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Ref: ADL/SE/2025-26/28
July 25, 2025

To,
Listing/ Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
BSE CODE: 524348

To,
Listing/ Compliance Department
National Stock Exchange of India Limited,
"Exchange Plaza", Plot No. C/1,
G Block Bandra - Kurla Complex,
Bandra (East), Mumbai – 400051
NSE SYMBOL: AARTIDRUGS

Dear Sir/Madam,

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Sub: Transcript of Q1 FY26 Earning Conference Call

Please find attached herewith transcript of Q1 FY26 Earning Conference call.

Kindly take the same on record.

Thanking you,

Yours faithfully,

FOR AARTI DRUGS LIMITED

RUSHIKESH VIVEK DEOLE

RUSHIKESH DEOLE
COMPANY SECRETARY & COMPLIANCE OFFICER
ICSI M.No.: F12932

“Aarti Drugs Limited

Q1 FY '26 Earnings Conference Call”

July 21, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 21st July 2025 will prevail

MANAGEMENT:

- Mr. Adhish P. Patil – Chief Operating Officer and Chief Financial Officer, Aarti Drugs Limited
- Mr. Harshit M. Savla – Joint Managing Director, Aarti Drugs Limited
- Mr. Harit P. Shah – Whole-Time Director, Aarti Drugs Limited

Moderator: Ladies and gentlemen, good day, and welcome to the Aarti Drugs Limited Q1 FY '26 Earnings Conference Call. As a reminder, all participants' lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this call is being recorded.

With this, I now hand the conference over to Mr. Adhish Patil, COO and CFO from Aarti Drugs Limited. Thank you, and over to you, sir.

Adhish Patil: Thank you. Good morning everyone, and thank you for joining us today for Aarti Drugs Q1 FY '26 Earnings Conference Call. Joining me on the call today are Mr. Harshit Savla, our Joint Managing Director; Mr. Harit Shah, Whole-Time Director; and SGA, our Investor Relations Advisors.

I trust you have had the chance to go through our financial results and investor presentation for the quarter, which are available on the stock exchanges and our website. Let me begin with some of the key business updates on Aarti Drugs followed by the financial highlights.

The quarter witnessed improved demand for active pharmaceutical ingredients, leading to a recovery and growth in volumes as compared to Q1 FY '25. Our API business grew by 5% on a year-on-year basis. In Q1 FY '26, the total revenues grew by 6% year- on-year to INR591 crores with gross profit margins improving by 130 basis points year-on-year to 36.8%. EBITDA has increased by 12% year-on-year to INR74 crores and EBITDA margins improved to 12.6%. Gross profit margin improvement is primarily attributed to the normalization of input cost.

Looking forward, we anticipate further improvement in EBITDA margins driven by multiple factors. These include an expected growth in global API demand and higher penetration in regulated markets, leading to uptick in selling prices as well as enhanced capacity utilization.

On the capacity expansion side, our greenfield project at Sayakha Gujarat has started trial production. This plant has been set up mainly for backward integration into anti-diabetic products and their intermediates and is expected to largely serve internal requirements. This backward integration is a key strategic step that should help improve profit margins over time and reduce the risk of input cost volatility. This project will support internal requirements for our anti-diabetic products and choline chloride, contributing to backward integration, margin improvement and supply chain derisking.

Secondly, we continue to make progress on scaling up of our Tarapur greenfield site where we launch salicylic acid production, entering a market historically dominated by imports. While the plant faced some initial startup issues which is typical during the early stages of new product for in-house developed technology, these have been effectively addressed and are being implemented at the plant level.

The company is now focused on a calibrated ramp-up of operations. This is expected to begin contributing to the company's financials from the third quarter of FY '26 onwards. Current

output levels still stand below 200 tonnes per month, and we expect to ramp up to 800 tonnes per month very soon and further expand installed capacity to approximately 1,600 metric tonnes per month.

We view this ramp-up as strategically important, not just from a volume perspective but also in strengthening domestic sales demand. This strengthens our product mix and supports diversification into adjacent value chains.

With the manufacturing capacity, exceeding 1,450 tonnes per month, ADL is one of the leading metformin manufacturers in the world. We are aiming for higher utilization. In future, we are planning for additional 350 tonnes per month of brownfield expansion. The launch of Gliptins will further enhance and solidify the position of the company in anti-diabetic category.

During Q1 FY '26, the company incurred capex of roughly around INR48.5 crores at a consolidated level, mainly towards capacity expansion, backward integration, safety and finished formulation R&D. For FY '26, we expect capex to be in the range of INR150 crores to INR200 crores. In the Formulation business, we have grown by 14% year-on-year to INR80 crores in Q1 FY '26. 57% of the revenue contribution for formulation is from exports during the quarter.

