

Business Updates

- The demand for the products have remained relatively subdued and uncertainty still continues to linger at customers end
- The company has also been impacted by currency crisis in multiple countries like Bangladesh, Pakistan, Sri Lanka
- In terms of capex the company will be slowing down the ongoing capacity expansion and until demand recovery is witnessed will not use any borrowings to fund the ongoing capex
- Going forward the earnings call will be held on a half yearly basis

Participants

Credence Capital

Fintrest Capital

Bamboo Capital

Turtle Capital

iThought PMS

Sanchay Capital

Swan Investments

QnA

- When demand is lower the competitive intensify in the industry is very high as players rush to sell whatever capacity can be filled
- For next two quarters there will be a pressure on margins and they might either move sideways in a range of +/- 2%
- The capex would be in a wait and watch mode and once demand recovery is witnessed the capacity enhancement can be completed in a year
- The total product basket that has been commercialized is now 26 and 6 new products are in the laboratory
- The total product pipeline will be increased to 35 in the next two years
- There has been no change in market positioning and the company has held on to its market share in all the existing products
- The destocking activity is different across countries but it is probably at an end across most of the customers across countries
- The existing capacities can generate revenues in the range of Rs 350-380 crores

- The outsourcing portion is currently limited apart from what Macrotech is doing but when demand comes back the outsourcing will increase as well
- The management is fairly confident that the new facility can come online in 12 months time whenever the need may arise
- This expansion is very large and if done right now will entail a debt on books but because demand is also not present at the moment the fixed costs will be an added burden
- The existing capacities can entail a growth of 25-30% with no additional capex right now
- The Chinese market had become a significant portion of total revenues of the company but they have been inactive for a long time and this business should not come back at least for the next six months
- The lack of dollar has also been a problem because even though there is demand in some countries because of lack of available currency the demand is not coming in the market
- In the API industry it is extremely rare to have monopoly situation in terms of producers and it is a fairly open market with a quite a lot of players not just in India but also the Chinese markets
- The new products are all out of patent products in which the company is not the first mover in any of them but this has been the strategy of the company all along
- Though RM prices have come down since last year but multiple other costs still remain elevated and there have not been any let down on these costs
- The competitive intensity in the industry remains and there are new entrants that always keep entering into the industry
- The company hopes to expand capacities and register its product in Europe as well in the next 5-6 years and target that market from the new facility
- The company has already filed in Europe for three of its products and the timeline for approval is as long as 18 months
- The market opportunity in veterinary API's is large but there are multiple competitors in this space and in the USA & Europe market 90% is being supplied by the Chinese
- A lot of the growth that was witnessed by the company during 2020-22 was due to over stocking by many customers which miscalculated covid issues and these are now de stocking their inventories
- The expenditure on the expansion at Tarapur so far has been Rs 31 crores with no debt being raised for it
- The asset turnover ratio in this industry is usually between 2-3 times