NGL Fine-Chem Limited

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December 17, 2019

To,

Department of Corporate Service (DCS-CRD),
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001.

Sub: Transcript of Concall with Investors held on 13th December, 2019.
Scrip Code: 524774

Dear Sir,

We enclose the transcript of Concall with Investors which was held on 13th December, 2019. Kindly take the same on your record.

Thanking you,

Yours faithfully,
For NGL Fine-Chem Ltd.

NGL FINE CHEM LIMITED

Pallavi Pednekar
Company Secretary/ Compliance Officer
Membership No: A33498

Encl: As Above.

"NGL Fine-Chem Ltd H1 FY19 Earnings Conference Call"

December 13, 2019

MANAGEMENT: MR. RAHUL NACHANE – MANAGING DIRECTOR
MR. RAJESH LAWANDE – WHOLE-TIME DIRECTOR & CFO
MS. PALLAVI PEDNEKAR – COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to the NGL Fine-Chem Limited half yearly discussion conference call.

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, please signal an operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference to Ms. Pallavi Pednekar. Thank you and over to you, ma'am.

Pallavi Pednekar: Good evening everyone and a warm welcome to you all. My name is Pallavi Pednekar – Company Secretary, NGL Fine-Chem Limited. On behalf of the company, I would like to thank you all for participating in the company's conference call for the half yearly financial results for FY19-20.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's 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 the information currently available to management. Audiences are cautioned not to place undue reliance on these forward-looking statements and making any investment decisions. The purpose of today's conference call is purely to educate and bring awareness about the company's fundamental business and financial results for half year ended on 30th September 2019.

I would now like to introduce you to the management participating with us on the call. We have with us Mr. Rahul Nachane – Managing Director of the company and Mr. Rajesh Lawande – Whole-time Director and CFO of the company. Thank you and over to you, sir.

Rahul Nachane: Good afternoon to all of you.

With regard to the H1 2019 Results, I have some opening remarks to make after which we will take questions from the participants in today's call.

To begin with, let me give you an update of what is happening with regard to the CAPEX undertaken by the company. The brownfield expansion at Tarapur which was commissioned in February 2019 is now in operation. In the pharma industry, whenever there is production from a new facility, we have to undertake validation batches and subject them to stability studies prior to selling the produce into the market. These validation batches are being undertaken for 4 products and are at different stages currently. We anticipate that the validation process and stability studies will be completed by the end of this financial year.

With regard to Macrotech which was acquired by us in May this year, we have commissioned this plant in October 2019. Production has commenced and we expect this plant capacity utilization to go up to at least 50% by next year. In the recent quarter ended 30th December 2019, we have seen a decrease in the margin and profits for the quarter while sales have decreased by 6% as compared to the last year.

The main reasons for lower performance in the current quarter are as follows:

With regard to lower sales, we have been constrained in procuring some key raw materials and have seen sales drop of almost 4 different products due to low or no availability of raw materials. This problem has continued during the current quarter. We have been able to make some alternate arrangements, but these will have an impact only in Q4 this year – impact on profitability.

Raw material costs: Raw material costs have risen by 1%. There has been some increase in a few items, and this is cyclical in nature.

There has been increase in operating expenses. Major items have been salaries, repairs, electricity, and fuel which together have increased by over 7%. Our employee strength has gone up with the new plant while revenues have not yet started flowing in. The same holds good for electricity and fuel expenses. The fixed costs have gone up while proportionately the revenues have not started flowing in. This imbalance is likely to continue for a few more quarters. However, the basic business model remains strong and we anticipate that sales growth will pick up substantially in Q4 this year.

We will now take up any questions that you may have.

Moderator: We will now begin the question & answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, I have a couple of questions. On the margin side, you did mention there is an increase in salary and electricity and a lot of it also is concerned with the plant where the utilization is not yet started. Is there any one-off kind of stuff in any of these expenses which probably could not recur going ahead?

Secondly, on the brownfield expansion, you mentioned about validation batches being taken and it being completed in this financial year. So, when do we start the commercial production on this brownfield expansion and what kind of capacity utilization do we see in the next year, i.e., the financial year FY21?

Rahul Nachane: With regard to the margin decrease and the increase in expenses, especially operating costs like salaries, electricity, and fuel, there is no one-time cost which has taken place. There is no significant occurrence, but there has been an increase in the total number of people which we have employed because when the plant goes into validation, we need to staff it on all 3 shift basis. We can't do it partially. And at the same time, while the salaries have started hitting the revenues, there is no incremental revenue coming in right now. This, I think, is something which will probably be a few quarterly phenomena. As the capacity utilization starts going in, we should start seeing this panning out.

