



IOL CHEMICALS AND PHARMACEUTICALS LIMITED

22nd November 2021
IOLCP/CGC/2021

National Stock Exchange of India Ltd.

Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex, Bandra (E)
Mumbai - 400 051

Security Symbol: IOLCP

BSE Limited

Phiroze Jeejeebhoy Towers,
Dalal Street
Mumbai - 400 001

Security Code: 524164

Subject: Transcript of Earnings Conference Call, post declaration of audited financial results for the quarter and half year ended 30th September 2021

Dear Sir,

In continuation to our letter dated 13th November 2021 regarding intimation of Schedule of analyst/ investors conference call – Q2 FY22, please find attached herewith the transcript of Earnings Conference Call organized by the Company on 16th November 2021 post declaration of audited financial results for the quarter and half year ended 30th September 2021.

This is for your information and records.

Thanking You,

Yours faithfully,
For IOL Chemicals and Pharmaceuticals Limited

Abhay Raj Singh
Vice President & Company Secretary





“IOL Chemicals and Pharmaceuticals Limited
2Q FY2022 Post Results Conference Call”

November 16, 2021



ANALYST **MR. MONISH SHAH - ANTIQUE STOCK BROKING**

MANAGEMENT: **MR. SANJAY CHATURVEDI – CHIEF EXECUTIVE OFFICER
– IOL CHEMICALS AND PHARMACEUTICALS LIMITED
MR. PARDEEP KHANNA – CHIEF FINANCIAL OFFICER -
IOL CHEMICALS AND PHARMACEUTICALS LIMITED
MR. ABHAY RAJ SINGH - VP & COMPANY SECRETARY -
IOL CHEMICALS AND PHARMACEUTICALS LIMITED**



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Disclaimer: *Certain statements in this transcript concerning our future growth prospects are forward-looking statements, which involve number of risks and uncertainties that could cause our actual results to differ materially from those in such forward-looking statements. The Company do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf.*

Moderator: Ladies and gentlemen good day and welcome to Q2 FY2022 earnings conference call of IOL Chemicals and Pharmaceuticals Limited, hosted by Antique Stock Broking Limited. 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 “*” then “*” on your touchstone phone. Please note that this conference is being recorded. I now have the conference over Mr. Monish Shah from Antique Stock Broking. Thank you and over to you, Sir!

Monish Shah: Thank you Margaret. Good afternoon and welcome to IOL Chemicals and Pharmaceutical Q2 and H1 FY2022 results conference call. Today on the call, we have Dr. Sanjay Chaturvedi. CEO, Mr. Pardeep Khanna, CFO and Mr. Abhay Raj Singh, VP and Company Secretary. I now hand the call over to Dr. Chaturvedi for his opening comment. Thank you and over to you Sir.

Sanjay Chaturvedi: Thank you Monish. Good afternoon everyone. I thank you all for taking the time, to participate in this earnings call. I trust you all had the time to read the earnings document and I am certain you will have many questions but before we take up these questions I would like to shed some light on the industry, what is our business and kind of share my perspective on the performance of the quarter that has gone by and subsequently my colleague, Mr. Khanna, the CFO will provide a lot more granular details on the financial performance.

This past quarter has been one of the most challenging times for the pharma industry. APIs in particular have been negatively impacted due to the increased raw material prices, the rising energy and logistics cost, demand and volatility have further added to the woes. We believe that these to be temporary phenomena and this is not a structural change in the market. Therefore, we do expect that this will correct itself in the coming quarters.

During this quarter we successfully received the approval of the Korean Ministry of Food and Drug Safety the Korean FDA for the company's API products of ibuprofen Fenofibrate.



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The approval of the Korean FDA reestablishes the company's efforts in keeping the highest quality standards and to increase our presence in the regulated markets. This will strengthen our presence in the South Korean market.

Coming to financials, the company had a muted growth during the quarter. The margins have been in stress on accounts of volatile input costs and relatively flat demand in ibuprofen despite the strong headwinds the company made good progress in some areas. The chemicals division continues to demonstrate a stable business with respect to volume. The business for non-ibuprofen APIs has delivered strong growth and overall we have regained business and export markets compared to the previous quarter. With this I would like to hand over to my colleague, Mr. Pradeep Khanna, the CFO who will be talking more in detail over to you, Mr. Pardeep.

Pradeep Khanna:

Thank you Dr. Sanjay. Good afternoon everyone. A warm welcome to IOLCP second quarter financial year earning call. I will take you through mentioned highlight for the Q2 FY2022.

