installing the reactors in this facility and we are on track and as planned to finish this new greenfield manufacturing facility and commission this facility by the end of this calendar year December 2022 and we expect to have revenue contribution from this new manufacturing facility in the 4th quarter of this fiscal year, i.e., January-February-March of 2023. As mentioned before, also we are launching 5 new products in this facility which combined have a conservative market potential of about Rs. 1,200 crores import into India which can be proven by any simple data analysis of import data. The average selling price of these 5 new products will be higher than the current product basket that Aether has in the large-scale manufacturing business model. And also then looking at the demand of these products which we are going to be manufacturing and launching for the first time in India, we are launching one additional product of these 5 products in the current manufacturing facility on a limited scale to validate the process in the existing manufacturing facility at production scale so that when the new plant is commissioned, we hit the ground running in the production and we can immediately start the revenues from that particular product which will be the first one in the greenfield site.

Very interesting and very recent development in the site #3 manufacturing site is also that we are in advanced discussions to acquire a plot of land which is about 2,500 square meters which is right adjacent to site #3. This is very interesting because this will be right adjacent to the site #3 and therefore will share all the utilities and share all the resources of site #3 and we don't need to go into an additional greenfield manufacturing site for the same and so this will immediately give us increased capacity from the site #3 itself. In the site #4 that we have also always talked about, documentation is well in process and we are wrapping the documentation up and we will be starting the civil work and the construction work in the site #4 which will be the second greenfield manufacturing site after the monsoons end. So, aggressive and expansion plans on the production side and we are on track and on plan.

We have already finished a double expansion of the R&D facility as we have already mentioned in these calls and that is fully commissioned and fully handed over. And we are in the process of finishing the triple expansion by the end of next month. Now, we will be installing 55 new fume hoods in this expanded R&D facility, which if you compared to the 18 fume hoods that we had for the fiscal year '22, It is a significant expansion in the R&D and we are very confident on the pipeline of our various business models to fill up this R&D.

In terms of the R&D expenditure, we continue to expend a significant amount of resources and money towards R&D. Our quarterly expense of R&D was up to 6.92% revenue plus capital of R&D expenditure as a portion of the overall revenues. And we are also aggressively hiring scientists and engineers, PhD levels and master's levels in the R&D.

We have also acquired a plot measuring 1,500 square meters approximately near our R&D and pilot plant site for future expansions of the R&D and pilot plant as well. And the pilot plant has already been expanded to 3x times with more than 100 reactors installed and fully commissioned now and it is amongst the world's largest pilot plants. So, R&D pilot plant production, aggressive expansion plans, and we are on track and on plan with all these expansion plans. The 16-megawatt solar power plant commissioning is complete and we have started getting the power supply from this. This will supply 50% of the electrical load from solar energy and will offset 25,000 tonnes of carbon dioxide per year.

Our 3 business models continue to be robust and we continue to equalize these 3 business models; large-scale manufacturing has been the driver, and I have already mentioned the 5 new products we are launching in this current year in the manufacturing site #3 coming up. We also exhibited in Chemspec Europe in Germany and Chemicals America in Charleston, USA in the last two months in this quarter.

As predicted, in the post pandemic era, we see now a tremendous influx of CRAMS opportunities already and this is already being evidenced by the reasonable growth in the CRAMS business model that we have in this quarter as compared to the last quarter or even the same quarter of last year. We continue to talk at the highest technical echelons of numerous multinational innovative companies across the industry spectrum and this is a very promising space for us. Finally, the contract/exclusive manufacturing business model is also growing its share of the overall pie of our revenues and we anticipate this to accelerate in the years to come. This is a very high-level overview and update on our various expansions and strategies of the company.

Now, I will hand over the call to Mr. Faiz, our CFO, to give you the financial highlights of the quarter 1 of FY23.

