NGL Fine-Chem Limited

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February 15, 2022

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 9th February, 2022
Scrip Code: 524774 NGL Fine-Chem Limited

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that the Company participated in the Investors Conference Call on Wednesday, 9th February, 2022 on unaudited financial results for the quarter and nine months ended December 31, 2021. No unpublished price sensitive information was shared/discussed in the meeting.

We enclose herewith the transcript of Concall with the Investors.

Kindly take the same on your record.

Thanking you,

Yours faithfully,
For NGL Fine-Chem Limited

Pednekar

NGL Fine-Chem Limited MUMBAI

Pallavi Pednekar
Company Secretary & Compliance Officer
Membership No: A33498

Encl: As Above.

“NGL Fine Chem Limited Q3 FY22 Earnings Conference Call”

February 09, 2022

MANAGEMENT:	**MR. RAHUL NACHANE – MANAGING DIRECTOR, NGL FINE CHEM LIMITED** **MR. RAJESH LAWANDE – WHOLE TIME DIRECTOR AND CFO**
MODERATOR:	**MR. RISHAV DAS – PARETO CAPITAL**

Moderator: Ladies and Gentlemen, Good day and welcome to the Q3 FY22 Earnings Conference call of NGL Fine Chem Limited. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rishav Das from Pareto Capital. Thank you and over to you, Sir.

Rishav Das: Good morning everyone. This is Rishav Das from Pareto Capital. We represent Investor Relations for NGL Fine Chem Limited. On behalf of NGL Fine Chem I welcome you all to our Q3 FY22 Earnings Conference Call. I have with me from the management Mr. Rahul Nachane – Managing Director and Mr. Rajesh Lawande – Whole Time Director and CFO. We will have brief opening remarks from the management followed by the Q&A session. Please note that certain statements made during this call maybe forward looking in nature. Such forward looking statements are subject to certain risk and uncertainties that could cause our actual results or projections to differ materially from these statements. NGL Fine Chem Limited will not be in anyway responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances. I would now hand over the call to Mr. Rahul Nachane for his opening remarks. Over to you, Sir.

Rahul Nachane: Hi good morning to all of you. Thank you for joining us on this call. Let me open with a few remarks on our performance for the quarter and strategy going ahead.

Strong volume demand and increase in market penetration of our major products contributed to our revenue growth of 12% year-on-year for the quarter to 81 crores and 21% year-on-year for the 9% period to Rs. 235 crores. Our veterinary API business reported robust growth of 25% year-on-year in Quarter 3 FY22 and 37% year-on-year for the 9 months ended December.

For our 9 months FY22 Vet API revenues touched Rs 194 crores, almost reaching the previous year amount of 199 crores which was recorded in FY21. We continue to have a strong presence in APAC which remains the largest market for us with over 30% revenue contribution. Revenue from this region grew at 37% year-on-year for Q3 22 and 16% for 9 months FY22.

During the quarter we faced a challenging macro environment with all our cost being impacted. Chemical commodity prices touch an all-time high while we also faced rising power and fuel cost and elevated freight cost. We have taken very limited price hikes so far, leading to our margins and profitability being affected. For Q3FY22, EBITDA stood at Rs 12 crores with a margin of 15.4%. What I would also like to mention here is that there has been no change in our product mix, we continue to maintain the optimal mix, margins have been solely impacted by the macro-economic factors mentioned above. Profit after tax for the quarter was Rs 10 crores with a margin of 12.3%.

Though there has been a correction in commodity prices, we expect the situation to be completely under control by Q1FY23, leading to subsequent normalization of our margins and profitability.

Coming to our plans going ahead – we are pleased to announce the completion of our macrotech expansion in the month of December. We have received all the approvals and have started validation batches at the facility. We expect to start commercial production from Q1FY23. Our plans to increase outsourced production is also on track, we have tested and considered multiple facilities and we expect to attain 15% outsourced production by the end of FY23. Additionally, our ongoing efforts on process improvement and debottlenecking activities are underway to help drive near term growth.

