



November 04, 2024

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

SCRIP CODE: 543748

Dear Sir/Madam,

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

**Sub: Transcript of Q2/H1 FY25 Earnings
Conference Call**
**Ref: Regulation 30 of the SEBI (LODR)
Regulations 2015**

Please find enclosed herewith the Transcript of Earnings Conference Call held on Monday, October 28, 2024 on the Audited Financial Results of the Company for the Q2/H1 FY25.

Kindly take the same on your records.

Thanking you,

Yours faithfully,
For AARTI PHARMALABS LIMITED

HETAL GOGRI GALA
MANAGING DIRECTOR AND VICE CHAIRPERSON
DIN: 00005499

Encl.: a/a.

AARTI PHARMALABS LIMITED

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Aarti Pharmalabs Limited
Q2 /H1 FY25 Earnings Conference Call
October 28, 2024

Moderator: Good evening ladies and gentlemen, and welcome to the Aarti Pharmalabs Limited Q2 & H1 FY2025 Earnings Conference Call hosted by Valorem Advisors.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

Anuj Sonpal: Thank you. Good evening everyone and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. On behalf of Aarti Pharmalabs, I would like to thank you all for participating in the Company's Earnings Call for the Second Quarter and First Half Financial Year 2025.

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

Let me now introduce you to the Management participating with us in today's earnings call and hand it over to them for opening remarks. We have with us Mr. Rashesh Gogri – Chairman; Mrs. Hetal Gogri Gala - Vice Chairperson and Managing Director; Mr. Piyush Lakhani - Chief Financial Officer.



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

Rashesh Gogri:

Good evening everyone, and thank you for joining us on our post result earning call for the quarter and the half year ended September 30th, 2024. Our results have been uploaded on our website, and I hope you would have got a chance to go through them.

Let me provide you with the business highlights. The company operates in three distinct areas within the pharmaceutical industry - Xanthine derivatives, API Intermediates and CDMO/CMO.

The Xanthine derivative segment contributed 45% of the turnover in Q2. The market is still witnessing strong competition from China. However, our long term partnership with the global giants and our position as a dominant Indian player help us maintain strong position in this segment globally. For Q2, our Xanthine delivery derivatives facilities have operated almost at the full capacity.

The API and Intermediate business contributed 51% of the turnover in Q2. The sub segment breakup of this business is 43% regulated market, 46% ROW of the market and 10% non-regulated market.

The third segment, CDMO/CMO has contributed 3% of the turnover in the quarter. We are presently working with 19 customers on 55 projects, out of which 28 projects are in the commercial stage at the customer's end, and 27 are at the different stages of development at the customer's end. This highlights our presence in late phase projects. Typically, the orders in these segments are multi-stage products for which lead time is very long. CDMO/CMO segment does not have uniform sales across every quarter because of these lead times. There are few high value orders for which the delivery is scheduled later in this year. It is likely that the revenue realization of these orders in hand might get extended beyond current financial year. However, in medium to long term, we have no doubts about long term prospects of this CDMO/CMO business, given our strong R&D focus on robust scale up and manufacturing capabilities, we should be able to deliver strong growth in this segment.

Let me now share the key financial highlights on consolidated basis for H1 FY25:

I am pleased to announce that in H1 FY25 consolidated top line was Rs.1014 crore, which was 13% higher Y-o-Y basis. For the H1 FY25, the consolidated EBITDA from the operations was Rs.197 crore as compared to Rs.174 crores in corresponding period of the previous year. That is an increase of 13% Y-o-Y. The consolidated PAT for the H1 FY25 was 110 crores, 11% higher year-on-year.

I will now share the progress update on the key expansion projects. We had announced the capacity expansion of Xanthine derivatives in Q4 of last financial year to achieve a total capacity of 9000 metric tonnes per annum. Till now, we have been majorly focusing on non-pharma application of Xanthine derivatives. But going forward, we plan to target the pharmaceutical market also for which we shall file for the regulatory approval for US and Europe market in this year.

