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HERANBA®
INDUSTRIES LIMITED

May 18, 2022

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400001

Scrip Code: 543266

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot no. C/l, G Block,
Bandra - Kurla Complex,
Bandra (E), Mumbai - 400 051

Symbol: HERANBA

Dear Sir/Madam,

Sub: **Transcript of Earning Conference Call held on May 14, 2022 at 02.30 P.M. on the Financial Results for the Quarter and year ended March 31, 2022**

Ref: **Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations 2015**

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Transcript of Earnings Conference Call held on May 14, 2022 at 02.30 P.M on the Financial Results for the Quarter and year ended March 31, 2022.

You are requested to kindly take the above information on record.

Thanking You,

Yours faithfully,
For Heranba Industries Limited

Abdul Latif
Digitally signed by Abdul Latif
Date: 2022.05.18 15:41:42 +05'30'

Abdul Latif
Company Secretary and Compliance Officer
ICSI Membership No.: A17009

Encl. as above

"Heranba Industries Limited's Q4 FY'22 Earnings Conference Call"

May 14, 2022

MANAGEMENT: **MR. RAGHURAM K. SHETTY – MANAGING DIRECTOR, HERANBA INDUSTRIES LIMITED**
MR. RAUNAK R. SHETTY – EXECUTIVE DIRECTOR, HERANBA INDUSTRIES LIMITED
MR. RAJKUMAR BAFNA – CHIEF FINANCIAL OFFICER, HERANBA INDUSTRIES LIMITED
MR. VARSHIT SHAH – ADVISOR, HERANBA INDUSTRIES LIMITED

MODERATOR: **MR. UDIT GAJIWALA – YES SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Heranba Industries Limited's Q4 FY'22 Earnings Conference Call hosted by YES Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Udit Gajiwala. Thank you and over to you, sir.

Udit Gajiwala: Yes, thanks, Mike. Good afternoon, everyone present on the call. On behalf of YES Securities Limited, I welcome you all for the Q4 FY'22 Earnings Call of Heranba Industries Limited. From the management side, we have Mr. Raghuram K. Shetty -- Managing Director; Mr. Raunak R. Shetty -- Executive Director; Mr. Rajkumar Bafna -- Chief Financial Officer and Mr. Varshit Shah -- Advisor to the company.

We'll start the call with brief opening remarks from the management side and then open the floor for questions. Over to you, Mr. Shetty.

Raghuram K. Shetty: Thank you. Good afternoon to all and welcome to Heranba's Q4 FY'21-22 Results Call. I take this opportunity to thank all the shareholders for placing their trust in us.

As we close our financial year after getting listed, I'm pleased to report that we have maintained a growth momentum in the full year FY'22 by reporting a strong set of numbers. We saw an increase of over 19% in our revenues, and an increase of more than 22% in our PAT in FY'22. Our continued growth trajectory in yet another financial year and quarter show the strong and resilient DNA that we are built on.

We have a sharp uptick in our technicals domestic sales this year, which formed 36% of total sales. Formulations business forming 31% of our total revenue, grew by 22% in FY'22, out of which, domestic formulations sales, which was 21% of our total revenue, showed a 17% in FY'22 and formulations exports which account for 10% of our business, stood 23% for the full year growth.

On the export front, bearing the freight and logistical challenges, business at a broader level continue to perform well. On a long-term basis, the sector fundamentals continue to remain strong. As you all know, in October, we had sent our first consignment of our newly registered insecticide molecule to USA, which marked our entry into this highly regulated market. I would like to inform you all that, business in this geography is gearing well and we are hopeful to ramp it up in the future.

As mentioned in our earlier calls, we intend to capitalize on opportunities generated by various technicals going off-patent in the coming years by manufacturing and supplying generic variants of the technicals in regulated markets of the United States of America and Europe.

Our Sarigam technicals expansion project is progressing as planned, and we hope to reap its benefits by end FY'23.

I'm also happy to announce that this year, our unit-IV recovery planned in Vapi, also got commercialized in November '21.

On the research and development front, as communicated in earlier calls, five new compounds were being evaluated, two of which are fungicides, two of which are herbicides, and one of which is insecticide. Two of these are on an advanced stage for exclusive sale in Europe and the United States of America.

We maintain our annual guidance for FY'23 of 18% to 20% growth in sales and 18% to 20% EBITDA margins.

As the company is well poised to bid in on the strong operational competencies, developed over the last few years, I am hopeful the company will continue to grow and surpass new milestones in the years to come. We continue to see FY'23 as a critical year in Heranba's trajectory, and optimistic of the future.

