"NGL Fine-Chem Ltd Q4 FY-21 Earnings Conference Call"

**June 10, 2021**

**MANAGEMENT:** **MR. RAHUL NACHANE – MANAGING DIRECTOR, NGL FINE-CHEM LTD.**
**MR. RAJESH LAWANDE – WHOLE TIME DIRECTOR AND CFO, NGL FINE-CHEM LTD.**
**MR. PALLAVI PEDNEKAR – COMPANY SECRETARY, NGL FINE-CHEM LTD.**

**MODERATOR:** **MR. RISHAV DAS – PARETO CAPITAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 and FY21 earnings conference call of NGL Fine-Chem Ltd. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishav Das from Pareto Capital. Thank you and over to you sir.

**Rishav Das:** Good morning everyone. We represent investor relations for NGL Fine-Chem Limited. On behalf of NGL Fine-Chem I welcome you all to our Q4 FY21 earnings conference call. I have with me from the management, Mr. Rahul Nachane – Managing Director; Mr. Rajesh Lawande – Whole Time Director and CFO and Ms. Pallavi Pednekar – Company Secretary. We will have brief opening remarks from the management followed by the Q&A session. Please note that certain statements made during this call may be forward-looking in nature. Such forward looking statements are subject to certain risks and uncertainties that could cause our actual results or projections to differ materially from those statements. NGL Fine-Chem Ltd. 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:** Good morning all of you. Thank you for joining us on this call. I hope that all of you and your families are safe and well in these difficult times.

I will open the call with few remarks on our performance and strategy going ahead. We are pleased with the performance of our company during this challenging year where the entire organization has taken wide efforts to ramp up our manufacturing and capitalizing on demand front. Consolidated sales for the quarter ended 31st March 2021 has been the highest at Rs. 72 crores as against Rs. 35 crores for the same quarter last year. EBITDA stood at Rs. 21 crores with a margin of 29% and we recorded a net profit of Rs. 14 crores with a margin of 19%. Consolidated sales for the year ended 31st March 2021 were Rs. 258 crores as against Rs. 152 crores for the last year representing a growth of 70% year-on-year. Our full-year EBITDA stood at Rs. 80 crores with a margin of 31%. The margin expansion witnessed during the year was on account of significant operating leverage as we scaled up and favorable raw material prices which we prevailed during the last year. Profit for the year was Rs. 57 crores as against **Rs. 8.3** crores last year with a margin of 22%.

We experienced significant growth in all our business segments driven by an increasing market share in all our products. We successfully ramped up a new capacity in line with the strong demand with all our facilities running at nearly full utilization levels of over 90%. To continue maintaining our market position and tapping into increasing opportunities we have planned to invest Rs. 20 crores in our subsidiary Macrotech to expand capacities for intermediate manufacturing. Additionally, we have plans to increase outsourced production to 15% and continue process improvements and debottlenecking efforts to increase volumes. Going ahead we will be doing a Greenfield expansion at Tarapur where we have already acquired land and have the necessary approvals in place to build a new facility with an estimated CAPEX of Rs. 80 crores to bring about close to 50% capacity increase. We expect to commission and start production by the end of FY 2023.

We are today a net debt free company and will continue to invest in strengthening our financial base and maintaining our market leadership position and by remaining cost competitive, reliable and offer high-quality solutions to our customers.

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

**Moderator:** Thank you very much. The first question is from the line of Ankit from Bamboo Capital.

**Ankit:** Last year in our Q2 call you had stated that our top 10 products were doing extremely well and especially our top 4 to top 10 products we had taken significant market share away from our competitors and they were facing some challenges on ramping up and we were providing our customers good price and reliable supplies. Given how the situation is currently, how have our competition reacted now and are we still able to retain market share in those top 20 products and how do you see growth for this top 10 products of ours for FY22 and FY23?

**Rahul Nachane:** Thank you Ankit. We did take away quite a bit of market share from our competitors during the last year. We have been successful that we have been able to retain the market share which we have gained over this last one year. I do not anticipate any problems in holding on to whatever gains we have made during this period. In fact, we are looking forward to at least a 20% growth in our top 10 products even during the current year.

**Ankit:** How are the remaining 8 products, 11 to 18 products that we do, how are they doing and what are the plans to commercialize new 4 products that we have developed and last year because of huge demand from our existing 18 products were not manufacturing those 4 products if you can throw some light on that?

**Rahul Nachane:** Our growth has been very wide based during the last one year. Our top 3 products used to contribute 47% of our sales during FY20. Today it contributes only 40% of sales. So, we see such decreasing trend contribution from the top 5 also and the top 10 also, which means that our other products are growing at a much larger pace than these mature products. We see a pretty good growth coming up as our market share even in these products is going up. So, we see an overall well round growth coming up for us.

**Ankit:** Any plans to commercialize those 4 new products in a big way this year or are we still facing the capacity constraints?

**Rahul Nachane:** No, we have already started manufacturing those products, so those are now part of our regular lineup, and we will keep on ramping up capacity as we are able to penetrate the market better. We do not consider them as new products anymore; they are all now within the system.

**Ankit:** So, they are also ramping up in a good pace now?

**Rahul Nachane:** Yes.

**Ankit:** If you can throw some light on the CAPEX plan primarily by debottlenecking and the existing API plant and expansion at Macrotech and as well as the new Greenfield expansion. So, post the Brownfield expansion at Macrotech and debottlenecking at the existing API plant, how much topline can we reach and our plans for future Greenfield expansion, if you can throw some light on that?

**Rahul Nachane:** We are investing close to about Rs. 100 crores in the next 2 ½ years, of which Rs. 20 crores is in Macrotech and Rs. 80 crores will be at our new Greenfield site in Tarapur. But typical capital assets ratio turnover ratio we see in this industry is about 2.5:1. So, we expect to attain a similar kind of turnover from our investment.