The expansion of semi commercial production of USFDA Intermediate unit at Vapi has been completed and currently undergoing the trial production. With this expansion, we have bridged the gap of small and medium batch size and will be able to offer gram scale to ton scale in CDMO/CMO business.

The solar energy project at Akola in Maharashtra has been commissioned successfully towards the end of Q2 FY25 and we foresee the project to deliver good savings in terms of our energy costs in the second half of this financial year.

The green field project at Atali for CDMO/CMO and intermediate manufacturing is progressing well, and we expect the commissioning of the site to happen by Q4 FY25.

We are optimistic about the future prospects, and we maintain our guidance to achieve the EBITDA growth of 10% to 12% in FY25 and long term goal of about 15% annual growth in next year. I will now request moderator to open the forum for Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: So two questions from my side. So, first on the API intermediates division. Can you share your thoughts with respect to the outlook on the API industry, your numbers suggest the business environment seems to be improving, and we are able to combat the Chinese competition also quite strongly. And secondly, the CDMO business, as you mentioned in your initial commentary, that the revenue recognition might get spill over to FY26. So taking lead from last quarter's call regarding 25% growth on FY24 base, how would you revise your guidance for the current year on the CDMO front, these are my two questions. Thank you.

Rashesh Gogri: API and Intermediate business as such, we have had good financial year this year, and we are seeing new products of our customers with whom our API is linked for the final formulation, getting commercialized for the coming period. With that we see, despite pricing pressure overall growth in the overall business for us. And in case of CDMO/CMO, as I mentioned that these results quarterly will vary from one quarter to the other quarter. Due to long lead time, and long gestation, certain products have lead time of almost seven, eight months and it can get up and down by a couple of months, due to which we may have a deadline of one year

which can get spilled over and stuff like that. But overall, we should look at this business as a strong business for us. We have a great pipeline. And as you would have seen, we have 55 projects with which 19 customers are, and we are hopeful to add many more in the second half of this year. And with that, our conviction is very good for this business growth. Overall, the number that we had earlier mentioned about the 25% growth, we are pushing our team to get that growth. But however, this shift by one or two months can change that number by 5% to 7% also on the lower side.

Dhaval Shah: And just reconfirming the CDMO number last year was 250 crores, right?

Rashesh Gogri: Last year was 167 crore.

Dhaval Shah: Okay and sir this lead time is because of some more steps being given to us in terms of the entire?

Rashesh Gogri: Exactly. So, what has happened in certain projects, we have been doing the RSM production also, and the GMP production also. So there are five, seven stages, and then there are multiple products, ultimately culminating into two or three GMP steps. So basically, we end up doing almost seven, eight stages in single, single stream. However overall for us it's a great value addition to do multiple stages. It gives us lot of control and for the customer, they don't have to go to different suppliers to get their KSM and get their GMP material. Overall, it's a very positive site for the company, because our engagement with the customer is not only for the GMP but also for the KSM.

Dhaval Shah: Got it. Last question of the API side, you mentioned the customers product has been commercialized in the market, and that's where we are seeing this volume growth coming in, is my understanding correct?

Rashesh Gogri: Yes, so we have had in the general APIs as well as the specialized APIs as well, approvals that have come through in this year, and for which we are seeing strong growth over. So our number for regulated and semi regulated markets have improved significantly over last year, and overall numbers, we are not as much bothered, because the non-reg market overall profitability is anyway lower. So the idea is to increase more engagement with the customers on the regulated side and semi regulated side. We also had a Brazilian inspection authority and visa inspection which was cleared by the company with zero observation. We have more than 11 product approved for the Brazilian market.

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

Dhwanil Desai: So my first question is on the gross margin side. So, despite lower contribution from CDMO our gross margin on standalone has improved significantly on Q-o-Q basis. So is this largely because of the higher API contribution or anything else that we need to read into this number?