Your second question is that you said when will this validation get over and capacity utilization start going up? We anticipate that capacity utilization stood…. Out of the 4 products which we are doing right now, we are almost through with one and the other three are also in various stages of completion. All this will get completed by the end of next quarter but we should see some partial increase in revenues coming in from the middle of next quarter. Having said that, the first full year where the entire plant will give its benefit would be basically '20-21.

Rahul Jain: What kind of capacity utilization can we expect in FY21 form this?

Rahul Nachane: Between 40% and 50%.

Rahul Jain: Sir, with regards to the new product launches, can you share some more details on it?

Rahul Nachane: The new products which we are doing, essentially there are 4 new APIs and we had done validation batches for those earlier, but since it was done in a different plant, customers have requested the same validation to be done in the new plant all over again. So, as I said, they are in different phases of completion and in the next 3 to 4 months, we will complete all of them.

Rahul Jain: Sir, with regards to margins, assuming the capacity utilization picks up in say slightly in the 4th quarter, because we have generally maintained that our margins can be in the range of 18% to 22% and for September quarter, we have had a very drastic fall. So, when do we get back to say 18% to 22% margins, in that range?

Rahul Nachane: I think mid of next year, we should be back to that level.

Rahul Jain: So, somewhere around quarter 2 of FY21. Is that a correct assumption?

Rahul Nachane: Yeah.

Rahul Jain: My last question is with regards to top line. This quarter, we understand because of raw material issues, sales have been impacted. During the AGM, we had talked about 10% to 15% growth in the top line in this year. Looking into the current quarter's performance, can we assume that this year we will be somewhere near flattish kind of top line as compared to the last year?

Rahul Nachane: No, we are still aiming for at least a 10% growth over the last year. That particular aim hasn't been given off.

Rahul Jain: And probably a much better growth in the next year to come?

Rahul Nachane: In the next year, yeah.

Moderator: The next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Sir, if we look at the product basket, it is around I think 20 to 22 products. The 4 new products that you mentioned, are these over and above these 20 products or are these the same old products which we are validating in our new plant?

Rahul Nachane: Out of the 22 products which we are doing, we are already into commercial production in eighteen for the last probably about more than 3 years. Four of them are being done right now. So, total basket will be 22.

Yogansh Jeswani: I think somewhere we had mentioned also about entering into poultry segment with this new plant coming up. Any of these 4 products are part of that poultry basket or is it the same old API that we have been doing?

Rahul Nachane: Two out of these four are poultry products.

Yogansh Jeswani: Sir, how different is the margin profile and what can be the potential of these poultry products from what we have been doing so far on the older products that we have?

Rahul Nachane: Poultry products typically are lower cost products because the bird-to-market sort of a cycle for birds is far lower as compared to mammals. So, people can't afford to have very expensive medicines going in. So, these are typically a little lower cost and lower margin products but you get much higher volumes in those.

Yogansh Jeswani: Going forward, for filling up the capacity, do we plan to bring in more of poultry side of the products or the ones where we have seen good (+20) EBITDA margin kind of molecules?

Rahul Nachane: We are testing the waters. So, we are not very sure about how this poultry business will go because we never as a company really done low-margin high-turnover products. So, we will test it out and see how it goes over the next 1 year before we start committing more to those range of products.

Yogansh Jeswani: Sir, basically, if we try and understand with this new production capacity that we started in February, what can be the kind of revenue contribution that we should expect going forward once this validation process is completed and we start working on a full swing. What kind of revenue contribution as well as margin profile from this plant should we expect?

Rahul Nachane: We have right now done CAPEX which is good enough for us to take our turnover to between 250 and 260 crores.

Yogansh Jeswani: And margin profile, sir?

Rahul Nachane: Margin profile as I said earlier that industry specific is between 18 and 22. That's what we have over a long-term period attained. Some months have been better, so we have gone to probably even 25-26 also. Some quarters have been worse where we have dropped down to 15-16. But on an average, overall 18 to 22 is what we think is maintainable over a period of time.

Yogansh Jeswani: Basically, if I understand it right, I think this new plant can take us through to 50 to 60 crores and in terms of product profile, we are checking with the poultry in terms of what can be the opportunity, but more or less, we will stick to our older product basket of 20 to 22 that we currently have, right?

Rahul Nachane: Correct, yeah.

Yogansh Jeswani: And markets would be, again, we will be more focused over the export like how we have been in the past; 70 export, 30 domestic; or do we plan to change that mix?