**Ankit:** The expansion at Macrotech and debottlenecking at existing API plant we can touch Rs. 325 crores to Rs. 350 crores of run rate on an annual basis.

**Rahul Nachane:** Plus, we will have to also increase our outsourcing simultaneously. But yes, that should be good enough to help us get there.

**Ankit:** One last question from my end then I will come back in the queue, on a broader level if we look at it currently you are manufacturing 22 products including the 4 new products and we have 5 more products under development as you have stated in our presentation. So, post this Brownfield expansion and the Greenfield expansion at Tarapur, let us say in FY24 and FY25, will this 27 products be enough to hold still our capacity at the new Greenfield plant as well or we will have to introduce new products also apart from this 27 products which are under manufacturing or under development?

**Rahul Nachane:** That is a little difficult to state right now because when we introduce a product, there are always existing supplies in that, and we have to see how we are able to gain market share from the others. So, at times it takes one year, at times it takes five years. So, how long or how quickly we are able to fill in the capacity in our own plants by increasing demand, is something which we have to see as we go.

**Ankit:** So, we will keep on working on new products and apart from this five more products at least next 3-4 years there will be some more products which will be under development and most likely be commercialized?

**Rahul Nachane:** Yeah, it is an ongoing process. We cannot obviously saw, it is a pipeline which we have to keep feeding so that we are able to penetrate markets, add a new products and also fill in capacity.

**Ankit:** This new 5 products which are under development also have similar size of our existing molecules that we manufacture let us say Rs. 550 and Rs.100 crores, these are bigger molecules?

**Rahul Nachane:** No, some are smaller molecules some are decent size so it is a mixture. I cannot give you those numbers of what the market size is for each of those products, but it will keep pace with the rate at which we are growing.

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

**Ayush Mittal:** Having been invested for five, seven years now, I can really appreciate the work that our company has done. My question was that given the change in the financials and the kind of cashflows that we are generating today, we are at a very different sight than what we were 2-3 years back. So, it is obvious that our ambition and future growth plans should change. And it is great to see that you are way to invest almost Rs. 100 crores over next two years. One key area for us is the R&D part. Can you share what more are we doing on this front and what kind of plans to have on the pipeline going forward?

**Rahul Nachane:** Thank you for the confidence in our company for the last so many years. In the R&D, we have got today, a team of close to about 28 people working in Mumbai and Tarapur and over the next two years we will expand our R&D team also further. In fact, at Macrotech we are setting up a separate R&D cell for developing and improving manufacturing of all our intermediates. So, it is a continuous process for us and we will keep on investing in R&D because that is how we will look at the future.

**Ayush Mittal:** But if I see the kind of spend and the number of additions of molecules that we used to do in earlier years, while what we see today, we see the addition of molecules is much lesser as compared in past, while the company has grown quite a lot, any thoughts on that?

**Rahul Nachane:** Well, the demand for existing products was growing quite a bit Now if we are putting in new products there is lot of effort which goes into developing that, because in terms of production it is completely a new process for us. And why give up existing opportunities, just because use the new product capacities for at least existing opportunities out. So, we prefer to avail of the opportunities which are in the market as of now rather than just manufacturing new products.

**Ayush Mittal:** But you would plan to increase the product portfolio because if we have to grow further, we need to have them from before and then only we can harness them in coming years.

**Rahul Nachane:** As I said earlier also it is a continuous process. R&D is a continuous process, introducing products in the plant is continuous process, getting these products into the market, getting market share, getting customers for that it is like online process for every product for us.

**Ayush Mittal:** My second question is when we go three years back then also the kind of top five products in those, we had a high market share globally. Today also we have a very high market share, and our market share has improved. So, does this mean that the market size of these products has grown a lot or what has really happened? The kind of growth that we are seeing is pretty high, while we had a very high market share, so can you share more as to what has happened to our key products? And do these have enough growth opportunity for us to grow further from the same basket?

**Rahul Nachane:** We have seen that the market share for the top 10 products which we have got, the market size itself has gone up in double-digit numbers during the last one year. And we see the same strong growth happening in the current year also, so it is helping us in two ways. Number one, the market size has gone up. And number two, our share in that particular market has also gone up which is why we are able to record a much higher growth numbers.

**Ayush Mittal:** Is it also that we have been able to expand the geographies and customers or is it the same customers and geographies that are driving this growth?

**Rahul Nachane:** We are selling to over 45 countries now and to over 400 customers. Three years ago, we had probably around 250 customers, so there is a lot of customer acquisition also which has taken place in the last three years.

**Ayush Mittal:** I also have a suggestion that I think given the stock price we should definitely consider a bonus of stock split and also our listing on NSE, I hope the management can consider that part and that will be helpful.

**Rahul Nachane:** We will definitely consider that.

**Moderator:** The next question is some the line of Namit Arora from IndGrowth capital.

**Namit Arora:** My question is linked to your thoughts of right to win, and the competitive landscape and it is partly linked to your detailed thoughts in response to Aysuh and Ankit's question. So, in your space there has been reasonable amount of private equity on strategic activities. Could you walk us through some of the differentiators, the way you think about your right to win, some thoughts on the way you are fashioning the organization to continue to demonstrate this performance which has moved to a completely different level in the last four quarters. Just some thoughts on competitive landscape and you are positioning as an organization as a team in some things that you are doing around R&D organization, etc.

**Rahul Nachane:** We have positioned our organization on three very basic principles. Number one, we want to be extremely cost competitive and offer our customer a very good value proposition. Secondly, we want to offer them the best possible quality. Thirdly, we have to be reliable in terms of service which we render to the customer. And these three pillars are which we work on, have been the main foundations on which we have been able to get our market share. That is what has given us our competitive advantage.