Our planned greenfield expansion at Tarapur is also on course, we have recently started civil construction in the month of December and the work in progressing very well. The estimated capex for this project will be Rs 100 crores which will bring in a 50% capacity addition, and will be funded through a mix of debt and internal accruals. We expect to complete construction and start production in around 18 months.

We aim to continue growing our business by leveraging our robust balance sheet with a net debt free position and continue investing in maintaining our market position by remaining cost competitive, reliable and offer high quality solutions for all our customers.

This is all from my side. We can now open the floor for discussion.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir in your opening remarks you did elude to the rising commodity prices, the input prices and also you mentioned in the presentation, so just to understand that we have not taken the price hikes or we have not passed on the price hikes - two parts related to this, one is sir our gross margins in last around five years have hovered somewhere around 55% to 57% and below 50% margins probably we are seeing it for the first time after almost a gap of 5 years or 6 years or maybe around 24 quarters. So, we do understand that we are into a challenging environment so firstly do you envisage now taking some price hikes going ahead passing on this price hikes or is the strategy been to gain market share which you have been continuously gaining for last three, four quarters now or more, so what kind of strategy do we envisage and in what time do you feel our gross margins can be back in the range of around 55% from the current 48%, 49% that is my first question?

Rahul Nachane: The strategy which we have formed is that currently to a large extent commodity prices have been so high - commodity and material prices. The factors controlling these prices are more or less out of our control because you know something which is affecting all the economies. In the short run API prices are unfortunately pretty inelastic - they do not tend to go up as the chemical prices go up. So, there is always a time lag in transferring price hikes to customers. So, we try our level best, then there is a sort of resistance which comes in from customers to hold on to the price hikes. The strategy we have formed is it is very clear that we will gain market share. Margins will normalize as and when these chemical prices start coming down. We have already seen the trend by which the chemical prices have peaked around October/ November, and we see that they are now coming down. So, there is already being a reduction from the peak which was attained during October/ November, and we are fairly sure that by mid of this year we should see the commodity prices normalizing and so margins will also start coming back around that time. During this period, we plan to hang on to our market share and expand market share as much as possible.

Rajesh Lawande: One thing I also like to add to what Rahul said, so the price hike from the suppliers has been so quick and it has been an all time high, so we have not seen such a price hike on the raw material input costs before. So we hope that it will peter out and we have already seen that trend where its reducing.

Rahul Jain: So hopefully we should be back to our normal gross margins somewhere around Quarter 1 of FY23 or maybe maximum by Quarter 2 FY23, is that a fair assumption?

Management: Yes that is what we are fairly confident of.

Rahul Jain: And my last question sir on the split of sales geographically, so my observation has been that well we have done very well on the Asia Pacific, ROW and USA markets. Of course the ROW and US markets are still quite smaller compared to the other three markets. So, out of the other three large markets Asia Pacific has done exceedingly well, but Europe and India both these markets right from Quarter 2 of the current year and even in this quarter, either have degrown or we have had just a flattish kind of quarters. In your last quarter concall you had mentioned about Europe being comparatively slower than the other markets, so if you could share some insights on how these markets are behaving now, is it that the kind of products which we are doing have somewhere in the mature stage or the overall the market is slow or how do we try to get back to some better growth numbers in Europe and Indian markets?

Rahul Nachane: Europe is slowing down for sure, so we do not see a very large growth coming in from there in the short run, but as the pandemic effects are lessening on the economies we are fairly sure that Europe will start coming back towards the later part of this year. So we hope to see some traction coming in from Europe post July in the current year. The India market saw a dip early again because Omicron came in there was a little bit of again supplier disruption, but, one should not look at it quarter-on-quarter because there is certain bit of seasonality also in products, you know year-on-year is a much larger period which gives us a better result on various markets and if we are looking at the 9-month performance then we are already looking at a fairly large growth in most of our markets.

Rahul Jain: So basically, I wanted to understand directionally there is no issue in both these markets it is just more seasonal, is that correct?

Rahul Nachane: Europe we do not expect it to grow much again for the first calendar half of this year we think it will start moving only in the second half of calendar year 2022.