Rahul Nachane: No, that sort of a mix will continue. 75:25 is the mix traditionally which we have had, 75 export and 25 local, I think we will be able to meet that same sort of a mix.

Yogansh Jeswani: Sir, one question on the inventory side. In September balance sheet, we see the inventory a bit on the higher side. Is there any specific issue on that?

Rahul Nachane: Yeah, because 4 products are into validation. So, all the inventory is slow moving for those.

Yogansh Jeswani: So, we can see this going back to the normalized level….

Rahul Nachane: March and June next year, between those months, this particular inventory buildup will start getting liquidated.

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

Dwanil Desai: Two questions Rahul from my side. First one is on the gross margin. I think we have been managing our gross margin between 58% to 60% because of the multiple TAT processes that when undertaken and fairly complex reaction. With that kind of high-volume products on the poultry side that we are targeting which can have a very large volume and large value but the complexity may be less, do you think our gross margin profile may change over a period? May not be immediately, but as the contribution from those kinds of products increase? Any thoughts on that?

Rahul Nachane: Out of these products which we are doing, only two are poultry. So, we don't anticipate an addition of more than about 10% of our sales coming from poultry right now, at least for this year and going forward for the next year also. In fact, this year, it will be probably less than 5%. Next year, probably it will go up to 10%. Having said that, there is no great dependence which we have got on poultry, and as I said, we are just testing the market out to see how this will fit into our overall product mix and the strategy which we have adopted. There are 2 factors which are led us to this. No.1 is that poultry is the fastest growing meat market now in the world and therefore, medicines for this meat market are also growing faster. So, it is just a question of trying to see how we can fit into that market and how it is able to pan out for us because again, there are a couple of unique things in this market. No.1 is that a lot of companies do not do their own formulations. They prefer to buy out the formulations. So, what we have done is, we have also started a feed division now in which we will do the poultry mixing and then sell it almost as a finished product. These are things which we are still trying to see how the market will shape out for us but it is not significant volume or business as of now. So, whether this will have an impact on margins going forward is really to me doesn't seem to be as any significant factor.

Dwanil Desai: Second question is, from your commentary what I understand is that largely it is a – barring poultry products – similar kind of mammal-related APIs selling to the same customers from new plant. So, how do you see the market opportunity? I understand the validation batches and the process and time it takes but in terms of your ability to market the additional quantum – I am sure you must have talked to customers and posted this whole exercise would have been undertaken. Any thoughts on how really difficult it is to absorb the new capacity in the current market?

Rahul Nachane: I think we will get to at least 40% to 50% capacity utilization for this plant by next year. So, that should add a decent amount of this thing. So, we should be back to probably that 20% growth which we typically have had over the last so many years, in '20-21.

Dwanil Desai: Basically what I wanted to understand was that I think most of the times when in AGM we interact, generally the sense that we get is that market is not that big a problem. Generally, we are able to market well. The same thing continues, right? Even after the new production coming on stream.

Rahul Nachane: We are only a tiny part of the whole market because other than probably the top 3 or 4 products which we do, we are not in a leadership position in any of the rest. So, there is ample space for us to take market share from other companies which are doing these products.

Moderator: We will move to the next question. The next question is from the line of Umang Shah from SAIF Partners. Please go ahead.

Umang Shah: You mentioned that in some of the other products, you are not the market leader. What is the strategy around gaining market share given that there is an ample customer stickiness in the products which you guys deal in?

Rahul Nachane: We have our entire marketing strategy over 3 core ideas which we hold. The first is that we believe that we should give the best possible pricing to the customer. So, we have to be very cost competitive in whatever we offer given the fact that we are in a B2B business. The second foundation stone is that we should deliver the best quality possible to the customer not only in terms of the end product but also in terms of the entire manufacturing process. So, the product quality has to be something which is not an afterthought, but it is something which is guaranteed because of the entire quality policy and quality philosophy which we follow. And the third part is reliability that given a commitment to a customer, we have to stick to it no matter what happens. And these 3 things we have found have stood us in good stead, and over the last so many years, whatever market we have been able to gain is basically because of these 3 core values which we have.

Umang Shah: If you could dwell a little deeper on what makes us cost competitive, what helps us deliver low cost to our customers?