The total revenue for the quarter increased by 2% to Rs.548 as compared to Rs.538 Crores in Q1 FY2021. In Q2 of Financial year 2022 the EBITDA was at Rs.63 Crores and in first half of FY2022 was at 170 Crores. Similarly EBITDA margin in Q2 FY2022 stood at 10% and 16% for first half of FY2022. Depreciation for the quarter was Rs.11 Crores and Rs.21 Crores for first half 2022.

Profit after tax for Q2 of financial year 2022 stood at Rs.31 Crores and Rs.98 Crores for first half of 2022. PAT margin for second quarter was 5.6% and for first half of 2022 was at 9.1%.

With this I would now request the moderator to open the forum for question answer session. Thank you very much.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen we will wait for a moment while the questions to assemble. The first question is from the line of Ashish from Lucky Investment Managers. Please go ahead.

Ashish:

Thank you for the opportunity. Just wanted to take on this whole raw material that price increases situation to my understanding some companies are saying they had inventory and the real impact is not visible in this quarter and going forward further and more serious impact will be visible in third quarter and fourth quarter. When do we fare on that?



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Sanjay Chaturvedi: I would say on the raw material front, there was some increase in raw material pricing, some of that we had been successfully able to pass on to customers and that will be reflected in the coming quarters, for some other areas, we are seeing a correction in the raw material pricing already in this quarter. So we do expect that this is a temporary blip that will correct itself within the next one or two quarters and your second part of the question was on inventory so we do not have any issues with inventory. It is pretty much under control for us.

Ashish: Sanjay Ji what exactly do you think is the reason for this and why do you think it is a temporary blip?

Sanjay Chaturvedi: The reason it is a temporary blip is that even if the raw material prices continue to be high we will be able to successfully pass along that cost increase to customers. So it will be a pass-through charge. You know it is a bit like if you look at ethanol the ethanol prices have gone up, the acetic acid prices have gone up and so have the prices for acetic it is elastic, and so we have been able to pass that along to customers. Similar things happen on the API front as well. So there was some products for example in Pantoprazole where the intermediate prices went up and we have been able to pass along that cost increase to customers as the DTDA prices went up in metformin we were successful at passing along the cost increase to customers and there was a marginal increase in costing for ibuprofen that we were able to successfully pass along.

Ashish: If I look at your 1H 2021 versus 1H 2022 and the mix of ibuprofen, other pharma, and chemicals in that last year versus current year, the growth in the other pharma molecules although also you know on a percentage basis is not the right way to look at it because obviously your base is much smaller we will see a 90 Crores number going to 140 crores number assuming it is a 1000 Crores topline that has been maintained YoY in 1H okay. So you have been indicating in the past that a certain reason that you know because of non-approval of facilities and inspections happening we have seen a delayed ramp up in there. How will this shake up in the future? What kind of cash and can you expect on that? Any update on timelines for inspection and approvals?

Sanjay Chaturvedi: Some of those inspections have come in and I was alluding to customer inspections and regulatory on the regulatory front we have had quite a few CDPS that we find some of them have been approved. I would say that you know the 90 Crores number that you see ramped up to 140 Crores is real and we are expecting certainly maybe 330 Crores to 350 Crores kind of topline coming into the non-ibuprofen business for us this year and next year onwards we are very confident that you will see substantial jump in that figure.



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- Ashish:** 300 to 340 for this is excluding Ethyl Acetate also I believe right?
- Sanjay Chaturvedi:** This is only the non-ibuprofen APIs and my answer was limited to non-ibuprofen APIs for IOL.
- Ashish:** So roughly 180 Crores, 190 Crores is what you are indicating for the second half? There is not much pricing disadvantage on this side or is it only limited to ibuprofen, because metformin and other molecules have seen a big raw material pressure?
- Sanjay Chaturvedi:** You are absolutely right in that. The pricing pressure has been across all product lines and in certain products we are able to pass along the price increase at a faster rate than we are able to do that for others. So you know we specifically keep ibuprofen aside because that is such an important part of our portfolio, not that the pricing dynamics and the raw material dynamics are any different but just because it happens to be a big chunk of what we do so investors are generally keen to talk about these things separately.
- Ashish:** Lastly from my end, then I will join back the queue. If you could, ibuprofen has seen raw material price increase and your top three, four basically metformin and maybe Pantoprazole, how much is contributing and in terms of price increase what we are seeing from say last year's quarter, so barring Q2 to this quarter, in terms of percentage what has been the increase?
- Sanjay Chaturvedi:** I would say that ibuprofen has seen a very modest price increases and cost increases compared to say metformin. If all in the single digits I would say in terms of percentage business whereas in metformin the price increase for DCDA has been almost more than 200%, 300% and that is now started to correct itself so there was a lot more volatility in metformin than in ibuprofen and for intermediates in say Pantoprazole and Clopidogrel the number was kind of in between.
- Ashish:** Just winding up this point so basically you are indicating that ibuprofen gross margin dip is not exactly due to the raw material price increases it is mainly because of the pricing decline of the API itself, is that right the right way to look at it, the selling price?
- Sanjay Chaturvedi:** I would say it is a combination of multiple factors; one is the raw material price that goes up and as I alluded to earlier the raw material pricing going up is a marginal price and cost increase. The second issue here is the pricing and the end price, and most important is the end demand because if I look at the kind of volumes that we did last year versus what we have done here they have been off and therefore if I look at when you have a lower demand