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

Dhwanil Desai: Sir first question is on our revenue, so I think we did around 80 crore quarterly revenue this quarter and as you mentioned in the presentation Macrotech commercial production will start from first half of next year and also we are trying to work on the outsourcing part and debottlenecking, so all that put together is there a room to add 60 crore/70 crore of revenue before the Greenfield plant comes, is that a fair assumption to make?

Rahul Nachane: Yes, we expect Macrotech to contribute roughly about 50 crores to our revenues once it reaches capacity utilization of 100%. So it might take a little longer than a year so probably it will optimize maybe in 23-24, but along with outsourcing, yes, we would look at around 50 crore growth coming next year.

Dhwanil Desai: My second question is on the poultry products that we have launched if you can talk a bit about the traction there and I think two of the products were still not commercialized and at a validation stage so any update on that will be useful?

Rahul Nachane: As of now all products which we had introduced say for one all are in commercial production now. So we are 22 molecules in commercial production, we have got three molecules right now which are in pilot plants of ours and two more which are in R&D development stage. So we have got further five product in our product line up which will get commercialized in the current year.

Dhwanil Desai: I think probably you mentioned this, that our current product basket is sufficient to occupy the capacity of the new greenfield capex that we are planning. That is the roadmap with which we are moving right?

Rahul Nachane: No, we will definitely need to add new products because existing products only will not help us occupy incremental capacity which we are creating. We will definitely need to keep adding products as we go along.

Dhwanil Desai: So in addition to this 27 products, 28 products there will be further new products which will be added which will be commercialized in the newer plants that we are putting up.

Moderator: Thank you. Our next question is from Ankit from Bamboo Capital. Please go ahead.

Ankit: Sir if you can dwell a bit deeper on our strategy for capturing more market share, while retaining our market share and not increasing prices, because last year also we did capture quite a bit of market share during the COVID wave and we grew our top line quite well even in this year despite margin pressure our topline has in fact grown on a YoY basis, so if you can dwell a bit deeper on this capturing market share strategy and secondly what is the prices of raw material, will it remain elevated for a longer time let us say we are assuming them to come down in the next few months, what will be our strategy to pass on the prices if the raw material prices/ commodity prices remain elevated for longer period of time?

Rahul Nachane: So, not increasing prices does not work because we have to react to the market, number of products which we are manufacturing we are increasing prices and passing on price increases to customers. As Rajesh mentioned earlier, the price increase in raw material has been very abrupt and very fast. So, our ability to pass on price increases quickly to customers was hampered. So, as a result now for example, we have even in spot business we have commitments close to about three months and four months ahead for customers. Now commitment which are already made we cannot change prices of those, but whenever we are buying in the current commodity market we are paying higher prices so that ability to pass on in the short term is impaired, but in the long term we have to pass on price increases to customers otherwise there is no way with that we can survive at this market. So, we will definitely be passing on price increases that is not within question at all, but whether we pass on the full price increases or we pass on a part of the price increase and absorb a part becomes a strategy of how we want to play in each market and looking at what kind of customers we want to retain.

Ankit: And lastly you know if the prices remain elevated so long eventually over the next one or two quarters we will largely pass on price hikes to our customers?

Rahul Nachane: Definitely yes.

Ankit: On the strategy on expansion - so apart of Brownfield completion of the Macrotech expansion and as a new Tarapur plan coming on the Greenfield CAPEX which is coming and expected to be complete by March, so H1 of FY22, apart from that any other new land that we have acquired or we are planning to acquire or apply EC, since we have had challenges in getting EC approvals and we had taken Tarapur EC approval almost two, three years back, so any such strategy for the new land acquisition and getting EC approvals well in advance?

Rahul Nachane: We hold land in Mahad and in Ambernath. We have not progressed towards applying for EC for good because we are still tying down with and we are doing a fairly large investment in Tarapur right now, but yes where we have a budget for the next five years prepared, the rolling plan, we will definitely be looking at and insuring that prior 7 years - 8 years are received well in advance of initiating the safest work.

Moderator: Thank you. The next question is from Venkat from 3 Sigma Financials. Please go ahead.

Venkat: Sir one question I have is, Macrotech is going to start producing intermediates, so will the pressure on the price increase that we are seeing in raw material will that subside, so with the Macrotech actually use key starting material to produce those intermediates and APS?

