



“NGL FineChem Limited Q2 FY21 Earnings  
Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to the NGL FineChem Limited Q2 FY21 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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 Ms. Pallavi Pednekar from NGL Fine-Chem Limited. Thank you, and over to you, ma’am.

**Pallavi Pednekar:** Thank you, Steven. Good evening everyone, and a warm welcome to you all. My name is Pallavi Pednekar – Company Secretary, NGL FineChem 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 FY20-21.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today’s conference call maybe forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties, which could pose actual results to differ from those anticipated. Such statements are based on management’s beliefs as well as assumptions made and information currently available to the management. Audiences are cautioned not to place undue reliance on these forward-looking statements in 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 the half year ended on 30<sup>th</sup> September 2020.

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 & CFO of the company. Thank you and Rahul sir, over to you.

**Rahul Nachane:** Good afternoon to all of you. Thank you for joining us on this call. About the working for the first half of 2021, I have some opening remarks to make, after which we will take questions from the participants in today’s call.

Sales for the quarter ended 30<sup>th</sup> September 2020 have been the highest at 68.20 crores as against Rs. 37.21 crores in the same quarter last year. Sales for the half year ended 30<sup>th</sup> September 2020 were Rs. 110.63 crore as against Rs. 77.90 crore for the period last year representing an increase of 42% over the previous year. We are happy to report that there has been no adverse impact of Covid-19 on our business expect due to logistical issues in movement of manpower and materials in the earlier period of the pandemic. Sales growth has been strong, and we have adequate order bookings going forward for the next half year. The company’s traditional products have mainly been responsible for this growth.

Due to the limitation in material and manpower movements, we are concentrated on kick-starting and streamlining manufacturing of our traditional products. It is only from October 2020 that we have been able to commence production of our newer products. Profit for the half year was 23.45 crores as against 8.28 crores last year, which is 183% over the previous year. Part of these high

profits has been on account of reversal of mark-to-market losses on our mutual fund equity investments which were booked in March 2020 and since been fully reversed and also due to the reversal of foreign exchange losses which we had suffered in the last quarter of 2019-20. These together accounted for about Rs. 3.2 crores. Profit has also been higher due to various other factors. There has been over a 1% saving in fuel cost due to lower oil prices in the first half of the year. However, oil prices have corrected during the last 2 months and we do not anticipate these savings to continue.

There has been postponement of expenses especially in plant maintenance and upkeep, sales and marketing expenses and administrative expenses as migrant manpower was not available during the first half year. We could not participate in any international exhibitions and could not visit customers due to travel restrictions. These are gradually likely to revert to normal levels; however, we are unable to quantify the amount by which these will be restored in the second half of the current year. We expect normalization of activities will continue during the current year with some constraints and interruptions ongoing due to COVID. We are now open to questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

**Ankit Gupta:** Sir, just wanted to understand what is contributing to higher revenue in the H1 and especially during Q2, is it the new products? Are we seeing volume growth in our existing products or has there been any price increase? And if you can talk about the sustainability of this 65-70 crores of quarterly run rate going forward?

**Rahul Nachane:** Well, as I was saying earlier, we have hardly manufactured any of our new products in the current quarter. The entire growth has been due to volume growth for our traditional products and that has mainly been because of what we have done is in this last half year as we were starting our production, there were quite a few limitations in the earlier part especially during April and May. And we used newer capacity and larger capacity which has been created towards starting manufacturing of all our traditional products. So we basically moved them all from the old facilities to the newer ones, due to which we were able to attain larger volumes. So the entire volume growth which we see is because of traditional products. And about sustainability, we still see that same thing going forward for the current half year. We still receive the same requirement in the market.

**Ankit Gupta:** Are we done with the validation of the two remaining products which were out of the 4 that we were planning to manufacture from the new plants?

**Rahul Nachane:** No, that is still not done because there has been so much of demand with these older products. We have not been able to start that. We will start that, however, now from the current quarter.

**Ankit Gupta:** Sir, what is leading to such significant jump in the demand for our traditional products, the 20-22 molecules that we manufacture and the top 10 molecules there our focus remains very high?