**Namit Arora:** If I may ask in slightly medium term, what are the efforts you are doing in terms of innovation? It could be existing APIs, it could be new initiatives, it could be new engineering or R&D on the process side. You already have a fairly large portfolio. So, one is scalability of that and the second is some more medium-term initiatives. If you could give us some color on that.

**Rahul Nachane:** So, on the R&D side we have got two basic objectives. Number one is to keep on looking at the products which we are making and see whether there are more efficient ways of making that particular product. We try to improve the yields which we can get, improve the input, and output ratios, improve the recoveries of byproducts. That is one part of the R&D focus. The second part is to look at which are the new products which we can introduce and manufacture. Having said that there are other efficiencies which are also driven in all the other departments. In purchasing, we try to drive efficiencies, in our inventory management we try to drive efficiencies, in manufacturing we try to optimize production and reduce costs. So, there are multiple ways and means in which we try to run and optimize our operations. And it is the overall effort which we see coming in the form of the margins which we derive.

**Namit Arora:** Final question from me before I get back in the queue, about 78% of our revenues are from veterinary API, but you have other 3 segments, the human API, the intermediate and finished dosage forms, the FTF. So, you over a five-year period do you see the other three human API, intermediates and FTF also becoming a large critical mass and scaling up significantly further? Or do you see veterinary API itself continuing to scale up faster than the other three?

**Rahul Nachane:** We have seen a spurt in the human API business in the last one year, though it has not been a core focus for us, the focus essentially is veterinary API. In fact, all the products in the pipeline have been veterinary APIs. But the couple of the products which we have been making in the human field also, we saw there is demand for those products, at the same time we again took away market share from couple of other manufacturers. So even though it was not really a thrust area it still worked well for us. But going forward our focus is more on the veterinary line of products.

**Moderator:** The next question is on the line of Akash Jain from Money Curve.

**Akash Jain:** Great set of numbers in the last four quarters. Like Ayush I have also been invested in the company for the last three years and really seen in the fruits of labor or from the management team on this. I just have one question, like you mentioned and even if you look at the historical numbers, our asset turns have typically been between 2 and 2 ½ and that is what you mentioned even in your opening remarks. But for this particular year our asset turns have been very high, upwards of three. So, what brought that asset turn this year? Is it driven by some outsourcing or something like that? And is it possible to maintain higher asset turns in the future, looking at what happens this year?

**Rahul Nachane:** The asset turn we are looking at a depreciated balance sheet. So, the fixed asset we are not looking at the gross block, but we are looking at the net block where assets have been depreciated. So, probably that is why we are looking at a much higher asset turn as such. But on fresh investments we do not foresee asset on more than 2 and 2 ½ x.

**Moderator:** The next question from the line of Dhwanil Desai from Turtle Capital.

**Dhwanil Desai:** I have two questions. So Rahul, if I remember correctly when we were talking about the poultry products, the idea was that to sell large volume products, but maybe slightly lower gross margin products. And one thing that we always appreciated about our company's level of gross margin at which we can operate and then grow also, even though being a very high gross margin company. So, just wanted to get your thinking in terms of the new products that are in the pipeline or that we launched recently. Do we think that at 55% kind of a gross margin that we work with even for newer products or we think that as we grow, we will look for lower margin but higher scale products? How do you think about that?

**Rahul Nachane:** We do a mix of both the kinds of products, where we do low margin, but higher turnover and we also do ones where the volumes are lower, but the margin are far-far higher. And it is a mix of both these products which we have got which helps us to get the overall margin. So, on the new products which we are looking at also they are pretty similar in the structure to what we have got today. So, there are probably about two which are higher margins but very low volumes and there are a couple of them which are a little lower in margin but higher in value. So, it is a mixture and we do not see a drastic change from the existing product mix going forward.

**Dhwanil Desai:** The second question is on our interaction one thing which we got and correct me if I am wrong is that we were not too keen on outsourcing? We were doing all the steps, 6, 7, 8 steps process ourselves. Now we are saying that we will increase the outsourcing percentage. So, is this change in thinking because of the capacity constraint or we think, that is a far more efficient model to work with, if you can throw some light on that?

**Rahul Nachane:** Our outsourcing objective is mainly to ensure that we do not fall short of capacity. So, we still think in-sourcing is overall a better strategy because that is the way you safeguard margins as well as technology. But having said that there are opportunities out in the market, and we should not be losing those just because we do not have adequate capacity with ourselves. So that is the reason why we will outsource.

**Dhwanil Desai:** So, for natural corollary to that is that x capacity come from stream that whatever outsourcing has been done will be in-sourced eventually. That is the right way to think.

**Rahul Nachane:** I do not think so because the objective will be then from incremental capacity get incremental turnover. So, probably the outsourcing which we do will stay. At the same time, our partners to whom we will outsource they are putting in investments specifically for us, so it would be unfair if we turn around after a few months and say that look we have got over own plants so now we will not be doing it, so we are looking at it as a more long-term association.

**Dhwanil Desai:** Last question, this Macrotech our understanding was that largely we had acquired, and all the consumption was for internal purposes. Now we are putting up a Rs. 20 crores CAPEX. So, again the idea remains the same that we free up the capacity between our NGL manufacturing sites or that we will also be looking out to sell intermediate outside of NGL?

**Rahul Nachane:** We look at Macrotech as part of NGL itself. So, when we say that we are going to outsourcing, it is outside of Macrotech and NGL. Probably in a few months' time, we might probably even merge Macrotech into NGL rather than carrying it as a subsidiary. It is a 100% subsidiary, just like any other plant for NGL. Just the plant by itself it is a separate legal entity right now.