Rahul Nachane: No, what we are doing in Macrotech is that we are adding volumes, we have already been manufacturing these intermediates ourselves in NGL, but now as the requirement of finished products are going up we need to manufacture more quantities of these intermediates. So, that is the gap which Macrotech is helping us fulfill.

Venkat: So it is not backward integration?

Rahul Nachane: We are already fairly backward integrated so we do not want to backward integrate it further, but we want to add great volume to our existing products so where let us say we were producing 20 tons the idea is that we should be able to produce 50 tons of that product themselves where we gain greater market share of those products also.

Venkat: I have one more question say for instance if the raw material cost whatever we are buying if it is at some stage, so would it be cheaper to probably outsource some of those at whatever stage we are buying, will that actually improve the cost just a hypothetical question?

Rahul Nachane: So what we do is that we do outsource a lot also and our idea is that as we have said over a three year period we would like to increase our outsource production from 5% to 15%. So where technology is not proprietary where technology can be repeatable and where those converters have got the expertise in that particular type of chemistry, we outsourced in those kind of areas, but where the technology is proprietary it is something which we have developed and we do not want the market to know, then we will in-source those intermediates and not have them manufactured somewhere else.

Venkat: So my next question on if you see the steel prices have gone up and some of the commodity prices have gone up this must have led to cost overrun for the subsequent project, so what is the percentage of overrun and how are these going to cover these overrun because we have budgeted some amount 100 crores of loans plus internal accrual and through internal accruals coming down so would there be any additional fund requirement?

Rahul Nachane: So we have budged based on the cost prevailing probably around mid of 2021 and since then the costs have gone up. So, we are right now redoing the entire exercise of finding out what the new prices are and this will get done around end of March or mid-April. We will arrive at exactly what will be the extent of the cost overrun, but we hope that it should not be more than a 10% at this juncture.

Moderator: Thank you. Our next question is from Rohit Balakrishnan from ithought PMS. Please go ahead.

Rohit Balakrishnan: Just couple of questions on this new Tarapur facility that we are doing 100 crore CAPEX, so just wanted two clarifications, one, by when will this be operational based on your presentation it seems H1 24 so just wanted to clarify that and second thing was, that historically we have seen our asset turn has been around two and half times, so will this also see the same kind of asset turn so that was my first question?

Rahul Nachane: You got it right in terms of timing, it will roughly take between 18 months and 20 months to setup the plant, we started in December. So, mid-23 is what we expect the plan to be ready and operational – August/September. The ESS requirement is going up drastically right now and ESS is forming almost 20% of credit cost, which was not so probably about five years ago. So, asset turn may not be going up to about 2.5, but end up more in the range of 1.75 to 2 going forward.

Rohit Balakrishnan: In terms of till this acquisition comes in place, we are doing Macrotech it should come from the first quarter of next year and also outsourcing, so till the interim of that time can we continue to do a 20%/ 25% growth, that we have been growing at over the last three/ four years with all the initiatives that we have been doing. So we are already doing 80 crores kind of run rate consistently over the last three/ four quarters, so can we probably add around 60 crores/ 70 crores on top of it and then also grow 20%/ 25%. Is this kind of growth feasible before the start of the new facility?

Rahul Nachane: Yes, that sort of growth rate is definitely achievable before this facility comes up.

Moderator: Thank you. Our next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: My first question is basically one clarification first you had mentioned that 15% outsourcing will happen in FY23 itself versus earlier target of the next three years?

Rahul Nachane: No, it is a three year plan we started this in Feb 2021 and it will take us three years to reach that target of 15%. So, in the current year we have already added five different vendors with whom we have stabilized relationship now and quite bit of production is being outsourced to them. We hope to add probably another five somewhat more vendors and then transfer technology for additional products that we have developed between the companies.

Aman Vij: My next set of question is on the commodity price increase, fuel cost increase and freight cost increase, so if you can talk about what is it currently so last quarter we had like 25% plus kind of commodity price increase so we have mentioned it has come down little bit, but what is it currently these three matrices?