Rahul Nachane: We have basically bucked the trend in a couple of things. The first is that the industry is right now geared up towards outsourcing more or less. We do not believe in outsourcing much. We believe in insourcing as much as possible because the more you work with the product or a molecule, the better and more expert you get at handling it and handling the various reactions. And the second part is that we invest quite a bit in R&D. Today we have got close to about 28 people working in our R&D team and that investment goes in 2 ways. 1) To improve efficiencies of existing products. 2) To develop new-product-line for us.

Umang Shah: Given the recent times, we would love to hear some commentary from you on the impact with the recent quarters had on gross margins. EBITDA margins have fallen because of capacity utilization being low but what is the commentary on gross margin, sir?

Rahul Nachane: Gross margin has remained unchanged because what happens is, the cost increases basically because of salaries, electricity, and fuel. Salaries have gone up because more people are employed. Electricity goes up because the whole new plant is now operational but hardly any production is coming out from it because you have to operate the entire plant even you have to take 2 batches per validation. And fuel also goes up because of that. These 3 things together with, of course, repairs; these 4 things have accounted for almost a 7% increase. Going forward, as the production starts becoming saleable from this plant, this will start getting absorbed better.

Umang Shah: So, there is no impact on gross margins which you see in current quarter as well as going forward?

Rahul Nachane: No, our existing margins continue to offer the same margins as earlier except the fact that we are battling with increased cost both on account of the new plant which we have commissioned as also on Macrotech which we have commissioned.

Umang Shah: The last question from my side would be that have you seen such quarters in the past as well where availability of raw material has been scarce? Have such quarters happened in the past?

Rahul Nachane: It had happened in 2010, 2012, and 2016.

Umang Shah: What is the strategy on recovering from this? How does this stabilize? How do we start getting raw materials back?

Rahul Nachane: Four products were out, out of which 3 products are more or less back on stream starting this month or more probably from January onwards. The import from China, we have now turned to trying to see how we can get products manufactured here in India now, raw materials. And it has been successful in 3 products. Three products will go into production starting January. One product we still don't have an answer, we are still working on it.

Moderator: The next question is from the line of Shivan Sarviya from JHP Securities. Please go ahead.

Shivan Sarviya: Sir, my question is on Macrotech, the acquisition that we have done. In the AGM, you had said that this is more of a gross margin accretive acquisition and not a topline accretive acquisition. How do you see the benefits coming into the system and by when would that happen?

Rahul Nachane: When we say it is not top line, it is topline negative, in the sense that we are doing a lot of our intermediates ourselves, we don't outsource that. Our plants are all GMP certified, so they have an incremental cost of operation also. The idea was to push out more of our intermediate manufacture to Macrotech so that Macrotech is doing essentially contract manufacture only for NGL and increase the throughput of finished products from NGL. That is why I said that as far as Macrotech is concerned, Macrotech by itself will not generate any sales but it will generate sales indirectly because throughout from NGL will increase.

Shivan Sarviya: But this would have margin benefits?

Rahul Nachane: We are transferring most of the products which we used to do ourselves into Macrotech. It is not that we are switching from products being done from other companies. So, I think it will be margin neutral. It is not really going to lead to increase margins.

Shivan Sarviya: Sir, then what was the actual rationale for this acquisition?

Rahul Nachane: Because we would have fallen short of intermediate capacity for making it ourselves had we kept on making more intermediates ourselves. It would have led to a bottleneck or throttling of output coming from our plant. We hope to probably increase by this acquisition at least about between 15- and 20-crore through put over the next 2-3 years.

Shivan Sarviya: Sir, you spoke about the constraint in the raw material procurement. These raw materials are mainly procured from China?

Rahul Nachane: Yes.

Shivan Sarviya: And sir, you said three of the raw materials you have been able to kind of get an alternate source in India, right?

Rahul Nachane: No, for two, we have got an alternate source in India. For the third, we have been able to get the product from China only now from a different factories. And for the fourth one, we are still lumbering.

Moderator: The next question is from the line of Ayush Mittal from MAPL Value Investing Fund. Please go ahead.

Ayush Mittal: Sir, in line with the reason that you mentioned for the drop in turnover that we couldn't get some RM, I believe you had mentioned that these products we were not manufacturing last year also, something. Is that right? Or there are some more products which have got affected?

Rahul Nachane: One product has been off since February. Another product we got only probably one-fourth of what we required in July-August-September and also in October-November. In one product, again, from June-July it has come down. So, we are out from 1 product for almost about 8 to 10 months but the other two have started essentially from probably June-July or so.

Ayush Mittal: As you have been able to figure out the RM part, you hope to get these back by Q4 that means?