**Moderator:** The next question is from the line of Sachin Kasera from Swan Investments.

**Sachin Kasera:** My question was, you had mentioned that one of the reasons of the better performance has been gain in market share and introduction of two products. Where are we in terms of the market share, is it that there is still significant opportunity for us to gain market share in some of these products? And secondly, what is driving this market share gains?

**Rahul Nachane:** As I said, there are years of which we approach our philosophy. One is the cost. Second offer the best possible quality to our customers and offer them the best possible service and we are reliable at all points of time in terms of delivery of the product, in terms of packaging, in terms of support and documentation, in terms of regulatory support. So, these are the basic principles on which we approach the entire market, and each customer is a special for us. So, these are the figures which have helped us to gain market share.

**Sachin Kasera:** You see significant scope for market share even further from here?

**Rahul Nachane:** It continues, even today we do see some favorable wins coming our way and we do look at adding additional customers. Yes.

**Sachin Kasera:** Secondly, can you give some sense of the geographical mix of our revenues, India, Asia, and USA?

**Rahul Nachane:** We have already put that up in the presentation, so you will be able to look at the numbers. We have given for India, Europe, Asia-Pacific, USA, and the rest of the world.

**Sachin Kasera:** From what I understand, we are right now primarily into APIs intermediates and not too much into formulations, is that understanding, correct?

**Rahul Nachane:** That is right. Yeah.

**Sachin Kasera:** What are our plans going ahead? Do we intend to get into formulations?

**Rahul Nachane:** No, we look at ourselves as purely an API company.

**Sachin Kasera:** Just one last question, you had mentioned that you cannot talk about specific products, but from a medium to long term, say next five-year perspective, what could be the size of opportunity for the products that you may develop, in the cumulative size of the 5-10 products you are working on, where do you plan to go in the next five years?

**Rahul Nachane:** I am afraid I cannot give you guidance in terms of numbers. But we see strong growth happening on all our existing products right now and plus as and when we keep adding new products, we will see growth coming in from there. So, for us growth comes in various ways. Number one it comes from getting market share from competitors, it comes from the natural growth which we see in each product group. It comes from entering new geographies which we were not present in, it comes from better penetration of each geography by acquiring new customers. So, we have seen customers used to buy products with 5 kilo and 10 kilo lots which we have serviced even when our standard packing used to be 25 kilos and over five years, we have seen quite a few of these customers move from 5 kilo to 500 kilo sort of volumes. So, as a customer also grows, and he increases his market share it comes back to us in form of better business.

**Sachin Kasera:** I was not specifically asking what will be our revenue from those, I am just asking what would be the industry side of those products, like globally they are 300 crore products, 500 crore products, that is what I was looking?

**Rahul Nachane:** So, what happens is there is no published data available for this. And therefore, I am not able to quote to you. We from our estimates based on our interaction with our customers and other people but there is no published data which I can quote to you.

**Moderator:** The next question is from the line of Alisha Mahawla from Envision capital.

**Alisha Mahawla:** My first question would be actually on margins, so while you have mentioned that you did have some benefit of benign raw material prices and probably some COVID related cost savings and because you are going to do higher share of outsourcing, how do you think the margins at what level do you think will they be more sustainable?

**Rahul Nachane:** The industrial margins are in the range of between 18% and 25% EBITDA. We have been at the higher end of these margins for the last couple of years, probably about 2-3 years, we saw the margins drop in FY20, but that was mainly because of increased fixed costs because as we had a new plant ready and stocked, but the utilization was not up. Going forward we expect to be at the higher end of the industry range. I am not very sure how long these very high margins will last. So, we will be a little bit cautious in that. But all I can say that when the industry is delivering at around between 18% and 25%, we will try to be at the higher range of that particular level.

**Alisha Mahawla:** Also if you could help us with the Rs. 100 crores CAPEX that you are planning to do, will this be funded entirely through internal accruals or are you looking at the mix of debt and equity?

**Rahul Nachane:** We have not yet committed to the Rs. 100 crore entirely. Rs. 20 crores is already under implementation in Macrotech that is going completely from internal accruals. For the Rs. 80 crores that is just sort of a number which we have looked at. The detailed budgeting is going on right now, and we will probably be ready by end of July. And we are doing it in couple of small phases. The first part is to get the civil construction done which will again be done completely by internal accruals. So, we have time till probably mid of next year to look at how to structure the financing for it. So, as and when we get to that we will share that information, but right now

I do not have exact numbers or exact sources available. But we will probably look at a mixture of debt and internal accruals as of now.

**Alisha Mahawla:** While we have seen very strong growth in FY21 and we know this is because of the brownfield that you did last year, is it possible for you to give a breakup of how much is the volume growth and how much is the value growth?

**Rahul Nachane:** I am afraid I do not have the number right now with me. But I will keep it ready in the next time we have a call.

**Alisha Mahawla:** Just one last question, is any of your business tender driven or is it largely all B2B?

**Rahul Nachane:** It is completely B2B.

**Alisha Mahawla:** There is no tender business.

**Rahul Nachane:** No, we do not do tender business.

**Moderator:** The next question is from the line of Rohit Balakrishnan from iThought PMS.

**Rohit Balakrishnan:** I just wanted to understand I think you answered it maybe my line was a bit unclear, can you talk a bit about FY22 and FY23 before this greenfield comes? I am sorry if you have answered that, just wanted some more clarity. What kind of growth are you looking at for the next couple of years?

**Rahul Nachane:** On the lower end the growth will be in the range of probably about 15% and on the upper end probably around 25%. But I cannot give you a more specific number right now, but I think between 15 and 25.