Rashesh Gogri: Overall on the standalone basis, for the first half and also for the current quarter we have improved our gross, 21% has become 23% EBITDA margin. And at the gross level it has come to 55%, so it is because of the better product mix and overall more regulated focus that we have had in this current quarter.

Dhwanil Desai: Okay, got it. Sir second question on Xanthine, so if you can talk a bit about, how things are shaping up in the market in terms of demand, supply, any changes in the pricing competitive intensity, since we have large CAPEX coming up on that, and how are we progressing in terms of kind of customers for the upcoming capacity that we have on the Xanthine side?

Rashesh Gogri: In Xanthine as you know we have announced 9000 metric ton CAPEX, and it is going to be in two phases. So the first phase will get operationalized much faster, and then second phase. So there are two facilities which we are upgrading for achieving this capacity. So, in two phases we will have more capacities faster, so more capacities will come from the current level and then further it will enhance to the 750 tonnes per month capacity. Overall, the market is divided, if you consider there are three segments of the market. So the spot market is quite brutal, but whereas the pharmaceutical market, as well as the large consumers market, where all the suppliers have a long term understanding, remains intact, and that's what we have mentioned on my opening remarks, also that we are quite confident of our participation more and more towards these markets, and we are confident of protecting our overall margins for the caffeine business. And as I have already mentioned, that we have operated the plant at near full capacity for this current quarter.

Dhwanil Desai: Okay. And one more question I will come back in the queue, is that in general what we are hearing from lot of CDMO players is that, due to this Bio-secure Act lot of traction in terms of the business development and project awards. So for us, are we seeing any significant changes in terms of either the order value or the kind of number of molecules that our customer is willing to now work with us on that, any qualitative color on that because of this change in that environment?

Rashesh Gogri: Essentially, first if you take up the entire CDMO/CMO, the way in which the business progresses is that, first is the engagement with the customer, then it follows with the customer visit, then RFP process, then there will audit process, and then there will be a initial ordering and then you will get commercial. So these are having five, six stages the way in which the entire CDMO/CMO business progresses. And we have seen more engagement with the customers, we have seen more visits, we have seen more RFPs coming to us because of the engagement,

and all these things have started flowing, and it will culminate into more better projects getting added for us in future.

Hetal Gogri Gala: From existing customers as well as new customers.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: My question was on the CDMO/CMO side. So, as you were saying that, you have started doing more reaction steps starting from case and kind of steps. So does it mean that, our margins in the CDMO/CMO segments will increase further given the more reaction steps involved in the production?

Piyush Lakhani: Basically, we can think of us like a services company.

Rashesh Gogri: Basically, the margins will improve as we do more and more stages, and as we move nearer to the final API manufacturing for the CDMO/CMO segment. So the margins regulatory starting material to key starting material to regulatory starting material to GMP to API, keep on increasing. As the number of steps and complexity increases, the regulatory requirement increases overall. But of course, the margin profile is dependent on the occupancy and the number of stages that we do. So there could be some project, which is in KSM where we end up doing multiple stages where the margins can be higher, but it can be lower for the GMP also, if it is only one or two stages. But overall, given our understanding of regulatory requirements and our USFDA compliance facilities with the GMP compliance, we have started to do more GMP steps, also an API as well in future for the end consumers.

Ankit Gupta: Sure. And sir on the Atali side, when is the Atali expected to start operations and given when we need to do validation batches, and get approvals from regulatory authorities like USFDA, so when can we expect Atali to start contributing to our growth on API and CMO/CDMO side?

Rashesh Gogri: Any greenfield side like Atali, we will have to give a year for it to stabilize and 2025, 26 would be a year of getting all the facilities started. So it will be not a single day we can start everything, it will be a phase manner we have to transfer the projects from other sites as they grow in the size and all that process also takes time. So overall, 12 to 18 months once we start next year and then a half year after that we would see Atali site getting fully operationalized and utilized. So, from today it can be 24 months.

Moderator: Thank you. The next question is from the line of Deep Gandhi from Ithought PMS. Please go ahead.