- Rahul Nachane:** We have been able to take part of the market share from some of our other competitors because we were able to come back to normalcy probably a little faster than them. And customers saw that flow of material started with us. Even during these times, we kept a tight lid on the pricing and customers have good value proposition. By which, they continued doing business with us. And there has also been our demand in requirement which is coming in, which only we will have to see for the next probably 6 months to 1 year as to how sustainable that demand growth is, but we definitely see a very good demand growth right now.
- Ankit Gupta:** Sure. And as you are saying the order book is strong, the growth remained strong for second half as well?
- Rahul Nachane:** Yes.
- Ankit Gupta:** And sir, we are touching run rate of around 70 crores per quarter. So given that, our new capacity is also running at as you were saying more than 80-85%. How much revenue can we generate from our current capacities including Macrotech?
- Rahul Nachane:** Yes, we should be between 275-300 crores at least.
- Ankit Gupta:** And are we currently running at close to 85-90% capacity or there is still some room for growth in revenues if we ramp up our capacity further?
- Rahul Nachane:** We are close to 90% plus capacity utilization.
- Ankit Gupta:** And sir, last question on the CAPEX part. As you have been telling that we will only look for expansion at new facility. If we touch more than 50% capacity utilization of our new plant and as you have been saying and as results are also showing that we have already touched 90% capacity utilization, so any thoughts on the new CAPEX or the new Greenfield plant for which we already have the EC approval?
- Rahul Nachane:** We have actually started getting those plants because earlier we thought that we will probably reach that landmark more around 2022, but with little bit of luck now in our side and good adaptability which we have shown, we are preponing that entire investment program from the next year into the current year.
- Ankit Gupta:** So any details on that? How much CAPEX will be requiring and what are the timelines?
- Rahul Nachane:** It is still early to let you know. It is just being formed right now. Probably by Jan or Feb next year, we will be better placed to let you know.
- Ankit Gupta:** And any timeline for completion of that CAPEX? How much time it will take?
- Rahul Nachane:** That will be a 2-year project.

- Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.
- Ayush Mittal:** Sir, in reference to the earlier discussion around this growth, I have seen that 5 key products of ours form majority of our revenue and we already had a good market share in those products. So I am trying to understand that what has brought this growth? Is it from new customers, new geographies or is it just that the requirement has increased in these times? What has triggered this kind of growth?
- Rahul Nachane:** As I said, the growth is mainly because we have been able to take market share from some of our competitors during this period. There has been decent amount of strong growth in volumes in the overall market requirement also and these two factors have helped us. There has not been any significant addition of customers which is leading to this growth as you said, but we are today selling to close to about 400-450 customers, so those customers keep coming back for material now and we are selling to about 40 plus countries in the world.
- Ayush Mittal:** So you said over 400 customers?
- Rahul Nachane:** Yeah. Basically, these reasons which is leading to growth of those products.
- Ayush Mittal:** So as we had a good market share in our leading products, is it that these products in market are continuing to increase at a good rate? Is that a right thing to believe?
- Rahul Nachane:** So, just let me make the statement here that the growth is not only in the top 3 products. We see a lot of growth now coming in the next 5 to 7 products also where earlier we had a market share of only 20-25%. Today, we are having a market share of close to between 50 and 60% in those products. So we have more than doubled our presence in those products. So it is not just the top 3 original products which we have been doing for over 15-20 years, but also these are the products which have been launched probably in the last 5 to 10 years.
- Ayush Mittal:** That is good to know. Sir, has there been any pressure on pricing or any price increase or that has been stable as of now and going forward?
- Rahul Nachane:** We have not seen any pressure on pricings in the current year at least. So we have found the market to be stable.
- Ayush Mittal:** Sir in reference to the, as we are at almost 90% utilization and the new CAPEX will take some time, maybe couple of years to commercialize. So in between, is there any lever for growth for us like if there is more demand or if you want to commercialize the new products in the pipeline that you have, what do you plan to do that?
- Rahul Nachane:** We continue doing a normal CAPEX, which basically debottlenecking the plant, which brings us to increase of 10-15% every year. So these are the small ones which keep ongoing and that has always paid up in the long run. So we really do not anticipate that we have major issue in scaling up activities in the next 2 years until new capacity comes on stream.

**Ayush Mittal:** So basically we can expand our capacities by 15 odd percent without the greenfield expansion if the demand is there?

**Rahul Nachane:** Yes.

**Ayush Mittal:** Sir, I have couple of suggestions also. Given the low equity capital that we have and the good work that the company has gone and the stock price appreciation, it will be good to have a bonus or a stock split consideration given the very low liquidity that a stock has. Also if the company can get the shares of listed on NSE, that will be very appreciated.

**Rahul Nachane:** We will consider these recommendations, though I am not really sure about what are the listing requirements on NSE are and whether we fulfill them, but we will take these into account and take it into our future plan.

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

**Dhwanil Desai:** Sir, three questions. Sir, if I look at our P&L, our gross margins have almost remained the same and as you mentioned, some of the cost savings and some costs which were not incurred due to the COVID situation, but even if I remove that, there is a significant operating leverage effect which is seen. So I assume that a significant part of operating leverage thing will continue to play if we maintain this volume. So is that understanding correct or is there is something more that we should consider on the margin side.