We have commenced commercial operations in Latin America and a few African markets along with undertaking new registrations in export markets and government tenders. Our formulation subsidiary has achieved a key milestone with USFDA approval for its oncology facility and UK MHRA approval for our oral solid dosage (OSD) facility. In parallel, we are actively developing and registering new oncology dossiers across global markets. These efforts are expected to drive meaningful growth in our regulated market presence starting FY '27 onwards.

A lot of new regulated customer audits have been triggered at the recently USFDA approved Tarapur API facility. We also plan to expand this facility by putting more production blocks in future. Additionally, we are rebuilding presence in the US market. This has been a meaningful development for us as it enables our reentering into one of the most important regulated markets. While it may take some time to scale up, this opens up future growth opportunities for several of our API products.

Recently, the US government announced if tariffs on pharmaceutical products and API imports from countries like China in a move to reduce reliance on Chinese supply chain. This policy shift is likely to disrupt global sourcing patterns, but it also creates a significant opportunity for Indian API players. At Aarti Drugs, with our recently USFDA-approved API facility and strong proven manufacturing capabilities, we are well positioned to capitalize on this transition and cater to the evolving demand landscape in global markets.

It is also worth noting that regulatory markets like Europe and the US offer superior margins. With more of our products receiving EU certifications from larger plants, we are shifting high-value exports to lower-cost platforms, improving our margin capture. While volume growth

has been steady, we expect a meaningful pickup from H2 FY '26 onwards as our newer assets stabilized. Volumes are picking up, and we also expect better realizations as global API demand begins to normalize. Over the medium term, we remain committed to our strategy of deepening backward integration and improving cost competitiveness.

Finally, inching towards sustainability, we have continued to make progress. One key development in FY '25 was the commissioning process of the 24.4 megawatt peak solar project through our joint venture with Prozeal Green Power. This project is being developed to support part of our power requirements in Maharashtra and Gujarat.

Once fully operational, we expect this investment to help lower long-term power cost and also strengthen our ESG profile by reducing our carbon footprint. This aligns with our broader effort to reduce dependence on conventional energy and move towards cleaner, more sustainable operations.

To conclude, we remain focused on operational execution and disciplined cost control in what continues to be a dynamic business environment. Looking ahead, we expect further improvement in margins supported by a normalization in API pricing, ramp-up of newly commissioned capacity, better capacity utilization and higher-value export opportunities in the regulatory markets. The broader margin profile is also likely to benefit from greater internal sourcing and improved product mix.

With that, I would now like to open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Adhish, congratulations for a decent set of numbers. Sir, my first question is that we have seen a very good improvement in our gross margin, both Y-o-Y and Q-o-Q. But the same gross margin delta is not getting reflected in EBITDA margin. To that extent, of course, we have improved 70 basis points, but some of that has been lost in the other expenses.

So when do we expect this gross margin delta to fully flow through to EBITDA? And as you are saying that the backward integration and internal sourcing, plus maybe better realization, if that happens over, let's say, next 3 to 6 months, then how should we look at the gross margin going forward?

Adhish Patil: So Dhwanil, the gross margins have improved, no doubt, a bit further backward integration of our Sayakha plant. We certainly hope that they will improve a bit further. Having said that, after that improvement, obviously, the regulated market sales will lead to higher selling prices. That will also lead to better gross margins.

But having said that, with the current gross margins, what we achieved in this quarter, had we had better utilization of the capacity, then probably our EBITDA margins would have been better, I mean, almost above 14.5% even with these gross margins.

So this particular quarter, though the gross margins were good, but because of the slightly lower utilization of the capacities, it did not flow into the EBITDA margins. And there are obviously other factors, as you pointed out, which can lead to further improvement in the gross margin itself.

Dhwanil Desai: So essentially, let's say, from Q-o-Q perspective, let's say, next quarter onwards, do we see improving the capacity utilization? Or shall we expect that from H2 onwards only?

Adhish Patil: Yes. So actually, there are multiple factors from where the improvement in the financials will come from. One is definitely the higher utilization of the current API business itself, other is by getting newer customer approvals for the existing APIs in the regulated market. And third but not the least, we are expensing out a lot of losses for the salicylic acid plant in last quarter.

So that continues into this quarter as well. As I pointed out in the press release that our current capacity utilization still had been below 200 tonnes per month, and it will take somewhere around 600 tonnes per month of production for us to break even. So definitely, with the improvement in the utilization of salicylic acid plant, definitely, in 2 quarters' time, we see betterment in the capacity utilization. And plus, as new markets open up, the existing business will also have better capacity utilization in the coming years.

Dhwanil Desai: Second question is you mentioned in your press release that a lot of customers visit from regulated markets that have happened and are happening. So you also say that US may take a little more time. But if you can give some idea about where our current Europe business stands and how do we perceive that Europe business growing in FY '26 and FY '27 based on the USFDA approval that we have received for the plant?