Rahul Nachane: It has been actually widespread and it has been different for different chemicals unfortunately. There are some chemicals which had gone almost 3x as compared to what we were paying let us say in January this year and some had gone up little lesser. One which has gone up 3x are probably now down to about 2x so they already reiterate part of the entry which has taken place, but they are still high, which was still better than what it was around October/ November. There are some chemicals where prices are still not coming down so it is a overall mix which is affecting us. Freight has already started reducing, so freight cost has gone up almost about 8 to 9x and from that peak now they reiterate back to about probably about 5x now, but we are slowly changing most of our contracts to FoV to pass on the freight element to customer. So, as and when prices go up or come down benefit is there we are not trying to do anything in that. Oil is high we are using gas in some of our plants and gas prices are still at 2x there is no softening in those prices yet.

Aman Vij: And final set of questions on the product growth so if you can talk about top 5 products then 5 to 10 products and 10 to 20 products, what kind of growth are we seeing in these three categories of products?

Rahul Nachane: So in the top 5 products we have seen a 21% growth, and in our top 10 products we are seeing a 26% growth. So the next 5 products are now accounting for a larger cushion in our growth.

Aman Vij: And the remaining sir because we were talking about their product number 10 to 20 is there and there is maximum opportunity for taking market share with the entire market share being much lower?

Rahul Nachane: In the remaining products we are seeing a 18% growth.

Aman Vij: And this number is for 9 months or Q3 versus Q3 last year?

Rahul Nachane: 9 months I am not talking about Q3 I am looking at the 9-month period.

Aman Vij: And you expect similar kind of growth rate going forward like product number 5 to 10 growing faster than the top 5 product?

Rahul Nachane: 5 to 10 are definitely growing faster because our top 5 is about 20% growth and the top 10 products are lowering at almost 26%.

Aman Vij: I am talking about going forward for next couple of quarters, similar trend?

Rahul Nachane: Yes we see traction coming from the smaller and newer products quite a bit so those are growing at a very healthy case right now.

Aman Vij: And one final question on rest of ROW market so what is driving this big growth this is more geographies opening up for us or is it suddenly those customers are asking for more volumes?

Rahul Nachane: Geographies are more or less the same we are in 45 markets right now for the last two years roughly if there is a new geography added in probably one or two here and there but now the customer weights is also growing a little bit, but at the same time the existing customers are buying more because we are able to offer a wider range of products to them.

Moderator: Thank you. Our next question is from the line of Rajat Setiya from ithought. Please go ahead.

Rajat Setiya: Sir just one clarification to the previous participant you said that we can grow by 50%, 60% before Tarapur plant comes up, so are we saying that from 80 crores revenue run rate on a quarterly basis you can go to 120 crores before Tarapur comes up, is that understanding correct?

Rahul Nachane: Can you repeat that what is the amount you are speaking about?

Rajat Setiya: So from quarterly revenue rate rates of 80 crores today can we go to 120 crores quarterly run rate?

Rahul Nachane: I think it was more in terms of absolute numbers the 20% growth is what we are talking about 20% to 25% growth.

Rajat Setiya: So broadly you are saying 105 crores before Tarapur comes up?

Rahul Nachane: Yes.

Rajat Setiya: And that would mean almost 100 crores of annual increment?

Rahul Nachane: 105 in terms of 35% I think almost which we are speaking about. So it's not going to be that high a 20% growth rate is more likely to go to take place.

Rajat Setiya: So broadly that 20% would mean 65 crore kind of annual run rate so I assume like you suggested 50 crores will be coming from Macrotech and rest would probably because of increase outsourcing, is that correct?

Rahul Nachane: I would not put down specific numbers because some would come from the increased capacity of Macrotech, some will come from outsourcing, some comes from debottlenecking which we carry out continuously in our existing plants. So it is a sum total of different things which we do.

Rajat Setiya: Sir on the Macrotech basically it is not just the backward integration and not just the production, so production there is not going to be used only for captive purposes, but we are only selling the produce from there in the market?

Rahul Nachane: As of now, Macrotech has been used completely as a captive manufacturer. We have not yet explored sales directly from Macrotech, but as we keep on adding more products that is something which we will definitely look at.