**Rahul Nachane:** About the fixed costs, obviously they get absorbed better over a larger base which has gone up by almost about 50% as compared to last year. So yes, those costs have come down, but at the same time there has been some postponement, of course. So as I said, we are not really able to quantify what, how much of these postponed costs will start coming in the current year because things are still a little fluid, but we have to wait and watch on that.

**Dhwanil Desai:** Sir, second question is I think you mentioned that we gained market share in the next 5 to 7 products from 20% to close to 50% odd. So that is quite remarkable. 7-8-10 products having 50-60% market share. So in your opinion, what is it that is working in our favor so that we are commanding such a high market share because we understand it is a fairly competitive feel and it is not that there are not many players who address. So what is it that is working in our favor?

**Rahul Nachane:** Well, our marketing philosophy has been very plain and simple and only on 3 factors. What we want to give our customer is best quality, a very good price and we want to be reliable supplier to them and in the long term, it is the value proposition which we offer that works for us on the longer term.

**Dhwanil Desai:** And sir lastly the CAPEX plan that we are contemplating, I assume that will still be for the unregulated and semi-regulated market, is that understanding correct?

**Rahul Nachane:** Yes, our strategy has not changed. We will continue working along the same lines.

**Moderator:** Thank you. The next question is from the line of Anand Jain, an individual investor. Please go ahead.

**Anand Jain:** I would just want to continue with margin question that the last caller has asked. So I just point out one thing which has significantly included the employee cost and which I think should be sustainable. Our average employee cost if I were to say, has been around 15%, but in the last quarter, it has been around 10% and the quarter before that around 12.5%. So do you think that employee cost would now remain at the levels which we had in the September quarter on an increased sales base?

**Rahul Nachane:** We expected it to go up but not by a lot because it took some people to close to about 4 months to get back to work because of family pressure or migrant people coming in from different parts of the state, but we have people coming back to work till as recent as before Diwali. So it has been a gradual return to work. We need to see, but what you are saying is right, large amount of the manpower cost is now absorbed by a bigger bottomline, bigger sales figure and therefore in terms of percentages, we would expect it to remain in the same region.

**Anand Jain:** My next question is you gave a figure of 275 to 300 crores at a yearly run rate. So now assuming that there are more growth opportunities, you say that we can still go up by 15-20% to the next 2 years, right? Is that like a fair assessment?

**Rahul Nachane:** Well, that number was given as the total, at full capacity that is the number of amount which we can reach, that is 100% capacity utilization, that was not a figure given as to what we will reach in the current year or the next year.

**Anand Jain:** No, I agree. I am just saying that so from once we have 100% capacity utilization, we still do a 15-20% year-on-year and till the large CAPEX come?

**Rahul Nachane:** Yeah. It is not something which I can assure you about, but that is something which we always work towards because debottlenecking is just to improve our efficiencies. At the same time and just to increase our production without putting any big-ticket investments.

**Anand Jain:** And sir last question that I have is that can you give me one-off in terms of the foreign exchange write back that has happened or in terms of mutual fund losses which have been written back both in Q2 and in H1 subjectively if it is possible, if you have it handy?

**Rahul Nachane:** Yes. So essentially last year when the COVID restrictions were imposed starting from 15<sup>th</sup> of March, the stock prices basically fell all over the world and we booked the mark-to-market loss on our equity investments in mutual funds and at the same time, the dollar also appreciated against the rupee, and we booked losses on that also, but that was just temporary because these were basically forward cover losses. And starting from April, the market started recovering as well as rupee started recovering. So those were only transitional in nature and we made up all those losses in the current half year. So out of this 3.2 crores, almost 2.4 crores were made up by June and the rest was all recovered in the current quarter.