This concludes my opening remark. And I will now hand over to Mr. Raj Bafna, our CFO, to take you through the financials. Thank you.

Rajkumar Bafna: Good afternoon, everyone. I would like to briefly touch upon the key performance highlight for the fourth quarter and year-ended 31st March '22 and then we will open the floor for question-and-answer.

Let me start by talking about the full year financial of FY'22. Revenue from operations were at Rs.14,504 million in FY'22, as compared to around Rs.12,186 million in FY'21, registered a growth of around 19%. EBITDA including other income were at Rs.2,791 million in FY'22, as compared to Rs.2,284 million in FY'21, registered a growth of around 22%. EBITDA including other income, margin were at 19.24% in FY'22, well within the guided range. Profit after tax was at Rs.1,891 million in FY'22, as compared to Rs.1,542 million in FY'21, showing a growth of around 22%.

Now moving towards Financial Highlights for Quarter-ended 31st March 22. Revenue from operation were at Rs.3,501 million in Q4 FY'22 as compared to Rs.2,678 million in Q4 FY'21, showing a growth of 30% year-on-year basis. EBITDA including other income was at Rs.673 million in Q4 FY'22 compared to Rs.630 million in Q4 FY'21, showing a growth of around 6.6% year-on-year basis. EBITDA including other income, margin was at 19% in Q4 FY'22, well within the guided range. Profit after tax was at Rs.426 million in Q4 FY'22 as compared to Rs.433 million in Q4 FY'21.

That concludes the update on financial and now we can open the floor for questions-and-answers.

Moderator: We will now begin the question-and-answer session. We have the first question from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Can you throw some light in terms of what was the volume for Q4 and for the whole year?

Rajkumar Bafna: Volume growth is slightly not comparable because we have different price points for our different products, for example, one product could be Rs.900 a Kg and another could be Rs.1,200 a Kg or even Rs.3,000 a Kg. So when I optimize the mix towards better margin and higher value product, volume might go down. So optically volume might look lower to you. In **(MPV 10:00)** plant, actually volume growth is not the right metrics to measure the business, although we do track it from an individual molecule perspective for our own market share analysis, but YoY or QoQ comparison would not be ideal, because we keep changing our product mix slightly to manage our profitability as well as based on demand/supply metrics. I hope that answers your question.

Yogansh Jeswani: Sure, that's a bit of clarity there. So basically, what I wanted to understand was the revenue growth that we mentioned. So, how much of it is because of the recent price hikes that have happened because of the overall commodity inflation? So if you could then bifurcate, if not through volume, then if you could bifurcate what was the normal part of that growth, which you think might revert and how much would you think is the sustainable part?

Management: On the margin front, if you compare quarter-on-quarter basis, we have gross margins of around 36% in Q4 also. But if you compare year-on-year basis, the last quarter versus this quarter, the last quarter was exceptionally good in the front of margin because we have around good product mix at that point of time. But the margin front of you, if you say the inflation number adjusted also, we have guided by around 19% to 20% EBITDA margin in front of next year also.

Yogansh Jeswani: I got your points on the margins, but I'm just saying, what was the kind of price hikes that you might have taken in your top three or five products during the year, on an average, ballpark figure it would it 20%, 25% or 10%?

Rajkumar Bafna: Since the price hike, that happened in the month of October, there has been a price rise in the final product also to the range of 7% to 9%. This price rise on a YoY basis comes to on a blended level around 7%, 8%, 9%. On a QoQ basis actually it is kind of flattish on the revenue front.

Yogansh Jeswani: Secondly, on a product base, top two, three products that we do like, Cypermethrin, Lambda, etc., So we see a lot of growth is coming into these products, and at the same time, a lot of the industry players are also expanding their capacities. Two things there. First, from what we understand, these are very generic molecules and age old molecules. So what is now driving this high growth for all these products? And also, with all of the players expanding aggressively at the same time, how do you see the market dynamic to play out in coming one or two years, and all these capacities are up there, so if you could shed some light on that?

Rajkumar Bafna: Basically, competition was always there in the product. It's not like people were not expanding earlier. But in the last two, three years, there's been no major rise or increase by any of the competitors. Two to three years back, there were a few players, they were already there in the product, they just backward integrated themselves. But otherwise, there is no new player or no new expansion coming in, in the Parathyroid product segment.

Yogansh Jeswani: A couple of players, Bharat Rasayan, Meghmani, have announced big key CAPEX, and I think a lot of our products are overlapping with them and also we are expanding. So I think more or less a quarter here or there, I think the capacities will come onstream almost similar time.

