Aarti Pharmalabs

Operator: Ladies and gentlemen, good day and welcome to Aarti Pharmalabs Ltd. Q2 and H1 FY27 earnings conference call hosted by PhillipCapital PCG. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Om Sanghvi from PhillipCapital PCG. Thank you, and over to you, Om.

Operator: Thank you. A very good afternoon, everyone. On behalf of PhillipCapital PCG, I welcome you to the Q2 and H1 FY27 earnings conference call for Aarti Pharmalabs Ltd. Joining us today from management are Mr. Rashesh Gogri, the Managing Director; Mr. Piyush Lakhani, Chief Financial Officer; and Mrs. Hetal Gogri, Executive Director. I would like to hand over the call to Mr. Rashesh for the opening remarks. Over to you, sir.

Rashesh Gogri – Managing Director: Good evening, and thank you for joining us today to discuss Aarti Pharmalabs' second-quarter and half-year results for Financial Year 2027. The investor presentation relating to today's results has been filed with the exchanges and is available on our website for your reference. We continue to make healthy progress in all our business segments and are executing well on our growth strategy. With a clear focus on near-term opportunities, we aim to further solidify our standing as a preferred partner in the global pharmaceutical supply chain.

Moving on to our standalone financials for Q2 FY25, Aarti Pharmalabs maintained strong momentum, delivering its highest-ever quarterly revenue of Rs.613 crores as compared to Rs.417 crores, which is a 47% increase year-on-year. EBITDA was Rs.136 crores as compared to Rs.74 crores in the corresponding period of the previous year, which is an increase of 84% year-on-year. Profit after tax for Q2 Financial Year 2025 was Rs.66 crores as compared to Rs.24 crores a year ago, which was a 2.75-times increase over last year's low base. EBITDA margins have remained healthy at 22.2% as compared to 17.7% in the same quarter last year.

Now I would like to tell you about the specifics of the businesses in Q2 FY25. The xanthine derivatives and allied product segment contributed 50% of the turnover. The volume split between beverages and other products was 62% and 38%, respectively. In terms of the geographical split, export sales contributed 59%, and the remaining 41% was from local sales. Due to geopolitical turmoil, raw material costs have remained elevated, and we are passing on the raw material increase to our customers.

The API and intermediate business accounted for 30% of the turnover. The sub-segment-wise breakup was 57% for the regulated market, 33% for the RoW market, and 10% for the non-regulated market. Benefiting from the recent capacity expansion undertaken in steroid API, we recorded healthy sales in this quarter.

The third segment, CDMO/CMO, contributed 13% of the revenue in this quarter, and we are presently working with 23 customers. The number of active projects is now 59, out of which 39 projects are in the commercial stage and 20 are at different stages of development, both at the customer's end. We remain on track to achieve our target of 40%-50% revenue growth over last

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year in this business segment.

The balance 6% of the turnover was from other sales, which include trading sales, export incentives, and solvent and other scrap sales.

Let me share a brief update about our ongoing projects. The groundbreaking for the Atali dedicated block, which is Block 2, has been completed, and we target commercializing this block in H2 FY26. The ramp-up of the expanded xanthine capacity is progressing, and we plan to achieve full capacity by the end of FY25. We will achieve the utilization sequentially in the next year. The capacity expansion of the steroid block of the API plant was completed, and it has started contributing to production and revenue.

I would like to share a few words about the strategic outlook. Building on 25 years of technical expertise and heavy investments over the last 3-4 years, Aarti Pharmalabs has established a solid foundation to transition into a robust, multi-pillar global pharmaceutical partner. The mature xanthine derivative segment, in which we hold a dominant market position, continues to serve as a cash cow. The company is also geared up to accelerate growth led by its high-growth CDMO/CMO pillar, followed by the API and intermediate segment. We are working on all fronts to grow these segments. Ultimately, with capacity additions still underway in the medium term, Aarti Pharmalabs is well positioned to deepen its global partnerships and drive substantial long-term value creation.