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or you have lower production your asset utilization goes low and therefore your cost of manufacturing goes up so you know these are I would say a series of interlinked events for our ibuprofen business to do well, really what needs to happen is the demand has to come back and we do see early shoots of that in Q3 and both Q4.

Ashish: The gross margin does not get impacted by the demand per se? It does not impact the below the gross margin, just asking for a gross margin. Second there is a big pricing pressure on the selling price of ibuprofen also this quarter?

Sanjay Chaturvedi: Absolutely.

Ashish: I will get back in the queue. Let others ask the question, if at all and I will get more, I will get back. Thank you so much.

Moderator: Thank you. The next question is from the line of BR Vora from Third Eye Realty and Consultant Private Limited. Please go ahead.

BR Vora: I had one question it was what characteristics except for backward integration make our operations so good that even bigger companies do not eat up a market share and will we be able to replicate this and replicate the success in other APIs in manufacturing?

Sanjay Chaturvedi: I think that is an excellent question and a very insightful question. There are a couple of things that we do that are different. One is of course the backward integration that I talked about. The second is the scale. So for example if you look at Clopidogrel we typically put in capacities that are significantly larger than what our peers do and the third of course is because of that high volume the pricing that we are able to negotiate for raw materials with our suppliers we get some kind of an advantage on that so I think rather than look at it as what is the one thing that I do better what I would focus on is what are the many things that we do better so that they all add up to something substantial and the short answer to your question is yes we believe we are confident that we can replicate that success into other APIs.

BR Vora: I had one another question about our capital deployment, for all the cash we are sitting on the balance sheet which is about 350 Crores how do we plan to deploy because in the earlier conference calls we were expecting some guidance towards it in the quarter three to quarter four conference calls so do you have any more insights on that?



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Sanjay Chaturvedi: We are in very advanced stages of finalizing our investment plans and I would say by the end of this quarter or early January we will make those available to all our investors.

BR Vora: Thank you.

Moderator: Thank you. The next question is from the line of Mohammed Ayaz Shaikh from Aman Investment. Please go ahead.

Mohammed Shaikh: Good afternoon Sir. Thank you for the opportunity. While seeing the investor presentation I was seeing that the chemical segment has contributed the most in the revenue but while on the EBITDA side there was very less contribution. May I know the reason Sir?

Sanjay Chaturvedi: On the chemical specifically is a business with the margins to begin with our substantially lower than the chemicals, so therefore your ability to purchase raw materials is really what determines the profitability and we had certain loss of raw material that we had picked up at a higher price and that is what impacted our profitability but we do expect to come back to more reasonable profit levels in the next coming quarters.

Mohammed Shaikh: Thank you Sir and another question is you have in last conference call you have told that the Q3 and Q4 we are saying very good export and very good revenue from export, so are you still means on your words still or there is some difference on the export side in Q3 and Q4?

Sanjay Chaturvedi: For now, there is no change in the guidance, we continue to be very positive on our exports and we will continue to see good numbers coming in both in Q3 as well as Q4.

Mohammed Shaikh: Okay and how much EPS or EBITDA you are expecting FY2022?

Sanjay Chaturvedi: Right now, we are not giving out that information. A lot depends on you have seen the volatility in this market, what we are really focused on right now is delivering topline, keeping our cost very tight under control and that will really determine what the end profit levels will be.

Mohammed Shaikh: Okay Sir, one last question is just I was saying that we are having the single location manufacturing specially for both chemical and pharma, so do management have any thinking of company should have any another manufacturing plant at another location to de-risk the single dependency at single location and to help the transfer of the export to the foreign countries?



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Sanjay Chaturvedi: No, absolutely right, if I did not know better, I would say you have bugged my conference room, so although discussions are ongoing and as I said by end of December - early January we will make some of these plants known available.