Rajat Setiya: Sir last question how has been the traction so far for new products that we have launched in the last let us say two years?

Rahul Nachane: Fairly good because the smaller products are growing much faster right now. So, they almost double every year because the base is very small. So we are seeing a fairly good traction coming in from those products.

Rajat Setiya: And they are largely selling in which geography?

Rahul Nachane: It depends, so there are couple of products which we have manufactured now which are India centric so they sell more in India, but most of them are for different markets Asia Pacific, rest of the world, those kind of things.

Moderator: Thank you. The next question is from Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: I have one question just wanted to understand the customer with whom you gained market share just want to understand the pricing gap you have with these customers vis-a-vis your competition is the pricing gap still being maintained that is one, and the second part which is follow on, is the availability of the products from you as well your competition, why is your competition finding it difficult to supply the products to your customers and is that going to change over time given the raw material supply is of over the next 6 - 9 months?

Rahul Nachane: In terms of pricing gap, this is something which has to be maintained at any point of time because B2B business customers will switch very fast if they find that the prices are higher. So you have to match prices almost at every steps and there is no significant gap, the gaps are more like 0.5%, 1% here and there. We cannot afford to work with 5% gap over the competitor or something of that sort. The gaps are pretty narrow.

Sonal Minhas: They have remained the same even with the raw material prices going up?

Rahul Nachane: Every competitor has to react quickly to the market because if you do not then you lose market share. Those who were slow to react we will obviously have trouble.

Sonal Minhas: And from a supply perspective so were you able to gain the market share because of supply and is that sustainable just trying to understand that part?

Rahul Nachane: Market share has not gained because of pricing all the while market has also gained because of other invisible factors which go into servicing a customers in terms of documentation, quality systems and reliability of supply, ensuring product lines are operative at all points of time. So we have been able to deliver among those other factors also to our customers.

Sonal Minhas: So the last bit of it was just to understand, your competition is not feeling or rather they are not short on supply of the products compared to you as we speak right now?

Rahul Nachane: No, there are no monopoly sources which we can monopolize. So the same sources are available to everybody so there is no special supply chain benefit which we enjoy as such.

Sonal Minhas: So the differentiation in the market or the gain in market share is basis what you just mentioned before that largely on servicing?

Rahul Nachane: Reliability, quality of product, pricing all that go together.

Rajesh Lawande: I would just like to add one thing here - It is not a zero sum gain that we gain market share where someone else loses, what has also happened is the demand has increased and that has happened over the last couple of years that we are selling a lot more because the market demand has increased, it is not just a zero sum gain that we play on.

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

Ankit: Sir it is pretty heartening to know that top 5 and even top 10 products where we have substantial market share are also looking at 20 - 25% if you can broadly explain what is driving this growth for us and how sustainable is this growth in top 10 molecules?

Rahul Nachane: Growth is coming in the same way as I said earlier it is that we are just able to penetrate those in a better way. At the same time there is a growth in the market also the demand for these products. So both these fueling that growth.

Moderator: We will move on with the next question that is from the line of Varun from Skaniva Capita. Please go ahead.

Varun: I want to know whether we have products supplying to the companionship segment or are we planning anything in that segment?

Rahul Nachane: Currently we have just one product which goes into companionship, but it also goes into farm animal so it is products which goes into both the markets, but right now we are planning for two products which will be exclusively for companionship animals, which we hope, one will be launched in the current year. In fact, the pilot plant has just got completed very successfully so we will start manufacturing that later part of this year and the second is where R&D work is going on, but that will come only in FY24.

Varun: Can we expect better margins in companionship segment compared to next top segment or it is on the same line?

Rahul Nachane: If it is being sold in the rest of the world the time taken is not very different, but the larger market for companion is in Europe and USA. So, registration and penetrating markets takes longer.

Varun: My second question the Tarapur capacity you mentioned that it is a 50% expansion on the existing capacity, so this 50% will be on the expansion which we have done in Macrotech and the outsourcing part or this is 50% before the Macrotech numbers?

Rahul Nachane: 50% before the Macrotech numbers.

Moderator: Thank you. Our next question is from Richa from Equity Master. Please go ahead.