Faiz Arif Nagariya: Good evening all of you. I am glad to inform you all that we have achieved a total revenue of 166.17 crores for the Q1 of financial year '23 reflecting a growth of 13% over the previous quarter Q4 of financial year '22 and 10% over the Q1 of financial year '22. The sales revenues of the company increased by 9% from Rs. 147.5 crores in Q4 of financial year '22 to Rs. 160.01 crores in Q1 of financial year '23. The sales revenue of the company increased by 7% from Rs. 150.02 crores in Q1 of financial year '22 to Rs. 160.01 crores in Q1 of financial year '23. The average selling price of our products during the Q1 of financial year '23 has been at the north side of that which was in financial year '22. The company has been able to generate EBITDA of

Rs. 48.61 crores in Q1 of financial year '23 against Rs. 47.49 crores in Q1 of financial year '22 and Rs. 42.32 crores in Q4 of financial year '22 thereby showing an increase of 15% from Q4 of financial year '22. EBITDA margins have been at 29.25% for Q1 of financial year '23. The increase in revenues and EBITDA has allowed the company to capitalize on the PAT levels which have increased by 18% from Rs. 26.02 crores in Q4 of financial year '22 to Rs. 30.63 crores in Q1 of financial year '23.

We have capitalized assets worth Rs. 43 crores during the year and we also have capital work in progress of around 166.64 crores. The use of IPO funds is done for the CAPEX for the greenfield project, returning of loans from the banks, and various working capital requirements which are as per the objects clause which were defined in the prospectus. We have utilized the funds as per the details provided below. We have drawn down 21 crores for our CAPEX of the Greenfield project #3 from which we have utilized 7.5 crores up to 30th June and remaining funds of 13.5 crores have been used in this current month which is going on. Out of the 165 crores for the working capital requirement, we have drawn down 30 crores from the monitoring agency and we have used all this 30 crores for the payments of raw materials and various other working capital requirements. The repayment of loan has already been done and we had also informed during the Q4 earnings call that we are a debt-free company as we speak, and today also, we are a debt-free company. We are not utilizing any other term loans. We have no term loans pending in the company. Only the working capital requirement is required and as per the objects clause provided in the prospectus is being used. For the general corporate purposes, we have drawn down 56 crores and these 56 crores have been used for various purposes like solar power and payments to various other utility payments and other things.

Now, I will request Mr. Rohan Desai to talk on the high-level overview of Aether's business.

Rohan Desai: Thank you Faiz for the financial highlights and we are committed to make these numbers look better in the quarters to come. Despite the various ongoing challenges like raw material cost and product volatility, increase in the utility costs like steam and energy cost, and lastly the global geopolitical and economic situation, Aether is happy to announce that we are seeing growth and upcoming demands in all the three business segments. We have also exhibited in Chemspec Europe and Chem Outsourcing USA in quarter 1 as Aman suggested, which gave us a good idea of the upcoming growth and the opportunities for Aether.

In the 3 independent business models in quarter 1 of financial year 2022-23, we have seen 53% of our total top line coming from large-scale manufacturing, 12% comes out of contract research and manufacturing services which also funnels into third and interesting business model which is contract/exclusive manufacturing which contributed to 33% of our total top line. Our endeavor is to achieve balance between large scale manufacturing business model and CRAMS and contract manufacturing/exclusive manufacturing business models so that we are not dependent on any single business model. Our sales mix stands as pharma 50%, agrochemical 34%, material science 4%, high-performance photography 7%, coatings 4%, and others 1%. Our export stands at 69% which includes the export to SEZ and EOU units in India and domestic sale stands at 31%. Exports outside the geography of India accounted for 38% of the total revenue from operations.

Lastly, before we enter the Q&A mode, we at Aether would like to thank each and every one who has been associated with Aether and has put your trust and confidence in us, and we look forward to our interactions with you along the way and enjoying the journey together.

Moderator: We will now begin the question & answer session. The first question is from the line of Saurabh from Asian Markets Securities. Please go ahead.

Saurabh Kapadia: Sir, if you can give some color about the top 5 molecules in terms of how the volume was in the Q1 and also realization for those molecules?

Management: All the molecules have grown considerably well. We would not like to disclose the molecules at the moment because these transcripts are available in the public knowledge and our competition is with China. So, we would not prefer doing this. We can do it on a one-on-one basis if required be, and over the year-end, we will give you all the complete colors in the call of Q4.

Saurabh Kapadia: But there was volume growth for most of the molecules?

Management: Yes, the volume growth was growing. The contract/exclusive manufacturing has grown tremendously and also the contract research and manufacturing services have shown a good growth over this quarter.

Saurabh Kapadia: The pie of your molecule share which you mentioned in your opening commentary, have you launched all the 5 molecules or the trial production is started or something?

Management: Yes, all the 5 molecules will be launched one after another in the quarter 4 of this financial year and it will be done in a matter of 1 month and also as Aman suggested in this call, the first molecule is going to be launched in this quarter.

Saurabh Kapadia: So, one molecule in this quarter and the rest in Q4?