Deep Gandhi: Sir first question I had was a follow up to the previous participant's answer. So can you give us some quantification about how much of our Xanthine revenue comes from the spot market and how much comes from the long term?

Rashesh Gogri: For the Xanthine?

Deep Gandhi: Yes.

Rashesh Gogri: We are not giving this split currently.

Deep Gandhi: Okay. Sir my next question is about the CDMO. So we have guided for around 25%, 30% growth. It might not happen this year, but even for say next year, the current products where you already started shipments, are those products sufficient to achieve those targets or are you also expecting some new products shipment to start for the numbers to be achieved?

Rashesh Gogri: Yes, next year we will have current few overflow projects plus newer projects also for which we already have visibility, because CDMO/CMO market there is always nine to 12 months visibility that we have for the projects, how they are going to shape up if there are bigger projects. We have great conviction that we will grow the segment going forward.

Deep Gandhi: Sure. And sir next question is on the API side, so if you can broadly explain us what kind of, what are the top three therapies in the API, the revenue contribution from those therapies. And also related question, what would be our revenue contribution from the top three customers in API segment?

Rashesh Gogri: We have anti-hypertensive steroids, cortico steroids, as CNS products these three categories are top three categories in which we operate. And top three customer, we may not have too much concentration of the customer, top three customer would constitute to around 20% of the API, 20%-25%, even less probably. So we will have to get back to you with those numbers. But, the customer concentration is not much.

Moderator: Thank you. The next question is from the line of Harshal from Rashi Fincorp. Please go ahead.

Harshal: I just wanted to ask, this CDMO/CMO business will it like stabilize annual, can we see revenue growth in the future?

Rashesh Gogri: Yes, we have already, I have told the guidance which was earlier as mentioned it was +25%, but it can roll over to next year and we have already told that it can be lower than the earlier number because of certain projects getting forward to next year, according to the current situation, but we are fairly confident about the stronger growth next year and years to come for this segment.

Moderator: Thank you. The next question is from the line of Tushar Vasuja from Yogya Capital. Please go ahead.

Tushar Vasuja: I have a couple of questions. The first one is that you mentioned that you are expanding your Xanthine capacity from 5000 tonne per annum to 9000 tonne per annum. So what will be the peak revenue potential once you hit the 9000 mark?

Rashesh Gogri: So, with the 9000 metric tonne capacity we can reach \$100, \$125 million in revenue for this segment.

Tushar Vasuja: Okay. And sir what's the current asset turn for Xanthine?

Rashesh Gogri: Current asset turn, we are not providing this information, but asset turn will improve because this being a brownfield project, overall we see improvement in overall asset turn.

Tushar Vasuja: Okay, sir. And sir on previous calls you mentioned that this entire CAPEX will cost around 150 crores. So does this include the land cost or not?

Rashesh Gogri: Yes, we are taking smaller land parcels, basically which are being Brownfield, these are land parcels which are near our current site, so adjacent parcel. So, overall land component in this may not be more than 10 crores overall.

Piyush Lakhani: So this 150 crores is inclusive of land.

Rashesh Gogri: Inclusive of land.

Tushar Vasuja: Okay, sir. And sir a bit of a broader question in terms of Xanthine. So, what's the entire capacity in the world right now, and how much of it is in China?

Rashesh Gogri: Total world capacity operational would be around 40,000 to 50,000 tonnes and out of which, China would have 70% of the capacity operational. We have 12% to 15% capacity and then balance is in Europe, another 8%, 10%.

Tushar Vasuja: Okay, sir. And sir out of the 70%, 75% Chinese capacity, how much do you reckon get exported? What is the internal consumption of China for this?

Rashesh Gogri: Internal consumption numbers we may not have, but out of which my gut feeling is around 70% should get exported of the 70-75%, that is 50%-55% of the total capacity from China global gets exported.

Tushar Vasuja: Okay. And sir last question, how much of the price is reduced for Xanthine and its raw materials since the peak and how far away are they from there the lowest they have ever been?