Rajkumar Bafna: So the companies that you mentioned, have been in the product earlier also. And one of the companies actually entered the product two to three years back, they have not been expanding now. They've already entered and they've maintained that volume. So the CAPEX that they may be doing may not be in a Parathyroid product segment.

Yogansh Jeswani: So if I put my question other way around, typically, what is the kind of growth rate that you're seeing in these molecules, what is the percentage that will see product demand is growing in the market? And is there any capacity which has gone out of the market because of which, there is opportunity for players like us and our competitors? Is China a very big here in Parathyroid or China is not a very big players, if you could tell us about that?

Rajkumar Bafna: India has been strong in a few set of Parathyroid and China is strong and a few of the other Parathyroid. So Parathyroid as a range is a big range consisting of around 16 to 20 products and expansion in the Parathyroid segment would also depend on how many new products these players are entering in. So we have always been focused on Parathyroid, but we've also increased other than Parathyroid segment over the years. So, as a whole if we see, concentrating the scope, there is a possibility of 7% to 12% growth that we see in our company, we could be able to grow over the next two to three years at the industry level.

Yogansh Jeswani: At what rate are we looking to grow?

Rajkumar Bafna: We are expecting around 12%, not in the immediate years, but in the long run over three to five years period is possible.

Rajkumar Bafna: It's important to clarify that Parathyroid is actually a classification of agrochemicals. So, you must be aware that there are different classifications based on the mode of actions in molecules, etc., For example, Organophosphate is a large category, because that will have a host of molecules which have different applications on different pests and different crops. Parathyroid actually cannot see it as a basket. That is the wrong way of judging it. For example, in Parathyroid, there are more than 12 to 15 molecules as a universe. So, this blended growth rates while you might be targeting as 7% or 12% actually depend on each molecule because each molecule has a different demand/supply metrics within the competition, it has a different application on multi-crops. So actually that is not the right way to look at our business or this category in general also. So, you cannot say, Cyper will grow at 7% and we will grow at 12%. I mean, we just give you based on our some working we should have done internally, but actually that is not the right way to look at the business. Please understand that we are a chemical company with a deep mode in our chemical processes. Using those processes, we can actually enter into Parathyroid molecule, non-Parathyroid molecule. So, the field is actually very open for us. So rather than saying that it is not a particular chemistry that we are in when you say Parathyroid. It is more of a classification. I hope that helps to understand our business better.

Yogansh Jeswani: Absolutely, sir, that was very helpful. In terms of integration, on an average how well integrated are we in terms of our top four, five products, is the kind of like n-minus six, n-minus 17, what steps are we producing these? Is there any scope of increasing that backward integration if at all we are at n-minus 1, 2, 3?

Rajkumar Bafna: So we are actually fully backward integrated in our Parathyroid range where we buy the basic chemicals like Bromine, Phenol, which are easily available in and around Gujarat. Then going further backwards would be making Phenol and all. So there's no further scope. That's the basic chemicals.

Management: We are only backward integrated in almost basic chemicals. Further backwards integration in our large molecules would mean, we start manufacturing basic chemicals which we are not in the business.

Moderator: We have the next question from the line of Karan Shah from GeeCee Holdings. Please go ahead.

Karan Shah: I have a couple of questions. Firstly, would you be able to help us with what would be the revenue potential from US going forward?

Rajkumar Bafna: We had mentioned that over two to three years we will be able to touch around $750 million.

Karan Shah: What would be the entire market size for Parathyroid or our products in US geography?

Rajkumar Bafna: US is a very big market.

Raghuram K. Shetty: We are registering non-Parathyroid also in US.

Varshit Shah: I think North America as a geography is expected to be around $600 million to $700 million somewhere in 2025 calendar year basis. That's the various third-party research estimates, to put it somewhere in between that range.

Karan Shah: So would this be our target market also or the entire universe?

Varshit Shah: No, this is for the entire universe. Our target market would be sub-groups within this whole market.

Karan Shah: Would it be something around 20%, 30% of the target market?

Raghuram K. Shetty: I think that should be bigger than that. But we do not have a number at present in hand. We can give that number on a later time.

Karan Shah: Secondly, is there any impact due to China lockdowns, especially because of port lockdowns as well in certain states?

Rajkumar Bafna: Basically, the shipments have been delayed because of the China lockdown. The ports are locked now and only one or two ports have been working, which is also fully busy and cramped, because a lot of cargo is being stuck either for export or import. So yes, we are facing few issues. Production wise, there's no issue and export wise whatever issue that we have, we've diverted it to other geographies or other zones.