Adhish Patil: Yes. So definitely, our US business is almost nil as far as APIs are concerned. We just got the import alert listed in December. And January, we got the official letter from USFDA as well. 3 of our products are already being referred in the ANDA. So we are quite bullish about those 3 products to be launched very soon in the USFDA market. But having said that, US market definitely takes more time, a lot of gestation period is there. So probably by, I can say safely, after 9 to 12 months, probably we can start with the commercial supplies, if everything goes smooth.

And as far as the Europe market is concerned, that will start much earlier than the US market is what we feel because our plant was already EDQM compliant. But because of that import alert, lot of customers were reluctant buying from that plant for the Europe market as well. So our Europe market has also opened up.

And if you see our investor presentation, we have mentioned that in FY '24, our Europe was around 14%, and FY '25 was around 12%. So that can significantly go up so we can safely assume that after 9 to 12 months, the registered sales from our Tarapur API facility, which has been recently approved by USFDA should commence commercial sales.

Dhwanil Desai: Okay. So this 12%, let's say, over next 2 years, can it go to 20% plus? Is that how we should look?

Adhish Patil: So definitely, we'll try to -- because it can go to 20% because there are multiple things which are trying. Two things. So first of all, what we are doing is that all our CEPs, the European approvals , we are trying to move toward existing plants, the bigger plants, not the multipurpose but the dedicated plants.

So from there, if you start supplying to the European market, we will be able to supply at a very, very cheap rate. Though that rate would be better than the other markets, but as compared to the same product is being sold at a very expensive rate as of today in the same market. So we can supply at a much lower rate from that. So definitely 15% to 20% is possible.

And also, our E22 facilities, USFDA facility, we have adjoining land parcels where we are putting up more blocks, but that will take around 12 to 24 months for blocks to get commissioned. But the approval process can be a bit faster for products because we will start to apply for the products from the existing production block so that there can be some overlap between the product approval process and the commercial operation from the newer blocks.

Dhwanil Desai: Okay. And last question. So at the start of the year, we were expecting a 15% kind of volume growth and negative price variance of, let's say, around 5%. So at least double-digit growth in revenue.

And so first, are we on track for that? And if I understand correctly, in the base that negative price variances will be in H1? And in H2, probably if the prices remain same, there will be no negative price variance? So then H2 onwards, maybe top line growth will be upward of 15%. Is that how should we look at it?

Adhish Patil: Yes, it is fairly possible what you said. H2 growth can grow in double digits. For the first quarter, that is June '25, on a year-on-year basis, we had a volume uptick of around 9%, and the negative price variation was roughly around 4.5%, and that is why we achieved that 4% to 5% or 4% to 6% of growth in the stand-alone and consolidated company.

Moderator: The next question comes from the line of Rehan Saiyyed from Trinetra Asset Managers.

Rehan Saiyyed: So sir, first of all, congratulations for a good set of numbers. So sir, I have a couple of questions regarding your business. So first of all, sir, from your current pipeline of APIs for commercial products, how high do you plan to commercialize in FY '26, are there very high margin or niche launches and profiles. Could you just clarify regarding this?

Adhish Patil: Actually I could not understand your question. Can you just repeat it once more, please?

Rehan Saiyyed: Yes, sure, sure, sure. Sir, from the current pipeline of API and Formulation products, how many do you plan to commercialize in FY '26? Are there any high margin or niche launches in focus regarding the upcoming quarters or maybe even a year?

Adhish Patil: Okay. So you are asking about newer product launches in the coming few quarters?

Rehan Saiyyed: Yes. Sure. Sure. Yes.

Adhish Patil: So the main product R&D what we are doing for Formulation business in regulated markets for oncology as well as for other solid dosages, so the regular dossiers are been developed and registered as we speak, whereas the oncology dossiers will take a little bit of time.

What we expect is that by December of next year, that is December 2026, by that time, most of the R&D would be done for at least 10 oncology products, and we've been filing the dossier for approvals. And from there, it might take around 6, 7 months for the approval, and then the commercial sales of the oncology product will start.

As far as the APIs are concerned, it's an ongoing process because in APIs, though we manufacture roughly around 45, 50 molecules in a year, our top 20 almost contributes around 90%, 92% of the total sales. So all the trail molecules, which are already there, so what we expect is slowly the demand of the trail molecules will increase.

And similarly, we keep adding few of the other products as well in the product basket, one such product, which can grow and we might see the difference in production capacity is the Fluconazole, antifungal product already in Ketoconazole which is our leading antifungal products, we have largest market share and production capacities in the entire group. So ongoing process as far as it is -- and formulation, I just explained.

Rehan Saiyyed: Yes. Okay. And sir, one more I want to just clarify about your Sayakha facility, you have just covered but, please repeat and clarify regarding this, the Sayakha facilities has started trial production. When do you expect full commercialization from and from which quarter, which we will see start seeing its impact on revenue and margins in this quarter or maybe in full year.