Rahul Nachane: For 2 products anyway we already have built up stocks now of RM. We just got one luckily about 4 days ago in the warehouse now and one more shipment has been done from China. So, next quarter is also looking better for that. Products are more or less back on line now.

Ayush Mittal: But we will continue to see the impact in Q3 probably?

Rahul Nachane: Q3 might be a little less but Q4 will be for sure.

Ayush Mittal: Sir, given that you have mentioned that we have not been able to start production from the new plant that we have started and….

Rahul Nachane: Production is for validation batches. We are unable to sell validation batches because of regulatory requirements.

Ayush Mittal: So, we haven't been able to sell the validation batches and….

Rahul Nachane: Once the batch is completed, we have to do what is known as accelerated stability studies which takes 6 months. Once your product is passed with accelerated stability studies, you file the report with the FDA and then you are allowed to sell. FDA means not FDA USA; I am talking about FDA of Maharashtra.

Ayush Mittal: So, by when do we plan to start the commercial production then?

Rahul Nachane: All the stability studies should get over by in the next quarter.

Ayush Mittal: So, hopefully next financial year, we should be able to start the commercial production from the expansion that we have done?

Rahul Nachane: Yeah.

Ayush Mittal: Anything else that would be remaining after this FDA approval?

Rahul Nachane: No, nothing. We are in the final….

Ayush Mittal: So, customer approval has been done and it is just the FDA approval that you are waiting for?

Rahul Nachane: Yeah, customer approval what we have done is, we have started seeding with samples coverage have come out already. And that is why we hope to get to at least 40% to 50% capacity utilization in the next year from this new capacity.

Ayush Mittal: Sir, I believe this new investment that we have done is more automated and more capacity. Will that also lead us to benefit on the costing and improvement of margins and absorption of all these costs going forward?

Rahul Nachane: That is the intention with which we have done. The intention is to get more stable yield, a more stable input/output ratio, lesser fluctuations in quality so that there is no reworking required. That is the whole idea with which we have done this. But it is a matter of time. We are testing it out for the first time. It has to play itself out over the next couple of years. Only then, we will know whether it is taking us on the right path.

Ayush Mittal: Sir, you had guided that the potential revenue from this whole new setup and what we have is around 250-odd crores. I just wanted to clarify that we are not banking on poultry as a segment broadly. Even if the poultry part gives us say 10% of the revenue, still we are banking on the past products to scale up. Is that right?

Rahul Nachane: Yeah, our bets are still on the mammals, the main veterinary products.

Ayush Mittal: The past products that we have, we already have a good market share in many of them. So, have we been able to tap more customers or is it that the requirement of our customers is good enough to absorb those kinds of capacities and give us the growth?

Rahul Nachane: The second tier of the products where probably which we have launched in the last 5 years, those are coming up now. So, there is a stronger growth happening in those products rather than the ones which are 10 years old.

Ayush Mittal: Sir, any broad thoughts that you would like to share for NGL Fine-Chem that you visualize for the next 3 years or something? The broad growth plan or what do you plan to do for the company.

Rahul Nachane: Right now, we have got one more plant where we would like to take the next level of investment but we will not touch that plant and trigger the CAPEX. It will be a turnover of at least about 200 crores. That is the way we would do it entirely. So, when we get to about 200, we know that the new plant is at least about 40% capacity utilization. It takes 2 years for a new plant to put up. So, by the time the new plant is ready for commissioning, this particular plant will get fully utilized.

Ayush Mittal: So, once we reach some optimum utilization and if new expansion that we have done, then we will kick start the next phase of expansion for which you already have the EC approval at least.

Rahul Nachane: Yeah.

Ayush Mittal: And if we have to start on those things, then it takes about a couple of years to scale up?

Rahul Nachane: Yes, 2 years to set up a plant.

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

Ankit Gupta: Sir, just wanted to understand how much worth is the 4 products for which we have been taking a raw material constraint contributing to our top line last year in FY19?

Rahul Nachane: They would be less than 0.5%.

Ankit Gupta: Just wanted to understand since they are not contributing much, so how….

Rahul Nachane: You are talking about the new products or you are talking about the ones where the shares have gone down?

Ankit Gupta: For the ones where we have lost sales because of raw material constraint.

Rahul Nachane: I was talking to you about the new products. The ones which have done they should be about in my opinion – I am just giving you a very ballpark figure – 10% to 12% of shares.

Ankit Gupta: Any of those products were relatively higher-margin products or they were in line with the company's margin of around 20% to 22%?

Rahul Nachane: Two of them were of higher margins.

Ankit Gupta: So, the impact on margin has been much higher because of loss in sales of these products?