Karan Shah: So we have enough amount of raw material inventory which will not lead to any blockage?

Rajkumar Bafna: For our products actually all the RMs are available in around Gujarat only.

Karan Shah: Could you delve a bit about our new product pipeline?

Rajkumar Bafna: As it was mentioned, we are in an advanced stage. We have five products, two fungicide, two herbicide, one insecticide where registration activity is also on a very advanced stage and would come up in Sarigam. Along with it around 15 to 20 molecules are already under pipeline where R&D either is working on it or it's in an advanced stage we're piloting activities. A lot of registrations in India as well as in the global market we plan to receive in the next two to three years, which will help get these molecules on **(inaudible) 23:21.**

Karan Shah: How many do we plan to launch in the current financial year?

Rajkumar Bafna: Three.

Karan Shah: Any plans for FY'24?

Rajkumar Bafna: FY'24 depends on the registration, but minimum three to five we will have because Sarigam facility will be streamlined, I think five to six molecules will come in by the end of next year.

Moderator: We have the next question from the line of Vicky Waghwani from YES Securities. Please go ahead.

Vicky Waghwani: I just wanted some guidance on EBITDA margin in domestic business versus global business.

Rajkumar Bafna: More or less in the same range only; 2% to 3% plus/minus.

Management: It is a wrong way of assessing because the facilities are common in both the plants as well as management bandwidth is also common for both the business. But just to answer a question, I mean, largely our gross margins are same, our expenses are also largely the same in domestic versus exports in the B2B segment. So, I don't think there's any much of a major difference in the margins between domestic and exports.

Vicky Waghwani: The percentage dependence on China related to raw material and our exports to the China. Can you quantify some percentage wise?

Rajkumar Bafna: Imports from not China, but overall imports is around 14% to 15% and export to China would be in the range of 20%.

Moderator: We have the next question from the line of Bhavya Gandhi from Dalal & Broacha. Please go ahead.

Bhavya Gandhi: I just wanted to understand our CAPEX plan because we were about to come in Q2 FY'22, our Sarigam facility which is in the technical. Have we postponed it or how is it because you mentioned it in the end of FY'23?

Raghuram K. Shetty: It's not postponed, the project is on. Three projects will be coming in Sarigam. Approximately, Rs.165 crores will be this full FY'23 CAPEX plus we have some CAPEX in the existing site in Vapi also, because we have added some land in the Vapi site also adjacent to the existing one.

Bhavya Gandhi: As of now, we already done Rs.80 crores of CAPEX?

Raghuram K. Shetty: Yes, in FY'22.

Bhavya Gandhi: Because our technicals capacities are running at almost 90%, 95% utilization, then where will be incremental revenue growth come from, the 18 to 20% growth that you are anticipating?

Raghuram K. Shetty: First of all, our fungible unit is a multipurpose unit. Wherever the demand and supply and the pricing and all, we switch our products in the existing plant, plus we have commenced recently one more smaller unit, the unit called Unit-IV wherein some growth will come. In Sarigam also, we have installed a few systems like WDG setup, wherein the 30, 35 crores will come from there. In the brand segment also, we are doing approximately 100 crores plus. In all, we are anticipating and we are sure approximately 18% to 22% growth will come in this financial year.

Bhavya Gandhi: In the last few calls, we mentioned that there is demand for technicals globally out there because China is out of the market. Technicals largely everybody procure from China. But our exports have seen a dip; our export to domestic mix has changed drastically now, which is 45% to 55%. So, what is the reason?

Raghuram K. Shetty: The export has not come down. Only thing is our domestic B2B has grown. That is where the percentage shift is there because of the domestic market growth. Otherwise the export has also grown.

Bhavya Gandhi: So what is leading to this kind of demand in domestic environment?

Raghuram K. Shetty: Demand in B2B, we are doing well, we have added few products also. Primarily, earlier we were into Parathyroid. Now added few products other than Parathyroid. In Parathyroid also, we have increased our capacity especially for the bigger companies we are tied up in some products like Lambda Cyhalothrin, we had supplied good quantity to United Phosphorus and big companies. So domestic market has grown.

Bhavya Gandhi: Lambda is not facing any supply constraint, right, because that we procure from China?

Raghuram K. Shetty: There is no constraint because well in advance we plan our RMs, so there was no problem at all throughout the year.

Bhavya Gandhi: Going forward, will we face any supply constraint for Lambda asset?

Raghuram K. Shetty: No problem. We are fully covered for next three months.