Rashesh Gogri: So, how many years you want me to go back because I have seen Xanthine for last 20 years. Of course, the lowest prices that I had seen, it went down to \$6 in past. So currently, of course, they are much better than those numbers.

Tushar Vasuja: Let say in last three, two years?

Rashesh Gogri: No, last three, four years the prices have been much higher. They have been more than double of that number.

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

Nitesh Dutt: First question, in H1 we are at 190 crore EBITDA. So to achieve the 10% to 12% growth guidance, we will need to have roughly 230 crore EBITDA in H2, so just checking if we are on track for that guidance, especially considering that CDMO/CMO some part of it might get pushed out in the next year?

Rashesh Gogri: Yes, we are on track. That's why we reaffirmed our growth numbers in my speech.

Nitesh Dutt: Second question, CAPEX for H2 and FY26 and also related to it, when do you expect the incremental Xanthine capacity to get operational?

Rashesh Gogri: Incremental Xanthine capacity will get operational by end of next fiscal. So we will have, the entire project should complete by Q3 of next financial year. And of course, it may take another six, eight months to completely or two, three quarters for us to completely operationalize. So we will, the project is divided in two phases, and the final phase will get over by Q3 and then we will have two, three quarters for operating the capacity to a significant level. And overall we have invested.

Piyush Lakhani: In H1 we have invested 170 crores in tangible assets and in H2 we might spend additional 250 crores.

Rashesh Gogri: And for next year also we will have another, first half we will do another 150 crores spends.

Nitesh Dutt: H1 of FY26, another 150, that's right?

Rashesh Gogri: Yes.

Piyush Lakhani: No change in the overall plan of spending 550-600 crores.

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

Dhwanil Desai: Sir one question on CAPEX. So once we are done with this Atali and Xanthine expansion, how do we at our CAPEX and would we first prefer to kind of stabilize and ramp up the capacity before doing next leg of CAPEX?

Rashesh Gogri: Yes, so as you know company operates in three segments, so API and intermediate. So out of which the API site is at Tarapur. In Tarapur, we have space for brownfield expansion, for the API capacity and we see in future, good demand of anti-cancer products as well as the API. So we are already on drawing board to further debottleneck these capacities and put up some capacity there. Whereas Atali will largely concentrate on a mix of intermediate as well as the CDMO/CMO, and in this segment it's a large project with 80 acres space. We are just starting phase one, that project will have multiple phases. So with the phase one, we will have 60 reactors are operationalized with +450 KL capacity. And there we have scope to do at every year, one or two blocks of 250, 300 KL going forward, depending on the need of the customer and how we are ramping up our CDMO/CMO business. And in case of Xanthine we will be fully operationalizing the 9000 and further which we don't foresee any immediate action for next few years. We will keep on considering reviewing our strategy of caffeine. And then if there need be, we could think about any future expenditure, but currently I don't feel there would be any need for that particular segment.

Dhwanil Desai: Okay, got it sir. And one more question, slightly longer term question, but this 15% target on EBITDA growth for next three years. Sir, if I look at segment wise, every segment need to grow at much faster than that. And I don't know about the API part, but at least Xanthine and CDMO. And CDMO is a much better margin segment, and you are focusing more on API on the regulated market. So, I am unable to get this, how we will surpass the number that we are projecting 15%, not able to add up on that.

Rashesh Gogri: Next few years, two, three, four years, the numbers we want to be bit cautious on whatever we give the outlook. So, this is an outlook that we are pretty sure that we should be able to achieve with the current business plan that we have, and surpass it in future as you rightly mention that if we add up the number, the number can look bigger, but we don't want to over commit and under achieve.

Moderator: Thank you. The next question is from the line of Advaid, who's an Investor. Please go ahead.

Advaid: Sir, just one question from my side. When I was looking at the inventory days and the absolute value of inventory, it has significantly increased which to an extent as also weighed on your working capital. Is this something that is characteristic for this industry, or is this specific to this quarter, you just highlight that, that will be helpful. Thank you.