- Anand Jain:** I just want to remove like because of the profit that I see this quarter, I just wanted to remove the one-off items in this quarter, that is how...
- Rahul Nachane:** That would be about 3.2 crores.
- Anand Jain:** So this quarter, it would be around 3.2 crores?
- Rahul Nachane:** No, totally for the first half year.
- Anand Jain:** For the first half year, it is 3.2 crores, okay, that make sense.
- Moderator:** Thank you. The next question is from the line of Venkat from 3Sigma Financials. Please go ahead.
- Venkat:** I wanted to know in the last call you were talking about poultry. So wanted to know if there is any progress on poultry?
- Rahul Nachane:** Mr. Venkat, we have not been able to progress anything on these products because all the new products were put on hold essentially and we were busy getting all the old products back into production. So we spent all our efforts in first getting one by one all the old products started and then scaling them up and stabilizing those products. So in the first half year, we have not been able to work on any of our new products which we had planned for 2019-20.
- Venkat:** The next question is profitability you were talking about 275 crores to 300 crores sales. Sir, the profitability also remains in line whatever this quarter has?
- Rahul Nachane:** Our profitability is right now on the higher side because as I said, we saved a lot of fuel costs because fuel prices were lower. We have also had postponement of lot of expenses especially plant maintenance upkeep, sales and marketing because there is no travel going on right now. We are not participating in any international exhibitions because there are none taking place right now. Lot of other smaller expenses have got postponed. So these will come back, and it is quite possible that the profitability in terms of margins will decrease. So we are not able to put a number on that at a time being because we do not know. In terms of postponement, what is the amount which is postponed and what will come back in the current half year, is a little difficult for us to estimate that exactly. So we are not able to give you an estimate on that.
- Venkat:** As we see in other areas also, we do not see any exhibitions happening whether in US and Europe, we do not see the exhibitions happening at least till April. So hopefully this year, the expenses will remain the same, I guess.
- Rahul Nachane:** But your guess is as good as mine because we really do not know what is happening. In the current quarter, we again see some amount of postponement is continuing. So both in terms of marketing and sales cost as well as lot of migrant labor is still not back, so lot of work which we normally would have contracted out has still not been restarted. So it will continue, but again as I said, it is difficult to accurately examine how long it will go on.

**Moderator:** Thank you. The next question is from the line of Rajat Setiya from Vrddhi Capital. Please go ahead.

**Rajat Setiya:** Sir, just wanted to understand you mentioned that we have been able to gain market share in the next 5-7 products and maybe more market share in the first 3 products as well. So you also talked about what we are doing right. Just wanted to understand if you have the perspective from the competitor side, why are they losing the market share, why are they not able to do what they were doing earlier or what we are doing?

**Rahul Nachane:** There has been selective growth in some of the products also. It is quite possible some of our competitors have changed the strategy and started focusing more on those products. Again during the earlier parts, it was difficult to get all products back on stream very fast and stabilize production on those. So the longer people took the more impatient customers started becoming, which is why we said that we have been able to take away market share from some of our competitors because we got back on feet more quickly for all the complete line of products. And we have not tried to play a price role in this. We kept our prices steady. There were some who were inclined to take a little bit advantage of the situation by talking to customers for higher prices because there was shorter supply of products in the market. What we decided was that would be a very short-term strategy to have and gave price reliability to all customers. I think that is paying off for us.

**Rajat Setiya:** Also, you mentioned that we can maintain this quarterly run rate of 90% utilization which essentially means all of our capacity practically is getting deployed into the existing old products and we also had plans of launching new products which you are saying that starting next year you may focus on that, but given there would not be any capacity available for new products or not much capacities, how are we looking at it? Are we going to use debottlenecking exercise to launch new products or we expect existing old products need a momentum and decline a bit and hence you can start producing new from that spare capacity?

**Rahul Nachane:** Current year has been full of surprises and at the initial part of the financial year, especially starting with March to almost end of May, for 2.5 months, we were all floundering and the actual job was just to get products in back on stream, start meeting basic commitments. So we really haven't worked out long-term plans during this period, we have just been reacting to the situation in the market and reacting to the shortages which were there, and we have plugged shortages. Now, as things start stabilizing, we will start looking forward and start making our plans, but probably we will have to rework to what capacities we can set aside for old products and for new ones, but I am very happy that our sales growth for old products has been so strong. We are now leaders not only in our top 3 products, but probably for about 8-10 products, we have repositioned in terms of market share.

**Moderator:** Thank you. The next question is from the line of Sachin Shetty, an Individual Investor. Please go ahead.

**Sachin Shetty:** Sir, I just missed your initial comments, I just want to know, what is your current capacity and what is the capacity utilizations?

**Rahul Nachane:** Given the current capacity, we can probably reach a turnover between 275 and 300 crores.

**Sachin Shetty:** And capacity utilization, sir is 60% or 80% now?

**Rahul Nachane:** Currently, we are at close to 90%.

**Sachin Shetty:** So 90%, are there any plan for any CAPEX, already you are doing some plan in the capacity expansion sir? You almost reached your capital utilization?

**Rahul Nachane:** We are carrying out small investments in the existing plans, but that is basically on debottlenecking, it is not any major expansion which we are doing. So we are looking at probably between 8 and 10 crores in the current year and probably another some similar amount in next year. It is not any major expansion which we are doing.

**Sachin Shetty:** So this current year, you are not focusing any capacity utilization, so going forward, next year any plan sir, because you have already reached to 90% that is what and you don't want to lose any market share? This is what I meant.

**Rahul Nachane:** You know the current year for the first half year, everybody was struggling with getting people back, so we will start working on it from the current half year now.