Bhavya Gandhi: In this inflationary scenario, as you told we are fully backward integrated, then we should have seen margin expansion, right, because the end realizations have improved drastically, and in the entire scheme of things at every stage there is some value add because we make it in-house?

Raghuram K. Shetty: If you see last three years and today, every quarter we have shown some margin expansion if you go through minutely.

Rajkumar Bafna: Basic raw materials have also gone up drastically and yet we've been able to maintain that kind of EBITDA margins. So it's not that only our product prices have gone up, RM prices have also drastically jumped.

Raghuram K. Shetty: But margin also grown, if you see for the last three years, continuously, the margin is better year-after-year or quarter-after-quarter

Moderator: We have the next question from the line of Levin Shah from ValueQuest Investment Advisors. Please go ahead.

Levin Shah: My question is on gross margins. So, if we look at this quarter, we have had a big drop in margin YoY. So what explains that? If we look at our annual gross margins, despite the kind of pricing pressure that we have seen across raw material, we have been able to maintain this 36% kind of gross margins. So what is the difference between this quarter as well as full year number?

Rajkumar Bafna: If you see the raw material prices for our products have drastically jumped. So we did say in the last call because we are fully backward integrated we could also push our product prices to some extent and safeguard our margins, but yet some effect was definitely there. Secondly, even in the branded business because there's a lot of inventory at the field level. That's why other company competitors did not raise their prices. That also to some extent impacted the gross margins.

Varshit Shah: So just to answer your YoY question, last year we had 40.6% gross margin in 4Q. So that was actually exceptionally higher product mix because of some supply chain issues, the product mix was actually slightly twisted. Actually that is normalizing our Q1 result itself, if you see from Q1 to Q4 gross margins, they have been in this range only. In fact even after our last year's 4Q call we had that the normalized gross margins are in the range of 34%, 36%. So YoY optically it looks a downtick but even if you see QoQ, our margin has slightly improved actually. So I think net-net, we have been maintaining and optimizing our mix slightly here depending on our internal targets on the gross margin and in line with our long-term vision in terms of product penetration, etc., So I think 40% is a slightly unsustainable number because we are continuously adding molecules, continuously doing backward integration in new molecules. So company as a whole, we do see that we'll be able to maintain the current levels give or take here and there. Secondly, to answer your question on the pricing, you would appreciate our model that we are not into long-term contracts where the pressure is slightly more. So we kind of immediately pass on either the benefit or even the RM benefits are also passed on to the consumers as well as at the same time even any price increases are also passed on. In fact you would appreciate that if you see not just YoY, but full year basis, we have been maintaining our margins at same level that as last year's gross margin side. Now, just to give you a sense we are maintaining our spreads, but my denominator has increased from a net realization perspective, not for the full year but more so in Q3 and Q4. Still, we maintain percentage levels. So actually there has been some improvement in absolute spreads as well. It's just that when you derive it as a percentage kind of looks that you have maintained flattish. Mainly this has come from not from improving or taking exceptional price hikes, but more by optimizing our product mix. I hope that answers the question.

Levin Shah: Yes, thanks, that does. Now, if we look at broadly we will be in that 34% to 36% kind of gross margin range and even this year we might have some exceptional cost in other expenses like mainly from logistics, power and fuel. So that also would have played some role in the margins for full year as well, right?

Management: Yes, absolutely.

Levin Shah: This 18% to 20% kind of margin guidance continues over next two, three years?

Management: Yes.

Levin Shah: My last question is on the balance sheet front. So this year we have seen a built up in inventory as compared to last year and the inventory days have gone up if we compare it to last year and even preceding two, three years. So what explains this built up in inventory?

Raghuram K. Shetty: The major reason is the RM prices have gone up which makes inventory looks optical higher when we calculate it as a percentage of sales. Another factor was our shipments to Asia Pacific region, lower in Q4 due to the port issue and other logistic issue in that. Thus has some increase in the finished goods inventory despite the demand from the customers.

Levin Shah: This RM cost increase which reflects in inventory. But when you look at in terms of number of days, since our sales also has element of higher prices, that should be negated, right?

Rajkumar Bafna: Ultimately, the volume remains same, but prices have increased. Inventory shown is higher on the valuation front of that. That's why the inventory if you compare to the value terms is the increase of the 104 to 105 days in that range. This is the main reason for that.

Moderator: We have the next question from the line of Yogesh Tiwari from Arihant Capital Markets. Please go ahead.

Yogesh Tiwari: Two questions basically. One is that there were some news on the proposed ban of Deltamethrin in India which the government was thinking. So what is the update on that and what would be the approximate contribution of Deltamethrin to overall revenue?