Management: Yes, one molecule is launched in a limited capacity just to complete the learning curve in the existing facility where we have an opportunity. Hence, we are launching it before time.

Saurabh Kapadia: Coming to the margin performance, we have seen a decline on Y-on-Y basis and also on Q-on-Q basis. Was it attributable to the higher cost and should we assume that with the pass-on of the higher cost, we should see normalized margins from Q2 or Q3?

Management: You are right. Actually, there is no reduction in the margins from our per se. But, if you are comparing the margins with that of the Q1 of financial year '22 and financial year '23, of course, at that time, the raw material pricing was quite low. And after that from quarter 3 of financial year '22, the pricing of the raw material started increasing and that increase is still being felt and the raw material which we have used in this quarter, the quarter 1st of FY23, the materials which were procured in the last quarter of FY22 are used. So, now what material we have purchased in this quarter are considerably at a lower price than what we had purchased in the last quarter. So, we are definitely going to get better margins in the next quarters because we will be using the raw materials which have been procured at a lower price.

Saurabh Kapadia: How is the utilization level? Can we further improve on the current quarter revenue earned for the next 2 quarters until our site #3 gets ready?

Management: Capacity utilization is around 70% for the 1st quarter for us and we have ample opportunities to ramp it up and as we have told in the last call also that we can go up to maximum 90% to 91% and keep the 9% or 8% for any kind of contingency. We have a lot of room and we would be ramping up these capacities.

Moderator: The next question is from the line of Girish Bakhru from OrbiMed. Please go ahead.

Girish Bakhru: Just on the molecules side. I know you are not disclosing the molecule-wise growth, but top 7, is their contribution still the same around 76% to 77% or has that changed in this quarter?

Management: Yes, the contribution is the same and the margin contribution is the same. For us, there is no change in this quarter.

Girish Bakhru: The overall pharma is 50%. I was under the impression that pharma will eventually increase gradually in the mix. It has actually come down. If you could guide where, let us say, the volatility is coming from in terms of the mix changing.

Management: Yes, Girish, you are right. But you are comparing it with the last year. There are 3 more quarters left for this year and we will see the pharma being picked up because the 5 new launches are happening also in the last quarter. Also, we are launching one out of these 5 molecules, in this current quarter. Hence, the pharma will take a lead in the next 3 quarters but our endeavor is to have a balance of 50:50 between the CRAMS (contract research and manufacturing services) and exclusive manufacturing and large-scale manufacturing. That is the endeavor which we believe the outcome will come to this desired levels in the next 2 years' time.

Girish Bakhru: In the exclusive manufacturing bit, if you can give more color. My understanding is that is largely Agrochem. Is there any pharma component and exclusive as well now?

Management: No, majorly Agrochem only on contract/exclusive manufacturing. Also, we have oil & gas in contract/exclusive manufacturing. So, majorly agro is the base of contract/exclusive manufacturing.

Girish Bakhru: Five molecules that you have announced. Total pipeline over the next 3 years, what is it looking like? If you could give some color there.

Management: Five molecules which we are launching are in the current calendar year. And in the next calendar year, we have another set of molecules which we will be launching. We will be announcing that very soon. However, on the R&D side, we have 18 molecules in the pipeline and that is what the pipeline looks like in the R&D.

Girish Bakhru: These are largely pharma, right?

Management: Pharma, agro, material science, and oil & gas.

Moderator: The next question is from the line of Rohit Sinha from Sunidhi Securities. Please go ahead.

Rohit Sinha: Sir, my questions would be on the business segment. Out of these 3 segments, I know it would be not advisable to pinpoint the margins, but are these all 3 business segments having a similar margin or have a different margin? Going forward, when we are saying that with this new CAPEX coming up, after 2 years down the line, how these business segments' contribution would look like in the overall revenue mix and subsequently definitely how the margin profile would be looking like?

Management: I could not hear half of your question but I will try and answer it and correct me if I am wrong or I am going out of the way on this answer. The 3 business segments are large-scale manufacturing which is approximately having 28% to 30% EBITDA margin. We have a contract/exclusive manufacturing business model which also has a smaller margin whereas the contract research and manufacturing services which is called CRAMS has a 70% EBITDA margin for us.

Looking to the new launches, the launches will be in the large-scale manufacturing business model which will be in the north of 28% EBITDA margin.