Rashesh Gogri: Yes, as we earlier mentioned that CDMO/CMO certain projects which have long gestation, and it is result of that, where we have a significant inventory because we have a sizable order which

will get dispatch in one quarter, so that inventory can come down in that quarter. So that is the reason that we have this inventory built up. But, looking at overall characteristics of CDMO/CMO business in future also, and our appetite of doing multi stage synthesis, we will have this inventory fluctuating to higher number and lower number. And once we have every quarter stabilized number, then we will stabilize some inventory, but the numbers will remain high, looking at our overall appetite for this multi stage synthesis where we do the regulatory starting material also, GMP also, and sometimes we will end up doing API also.

Hetal Gogri Gala: And our own APIs as well intermediates in-house.

Advaid: Thank you. Just one last question, if you could just give us a view of the gross margin profile by segment, that will just be helpful. Thank you, that's it from my side.

Rashesh Gogri: That information currently we are not sharing.

Moderator: Thank you. The next question is from the line of Neha from Abakkus. Please go ahead.

Neha: Sir on the Xanthine part, I wanted to understand that how the average realization have changed versus last quarter in the spot market and the contract market?

Rashesh Gogri: We are not giving absolute numbers of these, but overall the spot market has come down as we compare to last year. Both the markets, spot market has come down more than the contracted market, and we have also reduced our raw material cost. So, that's how we are able to protect our margins in this segment. So that is what I can tell about the Xanthine. We are not dwelling over absolute numbers of either of the segments.

Hetal Gogri Gala: We are continuously working on cost improvements. That will also come, like with bio gas or better efficient boiler and with solar power plant we will have the cost reduced in coming quarters that will also help.

Neha: Okay. And in terms of volume growth, if you can speak about for the current quarter for Xanthine?

Rashesh Gogri: Volume growth current quarter, we had little bit of muted deliveries for one customer, but barring that, overall the production did happen at rated capacity, and it will continue to happen as we have announced the future expansion, currently we are fully utilizing our capacity and there could be one month of higher inventory, but overall we are quite confident of pushing the entire production out in the market of Xanthine.

Neha: Okay. And also on the CDMO front, in H1 FY25 we have almost done about 50 crore for the CDMO and we have reduced our overall guidance for CDMO business from 25% let's say about 20% so, in that case about 150 crore can come in H2 FY25, is that understanding correct?

Rashesh Gogri: Yes, so we are not dwelling on absolute number, here you can get to those numbers yourself, but we will have significant deliveries happening in H2 and anyway from whatever our earlier guidance and today's discussion that we had, those kind of numbers are possible.

Neha: Okay. And sir when you mentioned about the lead time being higher, does it mean that, since there are various steps involved in a particular step it took more time, and that's why that has pushed the overall timeline for the project?

Rashesh Gogri: So there have been instances where there was extension because of these kind of projects. There have been some projects which have been little bit pushed down. So, it is two such issues which have overall impacted the numbers on the CDMO/CMO side.

Neha: And sir certain projects being pushed down means what?

Rashesh Gogri: They have been delayed by one or two quarters by the customer because of overall their inventory management and for the commercially running products basically.

Moderator: Thank you. The next question is from the line of Rupesh Tatia from Intel Sense Capital. Please go ahead.

Rupesh Tatia: Sir, I understand you don't want to give gross margin by segment, but can you maybe rank them between one to three, which is the highest gross margin, which is the lowest gross margin between our three divisions?

Rashesh Gogri: Yes, so highest would be CDMO/CMO, then API and then Xanthine. And overall gross margin this time was 65% gross margin. So they range between 35 to 65, across all the segments.

Piyush Lakhani: Yes, 35 to 65.

Rupesh Tatia: Okay. And then for other question, in CDMO is all of our CDMO project are with innovators, innovators products, basically products which are under patent or under development, or is there some generic CDMO also there?