Rajkumar Bafna: Firstly, this government notification which had come that they are planning to ban Deltamethrin along with another 30 products in India is old thing. That is basically because one of the multinationals product who sells Delta in Europe did not submit all the data required to the European authority and that's why European authority was planning to ban it, but now that company has already given the documents and at present it has not been considered in Europe for ban and similarly India also it's likely not going to be banned. That's what we've got to know. As a whole, India as such is not a very big Delta market. It's mainly exported. So even if there's a ban in India in worst case scenario, it would not majorly impact our sales. Contribution, individually it is very tough to give a figure; it's a high single digit.

Yogesh Tiwari: You have guided for about 18% to 20% revenue growth. So it would be helpful if we can discuss which new molecules or which new products will lead this growth of 18% to 20%?

Rajkumar Bafna: We cannot give you names, but we can tell you it is from the fungicide segment.

Yogesh Tiwari: How much of this 18% to 20% would be contributed by volume and by products?

Rajkumar Bafna: Should be almost 50:50 is volume and price because we've introduced a few molecules in the last year also which did not form a part in the previous year. So that would be completely a higher volume, higher price thing. Price in the existing Parathyroid also because of the RM price hike, there is some price element there even though on the margin front it is the same.

Yogesh Tiwari: On a quarter-on-quarter basis, the cost of raw material is like flat. So how do you see the situation in the current quarter in Q1 in terms of raw material prices?

Rajkumar Bafna: It should be the same as it was similar to Q4, because the prices of our products have not majorly gone up or down and RM price is also more or less in that range.

Moderator: We have the next question from the line of Chintan Patel from Satco Capital Markets. Please go ahead.

Chintan Patel: What is the reason behind the decline in top line on a quarter-over-quarter basis?

Raghuram K. Shetty: Always Q3 is higher in revenue. We can't compare Q3 to Q4 because it's a domestic season, mostly happens in the Q3, seasonal basis on that.

Rajkumar Bafna: If you see most of the agrochemical companies, we have very equal spread across each quarter. It is not possible to compare quarter-on-quarter, but yet we maintain approximately similar turnover across quarters.

Chintan Patel: Usually, what are the seasonal quarters for us?

Management: In Q3. Actually, we have registration in the export market. We have business across quarters, but in some quarter it will be higher sales as compared to others, it will be more or less 5%-10% plus/minus if you see QoQ.

Chintan Patel: What is the total capacity available for technicals and formulations for FY'23? We recently did an expansion for technical.

Varshit Shah: Total capacity, it's hard to qualify. I think you must appreciate that because it all depends on the assumption of the mix. Revenue growth will be up by 25%. That's a function of mix which I want to produce. Capacity actually is a very theoretical number. You would already know that in just two plants, we produce more than 10-odd molecules. So it depends on how we play with the mix plus at the same time how much of backward integrated, etc., So, actually it's very hard to give you an apple-to-apple comparison. I might say that my volume will increase by 20%. Still my revenue can go down if my mix is not optimized and vice versa as well. I will give you some sense on the volume growth for the benefit of the participants. We do some debottlenecking activities regularly. In last year FY'22 also, we have done some debottlenecking which is around 5% to 7% capacity. In Unit-IV, I think director mentioned earlier, so that also added some capacity. You can easily assume that anywhere upwards of 10%, 12% we have added in terms of capacity, assuming product mix remains largely same.

Raghuram K. Shetty: But that is about technicals side. Your other question was about the formulation and packing. We have got a separate unit for formulation as well as for packing for the ready-made products for Indian market as well as for the global market wherein it is a two-year-old plant, it has got a large capacity to cater any requirements.

Chintan Patel: What is the capacity utilization you are targeting for the formulation, because our formulation I think is utilized around 45%?

Raghuram K. Shetty: 60% capacity utilization and we can enhance it further depending upon the demand and the product is seasonal sometimes the percentage utilization may be 80% also depending upon the season. But, we have a large capacity left to increase the capacity.

Chintan Patel: Let's assume that our raw material price are at 20%, then what is the sustainable EBITDA margin number for that if we take a price correction for end products?

Rajkumar Bafna: Across RMs, it's very tough to answer such a question. Our total EBITDA margin should go up to 24%, 25%.

Varshit Shah: If the raw material price has gone about around 10% to 20%, we have to pass on the benefit to customer also. Okay? The margins will be intact because last year we didn't saw that. Raw material prices have gone up by around 10% to 15% and most of the cost we pass on to the customers.