Rohit Sinha: And the mix would be…. I mean, this 50% large scale and 12% CRAMS and 33% contract manufacturing, these would largely remain in the same line or there would be some kind of skewness towards maybe CRAMS what we will be focusing going forward?

Management: No, our objective is to equalize all the 3 business models. We would be lucky if we can do it in this year, but our endeavor is to equalize it as fast as possible so that we are not dependent on any of the business models individually. We are trying our best to do this and we hope that we will be able to achieve it in the future.

Rohit Sinha: Secondly, when we say 50% as of now is our pharma contribution, would it be possible to segregate between that as domestic and export also? I mean, out of that 50%, how much is export and how much is domestic?

Management: We do not have it handy right now but we can connect on a separate call and we will give you this information.

Rohit Sinha: In the export part, 69% is export. Geography-wise, would it be possible to share the details like which region we have the maximum exposure as of now?

Management: Actually, this 69% also includes exports to SEZ units in India and deemed exports which is also in Indian territories, but they are considered as exports. So, if you see geography-wise in India, it is 57% in India and 43% is pure exports.

Rohit Sinha: Sir, ultimately, after all this CAPEX has come into the stream, by maybe FY24 or FY25, what sort of revenue size we would be targeting?

Management: On the site #1 and #2, we have achieved last year 590 crores of top line; so, imagine 2 more sites coming in…. with a production capacity of 6,000 tonnes and imagine 9,000 tonnes capacity coming up in the calendar year 2023 and calendar year 2024, I believe, Rohit, you can do the math yourself.

Rohit Sinha: How quickly we can scale up to these capacities? I mean, the utilization levels, how much we can scale within maybe 6 months or a year and when we can reach up to the peak utilization?

Management: The utilization of 50% to 60% can be achieved in a matter of 2 years.

Rohit Sinha: And this 9,000 is apart from 6,000?

Management: Yes.

Rohit Sinha: So, total it would be 15,000, correct?

Management: Yes.

Moderator: The next question is from the line of Kalpit Narvekar from Allianz Global Investors. Please go ahead.

Kalpit Narvekar: Firstly, on the mix change that happened this quarter on contract manufacturing being higher versus the exclusive, could you share some color on whether there was some kind of degrowth in the large-scale manufacturing business or was it just driven by very strong growth? Because, you are saying that you didn't add any customers. Only Agrochem was the customer. Some color on that would be helpful.

Management: There is no degrowth or there is no lagged growth in the large-scale manufacturing. The growth is going on as we are manufacturing the products as per the orders we receive. We do not put in the inventory of finished goods more with us, only the raw material inventory we put on. There is no degrowth in any of the sectors. Of course, CRAMS has gone up this time more and that is good for us because it is a more margin driving revenue cycle segment. There is no degrowth in any of the segments. As we have told that the new facilities are coming up, all the 5 products are towards large-scale manufacturing. That will again ramp up the large-scale manufacturing and it will end up with the highest revenue generator for this year also.

Kalpit Narvekar: My second question is, are there any order wins from any large clients or anything? Any updates on the order side?

Management: We have not seen any order wins from large clients as of today. We are already in touch with all our customers on a regular basis and we see no such thing happening at the moment.

Kalpit Narvekar: Could you explain the seasonality in the business just to understand the utilization during the year? Which quarters do you usually see higher utilization? Because QoQ, the utilization came up versus last quarter at 70%. I guess you were talking about maybe 77% to 78% last quarter if I am not wrong.

Management: It really depends on the composition of the products. If you are making a high-value product, your capacity utilization will get decreased in various ways. It is very tough to predict the capacity utilization on a quarter-on-quarter basis and predict how it will happen in the next quarters to come.

Moderator: The next question is from the line of Nitesh Dhoot from Prabhdas Lilladher. Please go ahead.

Nitesh Dhoot: My question is on capacity utilization for the 1st quarter. I'm not sure if you have already answered, but what was the capacity utilization?

Management: It is 70%.

Nitesh Dhoot: Sir, would it be fair to say that the contract manufacturing growth was led majorly by BFA, i.e., bifenthrin alcohol, in this quarter?

Management: There are 2 products already mentioned in the contract manufacturing/exclusive manufacturing space and both have led this growth.

Nitesh Dhoot: Also, in the large-scale manufacturing, the revenues have largely remained flattish sequentially as well as on a year-on-year basis. Is there some demand sluggishness across key molecules?