Adhish Patil: Okay. So the Sayakha facility mainly put for backward integration for captive consumption purpose. But along with that, there will be some, you can say, side chain products, which will be produced simultaneously, which we'll have to sell outside. So we have started to trial production now. And it's a very high temperature, high pressure kind of a reaction. So it's very common for that kind of a plant, whenever you start the operation for the first time to observe some leakages in pipelines or some equipment, and then you have to plug those leakages and restart the facility.

So we have been doing this since a couple of months. And now though we are pretty confident, but within a week's time, we will come to know whether any more leakages are being observed or not. And if they're not observed, then we will be putting that facility to use in this September quarter itself. And if not, if we find some problems, then probably it might go to Q3, but very high chances that, that facility might be put to use in Q2 itself.

Rehan Saiyyed: Okay. So I just wanted to clarify your sentence, like you're targeting for quarter 2, and if something goes wrong, so it may be go to quarter 3, right. Am I right?

Adhish Patil: Correct. Correct.

Rehan Saiyyed: Yes. Yes. And sir, last one bookkeeping question. You have guided for INR150 crores to INR200 crores capex this year, so how much of this will directly contribute to growth, or what return on capital you are expecting to be the target value for this project?

Adhish Patil: Your voice is a bit not clear. I'm not able to get.

Rehan Saiyyed: Yes, sir. I'll repeat. You guided for INR150 crores to INR200 crores capex this year. How much of this will directly contribute to growth, if you can, what ROCE you can expect while approaching such project?

Adhish Patil: Okay, understood. So see, roughly 50% of this probably we will be investing in the new product R&D in the Formulation business, mainly towards oncology and a bit towards non-oncology as well, but targeting the regulated markets, roughly 50% of it. And the rest would be done in the parent company for brownfield expansion of a lot of products. We have certain products in mind, like some antifungal product, then cardiovascular products.

And we are also putting up new block for our USFDA facility. And even our anti-diabetic therapy, we are trying to expand. So there are a lot of brownfield expansions involved. So you can say that other than you can say, let's say, 10% to 15%, rest all 80%, 85% would be focused for growth and not for maintenance in this.

Rehan Saiyyed: Sorry. And now can you hear me?

Moderator: Yes, sir. You're audible.

Adhish Patil: Yes. So definitely, as we think, we are going a lot as far as safety is concerned. Since the last 1.5 years, we have spent almost around INR10 crores, INR15 crores for better equipment, for better GMP equipment and safer equipment so that the accident or small, small mishaps, what happens in at plant level, we are trying to reduce that by having better equipment, better maintenance and also automating most of the things and doing a lot of things on the safety part. So definitely, that has also been one of the key focus areas as far as capex is concerned.

Moderator: The next question comes from the line of AM Lodha from Sanmati Consultants.

AM Lodha: First, yes, I would feel highly obliged if you management give some guidance about volume in FY '26 and FY '27 and value-wise growth in FY '26 and FY '27.

Adhish Patil: Okay. So when we started the year, we had a certain volume growth in mind, for FY '26 and FY '27, we had roughly a CAGR growth of 15%, roughly 15% year-on-year growth for this coming 2 years. It might so happen that we can get 10% here and 20% in next year, that we cannot predict much, but roughly 15% CAGR growth in volumes we had targeted for the FY '27.

And for this year, the first half, year-on-year, there can be a negative price variation of around minus 4% to minus 6%, for the first half only. And from the second half onwards, negative price variation will go away. So whatever growth in volumes in there, that will translate into value add growth.

AM Lodha: What about FY '27, how much value growth we can expect?

Adhish Patil: Same. 15% year-on-year

AM Lodha: Based on the prevailing prices.

Adhish Patil: Yes. Yes. Based on the prevailing prices, we expect 15% on each year.

AM Lodha: 15% on each year value growth. Okay, sir. What is the net debt -- my second question is what is the net debt of the company on debt?

Adhish Patil: Yes, yes. So on a consolidated level, it is slightly below -- somewhere near about INR597 crores. Of which, around 56% is a long- term debt and 44% is the working capital debt.

AM Lodha: Can we expect some reduction in the loan? Almost capex is -- big capex is over.

Adhish Patil: Yes. Actually, what you say is correct that in spite of doing heavy capex and having 2 big shareholder payouts in last 2 financial years, almost to the tune of roughly around INR80 crores to INR85 crores each year, so both combined, it would be somewhere in the range of INR170 crores or something, plus the capex we have done, still we are able to manage the debt at this INR597 crores level. So we do feel that if we don't take up new capex or new capacity expansions, this debt level can further come down drastically.

Moderator: The next question comes from the line of Majid Ahamed from PinPointX Capital.

Majid Ahamed: I just want to understand, like in your presentation you had mentioned INR1,200 crores of revenues that's going to come from the upcoming capex. And so if I take INR1,200 crores of top line, like it could be starting on H2. But even if I take those numbers and it is around from the current level of revenue, it is around 45% to 50% growth from the current level of revenue. So I just want to clearly understand like as you were saying 15% volume growth and not much pricing growth in place and you are saying some for captive consumption I'm just trying to understand those numbers clearly.