Richa: The first is does the regional mix have any implication on our margins, for example the higher contribution of US would it imply if it increases would it result into better margins overall? and second is the new products that we are introducing 3 in the pilot trials and 2 in R&D, what kind of market opportunity is there and with the margin profile will be any different from what we had in a current product?

Rahul Nachane: So the sales into Europe or US right now currently over 95% are of products which are not for sale into regulatory markets. These are products which are sold over there for purchase and resale in other markets. So, we do not enjoy any specific higher profitability based on a particular region, product profitability is more or less the same across all regions, and in terms of margins of new products which we are introducing typically we undertake products which are multiple stages of synthesis and that is the only way to safeguard your margin in this business, because one or two steps products are something which almost everybody can replicate. So we take products which are 5 to 7 stages of synthesis and that is the only way that we are able to maintain the margins for our company.

Richa: And what would be the market opportunity or price for these products that are under developments right now?

Rahul Nachane: So these are products which with a fairly large market worldwide, but at the current juncture I am unable to put numbers for you as to how much we will be able to tap into those.

Moderator: Thank you. Next question is from Ankit from Bamboo Capital. Please go ahead.

Ankit: Last question from my end post this new 5 molecules that we will be introducing over the next one year and basket will be around 27 to 28 products, so utilizing the Tarapur facility how many other new molecules do we need to add in our basket?

Rahul Nachane: That is a little difficult question to answer because that will depend on basically two factors. Number one is how quickly we are able to scale up the new products where we have obtained greater market share, because a few of those products have got potential to be probably even 50 crore products but let us say we are able to penetrate only 10 crores of the market over a two year period then we need to keep on adding new products. So, it is something which is little difficult to answer at this juncture. It will be a combination of factors success in commercializing the products, how quickly we put it into the market and how quickly we are able to scale up our presence in the market.

Ankit: So because our top 5, top 10 products are also doing well we might also as per our strategy we might also be trying to give more market share in 11 to 20 molecules, so that will also be contributing to our growth?

Rahul Nachane: Let me put it this way that over the next three-year period we plan to increase our product mix from the current 20-22 to about 30 different products and with that we are confident of filling the capacity for all the new capacity which we have planned right now.

Moderator: Thank you. Next question is from Ayush Mittal from Mittal Analytics. Please go ahead.

Ayush Mittal: So I have few questions sir first thing that if I go by the previous interactions I think you have always mentioned that the prices in the animal API have been very stable and they have not increased largely over last one or two years and the growth we have had is largely a volume growth that we have done, is that right?

Rahul Nachane: That is correct.

Ayush Mittal: So in this environment where we are seeing commodity prices rise a lot across the board and they do fall and then they come back again they start rising again and given that in at least three, four, five products we have more than 50% market share, do not you think the price increase has to be more from our side wherein if we are good in those things then we have to take that fleet and go on the price increase how will that play out can you give some sense on that?

Rahul Nachane: There is no way that we can work without passing on price increases what we were saying is that there is a time lag between passing the price increase to customers and especially when commodity prices went up so fast in the short run it was difficult to pass it on to customers immediately because earlier contract used to be a CIF now we have converted into FoV basis so when you have CIF contract and freight goes up 8x it is virtually impossible to do everything over there. So for existing contract it is difficult to wriggle out and we do not like to break any contract.

Ayush Mittal: But have we started this process of price increase or where are we or by when do you expect that we will be able to do something on this?

Rahul Nachane: Process has started almost 4 months ago of passing on price increases actually more than 4 months ago we started around July/ August, but every time we used to go back to the price increase with the customer, the prices have gone up even more. So we are struggling to keep up with that and after a certain amount of times there is a resistant which comes in from customers because then they have to start evaluating whether there are cheaper substitutes available in the market for that particular medicine. So that becomes a threat to the product then so then at that resistant point we have to absorb a larger part of the price increase, but as I said this is a temporary phenomenon we will have to wait it out there is no magic stick to be waved over here if we keep our head down probably mid of this year we should see that things are back to normal.

Ayush Mittal: And this increase should be ideally 15%/20% or less than that in the price increase?