Management: The pharma sector has shown quite a good volatility, but we were unaffected and we remained on the stable position at the moment. We are already in touch with all our customers on a regular basis and we do not see the struggle in the pharma space as of now for Aether.

Nitesh Dhoot: How do you see the rest of the year shaping up as far as large-scale manufacturing is concerned?

Management: We see the prices of all the commodities coming down for the next 2 or 3 quarters and stabilizing to the original levels if possible. I mean, we would be lucky if it stabilized to the actual levels. However, we see good next 3 quarters per se in terms of the demand and in terms of the raw material pricing.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: My first question is in terms of contracts. How are the contracts shaped up in terms of if there is a pricing volatility for a short period? Do we get compensated for the same or whether we have to absorb it? And generally, what is the contract period for all our products? Is it normally a 6 monthly or yearly contract with some volume commitments and price reset on particular intervals?

Management: We have multiple types of contracts. We have multi-year contracts with price reset every 1-year interval, we have a yearly contract where we can go and discuss the price on a quarterly basis if required be, and then we have 6 monthly and quarterly price agreements which we have to adhere to. So, if there are orders of 3 months to 6 months, we have to adhere to the price and we cannot go and change the price. However, the inventory levels of 4 to 5 months is helping us to maintain those contracts and deliver the material at the defined price. However, the contracts do not include the steel cost or utility cost. It does not include commodity price changes like caustic soda lye and flakes. We have to take that kind of hits into our margins because there is no way out. Also, at certain places, if the contracts are in the local territory, i.e., domestic and the material is being imported, we have to take a risk of the dollar versus Indian currency exchange rate. However, if it is an international contract, we can renegotiate the pricing based on the currency movements.

Moderator: We will move to the next question which is from the line of Bhavya Gandhi. Please proceed.

Bhavya Gandhi: Sir, if at all it is possible to answer, what would be the ROCE of each business segment? Say, for example, large scale what sort of IRRs or ROCE levels we generate? For each segment. You mentioned about the margins, 28% to 30%, but on the ROCE level?

Management: ROCE levels of the individual business segments will not be possible for us to give. We have not done that study, but we can do that and connect again with you on a separate call. However, this information is not readily available with us right now.

Bhavya Gandhi: Sir, on the debtor days, is it possible to throw some light for each business segment? How are the debtor days for each segment?

Management: Each segment we do not separate out segment-wise debtors because even there is overlapping of the customer in various models. So, it is not possible to give the separate debtor days segment-wise.

Bhavya Gandhi: My last question would be regarding our R&D. Say, for example, you are bringing in new molecules. How do you assess which molecule to bring in? Is it based on like is there a ready market available or is it the size of the molecule? What are the factors that we sort of decide for entering into that molecule?

Management: Basically, multiple factors are considered. For the last six to seven months if we look at the import component first. There are various criteria for selection. The fact that nobody in India is making these products. That is one of the most important criteria that we follow. The good fit for our competencies are chemistries and technologies and so we retain the 8 x 8 matrix of chemistry and technology competencies and try to remain within these competencies. There is an attractive pricing of the molecule on the basis of our techno-commercial evaluation, attractive volume is coming in, there are multiple customers of that molecule; these are some of the criteria for selection of molecules and products for the large-scale manufacturing business model. In CRAMS and contract/exclusive manufacturing business models, the identification of projects are client and customer driven and guided and we usually engage with the customer in joint identification of appropriate targets in the pipeline and then launch molecules portfolio of the various customers that we work with. That's the very high-level idea of how we go about selecting these molecules.

Bhavya Gandhi: Sir, we have bought 2,500 square meters adjacent to our existing site. Isn't it small in terms of size? Are we planning some small CAPEX? How is it like?

Management: The current site is about 6,000 square meters, site #2, which has a smaller production capacity as compared to the current production capacity that we have. So, from the perspective of 6,000 square meter site, 2,500 square meters is a reasonable size. You have to remember that all the utilities and all the resources will be shared in the same site. You are talking about one manufacturing block that can be fitted into that additional site by the sharing of all the resources and the utilities and the manpower and the waste treatment plants of the existing sites. From that perspective, it is not a trivial purchase.

Bhavya Gandhi: Sir, do we internally monitor cash flow from operations to EBITDA? Because that seems to be on a lower side.

Management: Yes, you're right. We do monitor all the cash flows from operations also and EBITDA we also have the cash accrual worked out every month-on-month basis. And you are right, it is low, but this is going to be changed after the IPO, which is issued, and with the working capital cycle improving, this will be in better shape than what is being seen in the last year and this current quarter also.