Mohammed Ayaz: Sir, my questions are increasing but I would like to ask that what we are doing for the cash we are having in the reserves?

Sanjay Chaturvedi: We are putting together in an investment plan for deploying the cash that we have, we certainly believe that by deploying that cash we can give a better return than what we can get by putting that money into an FD, so I think those are the plans I was eluding to earlier that by end of December-January, those plants will be made available to all our investors.

Mohammed Ayaz: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Bobby Jairam from Falcon Investment. Please go ahead.

Bobby Jairam: The demand for ibuprofen decreased because of inventory excess or is there has also been some sort of substitution?

Sanjay Chaturvedi: Two things have happened, one is there was in the previous financial year and the Q1 of this year, there was a lot of overstocking and if you look at the kind of volumes at customers picked up during the COVID year last year, it was unprecedented, that is reason why the demand has been muted. The second reason why the demand has been muted is as I have mentioned in my earlier calls as well, there was a report that came out from French group, they talked about Ibuprofen not being very good as managing COVID and other products being better, so clearly you have seen Paracetamol has picked up as an unprecedented pace worldwide and part of it is because of COVID management. Subsequent reports are suggesting that both Ibuprofen and Paracetamol are very good at COVID management, so I do believe that the demand for Ibuprofen will pick up but in the light of the report that came out this demand went down at the cost of Paracetamol picking up.

Bobby Jairam: Right, so are you seeing any signs of its stabilizing because COVID is more or less intentionally have come down for COVID?



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Sanjay Chaturvedi: Yes, we have seen signs of that stabilizing. In fact this previous quarter Q2 was in terms of volume and demand offtake perhaps the lowest. Our numbers in October are good and based on our visibility for Q3, Q4 we are confident that the demand will pickup.

Bobby Jairam: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Chintan Chheda from Quest Investment Advisors. Please go ahead.

Chintan Chheda: Thanks for the opportunity. Good afternoon, Sir. My question is related to Isobutyl benzene, when we look into the current environment, the other API inventory intermediates like your para-aminophenol in DCDA, that has gone up by 100%-200% but relatively your IBP prices are fairly stable, so just wanted your outlook on the demand and timing for this particular intermediate?

Sanjay Chaturvedi: You have rightfully pointed out that the demand for other intermediates has gone up substantially more than IBB, IBB is very closely related to crude and we do not expect the IBB prices to have as much volatility the other products and in light of the other products we are doing lot of efforts in terms of backward integration and ensuring that we are sufficiently backward integrated and making the other intermediate where we can, so DCDA right now I do not see an option, not only for us but for any other player we continue to be dependent on China but some of the other intermediates we have alternatives to develop the intermediates ourselves.

Chintan Chheda: Also, with IBB, is there a situation wherein there is an over capacity globally for this intermediates?

Sanjay Chaturvedi: No, we do not believe that. Right now, there are only two major suppliers of IBB, and we do not believe there is an overcapacity issue.

Chintan Chheda: In terms of, so it will be said to assume if the prices of IBB continue to be stabilized these levels even the Ibuprofen prices will hover around say \$10-\$12?

Sanjay Chaturvedi: Yes, that is a very fair assumption.

Chintan Chheda: Thanks a lot. All the best.



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Moderator: Thank you. The next question is from the line of Ashish Rathi from Lucky Investment Managers. Please go ahead.

Ashish Rathi: Thank you for the opportunity for follow up. I have quick question one is which all products do we have like a backward integration advantage in our kitty?

Sanjay Chaturvedi: So other than Ibuprofen, we are currently on we are working on intermediates, so I do not have that advantage today but in the coming few quarters and years I will have that advantage and where we have developed some of the products except Metformin. I would say actually our philosophy as a company is to develop backward integration in as many products as we can, so what we have done is we are really secured the commercial and by launching the products and we understand that we are currently doing the business at lower margins perhaps because we are not backward integrated but as we get backward integration say Pantoprazole as one example, you will see that benefit accruing into our P&L.

Ashish Rathi: What is the volume number for Ibuprofen in H1 2022?

Sanjay Chaturvedi: Can you repeat your question please?

Ashish Rathi: Volume, the volume that we have done for Ibuprofen in H1 2022?

Sanjay Chaturvedi: Our current volumes are between 60% and 65% of our asset utilization and we believe this number will go up in the coming quarters.

Ashish Rathi: We have 12000 NTPA capacity, right?

Sanjay Chaturvedi: That is correct.

Ashish Rathi: How much was this in say one year, how much have we seen as a peak in terms of utilization from this capacity of 12000?