Rashesh Gogri: No, we are working with 19 customers, and the projects that we do, almost 90% of them are with the innovator. So we have, couple of one or two generic very small value. So, we have largely innovator work that we do.

Rupesh Tatia: And maybe can you tell me how many of them are phase three, and how many are commercial, some rough idea?

Rashesh Gogri: So we have 28 of them which have been commercial projects, and 27 are developmental projects. So we are working on 55 projects with 19 customers.

Rupesh Tatia: So my question is, with 28 projects our commercial revenue is actually very small. So is it like we are like a second source supplier in the innovative product for these commercial products?

Rashesh Gogri: So if you would see, in last couple of years we have built up the pipeline. And with this pipeline, the innovator doesn't make the product every year. They have alternate year production and stuff like that. First year they will take initial validation work, and then they will give certain quantity and then the third campaign they will give us more quantity. So we are in that progress of the cycle of management, of the supplier by the innovator. So once we are fully on boarded, we expect more stable revenue from each and every projects that we have.

Rupesh Tatia: Sir maybe the other way to ask is, build in-house?

Rashesh Gogri: Yes, let me just add the way in which we classify is that 28 projects are commercially so the projects have been launched commercially by the customers in the market. Whereas 27 projects are in various phases, phase one, two, three of the clinical phase. So in the 28 projects that we are doing, we have certain projects where we have just entered, we have certain projects where we have supplied validation quantities. We have certain projects where we have done only one time supply, and certain projects we have supplied in one year, one year there was break, and now it's the third time that customer would buy. So there are several such examples of how this business operates.

Rupesh Tatia: So, the other way to ask this question is, out of these 28 commercial molecules of projects, in how many we are single source supplier?

Rashesh Gogri: No, we may not be single sources any of them. So, innovators are quite diversified, they have supply chain strategy, and they never have single source.

Rupesh Tatia: And then maybe the final question is, in this commercial plus development, can you give some idea about the total revenue potential of end customer in the projects, is it like 1 billion combined, each project is like \$50 million or is there some molecules which can go on and become very, very large?

Rashesh Gogri: So with the current visibility that we have and the numbers that we have from the customers, there is potential of these projects becoming quite large also in few cases. Absolute number can vary, but a range could be 25 to 50 million also possible, if the product gets matured and we are able to satisfy the customers need and service the customer in a proper way. Those kind of potential projects are also there in our pipeline.

Moderator: Thank you. The next question is from the line of Deep Gandhi, from itthought PMS. Please go ahead.

Deep Gandhi: Sir my question is again on the Xanthine. So you mentioned that once you reach the full utilization for 9000 tonnes, the potential revenue could be around 1000 crores or \$125 million. So sir currently, when you are at say, full utilization with 5000 tonnes capacity, you are already doing 800 crores. And if I say, assume even 20% drop in realizations from here, the revenue should be around 1200 crores. So, I am not able to understand this mismatch and are you expecting even higher drop in realizations than 20% or what is the mismatch here?

Rashesh Gogri: Yes, those numbers are all speculative numbers. So, the number range I would like to widen from \$100 to \$150 million anything can happen with the 9000 metric tonnes. It can go higher also.

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

Nitesh Dutt: Sir my question is, in FY26 our Xanthine capacities, the expansion would not be coming on stream. Similarly, Atali would not be fully ramped up, so for FY26 which segment will do the heavy lifting in terms of volume growth, or do you expect your product mix pricing and a little bit of CDMO/CMO to drive the growth and related to it, do you expect that FY27 will be doing the bulk of heavy lifting in terms of achieving your 15% CAGR guidance or FY26 can also see similar kind of growth?

Rashesh Gogri: FY27 would be the year where bulk of the capacity will get operationalized. And FY26 definitely as you said product mix. But of course in phase one of our Xanthine will get operationalized in the second half of next year and which will be utilized. And then by the end of the year, we will have full operationalization of Xanthine. But Atali, we expect to fill it with the intermediate operations for the generic industry also to start with so that we can, utilize the capacity. But, as you rightly mentioned, more contribution and meaningful margins can be driven only in the FY27 for these two expansions that we have done.