**Moderator:** The next question is from the line of VP Rajesh from Banyan Capital.

**VP Rajesh:** My question was in response Sachin’s question you were describing that the market share has been going up for a variety of reasons. But I was just wondering what happened last year that either some competitor went out or something materially changed which resulted in such, is it sustainable?

**Rahul Nachane:** The pharma industry is a little bit more complex. And the churn in customers does not happen very easily. So, we do believe that the customers we have acquired will remain with us going forward. And it is not a temporary increase in market share.

**VP Rajesh:** Specifically, what led to the win in the new customer acquisition, is it your pricing, quality or some competitor discontinuing? If you can just give more color on that?

**Rahul Nachane:** I think quite a few competitors faced logistical problems in the first quarter going forward till the mid of second quarter last year due to COVID. And they were probably not able to cope up as well as we did during that period.

**VP Rajesh:** And are these competitors smaller than us or they are, in case of the veterinary industry from what I understand, it is a very consolidated and large players, that there are some smaller companies also. So, were you gaining market share from larger competitors or the smaller guys?

**Rahul Nachane:** It is a mix of both. There were some which were again from the larger companies. There are some where we have gained at the cost of the smaller ones. So, it is both ways.

**Moderator:** The next question is from the line of Dhawal Shah from Girik Capital.

**Dhawal Shah:** I have a couple of questions. First one would be on the outsourcing part when you mentioned, so what is the thought process behind the outsourcing? You mentioned you do not want to lose on the business but then how our technology is protected, and which category of product would you be outsourcing? I just want to understand. And in spite of outsourcing, if you are making such great margins and then in the future you want to do a higher outsourcing of the total revenue, then you will have a much better margin going forward. So just want to understand from that perspective.

**Rahul Nachane:** Currently, we do not outsource much actually. We outsource barely between 3% and 5% of our manufacturing. We would like to take this to about 15%. So, it will definitely bring a pressure on margins going forward.

**Dhawal Shah:** There will be a pressure on margins.

**Rahul Nachane:** There will be a pressure going forward. But we hope to make up whatever we lose in percentage terms, we hope to make up in absolute terms because there will be increase in volumes.

**Dhawal Shah:** What is the risk to our technology or the IP or the chemistry when you do an outsourcing so is it like you enter into a take-or-pay contract with the customer, as you said, he is going to put up a CAPEX for NGL. So, is it kind of a long-term agreement you enter with him?? How is the arrangement?

**Rahul Nachane:** So, there are two parts to it. The first part is that the technology has been given by us. So, we typically outsource only those products which are multiple step products. So, let us say there is one product which has about five manufacturing steps. So, to one particular company we will outsource just one of those steps, we will not outsource more than one. And another step if we need to outsource to debottleneck, we will go to another company not the same one.

**Dhawal Shah:** So, you divide the reaction stages between…

**Rahul Nachane:** Yeah. So, one company will be doing only one step of one product. They might be doing five different products for us but at any point of time only one step of one product. So, that helps us to preserve the IP.

**Dhawal Shah:** My second question, I was going through your past conference calls. You mentioned your molecule size to be anywhere between 20-30 crore to 50 crore, one molecule size. So, in terms of our future strategy when we grow bigger in size with capacity and scale, are we going to keep the same molecule size as our target end market, or we are going to increase over it?

**Rahul Nachane:** Those molecules which we had which we were at 50, last three years have probably grown to about 80-85 also now. So, there has been a significant growth which has taken place in the marketplace, and we have kept pace with that growth. The veterinary market is growing very strongly right now. The growth rates which we see are in double digits more like between 15% and 18% and 20% also for some products. So, it has been a very wide base of growth in the last two years.

**Dhawal Shah:** Why is it growing such high double digit, what is driving this growth?

**Rahul Nachane:** The market penetration is pretty low in most of the markets we are working with. We are not working in matured markets let us say like the US or Europe. We are working in the developing markets. So, we are talking about developing countries. So, just like we have this situation in India where the health penetration is pretty low in the country, it is sort of similar in most of the other countries also. Having said that, as and when the health penetration in those markets go up the market also grows. And that is not something which is very easy to predict.

**Dhawal Shah:** And this penetration is being driven by some sort of…. I mean WHO drives lot of penetration in the LMIC market for various diseases. So, is it being driven through some organization or it is the government initiative, how is it? So, is it just more awareness and the way people get more educated about the veterinary health and that is driving it? Because 15%-20% growth is a very-very strong growth.

**Rahul Nachane:** So, you see in India the veterinary market penetration grew because of the cooperative movement. Because it was difficult for each farmer to afford a veterinary and to come and visit his farm and take care of the animal. But which the cooperative moment now we see that most of the cooperative societies they employ their own team of veterinary doctors. And these go and call on the farmers. I am not really sure about how it works internationally but I would guess probably something similar which is happening.

**Dhawal Shah:** Coming back to the margin question, this is my last question. So, when you say in percentage term there will be some pressure, so any broad range would you like to guide investors, say till the time you are greenfield? Once your greenfield CAPEX goes live, so what sort of margin should we assume for our company?

**Rahul Nachane:** As I said the industry delivers between 18% and 25%. We should be at the higher range of that particular range. So, I am not sure how long we can continue driving it above the industry average.

**Dhawal Shah:** In this quarter there was no one-time gain in terms of any price increase of the end product. It was all normal scenarios?

**Rahul Nachane:** This year has been very favorable because lot of expenditure got postponed because of the COVID logistical problems. No contractors were available for close to the first two quarters. So, lot of our regular expenditure also had to be postponed. At the same time commodity prices reached an all-time low by I think July or so. For example, oil is something like $ 30-32 around that. And now oil is back to 272.