Adhish Patil: Yes. So the thing is whatever capacities we are putting right now for the full benefit to translate into financials, it might take around 3 years. So it might flow into FY '28 for the -- for optimum utilization of all these greenfield capex, what we are doing right now.

Majid Ahamed: So the revenue will start coming more in an upper phased manner, this INR1,200 crores?

Adhish Patil: It will come up in the phased manner. You're very much correct.

Majid Ahamed: Okay. And so going forward, like as we are also reinvesting our operating cash flow going forward and you've also mentioned a dividend payout, like how are you then going to manage your debt as well going forward? Yes, can you manage and reduce debt cost?

Adhish Patil: Yes. So as I was just talking with the previous caller, that in spite of doing around INR170 crores of shareholder payout either in the form of buyback or dividend and carrying a capex of

roughly around INR150 crores to INR200 crores each year, still, we were able to keep our debt at INR597 crores, which, roughly, translates to around 0.42 or 0.43 debt-to-equity ratio. And in last 2, 3 years, our debt-to-equity ratio has been systematically coming down in spite of doing heavy capex as well as giving out shareholder payouts. So the company's policy of 25% shareholder payout, we can easily maintain that policy and still keep our debt levels very much in control. So that won't be an issue.

Majid Ahamed: So the debt level of debt to equity of 0.4, 0.5 will be maintained going forward is what you're saying?

Adhish Patil: Yes. So as a management, we feel that around -- roughly around 0.4 to 0.7 is a fair enough number to keep debt-to-equity levels because it also helps in achieving higher ROE because of the leverage, debt leverage. So that would be a good number to keep. Having said that, if we don't do shareholder payout for any reason, if we don't do it, then our debt-to-equity ratio will fall down significantly.

Majid Ahamed: And my third question is regarding -- especially now your -- earlier Q1 FY '25 to '26, API contribution has went down from 80% to 77.6%. So going forward, like what would be the overall revenue contribution between API, Formulation and other -- like what's the direction that you're seeing?

Adhish Patil: So a couple of percent here and there is what we have been seeing in our recent last few quarters. And the main reason for that is a slight volatility in the demand or tenders of Formulation business. So sometimes, if the sale of Formulation business is less, then suddenly the API component looks higher.

Having said that, I will just give a fair enough range. As of today, our business is roughly around 78% to 80% of APIs, roughly around 8% of Spec Chem and Intermediates and rest 12% to 14% is Formulation. That is the rough split what we have as of now. And given our expansion plans, so we are expanding our formulation business. And in 3 years horizon, we do feel that formulation business will almost double from here or it might reach to around INR550 crores to INR600 crores once the oncology also commercializes.

Along with that, the 2 main greenfield capex what we have put in the stand-alone company, the salicylic acid probably would go in Intermediate and Intermediate space, salicylic acid. Though it has the final application in dermatology as well, but we might classify most of the sales as a part of Intermediate because it goes in the manufacturing of salicylic which has a lot of application in perfumes and flavor industry.

And Sayakha facility, which has come up, that will help in the backward integration for our anti-diabetic portfolio as well as some specialty chemical products will come out from there, which we'll be selling outside. So what Spec Chem and Intermediate percentage might go up from that 8% to, let's say, 15% in 3 to 4 years horizon. So API might be around 75% or something like that, 70%, 75%, Spec Chem and Intermediate might grow a little faster and the formulation will also grow to the same extent.

Majid Ahamed: The final question that I have is, going forward, like if we have to make sure that the margins because you're saying you're going for -- with your Sayakha plant coming in as a backward integration, what type of gross margin expansion that you're looking at, any numbers, anything?

Adhish Patil: Yes. So yes, so though it is very difficult to predict for the next 2 years, but what we see that if you look at the current pricing levels of those Intermediates, then definitely 1% or 2%, that -- I would say that, plus the regulated market sales, both put together, it can definitely help us to improve the gross contribution -- gross contribution margin by around a couple of percent. The higher regulated market sales plus the backward integration of Sayakha.

Majid Ahamed: So if I can assume gross margin expansion of 200 to 250 bps plus if you can do cost rationalization of the fixed cost, can it move towards like 15%, 16% EBITDA in the coming year?

Adhish Patil: Yes, it is fairly achievable if everything goes right.

Moderator: The next question comes from the line of Raman K.V. from Sequent Investment.

Raman K. V.: Sir, what is the current TAM of this salicylic acid in India?

Adhish Patil: The market potential?

Raman K. V.: Total addressable market.

Adhish Patil: Yes. So see, salicylic acid, roughly has almost 20-kiloton per annum kind of a market in India.

Raman K. V.: And who are the leading producers?