Sanjay Chaturvedi: In terms of peak capacity we believe that we can go through at least 85%-90% utilization and we have done that in the past.

Ashish Rathi: So, 80%-90% of the 12000, so we sold around 10,000 on a run rate?

Sanjay Chaturvedi: We have sold more than 10000 metric tons on an annual run rate.



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- Ashish Rathi:** So, there is a 20% to 25% dip in that previous demand is that correct?
- Sanjay Chaturvedi:** That is correct.
- Ashish Rathi:** Okay, and what is the pricing now in terms of Dollar per kg at present?
- Sanjay Chaturvedi:** It really varies I would say enable to \$11 to \$12 is a reasonable to assume.
- Ashish Rathi:** \$11 to \$12 okay, so the question was that in almost every quarter or maybe every six months the investors are asking this question. Is this the bottom price and we have been indicating that this is the bottom price and we have seen that from \$15 levels to \$13 and now you have talked that at \$11 to \$12 is that despite being the market leaders of the products the pricing is kind of really volatile and not too much in our grip? Again, I am asking the same question is this the bottom as per you?
- Sanjay Chaturvedi:** Yes, absolutely. We have done very extensive benchmarking in terms of different processes, what are the manufacturing costs for each process. So, we are very, very confident that this is the absolute bottom pricing that we are seeing today.
- Ashish Rathi:** What is the reason when while we share this that this is the bottom what is the logic behind it?
- Sanjay Chaturvedi:** Two things, one is of course that there are not too many suppliers of Ibuprofen to begin with. Ibuprofen as a product will continue to be a key product in the market. It is very well tested; it is one of the safest products in terms of efficacy and use and millions of customers around the world rely on using Ibuprofen. So, there is a bottom demand and as long as that demand remains as the bottom demand, we believe that they will continue to be a bottomed-out pricing otherwise companies will be forced to exit the business and that is something the customers do not want.
- Ashish Rathi:** What is that bottom demand? Is it like 50000 MTP where this the bottom demand do you think for this product?
- Sanjay Chaturvedi:** What was the number you said I could not hear that?
- Ashish Rathi:** 50000 I said, you can tell your numbers?



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Sanjay Chaturvedi: 50000 is actually much more than the world demand. We believe the world demand should be between 35000 and 40000 metric tons.

Ashish Rathi: This is the bottom demand you are saying in reverse case this will be the demand?

Sanjay Chaturvedi: Typically, this has been the market demand this number might be off by 10% to have the bottoming out effect but really, we do not expect that to go below 32000 or 33000 tons a year.

Ashish Rathi: In the US are we selling Ibuprofen now or we are not still?

Sanjay Chaturvedi: We just started some. Trials were ongoing this for the first year we have received some approvals, so I think in the next financial year you will see some commercial quantity is going into US.

Ashish Rathi: What kind of gross margins should we expect at a company level for the third quarter and fourth quarter because it has been so volatile, we would really need some help on this from you, please?

Sanjay Chaturvedi: I would say that for all API companies in general as an average companies operate at gross margins of between 25% and 30% and that is the range that we certainly hope to meet or beat in the coming quarters.

Ashish Rathi: But ours was higher than that, ours was the mid 30's zone. So, this should be the new normal for us 25%?

Sanjay Chaturvedi: This is not the new normal for us. It is hard to commit to a number right now because I do not want to look at it on a quarter-by-quarter basis. There are multiple moving parts here as my asset utilization improves my average cost goes down and therefore my profitability improves. As my volumes go up my ability to source raw material improves and my gross margin improves. So, there are so many moving parts here that I do not think that is the new normal but 30% is certainly something that is quite doable and within striking distance for us.

Ashish Rathi: Okay, any colour on this specific pricing on Ibuprofen in US when we sell versus others?

Sanjay Chaturvedi: No, I think it will be similar what we sell in Europe and other adjacent markets.