Rahul Nachane: It varies from product-to-product so there are some products which are iodine based where we have had to increase the price by 120%.

Ayush Mittal: But overall, for the company level of the total basket that you are actively having?

Rahul Nachane: It would be a very thumb of rule because it is different for each products there are some products where we have increased prices by 15% somewhere it has gone up as high as 120%. For me to give you an overall average is very difficult at this juncture.

Ayush Mittal: Second you also talked about some debottlenecking that you keep doing from time-to-time anything that you can share what kind of CAPEX or investments we will have to do on these things going forward, have more capacity at existing locations?

Rahul Nachane: The normal CAPEX is in the range of about 6 to 8 crores, that is what we do in our debottlenecking, some part of it is also for replacement and some part of it is for debottlenecking.

Ayush Mittal: When we interact with lot of other companies in the chemical API sector what we are seeing is that there were huge global demand especially for companies which have been very strong on the export side there are so many bigger companies globally who are wanting to scale up more from India, are you seeing more of this thing or any plans to accelerate your expansion plans on a bit longer term period, are you also seeing those kind of things happen for your company or sector?

Rahul Nachane: Yes we have seen it, that is a whole reason why the growth increases have been so strong for us and as I said earlier we are now concentrating more on getting market share and increasing our footprint in the market because as and when commodity prices start correcting themselves the margins will come back. So our focus is right now to ensure that we keep on increasing market share.

Ayush Mittal: But what I was trying to perhaps ask was that are you trying to even accelerate your capacity build up or something because outsourcing and those things have their own limitations while many often what we are seeing that globally when you get a large customer then the growth requirement is very large and you have to have capacities to cater with them?

Rahul Nachane: Right now we have just one project on the cards right now and that is already under implementation. We are working to see how quickly we can do it, but quite a few equipments are all long order right now 6 months, 8 months, 10 months delivery. So we have accelerated as much as we can do, but it is not something which is going to come down from 18 months to 10 months or something of that sort.

Moderator: Thank you. Our next question is from Anant Jain an Individual Investor. Please go ahead.

Anant Jain: Since you are talking of price normalizations in the RM side I mean what is the amount of high priced inventory that we are carrying and because of that we could see another quarter of lower gross margins, are we carrying significant amount of high priced inventory?

Rahul Nachane: No, in fact we have started curtailing our inventory levels now because as the prices start going down. So early part of the year we increased inventory levels quite significantly during the period from June to September and going forward from October onwards we are now cutting down inventory. So, inventory actually flat for this quarter though sales is gone up another 6%, 8%.

Anant Jain: The other question that I have is in terms of - I just want to continue on the question that Ayush had asked so as he said that we are 50%-55% market share in like three to four molecules are we the price setters in those molecules and smaller market share players kind of follow our pricing?

Rahul Nachane: We do set the price, but at the same time there are customers who will never buy completely from us, they will always have two to three suppliers for all their products so which means that it is not from the situation which we can take undue advantage of so we have to be responsible competitors and suppliers at any point of time.

Anant Jain: My third question is we have 400 clients and almost like you know the revenue run rate has 300 to 320 crores which would mean that an average or clients are like around 1 Cr roughly 80 lakh to 1 Cr, I just want to understand what is the size of our top three or top five or top one client. The reason I am asking that is I want to understand that once we have more products coming in are we going to search for newer clients or the current client itself would be kind of able to pick up higher quantities and newer products from these from whatever we have right now?

Rahul Nachane: So our top 5 customers today contribute roughly about 21.5% to our sales and top 10 customers about one-third of our sales.

Anant Jain: I do not want you to name, but do we also have clients like not for the regulated market because we are not there, but companies like Merck and other such companies they do also have portfolios in the non-regulated market, so do we have clients of similar repute or really large MNCs as a client?

Rahul Nachane: So out of the top 10 animal health companies in the world we are a supplier to 5 of them.

Moderator: Thank you. Ladies and gentlemen that would be a last question for today. I now hand the conference over to Mr. Das for closing comments.

Rishav Das: Thank you all for joining the Q3 FY22 Earnings Call for any further queries please feel free to get in touch with us Pareto Capital. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of NGL Fine Chem Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.