I now request the moderator to open the forum for Q&A. Thank you.

Operator: Thank you so much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Also, in order to ensure that management is able to address all the questions from participants, we request you to kindly limit your questions to two per participant. If you have a follow-up question, please rejoin the queue.

The first question comes from the line of Ahmed Madha with Unifi Capital. Please go ahead.

Ahmed Madha - Unifi Capital: Thank you for the opportunity. Sir, can you give us the status of both projects, the xanthine project as well as Atali Phase 1? How has the utilization been, because we still see capital work-in-progress on the balance sheet of more than 300 crores? How should one read the capitalization of the assets, and how are both the assets operating?

Rashesh Gogri - Managing Director: As explained to you on the earlier calls, the xanthine expansion was in 2 phases. The first was to get the finished product out, and that has been fully completed. As I mentioned on the call as well, we plan to ramp up production to full capacity by the end of this year. I think the same will continue for intermediate production as well. That will also become fully operational by the end of this year. By the end of this year, you will see full capitalization of the xanthine project.

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Atali Phase 1 is complete, and I think in Q3 we will capitalize the [unfinished sentence]. We have taken the trial batches of Atali Phase 1B. Trials are actually underway this week, and we will have full capitalization of that block as well.

Ahmed Madha – Unifi Capital: In terms of CDMO visibility, with both the first Phase 1A and Phase 1B commercializing, and with the number of projects increasing as per your disclosures, what sort of visibility do we currently have to be able to utilize Atali at full capacity in the second half?

Rashesh Gogri – Managing Director: Basically, Atali Phase 1A and 1B serve different purposes. 1B is a smaller line that can take care of early work for newer projects, whereas 1A, which was commercialized, is a commercial line. It is more of a scale-up line, which has now been commissioned and is in the commissioning phase. Therefore, Phase 1B will not make too much difference or have too much bearing on the overall capacity addition that we will have in Atali. Overall, we see that we will be able to completely utilize this Atali asset in this financial year, in the second half of this financial year.

Ahmed Madha – Unifi Capital: On the xanthine front, compared to Q1, the Q2 top line is broadly the same. How should one look at it? Have the volumes been broadly the same and the pricing remained the same, or has there been a volume increase and a price decrease? There has also been some change in the mix, with the proportion of domestic sales being much higher compared to the proportion of export sales. How should one read the overall volumes and pricing for xanthine in Q2 compared to Q1? In terms of Q3 and Q4, should we assume that there will be a significant jump in volumes?

Rashesh Gogri – Managing Director: Xanthine includes xanthine as well as the allied chemistry that we undertake. We had slightly lower xanthine sales due to shipments being held up because of shipment issues, but there were higher sales of allied products. Otherwise, we ideally would have had higher sales in this quarter, but sales were restricted due to these dispatch constraints. I think that will be resolved in the current quarter, hopefully. With that, as you said, the overall sales numbers should increase.

Ahmed Madha – Unifi Capital: In terms of the API business, we have seen some consolidation over the last few quarters. There was some price erosion and also some capacity constraints. We have seen decent improvement compared to the last quarter. How should one read the API business in terms of the number of API products and so on? Has that improved, or is there intermediate capacity available because Atali is operational? Is there some space available in Vapi that you are utilizing to improve intermediate production? How should one distinguish between API and intermediate, and can this run rate sustain or improve going into the second half?

Rashesh Gogri – Managing Director: I think the API and intermediate sales segment is largely driven by API because we continue to occupy the intermediate capacity through CDMO, largely. Therefore, we are not undertaking very aggressive sales of intermediates. In API, with the debottlenecking of the steroid block, we have been able to bring regular sales back into the fold, which were constrained in Q1. From Q2 onwards, we anticipate greater sales of steroid products as the expanded capacity continues.

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Ahmed Madha – Unifi Capital: With the capitalization of all assets happening in the second half, should we assume a meaningful increase in operating expenses? Obviously, depreciation and finance costs will go up, but on the operating expenses side, since you will have capitalized something, should the entire cost structure go up in the second half? Is that a fair assumption?