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- Ashish Rathi:** \$11 to \$12 is the current number for Europe and other markets or it is a mix for our domestic plus, what is the number for exports versus India for us is that significant difference?
- Sanjay Chaturvedi:** This is a bended price.
- Ashish Rathi:** So, exports should be \$13 or something and we in turn will be at end is that correct way to?
- Sanjay Chaturvedi:** Right now, I do not want to commit to that number only because we are entering the US, we are late entrants. As that business picks up and stabilizes that will be the time to look at the new pricing. But on a blended basis for the year, we will be between \$11 and \$12 per kg.
- Ashish Rathi:** Thank you for patiently answering my questions. I understand it has been a tough quarter, wish you all the best.
- Moderator:** Thank you. The next question is from the line of Khushdil Viridi from ICICI Bank. Please go ahead.
- Khushdil Viridi:** I have the same doubt for the inventory as the previous person. So, my doubts are cleared right now.
- Moderator:** Thank you. The next question is from the line Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Thanks for the opportunity. If you can give little more colour on you say this Ibuprofen demand is around 35000-ton annual demand, so how this demand is going at what percentage level normal and how is the supply situation, is supply is also affecting the pricing pressure?
- Sanjay Chaturvedi:** There are roughly you would say about four or five key suppliers of Ibuprofen worldwide, you have got a Chinese supplier, you have got one US company and of course one European company and two major suppliers from India. Having said that, the capacity situation is that all the demand in the world can be met based on current capacity, so you do not see any capacity additions being done and it all comes down to asset utilization and pricing. So, worldwide Ibuprofen as the product is growing in single digits this is a commodity API that grows more or less in line with global GDP's. We are very confident of our capacity and based on our understanding of comparative capacities we are confident



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that we do not expect any new entrants or new plants being built in Ibuprofen to cater to that current demand.

Bharat Sheth: You rightly mentioned recently this new European player has just commenced the capacity which was earlier not there. So, how much that capacity has come up?

Sanjay Chaturvedi: I think no formal numbers have been released for that whereas the capex that they have incurred for that capacity is something around 200 million Euros.

Bharat Sheth: And that has just commenced recently in last six months, correct?

Sanjay Chaturvedi: Correct.

Bharat Sheth: Is it also causing the pressure on the pricing as well as on the demand side that some of the customer might have been diverted to them?

Sanjay Chaturvedi: It is causing some concern on the supply side maybe not on the demand side having said that as I just mentioned 200-million-Euro capex for capacity of your preference will add significant cost with advantage because the fixed cost allocation on a per unit basis from 200 million Euro plant is going to be substantial. So, we do not believe that that will really add to the pricing pressure. But certainly, as new entrants everybody wants to come in but at the same time, they also want to maintain certain margins. You have seen what the typical margins are for the European player, it is reasonable to assume that they will not enter a new business and sufficiently sacrifice those margins.

Bharat Sheth: Okay, and can you give some colour on the medium-term outlook for this Ibuprofen whole demand-supply scenario with as you rightly said that once the demand keep on increasing again, we may see after couple of years pricing also improving?

Sanjay Chaturvedi: I would say that for a market that is between 35000 and 40000 tons this market had contracted in terms of demand to maybe around 30000 tons and within the next two quarters it will be back to 35000 levels.

Bharat Sheth: That also there is some hope of improving the price also, correct?

Sanjay Chaturvedi: Yes.

Bharat Sheth: Thank you very much.



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Moderator: Thank you. The next question is from the line of B. R. Vora from Third Eye Realty & Consultants Private Limited. Please go ahead.

B R Vora: Thank you for taking another follow up question. My question was regarding the domestic and export market. Our domestic sales have gone down in this quarter, but the exports have grown what was the reason for the domestic sales going down this quarter?

Sanjay Chaturvedi: Two things, one is that the domestic one in terms of volume I have not shown that separately some of the pricing of the products was down and that will what reflects in the domestic demand being down whereas in the exports both my pricing and my volumes were up.

B R Vora: So, the volume was same in the domestic market, right?

Sanjay Chaturvedi: Yes.

B R Vora: Okay, thank you.

Moderator: Thank you. The next question is from the line of Dhaval Sanghvi an individual Investor. Please go ahead.

Dhaval Sanghvi: Thank you for the opportunity. I have more broader question. Where do we see ourselves three years down the line, what kind of revenue are we looking at. Because I remember like three quarters back when we had discussion with the outgoing CEO, he did mention that we will grow around 18% to 20% so, maybe by FY2024 we are looking at somewhere around 2800 - 2900 are we on track of is there a change if you can let know?

Sanjay Chaturvedi: We are on track I think 15% to 18% is a reasonable number for us and we will certainly in the next two to three years be achieving or exceeding both numbers.

Dhaval Sanghvi Okay, what kind EBITDA margin are we looking at, what range if you can help me?

Sanjay Chaturvedi: I would say at 20% to 25% EBIT margin is a reasonable target for us to hit.

Dhaval Sanghvi: Then again from three-year vision what percentage of exports we are looking to target?

Sanjay Chaturvedi: I would say that our exports are currently in the 25% – 30% range. In the next three years we are looking at exports that will be well beyond 40% - 45%.