Bhavya Gandhi: What working capital cycle do we expect going forward?

Management: At least 120 days.

Moderator: The line of Mr. Rohit Nagraj has been connected now. Mr. Nagraj, please proceed with your question.

Rohit Nagraj: I was asking about the second question. We have been to some of the trade shows and we have our overseas business development people. What is the sense that we are getting currently given that in Europe, there are issues, and in the US, there are some inflationary pressures? Across the geographies, what is the sense we are getting from new product development perspectives and opportunities?

Management: The problems that are happening in the US and Europe are at a very macro level. At the micro level of our industry in the chemical industry, there is absolutely no difference that has been found. However, there is only positivity and optimism that has been found. In the post pandemic era, the external research programs and external research work is getting started aggressively and with vengeance because it is all cooked up in the last 3 years. And so, from the European and the American shows both of which we exhibited in, we have had a tremendous inflow of opportunities and that has actually translated into proposals and activated new projects on the CRAMS side on a significant front. That all has actually happened. These tremendous influx of opportunities and promising meetings have actually translated into active projects that are currently going on right now in the CRAMS space with various innovatives across the industry, some of which who we have started relationships and projects for the first time actually in the last 3 months. From that perspective, it has been very promising. We are not seeing any negative impacts or any downward trends; rather it is quite contrary to that.

Rohit Nagraj: In the press release, we have mentioned that we are a member of the UN Global Compact. How this particular membership is different from say TfS or other memberships? And does it help in terms of mentioning our capabilities in the overseas market?

Management: UN Global Compact is actually a platform wherein various companies are joining their hands and they will be working towards a common goal of CSR, corporate governance, and various ESG initiatives. It is basically mostly towards the CSR activities wherein all the large corporates are joining hands and initiatives will be taken on a global level to do CSR activities.

Moderator: The next question is from the line of Ranjeet from IIFL Securities Limited. Please go ahead.

Ranjeet: Quickly wanted to get a sense whether it would be possible for us to share the large scale, CRAMS, and exclusive manufacturing revenues for the 1st quarter FY22. The reason I am asking this is that we have said that our exports including the SEZ sales are up around 17 odd percent YoY, but when we look at the overall revenues, it is only up around 6% to 7%. So, it is clearly the domestic segment there seems to be a bit of pain. So, just wanted to understand where and in which specific segments are we seeing a bit of subdued sales.

Management: You are talking about Q1, right?

Ranjeet: Yes, Q1 FY22.

Management: That information we have not separately worked out because it was not available to this one numbers, that's why. On a separate call, we can connect and we can give you these details if you want.

Ranjeet: Sure, I would be happy to connect. Just wanted to get a sense that since the release mentions that the exports are up almost 17% and then the overall sales are just 6% to 7%. If you can highlight in which specific segment on the domestic side we have seen a bit of subduedness and the outlook on the same – whether things have started to improve on that front.

Management: Yes, the domestic sales as I told even in the beginning also that if you see a geography-wise breakup, sales into India and sales out of India, the India sales is accounting for around 62% and our exports is only 38%. In the export sales, we are including deemed exports and SEZ sales which are also part of India only. And domestic sales, we are definitely increasing. It's not that we are focusing more on the export market or export sales. It is mostly both are on a parallel side if you see.

Ranjeet: I wanted to get a bit more clarity within domestic since we are also giving a bit of more bifurcation with pharma and agro. So, is it the domestic pharma or domestic agro where we have seen a bit of subdued sales?

Management: We will definitely share this also on a separate call with you.

Ranjeet: And the final question. We have shared an order book of 246 crores. What is an executable timeline for this particular order book?

Management: 246 crores are for this current year. We do not take any further years into consideration when we consider our order book because that is more of an indicative or futuristic order book. So, what we are looking at is the order book which is to be completed in this financial year and we are holding that approximately at 226 crores as of today.

Ranjeet: These are the fixed commitments that we would be able to execute during the year?

Management: Yes.

Ranjeet: And there would be an addition to this order book because there would also be your spot sales that we keep on doing it?

Management: Yes, absolutely. And every week, you add orders onto this order book. It is an ongoing process. It's a never-ending story. Maybe in the next quarter also, it would be in the same range.

Ranjeet: Is there any difference between the order book margins and the one that comes which is excluding this order book margins or the margins should largely be similar?