Rajkumar Bafna: It entirely depends on the demand/supply scenario. If it is stable, then we will pass it on. If demand is high, we may increase the price maybe upward of 25%, something like that.

Moderator: We have the next question from the line of Vaibhav Gogate from Ashmore Group. Please go ahead.

Vaibhav Gogate: Could you please give timeline for commissioning of Sarigam and Saykha, because earlier you had commented that Sarigam would come online in phases?

Rajkumar Bafna: We are planning three blocks in in the Sarigam facility. The first block will be ready by Q3 end this year, the second block should be in the first quarter and I think the third block also will be by second quarter it should be ready. So by September next year, we should have the entire Sarigam facility running. For Saykha, we've received all the governmental licenses and some activity we have already started, but we'll properly plan it post the rainy season.

Vaibhav Gogate: As far as domestic formulations business is concerned, what sort of growth do you expect in FY'23?

Raghuram K. Shetty: We foresee around 20% to 25% growth YoY.

Moderator: We have the next question from the line of Amit Kumar from Reliable Investments.

Amit Kumar: I have two questions. One is the raw material cost when you try to explain it in a manner that you are trying to cover the whole year. We are talking about two quarters which is this quarter versus last fourth quarter on year-on-year basis. The raw material cost has jumped up from 58.1% to 65.9% which is quite alarming. That is the major reason why the EPS has also come down. We need to look why did the price go up suddenly yesterday because the entire market did not grow as much as probably Heranba did. If somebody has prior knowledge or not?

Raghuram K. Shetty: The first question was on the margins front. Because the comparison of the last quarter Q4 versus this Q4, because last quarter our gross margin was around 41% out of things and current quarter is around 30% to 35%. That 40% margin you can say the exceptionally quarter due to the product mix. That's why our EPS comes down from compared to YoY basis in that. Almost around 4% gross margin will hit in this quarter. To your second question, it's price-sensitive because we don't have any control on the market what the price is, mostly depend on the supply and demand, so we can't comment on this question on the prices.

Moderator: The next question is from the line of Rupesh Tatiya from Intelsense Capital. Please go ahead.

Rupesh Tatiya: Sir, this Rs.80 crores CAPEX we spent in FY'22, all of that was towards Sarigam or some of it was towards Vapi and some other sites?

Raghuram K. Shetty: Out of Rs.80 crores CAPEX, around Rs.25-30 crores gone to Sarigam site and still Sarigam site needs CAPEX of around Rs.120 crores out of things in that, that will be incurred in this year. We (**inaudible**) **53:31** land around Rs.25 crores at Saykha. Other routine CAPEX is there for the balance amount.

Rupesh Tatiya: And then next year, you have given a guidance of Rs.165 crores. So where is the balance Rs.45 crores going towards?

Rajkumar Bafna: We have guidance of around Rs.160 crores. Out of that, Rs.120 crores will go to the Sarigam plant and Rs.30 crores will be our maintenance and routine CAPEX for that.

Rupesh Tatiya: Sir, you have given this block-wise commissioning of Sarigam, one block will be in Q2 next year and one will be in Q3. What kind of timeline do you see for this site to reach optimum capacity utilization?

Rajkumar Bafna: Mostly, optimal capacity utilization will come around Q1 of '23-24. First phase will start from the end of the calendar year '23. Mostly, capacity optimal utilization, you can see in Q1 of FY'23-24.

Rupesh Tatiya: The 12% revenue growth guidance you gave for three, four years. So, what you are saying is we are at roughly Rs.1,400 crores, 20% growth next year takes us to Rs.1,700 crores and then roughly Rs.200 crores to Rs.250 crores CAPEX for which you have said 3-3.5x asset turn which is around Rs.700, 800 crores. So, we are looking at roughly Rs.2,500 crores revenue by let's say end of FY'24. Is there some misunderstanding?

Rajkumar Bafna: No misunderstanding because in the current year we close around Rs.1,450 crores and next year we target the same range of around 18% to 20% growth which will come around Rs.1,700 crores to Rs.1,800 crores in this range also.

Rupesh Tatiya: Roughly will be '24-25, right?

Raghuram K. Shetty: FY'23-24 will be in the same range also.

Rajkumar Bafna: There is one change in the statement, that is once the CAPEX is done for phase-I, optimum utilization of that facility would not come within one quarter, it will take time. So –

Rupesh Tatiya: That is what my first question was sir. How much time it will take for optimum capacity utilization?