**Dhawal Shah:** Sir, I am trying to understand about the 4th Quarter. We did 29% EBITDA, so was there some sort of a very favorable pricing for our end product which expanded our gross margin along with operating level?

**Rahul Nachane:** Quarter-to-quarter it can also vary because of product mix change. So, in that particular quarter there is a larger consignment of one particular higher margin product, it sort of jumps at that. It is not really maintainable as a quarter-on-quarter. It is better to look at it more on a half yearly or a yearly basis.

**Moderator:** The next question is from the line of Aejas Lakhani from Unify Capital.

**Aejas Lakhani:** You mentioned operating leverage in your opening remarks. And I see that your fixed expenses are in the 75 crores to 80 crores range, and it has been growing. So, it grew 12% or 11% YoY. I am presuming the same benefits of operating leverage will keep playing out in the years to come as your capacities come on stream. Is that understanding correct?

**Rahul Nachane:** See, it takes time for the capacity to kick-in when we make a CAPEX, for the entire capacity to get used it takes a little while. So, something similar happened in FY20 where the capacity was commissioned but we were doing the validation matches and the trials for different products. The benefits of that came on to us in 2021. So, going forward we can see probably a couple of maybe an anomaly here or there where there is a larger capacity which we have created but in the capacity utilization and that that too might be only something like 20% or 30% for that particular year. In which case we see a higher fixed asset cost which will depress our margins. But again, in the following years as the utilization goes up, it will again get better results. So, there is the possibility of a little bit of up down happening in those times.

**Aejas Lakhani:** What is your suggested band for the gross margins? You said that raw material prices were benign so do you expect gross margins to be at the higher end or higher than 55% consistently or 55% is what you would work with?

**Rahul Nachane:** Our raw material cost as a percentage of sales is in the range of about 40%. Typically, the range which we have worked with is between 38% and 45%. And that has varied on two factors, number one, the product mix for that particular year or quarter. And number two, how the price have moved. So, this year we saw it at the lowest end, it was at about 39.2 as against 45 or let us say even 42-43. So, there was definitely a 3% to 4% kick-in in margins because of better raw material prices. We have seen prices have started hardening from Feb this year. Some of them have gone up almost 50% as compared to the low of last year.

**Aejas Lakhani:** How quickly are we able to pass on these raw material price increases that take place?

**Rahul Nachane:** Our pricing is fairly inelastic because when the prices go down, we are able to keep that to ourselves. At the same time, prices when they go up, we are not able to pass it on to customers. Unless the price increase is significant, in which case whenever we see something which affects our material costs are more than 2%-2.5% that is a time when we started looking at passing it on to the customers.

**Moderator:** The next question is from the line of Mahesh Agarwal from MV India.

**Manish Agarwal:** First thing to clarify, the name is Manish Agarwal. So, please rectify while we record the call for publication at exchanges. One thing I want to ask is you mentioned that we can have suppress of margins in upcoming times. So, we ended with 25% margins in FY21. So, can I safely assume that we will be having a margin of approximately 22% over the next 3-4 years and the guidance of revenue which you have given, so we can assume approximately 600 crores topline and an EPS of somewhere around 150 till 2024 or 2025? Am I getting these figures right?

**Rahul Nachane:** Mr. Agarwal, unfortunately we will not give you guidance on margins as such because there are too many macro-economic factors which have an impact. So, we will limit our statements to more qualitative issues.

**Manish Agarwal:** We can expect 22% or 21% margin consistent over the next five years, right? Minimum…

**Rahul Nachane:** I again would say, we will not commit ourselves to margins. And I am saying industry margin is in the range of 18 to 23. We always attempt to be on the higher band of margins.

**Manish Agarwal:** And with the new capacities till 2024-2025 we are expecting approximately 600 crores sales at consolidated level?

**Rahul Nachane:** The new capacity should give us added sale of close to about 200-250 cores from current levels at full 100% capacity utilization. So, capacity utilization can take up to four to five years after it is commissioned. There are two ways of looking at it. One can be a very aggressive approach wherein I say, yes, we can deliver in two years, but it can also take longer. So, you need to look at it both ways.

**Manish Agarwal:** Yeah, that I understood and that is very nice part. So, today we are having 250 crores as consolidated sales and we can assume that in five years we are going to double. So, five years is conservative approach, I think. So, we can safely assume our revenue will be somewhere around 500 crores in five years?

**Rahul Nachane:** That is what our objective is, yes.

**Manish Agarwal:** Any risks in this project regarding execution?

**Rahul Nachane:** Life is full of risks, yes, there are lot of risks available. But as far as implementation of the project goes, we have a very strong balance sheet, we do not foresee any problems in raising the money and funding the project and we do not see any problems in executing the project. So, that way we think the risk is pretty minimal. As far as filling in capacity is concerned, that is a different ball game altogether.

**Manish Agarwal:** My second query would be on the cashflow side that the cash which we generated for FY21, how we allocated that and what are our plans for FY22 to allocate those cash?

**Rahul Nachane:** As I said, our capital budgeting is still under way, so we do not have exact numbers of how we are funding our expansion. So, probably at the next call we will be better placed to answer to your question.

**Manish Agarwal:** I am very much impressed with the way we are doing business and I am looking to be investor for the next five years at least. So, as Ayush mentioned, my request would be a stock split.

**Rahul Nachane:** Yeah sure. It was also suggested earlier by Ayush, so yes, that is something which we would so.

**Manish Agarwal:** Thank you very much. Would be very keen to invest for the next five years at least.

**Moderator:** Thank you. The next question is from the line of Shivan MS from JHP Securities.

**Shivan MS:** One question was on the two plants which were shut down for some time in the last quarter. So, if you could give some color on the issues that were at hand which caused this and the remediation measures which were taken.