Management: Finance costs would basically remain at almost similar levels because we have arranged financing for most of the capex. Depreciation is likely to increase as we capitalize the assets, so depreciation costs will go up.

Ahmed Madha – Unifi Capital: What about other operating expenses?

Operator: Thank you. I am sorry to interrupt you, Mr. Ahmed, but please rejoin the queue for more questions. Thank you.

Operator: Ladies and gentlemen, in order to ensure that management is able to address all the questions from participants, we kindly request you to limit your questions to two per participant. If you have a follow-up question, please rejoin the queue.

Our next question comes from the line of Sudarshan Padmanabhan with Ashika Investment Managers. Please go ahead.

Sudarshan Padmanabhan – Ashika Investment Managers: Thank you for taking my question, and congratulations on a great set of numbers. I have 2 questions. First, if I look at the mix in this quarter, the mix has primarily been more favorable toward the contract manufacturing business. Gross margins have taken a hit. Would that primarily be because of raw materials, and how much of the price increase has been passed on? How do we see the third and fourth quarters as we pass on the raw material cost further?

Management: Over Q1 to Q2, CDMO sales were almost double those in Q1. In terms of the pass-through, in xanthine and allied chemistry, we have normally been passing on the increase, and in API also we have received some price increases. With raw material costs increasing and the cost being passed on, that is why you see a slight erosion in the EBITDA number by a couple of percentage points. That is what has happened.

Sudarshan Padmanabhan – Ashika Investment Managers: By the third and fourth quarters, we should more or less catch up in terms of passing on the price increase. Would that be correct?

Management: We are already passing it on. The third and fourth quarters will have higher CDMO sales, so the overall EBITDA percentage can improve in the third and fourth quarters.

Sudarshan Padmanabhan – Ashika Investment Managers: My second question is on the balance sheet. Looking at the commentary, we have added 2 commercial molecules compared to the last quarter on the CDMO side. When I look at the balance sheet, inventories and working capital have both increased. Given that CDMO is scaling up, would it be correct to assume that we have primarily prepared the inventory and that this working capital is primarily to fuel the growth we expect to see in the second half?

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Management: Overall, our working capital cycle remains close to 165 or 167 days. Since sales turnover has increased, the need for working capital will also increase. The CDMO business is also one where sales are normally more weighted toward H2. In H1, we see inventory build-up. All these 3 factors combined have resulted in higher working capital. As we see the growth that we are targeting, namely 40%-50% growth in the CDMO business this year, followed by further growth next year, unfortunately we will have to live with higher inventory overall within our system.

Sudarshan Padmanabhan – Ashika Investment Managers: One final question before I rejoin the queue. Given that capacities are coming in, and you mentioned depreciation and finance costs, have we absorbed a fair amount of cost for the expanded capacity below the gross margins, or should we see higher costs both for employees and operating expenses with respect to the expanded capacity?

Management: In H2, the overall apportionment will increase because the 1B block of Atali will also be capitalized. The fully completed caffeine and early intermediate facilities will also be capitalized. With all of that being capitalized, the expenses will also start recurring on the P&L.

Sudarshan Padmanabhan – Ashika Investment Managers: Operating leverage will basically absorb some of the cost, so the margins might not be very different. They could probably be better at the EBITDA level.

Management: I think we should be within 1 percentage point either way.

Sudarshan Padmanabhan – Ashika Investment Managers: Thank you very much. I will rejoin the queue.

Operator: Thank you. The next question comes from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta – Bamboo Capital: Congratulations on a good set of numbers. On the xanthine side, if you look at the past 2 quarters, we have already had an annual run rate of more than 1,200 crores without fully utilizing the capacity or even coming close to full capacity. Given the current prices, at full capacity should we expect revenue of around 1,500-1,600 crores from xanthine?