**Sachin Shetty:** Sir, my next question is, I just want to understand, you just told us you gained some markets in some of the 4 to 6 products, some 50% from your competitors, so what exactly happened? Why that competitor has lost their shares and how it is captured to us? Is that competitor from a Chinese player, what exactly happened, sir?

**Rahul Nachane:** There are both Indian and Chinese companies which we compete with. It is not just one and there is not just one manufacturer for each product, but there are many manufacturers. I think probably, I will end up repeating myself, but we provide a very good value proposition to customers, we got back on our feet with capacity much faster than probably our competitors. We did not play around with pricing and give them stability in terms of the same pricing without trying to take advantage of the situation. These are small things which have helped us to get ourselves pick up and kept us in the business. There are no major things which has taken place, it is the small things which are making a difference.

**Sachin Shetty:** Sir, just going forward, this market shares will be continued, or we will be getting more market share, I think so?

**Rahul Nachane:** That is always a game, but market is very fickle. Market is bound by pricing and we do our best to ensure that we don't lose market share or we don't lose customers and luckily for us, our past track record over the last 10-15 years has proven that.

**Sachin Shetty:** Sir, my next question is, in Q2 the same topline and what is the EBITDA margin, that will we continue for the next 2 to 3 quarters or you are facing some challenges for next 2 quarters? What are those?

**Rahul Nachane:** I am unable to tell you about EBITDA margin, because as such oil prices are back up now, so we don't anticipate the savings on that. That is a 1% loss. We have had a Rs. 3.20 crore writeback on mark to market losses during the current half year. We have some postponement of expenses which we don't know how long that postponement will continue. It is of course because of the COVID situation which still exists. So I am not very sure about what kind of margins will keep on going.

**Sachin Shetty:** But what about topline, it will be improved or same?

**Rahul Nachane:** I think we will be able to maintain if not improve the existing sales level.

**Sachin Shetty:** So you already reached the 90% capacity utilization?

**Rahul Nachane:** Yes.

**Sachin Shetty:** The CAPEX plan, Greenfield or whatever, Brownfield, you already planned, or it is yet to prepare?

**Rahul Nachane:** No, plans are ongoing now and we will be doing some CAPEX in the current year and going forward in next year to debottleneck our plant.

**Sachin Shetty:** Sir, my last question is that listing on NSE and liquidity and bonus, you just please consider.

**Rahul Nachane:** We will do that.

**Moderator:** Thank you. The next question is from the line of Kashyap Karthik from Blue Tree Capital. Please go ahead.

**Kashyap Karthik:** Sir, couple of questions, first question essentially is from some of the global competition in whatever we are reading on the internet, players such as you seem to have a lot of opportunity in China, especially after the flood situation that happened in July and August in China, so from an NGL FineChem perspective, could you please elaborate on the opportunity in China and if we can leverage a larger piece in China, 1 and 2, are there any other delta countries which are provided with delta revenues or so far old products or other 7 products which have been scaled up?

**Rahul Nachane:** With regards to China, there was some sort of negative reaction towards China in 2019, but in 2020, China has bounced back and supplies from China are now proceeding at normal. We are unable to let you know about how international companies will view and whether they will want to change to India. But China, I think, out sells India almost 7:1 or 8:1 in the pharma industry, so rather in looking at that we need to see how we can compete with them and ensure that our

product cost is cheaper than theirs. If we can come up with this sort of a value proposition, we will find that global companies are willing to move to us. In our product range, we have been able to successfully compete with China, and we have been competing with Indian and Chinese companies for many years now with regard to our products.

**Kashyap Karthik:** So we do supply to China from past 3-4 years, is it the track record that we have for supplying in China?

**Rahul Nachane:** We also sell almost about 8 to 10 of our products into China.

**Kashyap Karthik:** Sir, the other things is, are there any other countries where there has been a delta change in revenue over the past half year or even past one year, so to speak where some new countries have been added, where some of our old products are being sold, but new countries with large opportunities?

**Rahul Nachane:** Actually, there is no new country left now, except probably USA, Canada and Japan and other regulated markets. We are selling to almost every country now across the world, which has pharmaceutical manufacturing. There are quite a few countries which don't have any manufacturing setup of pharmaceuticals. So other than that, we are selling to over 45 countries, so I think we are penetrated all the countries now well. As the customers scale up in those countries, we need to scale up with them and approach newer customers in those markets.

**Kashyap Karthik:** Sir, the other bit is, when I was reading the annual report essentially and previous concalls as well, some of our top 3 molecules, the global size was 50 to 100 crores, so if we talk of the next 7 molecules where we have gained market share, the size of the molecule, would they remain around 50 crore, sir or would there be larger set of molecules?