Nitesh Dutt: Sir any qualitative guidance you would have or any idea about FY26 numbers similar to how you have separated it for FY25?

Rashesh Gogri: We would give that guidance in Q4 call probably once we have the budget and everything currently, of course we have broader numbers, API segment with the capacities getting utilized there we expect the growth to come because the facility, the expansion was done couple of years back and those capacities are getting occupied and then we are also debottlenecking one or two lines to enhance the capacity so, that facility can do some increase in overall production.

Moderator: Thank you. The next question is from the line of Tushar Vasuja from Yogya Capital. Please go ahead.

Tushar Vasuja: Sir you said that you would focus more on the pharma side of Xanthine now. So how was your realized margin for pharmaceutical Xanthine as compared to beverage?

Rashesh Gogri: Similar or better. So in pharma side, we will focus on the regulated markets, and the overall pricing that we expect from this segment being regulated will be better.

Tushar Vasuja: Okay, sir. And sir you said that you will apply for regulatory approvals in the coming quarters. So what is the current distribution for beverages and pharma, and how will it change once you get the approval?

Rashesh Gogri: See, currently we have been focusing more on beverages and spot market, but now the pharma market, eventually we expect once we ramp up the capacity, 20%, 25% of our overall capacity, we want to push to the pharma segment, 20% in the regulated space and 5-10% in non-regulated space. So with that, it will stabilize the margin profile also.

Tushar Vasuja: Okay. And sir what will be the timeline for you to get all the required approvals?

Rashesh Gogri: No, so that's why, basically we are doing the brownfield expansion at the current site. So as we mentioned on the call during my speech, that we will file later in the current fiscal only the USFDA DMF as well as the EUGMP CEP application, so we expect both approvals and the triggering happen in next year.

Moderator: Thank you. Our next question is from the line of Advaid who is an Investor. Please go ahead.

Advaid: Just one thing is, if you could just give a perspective about what's happening from a pricing perspective, versus last quarter and same quarter last year, as far as Xanthine is concerned, because in the last concall you had mentioned about there being pricing pressure given the supply, if you could just give us a perspective on that, that will be helpful.

Rashesh Gogri: As we have mentioned that the spot market has deteriorated because of the excess Chinese capacity. And, unregulated players in China have been dumping the product in the market. So whereas overall, large contracts are also under pressure but, margins are intact because, they definitely follow the raw material cost model. And the way in which the pricing happens is largely basis cost. Of course, it's a negotiated number, but still there is some logic there. The way in which, the strategy that we have is that, how do we go away more from spot and move towards more long term market and regulated market, and which can give us stable margins and we don't have to fight on the spot side.

Advaid: Thank you, sir. And just one last question from my side, primarily within the Xanthine segment do you cater to the local Indian customers, or it's primarily exports that's the other one?

Rashesh Gogri: Yes, will cater to all customers, in India also there is regulated market customers, there are a lot of Paracetamol, caffeine combination API formulation being manufactured in India and getting exported worldwide in Europe as well as the US market. So we will definitely target all regulated markets. There are marquee customers also in India and globally, large multinationals who also have OTC presence and across the world, and they also require regulated DMS and CPS and stuff like that. So we will be catering to all those markets, and that catering can start in the current half only because it's of course a couple of quarter qualification, other approvals and by that time our capacities will also come on board. So we will be able to start supplies as soon as we have the capacity.

Advaid: Got it and presently, the exports are they more than 50% as far as Xanthine is concerned, specific to Xanthine?

Rashesh Gogri: Yes.

Piyush Lakhani: More than 50% is export.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. As there are no further questions, I would now like to hand the conference over to the management for closing remarks.

Rashesh Gogri: Yes, I would like to thank all of you for joining our call and Happy Diwali. Thank you.

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