Adhish Patil: So there are 3 main producers in China from where the salicylic acid is being imported. The Indian capacities are very limited as far as salicylic acid is concerned. So what does the capacity -- the market potential, which I told you is purely imports, which is happening from China.

Raman K. V.: So basically, we'll be competing with China. So what will be the cost of production for them and like this particular intermediate in China versus our cost of production?

Adhish Patil: Yes. So salicylic acid, when we started the commissioning of plant and till, we reach the end stage and started actually selling the product in the market, little bit, till that time, the margins were very high. But as soon as we started manufacturing the product, literally the Chinese competition has reacted and trying to create entry barrier by dumping the salicylic acid into India and reducing the prices significantly as compared to the trend what we have seen in the last 4 to 5 years. So that makes a very special case.

So even having said that, if we reach at around 800 tonnes per month kind of capacity, we can still break even, even with the current pricing. You can say the pricing equivalent to the

dumping of salicylic acid by Chinese manufacturer into India, even at that even you can make breakeven at around 800, 900 tonnes per month.

Now the thing is because they have reduced the prices sharply after an Indian manufacturer has come into existence, it makes a very good case for antidumping duty. So we are approaching government for that. We are making the case. We'll be filing it soon once we compile the entire data. We also introduced salicylic acid into BIS, that is the Bureau of Indian Standards in last year. That also is a part of creating a little bit of barrier for the Chinese producers to sell that product into India.

So it's a very tough job to compete with China, no doubt about that. But for most of the product basket which we have in API space, our main competition is only from China. So we are pretty much habituated to the Chinese competition. So it will be like any other products for us.

Raman K. V.: Sir, one last question on this particular part. So what is the current prices of salicylic acid? And what will be the price if the ADD is imposed?

Adhish Patil: So the ADD, we won't be able to tell you right now because that depends on the decision of government. But the selling price, current selling price is roughly in the range of INR119 to INR120 per kg for salicylic acid after paying the duty.

Raman K. V.: INR190 to INR120?

Adhish Patil: No, no. INR 119-120

Raman K. V.: And this prior to Chinese player dumping, what was the price?

Adhish Patil: It was roughly in the range of INR150 per kg, INR145, INR150.

Moderator: The next question comes from the line of Dhruv Achrekar from Tiger Asset Private Limited.

Dhruv Achrekar: My question is as the US has imposed the high tariff on the Chinese APIs. So how the Aarti expects to capture opportunities in the US and as well as in the other market and resulting demand upticks and the contract wins?

Adhish Patil: So this US -- so these tariffs basically would matter in really 2 terms. What I mean is mainly there are 2 major APIs in the world, China and India. So if the Chinese tariffs are higher than Indian tariffs, that will definitely help us in getting better margins and keeping our costs definitely.

But having said that, as far as US market is concerned, cost of production is not that big of an issue for us because we are competing with China even in the unregulated markets in the rest of -- ROW markets. So definitely, this tariff will help us to some extent. Just like the way China Plus One strategy played in during the COVID period. So it will help us, no doubt about that.

And fortunately, this has come right when we got the USFDA approval back. So definitely, the customers might also feel -- the customers were solely dependent on China, will feel the need to approve more Indian sources. So that will definitely help us in getting more approvals. No doubt about that.

Dhruv Achrekar: Okay. Okay. Sir, and my last question is regarding the capex. As you mentioned like there is a capex for Q1 around INR48 crores for FY '26 guidance of INR150 crores to INR200 crores, so how is the capex...

Moderator: Sir, your audio is breaking.

Dhruv Achrekar: Yes. So my question is how this is being financed for?

Adhish Patil: If I get your question correctly, I think you're asking about the -- how are we going to finance the capex?

Dhruv Achrekar: Yes, yes, yes.

Adhish Patil: Typically, what we do, whenever there is brownfield expansion, we do it from the internal accruals itself. And only for the big, bigger greenfield projects or the newer big projects, relatively big projects, we take term loan financing from banks because our cost of debt for the long term was roughly in the range of 8.3% to 8.5%, but now it will come down drastically because of the reduction in the interest cost.

Moderator: The next question comes from the line of Rashmi Shetty from Dolat Capital.

Rashmi Shetty: Just 2 clarity. One is on tax rate from last 2 quarters, we are doing a tax rate of around 20%. So in FY '26, '27, will it be in the range of 24%, 25%? Or it will be in the range of 20% to 21%, given the deferred tax rate?

Adhish Patil: Yes, yes. So next financial year, that is FY '27 onwards, it will be at 25% only. This time, we have been getting a lot of income tax refunds in this financial year and even in last year also. So whatever refunds we are getting, we are adjusting in the tax provision directly. So that is the reason why the tax provision might look a bit lower in this year and last year.

Rashmi Shetty: So then what will be your guidance for FY '26?

Adhish Patil: '26, you're asking?

Rashmi Shetty: Yes, FY '26, how much should we assume? I mean, how much should we model in?