**Rahul Nachane:** I don't have an off-hand estimate of volumes for those to refer you.

**Kashyap Karthik:** But rule of thumbs are again, I am not looking for exact estimate, I just want the ballpark size of things look, our top 3 molecules were 50 crore in size for the entire global market, so we have 50% market share there or more, the next 7 molecules are also 50 crore in size or 25 crore in size or 100 crore in size or 200 crores is optimistic estimate?

**Rahul Nachane:** The next 5 molecules might have a market size probably in the range of between 20 and 40 crores.

**Kashyap Karthik:** Sir, last question, just from a book keeping perspective, as on the receivables perspective, there were 50 crore or 25 crore receivables, do we see any issues getting these receivables from any of these players or are they already come in and we don't have to worry because it is September 30th, so obviously 45 days have gone by.

**Rahul Nachane:** Our average credit is in the range of 75 days, there has been a big increase in sales in last quarter leading to higher receivables.

- Moderator:** Thank you. The next question is from the line of Aman Vij from Astute Investments. Please go ahead.
- Aman Vij:** I have two questions, first question is on our growth in Europe and India, so could you quantify in terms of say percentage, what kind of growth did we see in these two markets?
- Rahul Nachane:** I don't have the Europe figures straight away with me, but I can tell you the India sales have gone up from 8.5 crores in Q1 to 16.5 crores in Q2.
- Aman Vij:** And on Europe sale, roughly it will be at the company level or it will be more than the company's average sales growth for the quarter?
- Rahul Nachane:** I don't have that number here with me, so unfortunately I can't answer that question.
- Aman Vij:** And my second question is, you have talked about in the top 10 products, we already have like 50% plus market share and normally when a company reaches that kind of market share, they can grow only at the market level, so what kind of growth do you think the top three products and then say 4th to 10th products can see over the next 2 to 3 years?
- Rahul Nachane:** This year for quite a few of our products we have seen market grow by over 20%. Now, whether this is sustainable or not, it is something which we can't tell you right now, because we have been looking with tunnel vision during the past 6 months. How sustainable this is, we will need to see probably over the next one year.
- Aman Vij:** Just one small clarification, say we have like 20-22 products, so the next 10 to 20 products also, do you think we can increase our market share to 25, 30, 40% in the next 2-3 years?
- Rahul Nachane:** Of course, we can. Ideally we should reach 100% market share, so that we are always crowding out somebody else. That is the aim, but not achievable as it will lead to monopoly. Now, the reason why you grow to a 50% market share is people start recognizing that your price is extremely stable and good, your quality of the product is excellent and there are zero rejections going on in the market and you are a very reliable supplier. When all these boxes are ticked, there is no reason for any customer to start changing over and there are number of times when customers first try buying with 2 or 3 different suppliers and then identifying that one supplier is more reliable, they start buying, increasing their quantities from them because they do not want production disruptions, so these are simple things which help gain market share in the long run.
- Aman Vij:** And sir, the 11th to 20th product also have these 20 to 40 crores market size, each product?
- Rahul Nachane:** Yes.
- Moderator:** Thank you. The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

- Ayush Agarwal:** Sir, I would like to ask about the expansion in Macrotech, that are we doing here and what kind of capacity do we have there and are we planning to add more?
- Rahul Nachane:** We haven't made up our plans for the investment for the next 2 years, so those plans are under preparation right now. I will not be able to answer this question right now because we just don't know what scale we are looking at. We know what the product line we want, we know what scale of activities we want, the detailed engineering is going on for it right now.
- Ayush Agarwal:** In terms of metric tons, what would be our capacity for one year?
- Rahul Nachane:** We don't define it in terms of metric tons, because it varies based on the products which we do. There are some products which are 16 steps of reaction, there are some which has just 3. So obviously if I make a product with only 3 steps of synthesis, I can make probably 10 or 15 times of the product, so we prefer to define capacity in terms of value for our given product mix.
- Moderator:** Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.
- Dhwanil Desai:** Sir, just wanted to understand this quarter, the Macrotech subsidiary has turned profitable, so just in case, what is the plant there, I think as far as I understood, it is more to supply intermediate for capital requirement, but tomorrow if need arises, do we see any potential of ramping up capacity of Macrotech plant or that is not feasible?
- Rahul Nachane:** No, when we say that we do normal CAPEX for our debottlenecking of operations, we also mean Macrotech, because Macrotech is 100% owned by NGL, so there is no difference between the NGL owned units and Macrotech unit. So when we take into planning, we consider everything, in terms of the planning for the company, so just like that we plan debottlenecking operations in NGL, we will also do debottlenecking expansions in Macrotech.
- Dhwanil Desai:** So it can be more than intermediate supplier and it can also manufacture products and sell in the market?
- Rahul Nachane:** No, that is not our plan. Our plan is to keep it as intermediate manufacturer only because we are quite short of intermediate capacity right now and that is limiting our capacity, so we will continue with and concentrate on only intermediate manufacturing in Macrotech.
- Dhwanil Desai:** And sir, second question is, when we were looking at the new plant that we kind of commercialized and scaled up, a significant part or a thumb part of that capacity was meant for the new products that we were developing and which kind of got postponed due to COVID and other thing, but now our old products have scaled up very well, so does it mean that we would have to slow down in terms of ramping up of the marketing of the new products because we may be short of capacity and hence the timeline for scaling up of those product will change or how should we think about that?