Rahul Nachane: Probably, but it is more because of the increased cost also actually, but yeah because of change in product mix also.

Ankit Gupta: Sir, we have seen NGL ramping up from 60-70 crores sales 4-5 years back to 150-155 crores sales last year and hopefully this year we will reach around 170 crores. In terms of contribution from the new products, I think we have largely been dependent on top 3 or top 5 products which have been contributing. Let's say the top 3 were contributing 45% to 50% of our sales and top 5 would be contributing 60% of our sales, has the incremental revenue which we have seen from let's say 70 crores to 153 crores, has that been on account of ramp up in sales of those top 3 or top 5 products or the new products have also contributed in a big way in this incremental revenues?

Rahul Nachane: Top 10 products are 60% of sales. This is what the number I have got. I don't have the numbers for three right now.

Ankit Gupta: But the new products that we have introduced in the past 3 to 5 years have also ramped up in a big way.

Rahul Nachane: Yes, they are going up in the last 5 years which we have done. The way I would like to put it is products before 2007, products between 2007 and 2012, and products after 2012. Products which were before 2007, we were more or less in a dominating position in the market with more than 50% market share. The ones between 2007 and 2012, we were probably between I would say 25% and 50% market share. And the ones after 2012 to right now, we are below 20% but that is also coming up rapidly.

Ankit Gupta: So, the new 4 products that we are launching from this new plant and hopefully next year our dependence on the top 3 or top 5 products will further reduce going forward?

Rahul Nachane: Yeah.

Ankit Gupta: Sir, can you also talk about the product pipeline? Any new products, how many products are under development, and how many do we plan to launch in FY22 and going forward once these 4 products sales gets stabilized?

Rahul Nachane: We have an internal target of doing between 2 and 3 products every year. That is about 10% product line expansion every year.

Ankit Gupta: We will keep on introducing new products. Let's say the new products will get introduced from FY22 onwards that the new products which are under development now?

Rahul Nachane: Yeah, I would just like to qualify the new product statement a little bit. Those products are new for us, not for the market because we are doing only generic products. Generic products means the products are already in the market. They are new for us because we are doing it for the first time. The whole idea about these products for us is that when we come in, it is already a product which is well established in the market and our job is to take away market share from somebody else who is now in the leading position right now.

Moderator: The next question is from the line of Rohit Balakrishnan from Vrddhi Capital. Please go ahead.

Rohit Balakrishnan: Thank you for taking the effort to do the call. Most of my questions have been answered. Just one question, sir. You mentioned, to a question from an earlier participant, that you are still confident of growing by about 10% in this year. Can you just elaborate a bit on that, what gives you that kind of confidence? Just wanted to understand that.

Rahul Nachane: Largely, we have had a little bit of a problem in getting raw materials for some products. That particular bottleneck is right now sorted out. Second advantage is that little bit of product which we have done the validation batches on, 1 product is almost completed. So, sales from that product will start now. In fact, we will book the first sale from it in the current month only. And there is a decent amount of order booking which we have got for our existing products also. So, the next quarter is already looking good for us. So, we are fairly confident that we will cross that particular…. Barring something unforeseen which happens, we should be on target for a 10% growth.

Rohit Balakrishnan: Sir, last question just as an additional question to this point was that in terms of our overall operating margins, that will be a bit under pressure this year as well, I mean for the next 2 quarters, because the capacity that we have from the new plant, that still will not be at an optimum level. Is that a fair comment?

Rahul Nachane: Definitely for this quarter – the 3rd quarter. And the pressure will start reducing from the 4th quarter onwards. The margins will start going up once again from Q4 onwards.

Moderator: We will move to the next question. The next question is from the line of Shivan Sarviya from JHP Securities. Please go ahead.

Shivan Sarviya: Sir, could you give some color on the degrowth in terms of value and volume?

Rahul Nachane: Actually, the dollar had gone down in the first part, in July-August-September. So, there was actually a value degrowth for us. Volume I think went up.

Shivan Sarviya: An approximate number?

Rahul Nachane: I don't have that number actually with me but let me put it this way. Earlier this year, in May-June, the dollar was something like 74-75 and then it came down to 72 in August-September. And now it's at about 70.5. The dollar actually worked against us.

Shivan Sarviya: But even barring that and keeping in mind the increase in prices, we have been able to pass on the prices and maintain our gross margins. Do you expect to do this going forward too?

Rahul Nachane: No, our dollar prices have remained constant in the current year but the rupee realization came down by about 3% or 4% because of the dollar going down – the rupee _____45:36_____ actually.