Rajkumar Bafna: Initially what happens is, you go within that facility also, there are multiple products coming in. So it will be scaled up in phases. Because giving a number for such thing is very tough. So it will depend on how comfortable we are with selling as well as based on the scale up. So, slowly that scale up will start maybe 60% going 70%, 75% like that. Because it's a bigger facility so over a year's time we will be able to touch somewhere around 75%-80% percent of the capacity utilization. Generally, any plant takes time to reach its peak capacity utilization unlike Vapi which is an old plant and the products are well set. A new facility would take a longer time. Q2 and Q3, it will take similarly sometime, for some products it may be quick, for some products it will take longer time.

Rupesh Tatiya: So, with this CAPEX and next year guidance, 12%, it doesn't add up. So, can we say we will grow 18% to 20% over next three years?

Rajkumar Bafna: 18% to 20% we have mentioned earlier also and we are confident of achieving 18% to 20%.

Rupesh Tatiya: Yes, that was what my understanding, sir, but suddenly you said 12% in earlier part of the call, so I was a little bit confused.

Rajkumar Bafna: 12% was for Parathyroid. We foresee that we will be able to grow our parathyroid portfolio at a pace of 12% YoY, but there are a lot of fungicides and a few herbicides that we are planning to launch, which will have a much higher growth, because the base is small where we may see a growth of around 40% to 50% YoY.

Rupesh Tatiya: I have an observation. If we look at two companies which are being discussed, similar product mix as us, they have roughly 35%, 36% gross margin and you also have 35%, 36% gross margin, but our geographical distribution is inferior to them. Both these companies have far higher geographical distribution in the US and Europe and we don't have so much. So as we get into the US and Europe and let's say that revenue share increases, would it be fair to say that our gross margins will go up by 3%, 4%?

Rajkumar Bafna: No, we'll say that we'll be able to maintain our gross margin because the US, Europe would be one segment, but our company is into multiple segments. So considering the whole, we'll have to consider that 18% to 20% EBITDA and 18% to 20% growth is what we are comfortable today. Definitely, in the US, Europe we have been a late entrants in these markets because of the cost involved, we were little scared earlier. But now we are comfortable and we have more understanding of those markets and that's why for the last three years or so, we've been working on a few registrations and over the next two, three years, we'll be working on many more registrations in these markets also in the Latin American and the Asian, African markets, that is the existing markets that we are in. So definitely maybe as on date you feel as compared to the companies that you've looked into, it is inferior, but over the period that would not be an issue for you.

Rupesh Tatiya: So, is our gross margin higher in Europe and these markets, generally that is that case is what we understand?

Rajkumar Bafna: It will be in that range only. We will be plus/minus 2-5% or so depending on the product.

Rupesh Tatiya: In terms of registrations, let's say top three or four Parathyroid and let's say top three and four non-Parathyroid where let's say top ten products. How many are registered in Europe and how many are registered in the US as of today?

Rajkumar Bafna: Currently, in the US, we have only one registration, that is a Parathyroid and in Europe we have four registrations; three of them are Parathyroid and one is a herbicide, is a non-parathyroid, product we've received very recently, maybe in the last one month.

Rupesh Tatiya: So, where do you expect this number to be let's say in FY'23 and FY'24? In the US you have one. What would that number be? In Europe you have four. What would that number be?

Rajkumar Bafna: Currently, apparently because we are very new in these markets, so we will prefer not giving you a number now, but over a longer period we feel that in the US and Europe overall, we will be able to have a $50 million market. But YoY, it would be a little difficult because two years went in COVID and last year we started doing serious marketing, this year also we plan a few visits and all. So it's an ongoing market development activity that we are doing, trying to know our customers, we are trying to know us. It will not be easy for us to give immediate sales figures for this year, but over the period we'll be able to give you good figure.

Rupesh Tatiya: So, this $50 million kind of aspiration or target we have for US, what would be the similar number for Europe?

Rajkumar Bafna: No, as a whole I am saying, around $50 million would be a figure for the US and Europe. And we are dependent on the number of registration we get, how quickly we get this registration and how quickly we can penetrate with those products with our target customers. So all this is important.

Rupesh Tatiya: Sir, these five new products we are looking to launch near term, most of them will be on our own registration?

Rajkumar Bafna: Yes.

Rupesh Tatiya: So, we have started and we do actual registrations in the next one or two years for these new five products?

Rajkumar Bafna: We did registration this year only. We may receive two actually; one, we are sure of, one, we are not very sure.

Moderator: That was the last question, sir. We now hand it over to the management for closing comments.

Raghuram K. Shetty: Thank you so much for showing interest and I hope we have answered all your queries. If you have any doubt, still you can approach us and we'll be happy to answer all your doubts and we can clear your doubts. Thank you so much.

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