- Rahul Nachane:** See, the plants which we design, we always make them multiproduct and multiple different kind of synthesis can be carried out in those. So the plant currently is being used for existing products also and which is the reason why we have been able to ramp up capacity and get to higher sales in such quick time. For the new products, there are essentially 4 products which we were doing in the last year. All these 4 products have got postponed and we will concentrate on them only later. So we have not still made up our plans on how to distribute capacity on those because currently, the capacities are diverted to our existing products and when they are growing so fast. Currently we are doing almost 18 different APIs and all those 18 APIs are doing exceedingly well, so for the new 4 which we had planned, we don't want to disrupt sales and supplies of the current 18.
- Dhwanil Desai:** So as and when you see the capacity being available, then only you will think about scaling of the four new products, right? That is right way to think.
- Rahul Nachane:** Well, out of those 4, for one product, manufacturing has started, and the others will be brought on depending on how the demand supply is moving for the other products. It is not a hard and fast rule that this plant is only for product A and B, but we keep the situation fluid and utilize the capacity for whichever product is in demand at that point of time.
- Moderator:** Thank you. The next question is from the line of Harsha K. S., an Individual Investor. Please go ahead.
- Harsha K. S.:** Sir, I want to know what is the cause for the increased demand of our products and is this demand sustainable in the long run and what does the end-user depend on?
- Rahul Nachane:** Our demand growth has been because we have taken market share from some of our customers, secondly there has been a very nice sizable growth in demand for each of these products, so the market scale has gone up. These two factors put together helping us to increase our market share.
- Harsh K. S.:** Sir, is there only short supply of the drugs is driving the growth more or is there any structural demand from China shifting to India?
- Rahul Nachane:** We don't look at demand shifting from China to India as a factor because Chinese companies are also manufacturing this product. We are in a B2B business. At any point of time, person who offers you more competitive pricing is a preferred supplier. Customers shift to that company, and do not exercise preference in terms of country. The preference is only by price and quality. So we don't think along the lines of country competition, we take the only thing in terms of individual company competition for us.
- Harsh K. S.:** But the end-user demand you keep on increasing sir, at what percentage?

- Rahul Nachane:** I am not able to give you because there are 18 products we are doing, so I am not able to give you exact demand increase, but there has been a fairly good growth in terms of demand for each of the products.
- Moderator:** Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.
- Ankit Gupta:** Sir, regarding the new products that are in pipeline or we plan to launch over the next 2-3 years, currently we are doing products which have size of, let us say, 50 to 75 or maximum 100 crores per product, so now in terms of product selection, are we looking at bigger molecules, let us say, 100-200 crore potential or even more and I think poultry was one step in that direction that as you has stated during an earlier interaction that poultry molecules are relatively larger volumes, although the margins are lower, but the size of the molecules are larger, so any thoughts on that direction?
- Rajesh Lawande:** Hi Ankit, this is Rajesh, so on the product selection particularly couple of years back we made conscious decision to add some poultry products, parasiticides, and anti-infective also to our portfolio. Most of the products of our portfolio going to livestock animals, so what we have done strategically is to add products which add to the whole basket, not just livestock, we added poultry and parasiticides, also add going to the pet market, so that is sort of an intersection market there and anti-infective also going to the pet as well as the large animal market, so we have tried to struggle these four therapeutic categories and we have been successful in adding products in each of these areas. Going forward, we continue to stick to the original strategy of focusing on livestock animals and adding more products into each of these categories which is antiparasiticides, anti-infective and the livestock categories.
- Ankit Gupta:** So Rajesh, any of our products which are in our development state or R&D state which has potential of, let us say, 100 crore, 200 crore plus incomes of market size?
- Rajesh Lawande:** We don't have that data, because we don't have sources like IMF to give us exact number and the molecules are much smaller in size, so we don't have that data on hand to take that decision or to make that decision really.
- Ankit Gupta:** Rajesh, you are answering, can you talk about some of our R&D efforts and how the team is placed over the next 2-3 years, since we are growing in scale and how do you see the R&D efforts of the company shaping up and any expansion in the team size?
- Rajesh Lawande:** So our R&D focus remains animal health APIs. Now, we have currently about 18 products which we manufacture commercially. Apart from that we are working on 8 to 10 products in different stages, but at the R&D level and to achieve greater number of products we have to add capacity in R&D which we continue to do so. We are adding newer members, we are adding more capacity and our focus is clear on animal health APIs and then we will continue to do so.