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- Dhaval Sanghvi:** Okay, and then in terms of our segment's pharma versus chemicals what kind of percentage are we looking is it equal or how do we see that?
- Sanjay Chaturvedi:** I would say rather than look at the percentage of business that is A or B it is perhaps more relevant question that will we grow both and the answer is yes, we will grow both the chemicals and the pharma and needless to say that I am constraint on my capacity on the chemicals side therefore the only way for me to grow the chemicals business is to either add more capacity or add more products into my portfolio and those are the kinds of discussions that are under evaluation and by end of December early January we will roll out that time.
- Dhaval Sanghvi:** Sure, thank you so much.
- Moderator:** Thank you. The next question is from the line of Ashit Kothi an individual Investor. Please go ahead.
- Ashit Kothi:** Good afternoon. I had a question on you have given three categories' chemicals and then pharma. So, chemicals we have shown in this first half as 57% compared to 35%. So, this is a volume-based growth as well as value-based growth?
- Sanjay Chaturvedi:** You are right this is volumes are very static in this we do about just over 100000 tons of Ethyl Acetate as primarily contributing to this business so, most of the numbers that you see here are price related so as the price of Ethyl Acetate changes that number changes.
- Ashit Kothi:** Okay, what you want to say is the production or the output remains static or flat, but it is the pricing which is deciding your overall contribution?
- Sanjay Chaturvedi:** That is on the chemical side.
- Ashit Kothi:** In that scenario how much chemical has contributed to the bottomline?
- Sanjay Chaturvedi:** Most of the contribution to the bottomline has actually for this quarter comes from the pharma and not the chemicals business.
- Ashit Kothi:** Sorry?
- Sanjay Chaturvedi:** Most of the bottomline has come from the pharma side and not the chemicals side.



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- Ashit Kothi:** No, but can we get some break up of that, chemicals Ibuprofen and other products, three categories you have mentioned 57, 29 and 40, so that is a revenue numbers or sales numbers if you project compared to that on the bottomline the depth of the figure if I could divide in these three categories what would be that?
- Sanjay Chaturvedi:** We have not released those numbers. In terms of profit the chemical was barely 10% of my total profit 90% came from the pharma.
- Ashit Kothi:** So, this chemical 10% profitability if I have to bring it at least somewhere around just as a ballpark figure 20% – 25% to that level if I want reach what kind of changes I do need to make in the chemical business because dependency on one product for profitability is becoming a problematic situation for the company, right?
- Sanjay Chaturvedi:** Historically, the chemicals business has been run at no more than 10% to 12% EBITDA margins and that is the industry reality not only for us but all the players who are in this particular product line and the way for us to improve our profitability to that level is essentially through better pricing and better sourcing of raw materials and of course capacity utilization.
- Ashit Kothi:** What is our current capacity utilization on chemicals?
- Sanjay Chaturvedi:** It is close to 100% and we continue to churn out as much volume as we can by improving our contracts, by improving our procurement rates and the ability to manage that volatility in raw material pricing with the pricing of our product to our customers that is really what will help us come back to those profitability levels.
- Ashit Kothi:** So, products mix in chemicals you will need to work on?
- Sanjay Chaturvedi:** Yes.
- Ashit Kothi:** On the product application what you have shown food processing, flexible packaging, pharma, chemicals, textiles, ink, paints, and pesticides. Under each head if I have to give the sales numbers?
- Sanjay Chaturvedi:** We do not break apart those sales numbers based on the segments that we serve.
- Ashit Kothi:** The reason for this is which segment possibly would provide further impetus to the topline as well as bottomline it will give an idea. Ibuprofen as of now is a major product and which



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would remain for maybe another couple of years but further growth if that has to come from which segment would do well which would give us an opportunity to grow faster?

Sanjay Chaturvedi: Okay, I would say that Ibuprofen has growth opportunities that we will certainly monetize. Ethyl Acetate is very much flattered out down in terms topline and we are in the process of doing change to improve the bottomline there but to grow the chemicals business I need to add more products into that portfolio mix and as far as pharma growth is concerned the growth will come from a combination of growing the Ibuprofen business but growing the non-Ibuprofen API is much more than the Ibuprofen API.

Moderator: Thank you. The next question is from the line of Mohammed Ayaz Shaikh form Aman Investment. Please go ahead.

Mohammed Shaikh: Thank you for the opportunity again. I was asking about in last conference call you said that the shipping charge for the export has significantly raised. Those charges are normal now or still you are facing higher charges for that?

Sanjay Chaturvedi: We have started to see easing of that and going forward once the Christmas season is over we do expect a significant drop in those prices.