Management: If prices remain high, we expect this to increase to 1,400-1,500 crores.

Ankit Gupta – Bamboo Capital: Okay.

Management: If raw material prices come down, the top line will come down because we have a pass-through.

Ankit Gupta – Bamboo Capital: On the Atali expansion, we are almost going to capitalize the capital work-in-progress, which I assume will largely be from the Atali capex, in Q3. Despite the operating expenses of that plant coming in during Q3 and Q4, and with higher CDMO expenses given the CDMO revenue, we have done almost 120 crores of revenue in the first half of this financial year. To grow by 40%-50% as guided, we would be doing close to 280-300 crores of revenue in the second half. With that CDMO revenue, which is at higher margins, should we still expect our margins to be higher than the 22%-23% we reported in this quarter, as you had said in response to the previous

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question?

Management: Margin percentage is a factor of global raw material pricing and how much more CDMO business we undertake. If raw material prices remain high due to the impact of the war and other factors, that will put downward pressure on margins, while CDMO will have an upward impact. We have to see how both mixes remain in the second half, and that will define the percentage margin. In absolute terms, however, I think gross margins will continue to increase as we undertake more quality business going forward.

Ankit Gupta - Bamboo Capital: Sure, sure. Just this last question-- [cut off]

Operator: Thank you. I am sorry to interrupt, sir, but can you please rejoin the queue?

Operator: The next question comes from the line of Dhwanil Desai with Turtle Capital. Please go ahead.

Dhwanil Desai - Turtle Capital: Good afternoon, everyone, and congratulations on a very good set of numbers. My first question is on the API side. I think we have reached a run rate of 180 crores. If I remember correctly, we have capacity to serve up to around 1,000 crores of revenue. As we ramp up again once the headwinds are behind us on the API side, do we see the run rate reaching 200 crores by the end of this year and eventually around 250 crores? Related to that, will we need more capacity to serve API demand thereafter?

Management: Just to clarify, the API plus intermediate segment is 180 crores. Currently, on the API manufacturing side that we have in Tarapur, debottlenecking is taking place on the anticancer side. We are trying to debottleneck Block 3. Once we have completed that debottlenecking, we will have the capacity to manufacture more APIs and, depending on the product mix, we can achieve a higher top line from the current level. On the intermediate front, the intermediates that we manufacture and sell to the market depend on the capacity we have and how much capacity is occupied by CDMO. We have a buffer product that we continue to produce with the balance capacity. Overall, I think it is fair to say that 180-200 crores could be the base for the second half each quarter. We will then have to see how next year [cut off]

Management: We are also in the process of validating a few new products, which would be the base for the future--

Management: Yes.

Management: --in this quarter, and then we will do that next quarter.

Dhwanil Desai - Turtle Capital: Understood. Very clear. My second question is on CDMO-- [cut off]

Operator: Thank you, sir. You have already asked 2 questions.

Dhwanil Desai - Turtle Capital: Sir, I have asked only 1 question. This is the second--

Management: Yes, yes, take it. Take one question. Yes.

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Dhwanil Desai – Turtle Capital: My second question is on CDMO. We talked about 40%-50% growth, and we are already in H2. How should we look at going into FY28? I am asking because some of the molecules we supply will be commercialized and launched this year and next year. Approval will also come for obeticholic acid. With all those 3 or 4 molecules that we have, do we expect 40%-50% growth next year? With all these molecules put together, do we have visibility to reach 700-800 crores once Block 2 also comes into play?

Management: [pause] As I have mentioned, our target remains $100 million or 1,000 crores, whichever comes first. How we achieve it depends on when the customers receive approval. We work on almost 59 projects, and there are several projects with good potential. CDMO and CMO are value chains where there can be ups and downs, but with the kind of seeding we have done, we are fairly confident that we will achieve that number. The timing may be one year earlier or later. We will stick to that number.

Dhwanil Desai – Turtle Capital: Okay. Fine. Thank you.