Shivan Sarviya: What I was trying to understand was that have we been able to pass on all the increase in the raw material prices to our end customers.

Rahul Nachane: This year, there has not been any significant raw material price increase. Our RM cost to sales is up by 1% as compared to the same half year last year. So, there is no significant increase in material cost. Therefore, there is no demand to pass on any price increase to customers.

Shivan Sarviya: I think I have not got it right. Sir, you had just mentioned that certain raw material prices have gone up. Hence my question.

Rahul Nachane: No, I said certain raw materials were not available. Prices have gone up meaning it is only a cyclical increase. It is a small increase of 1%. It is not a significant amount.

Shivan Sarviya: And you see that the raw material pricing to be stable?

Rahul Nachane: Yeah, right now, it is quite stable.

Moderator: The next question is from the line of Ashav Patel from India SME Investment. Please go ahead.

Ashav Patel: Sir, most of the questions have already been answered. My only question is regarding the allotment of plot at Ambernath MIDC. You already got the allotment?

Rahul Nachane: Yes, but physical possession has not been given. We have just got a letter yesterday saying that MIDC is now ready to give physical possession of the plot.

Ashav Patel: So, after the second plot at Tarapur gets utilized, we will be looking forward at this specific location for further expansion?

Rahul Nachane: That is right, yeah.

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

Ankit Gupta: A few years back, we had some 2 long-term contracts with the customers for the supply of our products. Any breakthrough in getting more long-term contracts with customers?

Rahul Nachane: Ankit, what we have done is, we have not really played out a strategy of going and trying to tap into European customers or US customers because the regulatory requirements are different in those markets and in the other markets. Therefore, if I were to sell to let's say Latin America or West Asia or China, there is no long-term contract available. But the growth is happening in these markets now because the European and US markets are more or less maturing and you must be seeing that even in the large-scale companies now their sort of growth is plateauing because they are hardly able to sell more to these markets. So, our focus is completely the rest of the world, not the regulated markets.

Ankit Gupta: We were thinking about entering into at least Europe market by the new plant which will come up in future. Any thoughts on that if you continue to cater the unregulated market on this?

Rahul Nachane: We were touching that particular thing. In fact, we went ahead and registered two of our products in Europe for sale over there. This I think 3 years ago. But then we decided overall that it is really not worth the effort because maintaining that sort of a thing would have meant putting a lot of money again into CAPEX and into operational cost. We are back and changed our strategy and now are completely focused on the rest of the world market.

Ankit Gupta: So, even the new expansion which will come up after ramping up the current capacity will also be for ROW markets only?

Rahul Nachane: That is right. That is what we think currently.

Ankit Gupta: Do you think there is enough room as able for us to grow to let's say; I am not talking about the next 2-3 years; 4-5 years if we look at, there is enough opportunities with our existing products and future products to be launched that we can reach 500-700 crore top line by being only in ROW market?

Rahul Nachane: The largest veterinary health company from India is SeQuent and SeQuent has got a sale of about 700 crores of which roughly I think 50% of their sales come from API. Probably they are at 350. So, they are probably 2.5 at our size. But their focus is completely different now. They are only engaged with the regulated markets now. So, we think that in the rest of the world, there is ample scope for our products and new products as we keep on adding them.

Ankit Gupta: Sir, one request. If we can conduct regular con-calls; if not on a quarterly basis but on half yearly basis, it will be really helpful because we only get to meet you only at the AGM. This is a platform to interact more with you.

Rahul Nachane: Sure, this was actually because of well-wishers like you who were concerned and who suggested that we do this that we did this. This is the first time we are doing such a call.

Moderator: The next question is from the line of Akshay Saxena who is an individual investor. Please go ahead.

Akshay Saxena: I just quickly wanted to understand what would be your geographical split of revenue for the half year or for the past 1 year?

Rahul Nachane: About 25% to 28% comes from India. Then about 45% is Europe and Russia and those countries, i.e., the CIS countries. Asia Pacific is 15%, Middle East is 14%, and the rest is Latin America.

Akshay Saxena: When you said that you are actively targeting the rest of the world, you included Europe in that?

Rahul Nachane: Part of the sales which we are selling to Europe are also going to distribution companies over there and these distribution companies then resell it all over the world. It is not as if this sale is for consumption in Europe. Some of the large pharma distribution companies, they are going to resell these products either in Latin America or in West Asia or in CIS. They redistribute it out.

Akshay Saxena: And they are the ones who are responsible for the regulatory requirements in those markets, obviously?