Adhish Patil: Okay. I don't have the exact numbers as of now, but probably we might -- around INR30 crores of tax rebate we might get. So that much provision, we might do this for the entire year.

Rashmi Shetty: Okay. So roughly, then it would come in the range of 20%, 21%?

Adhish Patil: Yes. I mean I haven't done the calculation yet.

Rashmi Shetty: And okay, no, it would be pretty lower in case if it is INR30 crores, right, in case if it is -- if the refund is coming in that range. Anyways, I'll take that offline. So on the EBITDA margin front, you mentioned that 15% to 16% EBITDA margin is achievable. That 15% to 16% you are guiding it for starting from FY '26 only? Or do you believe that this will happen only in FY '27?

Adhish Patil: That for the entire year, it should happen only in FY '27. This year, probably, the outgoing since the last quarter of this financial year, probably we might try to achieve that. But the main -- the annual numbers, if you look at then probably, I would suggest FY '27 would be the right year.

Rashmi Shetty: Okay. And so FY '27, basically 15% value growth is what we are expecting and EBITDA margin of around 15% to 16% is something which is achievable with whatever factors which will be driving the growth and margin, which you have already mentioned?

Adhish Patil: Yes.

Moderator: The next question comes from the line of Maitri Shah from Sapphire Capital.

Maitri Shah: Yes. A few clarities. So the value decrease you said for the first half will be 4% to 5%. So what sort of increase are we expecting in the second half and FY '27?

Adhish Patil: Yes. So for the first half of this FY '26, we are having -- we might be having a negative price variation of roughly around 5%. So what we see is that the current value add growth of 5% to 6% is what we will have in the first half, and we will try to increase it to around 10% or more in the second half of FY '26.

Having said that, I would just like to point out one thing that the Q4 of FY '25, that is the March '25 quarter, our sales, the demand and the volumes, were quite high. So that would be one of the challenge. But otherwise, 10% volume base growth we can easily try to target that. We can even try for 15%, frankly speaking, in the second half of FY '26.

Maitri Shah: So this is the value growth, not the volume growth, right?

Adhish Patil: Yes. So second half value and volumes would be more or less similar, both the growth.

Maitri Shah: Okay. Value, volume more or less. And for FY '27, the same range because we're also entering the regulated market and all?

Adhish Patil: Correct, correct, correct.

Maitri Shah: So again, 10% to 15% on value and 10% to 15% on volume, is that correct?

Adhish Patil: Yes, yes.

Maitri Shah: And for the EBITDA, we're targeting 15%?

Adhish Patil: EBITDA, yes, we're targeting 15% with the optimum utilization of all these greenfield capex what we're putting in.

Maitri Shah: And the salicylic acid, the sales will be only domestic? Or are we targeting any international sales as well?

Adhish Patil: So definitely, wherever we find the pockets in global market, we will try to target them because we do have a very good distribution network across the globe. We are exporting to more than 100 countries as far as APIs and Intermediates, Spec Chem is concerned. So so whatever pockets we find in the -- across the globe, we will try to target that as well, no doubt about that. Having said that, the main market of salicylic acid is here in India. So it will be more skewed towards domestic sales.

Maitri Shah: And the Formulation business, you said you're targeting INR550 crores to INR600 crores through oncology. So that will happen post 2 years or within the next 3 years?

Adhish Patil: So it will take 3 years. It will bare minimum take 3 years. So this INR550 crores to INR600 crores as of now, I'm saying means in 3 years' time is because of both oncology as well as the other OSD registrations what we are doing across the globe. As we say that we got U.K. MHRA approval for our regular OSD facility in Baddi. We already have peaks approvals for the same.

And as we speak today, we are also having ongoing audit for another regulated market. So if that goes well, then we will be on the right path to manufacture more and more regulated formulation products in our own facility and export it to the regulated market. So INR550 crores to INR600 crores by FY '28, I would say, because the oncology piece will play -- I was telling that by December '26, probably most of the work in R&D would be done for 8, 10 products, then we'll be filing those and then you can assume 6 to 9 months for to and fro within the regulatory authorities. And then we'll be able to start the commercial sales.

But meanwhile, we do have a USFDA approved oncology plant. And if there are some other formulation companies in India or abroad who wants to get toll manufacturing done in the USFDA approved facility for oncology, which are very few across the globe. So if you get those opportunities, we will do that to increase the utilization of the plant.

Maitri Shah: Are any of those in pipeline? Or it's just an opportunity you're looking for?

Adhish Patil: So we are talking with few. I cannot give an estimate on that, but we are talking with few.

Maitri Shah: Okay. And any idea on the tariff differential that will happen for China and India from the US?

Adhish Patil: Yes. So see, the only concern for us will be if the Indian tariff should not be more than Chinese tariffs, which seems very high. It's seems unlikely. So we are not worried that much because you said, if you speak about API market in US, cost is not that much of a big factor. It is mainly -- you should be able to get the tie-ups done in the US market. So it's more about

marketing than the cost because we are not worried about the cost as far as whatever products we are manufacturing in the USFDA part.