- Ankit Gupta:** Any new expansions that we have done in the team, I think we had 28-30 people in R&D team as per interaction?
- Rajesh Lawande:** Over the last 6 months, due to COVID we have not been able to expand our R&D team, but we will continue to look at it once the situation eases and we will be able to expand the team, but it is a continuous effort, it is not a one-time effort, it goes on.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal Analytics. Please go ahead.
- Ayush Mittal:** Sir, I have two questions, one of it have been partially answered wherein I wanted to understand more about the future provided pipeline. Basically, when we read about this area and we read about the competitor, we are seeing lot of action happening in this space and the leaders in this space are now expanding and investing into injectables or moving from API to formulations or doing partnerships at global companies, so are we doing or moving on those line or do we have some plans on those side?
- Rajesh Lawande:** So for newer products, are you asking from a newer products point, Ayush?
- Ayush Mittal:** Yes, the direction going forward from a longer-term perspective now.
- Rajesh Lawande:** Our strategy has been to focus on the animal health APIs, primarily for the ROW market, so that remains a strategy and what has worked for us, we are adding more capacity and getting into newer products which will take us to a higher topline, so that aside we work with almost lot of the top 20 animal health companies for supplying APIs to them. So the strategy is to add more molecules and to add bigger customers as well.
- Ayush Mittal:** What I was also trying to understand is, yes?
- Rahul Nachane:** Your question was whether we are also going to get into formulations and do alliances with other companies.
- Ayush Mittal:** Yes, there are lot of outsourcing opportunities and all those things opening now.
- Rahul Nachane:** Yes, we believe that our specialty is in manufacturing of APIs and we do not want our focus diverted or spread in different areas right now, so our concentration remains on APIs and intermediates, not on any other sector.
- Ayush Mittal:** And second question is, now that the kind of cash flows profitability that we have attained, do you plan to increase, how do you plan to utilize the cash flows, basically do more of CAPEX going forward or what would be the plan given the size that we have reached?
- Rahul Nachane:** Till we find that we are able to put money which we earned to good use and we generate good returns, we will continue our expansion and I don't think we need to look at anything else probably for the next 10 years at least.

- Ayush Mittal:** No sir, my question is from the side that I think you had indicated earlier that next CAPEX might be 50 odd crore, given that it is now 1 year kind of profit, so do you plan to increase this kind of the CAPEX outlay going forward or may we increase dividends or something on those line?
- Rahul Nachane:** Right now, I can't really tell you about that because we are still formulating our CAPEX now. Scale of activity is yet not very clear, whether we do all the CAPEX at one go or we will do it in couple of stages also is not clear, so I am unable to answer that question immediately.
- Moderator:** Thank you. The next question is from the line of Mohammed Patel from Blue Banyan Wealth. Please go ahead.
- Mohammed Patel:** Sir, what is the top 10 or top 5 products contribution in quarter 2 and H1?
- Rajesh Lawande:** Top 10 products contribute to 71% and top 5 at about 45% of sales.
- Mohammed Patel:** This is for the quarter 2?
- Rajesh Lawande:** Yes.
- Mohammed Patel:** H1?
- Rajesh Lawande:** It is almost similar, so you can consider over 70% and 40 odd.
- Moderator:** Thank you. The next question is from the line of Anand Jain, an Individual Investor. Please go ahead.
- Anand Jain:** Sir, my question is related to what Ayush had asked, so are we open to inorganic opportunities because of the kind of cash flow that we are generating and the kind of opportunities opening up because there are lot of players specially in the Western world are looking at India at an outsourcing destination, so are we open for inorganic expansion and how do we look into it because there will always be environment clearance is required and there are lot of steps that we do for a Greenfield CAPEX?
- Rahul Nachane:** We are completely open to inorganic opportunities. If they present themselves, we will definitely consider the opportunity.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.
- Rahul Nachane:** Thank you for joining us in this call. As you are aware, we do this every half year, so I look forward to the next interaction once the year is closed and I can only assure you that we are doing all we can in ensuring that the company's growth prospects remain good in the coming year. Thank you very much.

**Moderator:** Thank you. 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.