Mohammed Shaikh: We are investors we are really concerned about our investment. So, my question is how margins you are seeing Q3 and Q4, EBITDA margins?

Sanjay Chaturvedi: You will have a significant improvement as I said Q2 things have bottomed out and we are seeing improvements there. Q1 or EBIT numbers were about 19%, 20% Q2 they went to about 10% going forward it is reasonable to assume that we will come back to an EBITDA number of around 20% by the end of the year.

Mohammed Shaikh: Thank you very much.

Moderator: Thank you. The next question is from the line of B. R. Vora from Third Eye Realty and Consultants Private Limited. Please go ahead.

BR Vora: I had another question about the expansion we talked about, all the expansions we are thinking of doing will it be from the internal accruals, or will we think about obtaining debt or any other finance mechanism to expand the business?

Sanjay Chaturvedi: Most of our expansions that we are currently foreseeing is from internal accruals.



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BR Vora: Okay, and on the margins side we are already doing great on the manufacturing and the operations in the business. So, do we look at any high margin business like contract manufacturing?

Sanjay Chaturvedi: Contract manufacturing when you say I am assuming in you are talking in the context of CRAMs?

BR Vora: Yes, CRAMs.

Sanjay Chaturvedi: Okay, so CRAMs is it appears to be very similar to APIs but if you look at the success factors in CRAMs versus generic APIs it requires a very different skill set and a very different capability. So, for us to do that even if we were to get into that area will require a significant investment in upgrading our skills. If you ask me today, am I set up as company to do CRAMs the short answer is no, but if the question is do I have the capability to upgrade my ability to be in CRAMs the answer is yes, and that what is one of the growth option under evaluation right now.

BR Vora: Right and I had one last question, in the long-term what part of the business do we see the most growth from whether it is from the API side, or do we think of going into other business segments or what kind of molecules you are looking for growth?

Sanjay Chaturvedi: We see a lot more growth for IOL coming from the pharma business as opposed to the chemicals business. Within the pharma business we will grow in the non-Ibuprofen APIs much more than the Ibuprofen APIs and the last question that you asked me was what kind of molecules will we be doing? We will be doing relatively high-volume APIs as opposed to low volumes so, high potency APIs is not something where we look at growth because that is not consistent with our skill set, background and experience. So, we will look for molecules that are relatively high volume, good pricing where we have an advantage of doing backward integration.

BR Vora: Thank you for answering all the questions.

Moderator: Thank you. The next question is from the line of Ashit Kothi an individual Investor. Please go ahead.

Ashit Kothi: Thank you. My question again with regards to as the last gentlemen asked our expertise is more on high volume, bulk production and going towards maybe a lower margin but high volume, that is what our expertise is, and it will remain the same?



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- Sanjay Chaturvedi:** No, let me correct. Yes, our expertise is high volume but not necessarily low margins. We will continue to look at products that have high volume products. We will continue to look at products that have the capability or delivering 20% plus EBITDA margins to our overall business.
- Ashit Kothi:** Do not have any major capital work-in-progress or major expansion in pipeline right now?
- Sanjay Chaturvedi:** No. The only capex that we have ongoing is the delayed project Unit No.9 that is a multiproduct facility that should be up and ready by the end of this quarter and that is the only one.
- Ashit Kothi:** Then I would compare the first half results where my profitability has gone down substantially with first half results of previous year that break up of fall in the numbers I would appropriate towards logistics this much, raw material cost increase this much, can I have some understanding if I have to divide that fall into multiple heads?
- Sanjay Chaturvedi:** I would say cost have goods sold as a broad bucket where my growth margins went down by about 10% points. Most of that was in raw materials and some of it came from fuel and logistics.
- Ashit Kothi:** We assume that 80 to 85% or 90% is towards raw material price rise?
- Sanjay Chaturvedi:** I do not want to give you a specific number but most of the cost increase that happened was in raw materials.
- Ashit Kothi:** Thank you. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Dr. Sanjay Chaturvedi for closing comments.
- Sanjay Chaturvedi:** Thank you. In concluding remarks this last quarter was a challenging period where despite headwinds the company has managed to grow the topline and sales by about 2%. The bottomline has contracted and is now expected to correct in the subsequent quarters. We are confident that the company will be able to deliver industrial level EBITDA margins of 15% to 20% on a sustainable basis. Thank you very much for your valuable time. Have a good day.



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Moderator:

Thank you. On behalf of Antique Stock Broking Limited that concludes this conference.
Thank you for joining us. You may now disconnect your lines.