Moderator: The next question comes from the line of Meet Mehta from Prasun Exponentials. Ladies and gentlemen, we'll take this as a last question for today. The next question comes from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Just one question. So if we go back in time, even pre-COVID, with, let's say, 35% or even less gross margin, we were doing 15%, 16% EBITDA margin. And currently, we stand at close to 37% EBITDA margin with room for improvement. So below gross margin, as and when I understand currently, the EBITDA margins are lower because of the lower capacity utilization.

But as we achieve optimal capacity utilization, shouldn't we expect EBITDA margin north of 16% purely going by historical numbers? Or is there any costs which have significantly increased your gross margin, which will keep margins in check to 15%, 16%? If you can help us understand this dynamics, what was there in the past, what can happen in the future?

Adhish Patil: Yes. So if we look at the standalone profitability for the March '25 quarters, as you said, you are right that even with the gross contribution of around 35.2%, we were able to do an EBITDA of 14.5%. So already, we are like moved almost 1% better. So that 14.5% will be around 15.5%. And with the better gross margin, why not 16.5% or 17.5%. So yes, so the thing is you're correct.

So in the best possible quarter, where the utilizations are very high, everything is good, probably you might be able to hit those margins because the -- even -- see, our power expenses, which would be roughly around 3%. So with the solar power coming in, our manufacturing expenses will go down a little bit.

Our manufacturing expense, as you see, if you look at all the past 5 quarters, they don't go up significantly even if the sales go up. So definitely an incremental profitability of 25% is there. What I mean is after INR500 crores or INR600 crores, if I do INR600 crores of more sales, probably, it adds around INR25 crores to my bottom line in the PBT.

So that much leverage is possible, when the Sayakha plant come in, definitely, the expenses will go up because right now, we are not expensing it out because it is in CWIP. But the good part is that the salicylic acid plant where it hasn't come into sales much, but the entire cost is being expensed out as of today. In fact, for the last 5 quarters, we have completely expensed out the cost as far as salicylic acid plant is concerned. So once that goes in profit, definitely, it will help in improving the EBITDA margin by almost around 1% at the company level, I mean.

Dhwanil Desai: Got it. So what you are saying is that there is a potential, but you are currently guiding for 15%, 16%, right?

Adhish Patil: Yes, yes. Correct.

Dhwanil Desai: Okay. And one more question on salicylic acid, you mentioned that 800 tonnes with the lower prices that China is dumping at, we will do breakeven. But I'm sure that all endeavors are to, again, at least get to that company level EBITDA margins. So is it fair to assume that without antidumping duty, difficult to get to that 14%, 15% EBITDA margin in salicylic acid?

Adhish Patil: Yes. So one thing is that as of now, that you already factored into our financials is whatever EBITDA margin we are showing right now is with the loss of salicylic acid. That is one thing.

Secondly, yes, just under standalone basis, for the salicylic acid project, thing is right now, we are talking about 800 tons, but the final aim is going to 1,600 tonnes per month. So when we reach at those levels, 1,500, 1,600 tonnes per month, definitely, we feel that the margins will look much better. And typically, what we have seen that when we start manufacturing a product day in and day out in a dedicated facility, then we get a lot of new things to reduce the cost. But right now, what is happening because of the equipment, we were not able to run the production smoothly in a continuous form.

And that is the reason why we are not able to bring in the cost reduction efficiencies in salicylic acid as of now. But we are confident that once we reach that 1,500, 1,600 tonnes per month kind of the level, then the company-level margins should come in. And having said that now, what we feel that as of now, see, China, even from January to July, in this period also, they have further reduced salicylic acid price by around 6%, 7%. And that is only to discourage the Indian manufacturers from producing.

But fortunately -- see, had we been the stand-alone company, manufacturing only salicylic acid, it's going to be a problematic situation for us. But we have such a big product basket that the other products can easily absorb the loss of salicylic acid as of now. So as soon as we break even, we will be in much better position at the company level. And then from that point onwards, when you go to -- till 1,500, 1,600 tonnes per month, we will be even better.

And there is always a scope of salicylic acid derivatives manufacturing because in India, most of the companies are manufacturing the derivatives of salicylic acid and exporting it to the world, export, that has a lot of export potential. So that is always there. But as of now, we are not focusing on that because, first of all, we will try to focus on selling salicylic acid to those Indian customers. And if that doesn't work well, then we have an option to go for the derivatives.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we'll take this as the last question for today. I would now like to hand the conference over to the management for closing comments.

Adhish Patil: Thank you, everyone, for joining us today on this earnings call, and we hope we have been able to answer to most of your questions. We appreciate your interest in Aarti Drugs Limited. If you have any further queries, please contact SGA, our Investor Relations Advisors. Thank you.

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

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