**Rahul Nachane:** So, we were closed on account of certain violation of effluent permissions which added to us which we contested. There were a couple of demands which required some remediation which we did. And unfortunately, from there we faced closure between 3 and 4 weeks for 2 of our plants which affected in the last quarter. We have four plants in Tarapur right now including Macrotech at that site. One of the plants is completely a zero liquid discharge plant. We are upgrading capacity in that plant to treat effluent from 25 cubic meters a day to 80 cubic meters a day. By doing this we will have surplus capacity on our effluent plant so that the entire recycling of effluent goes through very smoothly. At that plant, to take care of the air pollution issues, we have converted our boiler from fossil fuels we were using Farnesoid to gas. So, it has become a clean fuel plant now. At the other plant in Tarapur where we have our subsidiary in Macrotech, as part of the investment which we are doing we are also putting in a zero liquid discharge effluent treatment plant over there. So, that plant also by the end of this year will become a plant with zero of effluent out into the environment. We will be recycling and reusing all the effluent generated over there. So, we are putting in a plant for treating 75 cubic meters per day of effluent over there. At the other two plants in Tarapur they are pretty small in nature, and we really do not have the space for putting in any effluent treatment plant over there. So, once the Macrotech plant is commissioned we plan to approach the authorities and ask them to allow us to truck effluent from these plants to Macrotech because the capacity which we are setting up in Macrotech can take care of itself plus these two plants. So, we hope that by December 2021 all these issues of pollution control will be taken care of.

**Moderator:** The next question is from the line of Rahul Jain from Credence Wealth.

**Rahul Jain:** One question regards in the US markets, for the first time we are seeing US sales coming in a company from practically that time we have had a 7 crores sales in the US markets which is a regulated market, and our strategy always has been there is still some time to enter the regulated markets. So, is this new development whereby you have had a new distributor which probably would be again selling the same thing to the developing and undeveloped market, how do we look at your strategy for us.

**Rahul Nachane:** There are no change in our strategy. The products which we are selling into the US does not require registration with the US FDA. So, we are still not part of the regulated voice over there.

**Rahul Jain:** So, how do we look at the US opportunity going ahead, Rahul?

**Rahul Nachane:** The way the US works is that there are some products which are allowed to be sold without registration with the US FDA. The one which we are making is an ectoparasitic and that does not require registration with US FDA, it requires registration with US EPA because they have classified that product differently. So, we were able to sell that product without any issues.

**Rahul Jain:** Do we see a larger opportunity for this US market now?

**Rahul Nachane:** There is probably an upside of increasing that sales by another 40% or so during the current year.

**Rahul Jain:** With regards to long term contracts with customers are we also thinking in possibility some kind of long-term contracts with some of these customers probably have not grown to this size. Is that an opportunity possibility, could have been possible? Because in FY-20 we had some challenges with regards to raw materials from China which impacted our sales during that year. So, two things related to that, are we trying to enter into some long-term contracts with regards to our customers so that we do not lose on some sales. And also, with regards to China are we having any plans to develop multiple sources or alternate vendors?

**Rahul Nachane:** The products which we do require some very specific key starting raw materials and close to about 10% of our total materials are imported from China. Our total imported content is roughly about 20% of which half comes from China and half comes from other sources. So, we have been able to reduce our Chinese imports from 15% which existed about 2 years ago to only 10% of purchases. So, that is how we have mitigated to a certain extent, but not completely been able to mitigate that Chinese reliance because whatever we say they continue to be the lowest cost suppliers for quite a few products. On the sales side, we continue to have just probably a handful of customers, probably 5 or 6 who do long-term supply contracts with us. Most of our sales are on respond basis. So, they are more 3-month sales booking or 4-month sales booking. There are just about 4 or 5 customers who talk about a yearly sales contract.

**Rahul Jain:** Do we already have a yearly sales contract with some of these customers?

**Rahul Nachane:** With a few yes, with about 4 or 5.

**Rahul Jain:** With the CAPEX coming up with more outsourcing and the growth which you seem to be quite confident about, the market growth as well as the company growth in coming 2-3 years, so do we also see a possibility of some larger long-term contracts coming up for us in the near future?

**Rahul Nachane:** We do not see that particular part growing up much, no. Our sales will continue to be more on the spot business.

**Rahul Jain:** Last question, with regards to regulated markets we are still sometime away from thinking or planning in terms of regulated markets? You had mentioned some 2 years back that till we attain a certain size it is a very costly affair to enter into the regulated markets and probably we are still sometime away from doing that.

**Rahul Nachane:** We actually started getting our products registered in regulated markets about 4 years ago and we do have 2 product registrations in the EU. But we found that we are getting uncompetitive in the other markets because of higher cost of operation. So, we stood back and chose our plans for that. We find that there are adequate opportunities available in the rest of the world areas.

**Moderator:** The next question is from the line of Aman Vij from Astute Investment Management.

**Aman Vij:** My first question is on our wallet share in our top 10 products. Could you talk about the sale, for how many products we are like the dominant market leader? And also, are the customers okay with this kind of concentration because if we keep on increasing our market share, then they are maybe depending on us too much. So, normally in those case where we are the dominant player how many other suppliers like us are associated with these customers?

**Rahul Nachane:** In our top 3 products we have over 60% market share and in the remaining top 10 products we are close to about on an average let us say 40% market share. Now we are operating in B2B segment. So, there is no company which is going to depend completely on us for supply. Most companies have 2 or at least 3 suppliers coming. When we say that we have gained market share, it is probably that we have moved from being a number 3 supplier to either a number 2 supplier or a number 1 supplier. Does that answer your question?