Management: Margins would be largely the same.

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

Gagan Thareja: Sir, my first question is on the sales growth of around 7 odd percent reported for the quarter. How much have the sales volumes or tonnage grown and how much has pricing contributed to the sales growth?

Management: It is a mixture of tonnage and…. As we have mentioned in the speech also that average pricing of the products is at the same average selling prices which were there in the financial year '22. So, it is more of a growth driven by volumes.

Gagan Thareja: On the input prices, you have indicated input prices remain elevated year on year comparison-wise. How high are the input prices compared to the 1st quarter of last year? And if possible, could you give some idea on solvents and KSMs and utility prices separately – how high they are compared to the same quarter last year?

Management: Last quarter if you see our margins also, we have mentioned that the raw material costing was around 47% to 48% which has gone up to 55% in this quarter. This is basically because of the raw material pricing which was increased which was in the 3rd and the 4th quarters of financial year '22. The raw material is being used by us in this quarter for production. That is the major factor. The utility prices also have increased due to the crude oil due to the dollar factor. Those prices had an impact on our EBITDA, but the raw material pricing we were able to pass it on to our customers. The major impact which you are seeing in the EBITDA levels is because of the utility pricing which has gone up.

Gagan Thareja: In your contracts as far as pricing is concerned, are you able to have price escalation clause for key starting materials but are you also able to have price escalations for solvents and other inputs?

Management: No, we are only having price escalation for key starting materials and major contributors. However, until today, we do not have all the raw materials of a particular product written down with the CC ratios. Also, on all the contracts, these are our own molecules. So, we do not deem fit that we will give all the CC ratios to the end customer because you are majorly giving all the recipe of a particular product to the customer, which we don't prefer to give.

Gagan Thareja: But solvents by volume or by value would constitute a significant portion of your input materials? Could you give some idea how much would solvents be as a portion of total RM cost for you?

Management: It really depends but it can be in the range of 5% to 10% of the total molecule selling price. There are many factors. In the specialty chemicals field, it is not A and B = C. It has many A, B, C, D, E, F which makes at a Z basically. There are a lot of products which contribute at various percentage levels and all have seen an awkward trend in the last few quarters.

Gagan Thareja: In the last quarter, you did indicate that OTBN prices are under pressure. I also understand that 4MEP prices also have come off. Is that information correct?

Management: That information is right. OTBN is under pressure; however, MEP's prices are not under pressure.

Gagan Thareja: So, year on year, MEP prices sustain but OTBN prices are lower?

Management: Yes.

Gagan Thareja: For the new capacities that will come on-stream starting December of this year, at what utilization would you be breaking even on those?

Management: We should be able to break even at around 25% capacity utilization. That is for sure because whatever initial productions will be there, by reaching 20% to 25% utilization, we should break even. Then only it will be profitable for us to carry on.

Gagan Thareja: The 5 molecules which you intend to introduce with the commissioning of the new plants, if you could give some idea to us around the competitive landscape – how many suppliers are there in those 5 molecules, are they all from China, and therefore also, from a costing perspective or from a quality perspective, would you be having a USP?

Management: Carbamazepine intermediates have competition from China only. There are 2 Chinese manufacturers who are manufacturing majorly out there whom we know of. Dolutegravir intermediate – again, China; 2 manufacturers in China. Ambroxol, there is only 1 manufacturer in China at the moment. Majorly, all these molecules have competition from China.

Gagan Thareja: But by and large, 2 suppliers on an average for each product?

Management: Let us take maximum 3 suppliers of each product.

Gagan Thareja: What's the volume of these products in the Indian market? If you could give some…. just a ballpark understanding of….?

Management: Dolutegravir would be in the range of 150 tonnes per annum.

Gagan Thareja: This is for your intermediate or all the intermediates?

Management: All the intermediates combined together.

Gagan Thareja: For the intermediates that you will be supplying I am asking for the addressable volume markets in India?

Management: You want individually or you want combined?

Gagan Thareja: Individually.

Management: Dolutegravir intermediate would be 150 tonnes into India, carbamazepine-oxcarbazepine combined would be in the range of 2,000 tonnes, and Ambroxol will be in the range of 180 tonnes.

Moderator: Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Management: Thank you everyone for joining the call. We hope that we have covered most of your questions. If you still have any further questions, please feel free to reach directly to us. Stay safe. Have a great day. Thank you everyone.

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