Rahul Nachane: Again, when we sell to Europe, one particular thing which we need to keep in mind that sale to Europe is divided into 2 parts. Sale to Europe where the end product is consumed in Europe and sale to Europe where the end product is exported out. Now, these European regulatory approvals are required when you have got the first situation which is sale to Europe and the end product is consumed in Europe. But if I am selling to a European company and it is going to export the finished product out of Europe, then there is no regulatory registration required.

Akshay Saxena: And it is the distributor in Europe who is responsible for the….

Rahul Nachane: Or if a distributor in Europe is buying, again, there is no regulatory registration required. So, all our sales which is going, even if I am selling to a European company, they are going to manufacture, and they are going to export it out of Europe. So, it is again going to go to the rest of the world.

Akshay Saxena: Secondly, I wanted to understand the segmental differences between the types of products like you said there is one for mammals and poultry. I wanted a little bit of details over there if possible.

Rahul Nachane: I did not understand the last part. What do you want regarding the products?

Akshay Saxena: The segmental splits between type of animal or type of therapeutic segments.

Rahul Nachane: All the products which we are doing right now are meant for farm animals. When we say farm animals, it means cattle, i.e., bovine, pigs, sheep, goats, horses, and camels. This is largely the farm animal segment. Within this, I have no data about which company is selling what into which animal use. That data I don't have at all.

Akshay Saxena: But your molecule can be used across different animals?

Rahul Nachane: All mammals. The molecules for mammals are different, for birds are different, and for fish are different. Last year, we did not have any sales in the poultry business. This year, we will probably have 0.5% or 1% sales. Next year, we hope to take it to about 4% to 6% of our total sales.

Akshay Saxena: What is the split between mammals and fishes? You said you make medicines for mammals, fishes, and birds.

Rahul Nachane: It is a global scenario. I don't have any data because the thing which we are into right now, we have really not been attending to that part.

Moderator: The next question is from the line of Ashav Patel from India SME Investment. Please go ahead.

Ashav Patel: As you explained regarding our peer SeQuent Scientific, they are involved in exporting to developed nations. Despite that, the margin profile if we observe, they are operating at much lower margin profile than ours. What actually puts us in a position wherein we can charge higher to the developing nations?

Rahul Nachane: I am not aware of SeQuent's margins frankly.

Ashav Patel: They are roughly around 10% more or less from the past 2 to 3 years whereas we are roughly 20%. We are able to actually generate double the margins of SeQuent.

Rahul Nachane: But I have no clue about how SeQuent's margins work. So, I am unable to comment on that.

Ashav Patel: But ideally won't the developed nations' margins would be higher than the emerging markets?

Rahul Nachane: What happens is that when you sell to the developed nations, the per unit price realization is definitely higher. But as I said, the operating costs start going up also because you need to employ the right kind of people and infrastructure needs to get changed, which is where we found that we would have then turned away from our traditional market and therefore we halted our march towards getting European approvals. I really don't know on what margins or how SeQuent operates but our margins are our margins is all I can say.

Moderator: The next question is from the line of Ayush Agarwal who is an individual investor. Please go ahead.

Ayush Agarwal: The demand environment for chemical and API companies is very healthy currently and there are a lot of global companies who are partnering or want to partner with Indian companies. There is shift of production happening from time as well. Do you see any tailwind for NGL or any kind of global partnership opportunities and if not why?

Rahul Nachane: Of all our products, we have been approached only for one buyer company which wants to de-risk their buying because they want to stop from China but now the other products we are seeing such a trend actually.

Ayush Agarwal: We have won EC approval for our plant, right? We haven't kick started the plant. And as we have seen that foreign companies are acquiring Indian companies just on the basis of their EC approvals, why haven't we kick-started the setup of that plant or something like that? We don't even bet on our books.

Rahul Nachane: I don't think people acquire only on EC basis because EC is really not that valuable a document. It is just a document which takes time to get, that's all. And I believe now they had sort of made the process smoothen and better, but we took about 19 or 20 months I think to get our EC clearance, that's it. Beyond that, there is no value to that document as such.

Ayush Agarwal: When can we expect to kick-start that plant?

Rahul Nachane: That's what I mentioned that because we have already committed and invested money here right now, we will wait to reach let's say sort of a turnover level of at least 200 crores before we start committing any significant money in the expansion.

Moderator: That was the last question in queue.

Rahul Nachane: Thank you very much for all joining in. Thank you from the entire team of NGL Fine-Chem.

Moderator: On behalf of NGL Fine-Chem Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.