**Aman Vij:** Yeah, just one clarification and one more question. On that point only we have become like 60% of market share and other two supplier will be much lesser. I am just talking about that since the market is growing and we are trying to grow faster than the market then again, the concentration with that customer is increasing to us, which is good for us, but then as a customer could you talk about are they okay with you in 70%-80% kind of market share to one of a supplier like us?

**Rahul Nachane:** There is no concentration of our customers. Probably about 5 years ago our top 5 customers contributed to close to about 40% of our sales. Today our top 5 customers are close to only about 20% of sales. So, it helps us to de-risk by having a larger customer base also. The growth is not coming from concentration on a particular customer.

**Aman Vij:** No, I am talking in reverse way. For a customer since we are becoming stronger supplier, so that is why like you are saying many customers we have become from number 3 to number 1, so I was talking in that terms.

**Rahul Nachane:** We are offering them a value proposition, we are offering them a good quality, it is not that we are taking a premium for our products. We are being very cost competitive in our approach towards customers.

**Aman Vij:** The second question is on the poultry segment. Could you talk about your plans in terms of we have launched 2 to 4 products in that. So, for the next 3 years what are your plans in this segment? And can we reach the 3-digit number with this 810 molecules or will we require much more. I am talking of poultry segment specifically.

**Rahul Nachane:** Right now, we are just 2 products in the poultry segment. Both products are new. We have started commercial manufacturing only about a year ago and both are doing quite well. We see good growth coming from them in the next few years. The other products which we are looking at the new ones are not really for the poultry segment; they are traditional farm animals. So, yes, in the immediate future in the next 2-3 years we may not probably add many more products in the poultry segment. We will continue with what we have got.

**Aman Vij:** And these two products are they in the range of that 25-50 crore or are they in the range of that 80-100 crore? Is the poultry market also growing like we have talked about?

**Rahul Nachane:** It is a much larger market, that is more like around 80 to 100 crore market segment.

**Aman Vij:** Has it also grown compared to what it was 3 years back? Or they are not growing as that fast as the other.

**Rahul Nachane:** Poultry is also growing very fast. It is accepted all throughout the world and it is one of the fastest growing animal products in the world.

**Aman Vij:** The final question is on the Asia specific region. I was seeing the numbers; all the regions have done well for us, but Asia has now become much more even than Europe and India. So, any particular region or country which led to this kind of growth, is it some new customers or new regions? And do you think Asia will remain the main region for us going forward?

**Rahul Nachane:** We have covered almost all the countries in Asia now. So, we sell to China, Korea, Australia, Vietnam, Thailand, Indonesia, Bangladesh, Pakistan, Turkey, Saudi Arabia, almost all the various countries in Asia now. That is where the growth in population is also the highest, so our penetration has improved a lot in Asia.

**Moderator:** We will take one last question which is from the line of Ayush Mittal from MAPL Value Investing Fund.

**Ayush Mittal:** One thing that we noticed in the numbers is the major improvement in working capital the debtor days have also come down sharply in last 3-4 years. Any thoughts on this and how maintainable are these?

**Rahul Nachane:** Overall efficiency is rise the MP, concentrate on inventory management and on receivables management also. We have been fairly successful in reducing our inventory days. We used to have close to about 150 days inventory probably about 5 years ago. It is now down to about 150 days and receivable days are also down from about 100 days 5 years ago to more like about 60 currently. So, we do think that these levels are maintainable in the coming years.

**Ayush Mittal:** Second, like we have seen the issues of pollution in Tarapur for so many other companies I think every company in that area was impacted, though we have zero discharge plants, but the new CAPEX is also coming up which might be a concern for the authorities. Any thoughts on this as a risk further?

**Rahul Nachane:** We already hold all the permissions for the new CAPEX and new CAPEX will also be with a zero-discharge plant.

**Ayush Mittal:** So, we do not need any further approval on this.

**Rahul Nachane:** No further approvals required, no.

**Ayush Mittal:** Thirdly existing infrastructure that we have what kind of investments would we be doing for debottlenecking or addition of capacities at the existing location?

**Rahul Nachane**: Normal CAPEX that every year which we undertake is in the range of between 7 crore and 12 crores, so that is what we can expect as normal…

**Ayush Mittal:** But do we have potential to add more capacity at the existing place or this will be just debottlenecking?

**Rahul Nachane:** Debottlenecking. There will not be any new major capacity added. All the four locations are filled to the gills right now.

**Ayush Mittal:** The last question is that what will be the key raw material for us wherein we might see any price risk or something? Is it right that your end selling prices have not increased much for your quarters and they are stable across the board, is that the right thing?

**Rahul Nachane:** Yeah.

**Ayush Mittal:** So, from that perspective if there is a raw material price increase any key products that we use or something where we can get that risk.

**Rahul Nachane:** We have seen prices go up quite a few products as the oil prices go up, so there are quite a few chemicals that are dependent upon oil, so those have gone up by a good 50%-60% in the last 1 year. There are 3-4 products where prices have gone up because of shortages or some plant getting closed internationally. So, there are some products, probably I would say close to about 15-20 products where we have these price increase going on right now.

**Ayush Mittal:** Do you plan to pass it on like you said with a lag or your pricing is largely stable?

**Rahul Nachane:** In the short term we cannot pass it on.

**Moderator:** Ladies and gentlemen, due to time constraint that was the last question. I now handover the conference over to the management for closing comments.

**Rishav Das:** Thank you all for joining the earnings call for NGL Fine-Chem. If you have any further queries feel free to get in touch with us at Pareto Capital. Thank you and we will see you on the next call.

**Rahul Nachane:** Thank you very much.

**Moderator:** Thank you. On behalf of NGL Fine-Chem Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.