Operator: Thank you. The next question comes from the line of Kushal Goenka with Mangal Keshav. Please go ahead.

Kushal Goenka – Mangal Keshav: Congratulations on a good set of numbers. My question relates to the working capital point raised by the previous participant. I understand that you mentioned inventory, but trade receivables have also increased substantially. Because of that, cash flow from operations is just 30 crores compared to approximately 270 crores of EBITDA. Because of this, I believe short-term borrowings have also increased to around 650-660 crores. I wanted your thoughts on this. If debtors continue increasing, do you have any thoughts on this?

Management: Basically, debtors would increase along with sales. Sales have also increased compared to H1 of last year. If you look at the cash conversion cycle that we track, it is around 150-160 days. We consider that to be the baseline for our business.

Kushal Goenka – Mangal Keshav: Thank you very much, and best of luck.

Operator: Thank you. Our next question comes from the line of Rahul Jain with Credence Wealth. Please go ahead.

Rahul Jain – Credence Wealth: Hello. Am I audible?

Management: Yes.

Rahul Jain – Credence Wealth: Hello.

Management: Yes.

Rahul Jain – Credence Wealth: Thank you for the opportunity, and congratulations on a very good set of numbers. My first question relates to the capital work-in-progress of about 300 crores. In the second half, apart from the capitalization of this 300 crores, which you said you would do in Q3, is there any further capex and capitalization to be undertaken in the second half?

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Management: There will be some smaller projects as well, but total capitalization will not exceed this 300-crore number. It will be lower because some projects will move to next year as well,

Management: Q1 of

Management: Q1 of next year. We do not anticipate any capitalization beyond this.

Rahul Jain – Credence Wealth: What is the capex amount in the second half?

Management: Overall, we have targeted total capex of around 350-400 crores for the year.

Rahul Jain – Credence Wealth: My second question relates to your guidance. In general, you have been conservative and maintained EBITDA and revenue growth of around 15%-18% for many quarters. However, given what you have achieved in the first half, both in terms of revenue and EBITDA, we are well ahead of that number. Given the Atali expansion coming through, the xanthine ramp-up next year, and the visibility on CDMO with a large number of projects, do you feel there is ample scope to upgrade this guidance of 15%-18%, not only for this year, which looks quite certain to be much higher, but also for FY28, over and above the FY27 numbers?

Management: Overall, we are giving 3-year guidance. We do not want to give a specific guidance for this financial year, and we do not want to comment on half-yearly or quarterly volatility. However, one thing I want to reassure you about is that the strategy is working and all 3 businesses that we operate are poised to grow in the future. I think we are on track with all our guidance numbers. One year can be higher; last year we had slightly lower numbers. Therefore, this year looks promising going forward.

Rahul Jain – Credence Wealth: Just one small point, sir. In terms of API, you have mentioned in your presentation as well as in your remarks that the headwinds are subsiding. With regard to the environment, can you share some more details on what exactly is happening in the API segment? Is demand returning, or are prices much better now? Could you share some insights on that?

Management: In Q1, as mentioned earlier, one of the major blocks was shut down, and that shutdown has now ended. That is the reason why we saw an improvement in Q2. For some of the projects, we are trying to convert them further into the regulated market. We are very much focused on the regulated business, so some products are maturing further for newer approvals with our customers in the regulated market. That is giving us slightly higher margins compared to the RoW and other markets. Going forward, in API we are very much focused on R&D and targeting new validations. We will be working toward that. If we are able to become the first source for our customers for our newer projects, we would want to improve our margins in that scenario.

Rahul Jain – Credence Wealth: Thank you so much, and I wish you all the best.

Management: Thank you.

Operator: The next question comes from the line of Kushal Sharma with Equinox Capital Venture Private Limited. Please go ahead.

Kushal Sharma – Equinox Capital Venture Private Limited: Good evening, sir. Am I audible?

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Management: Yes.

Kushal Sharma – Equinox Capital Venture Private Limited: I have one question on the CDMO side. Of the 39 commercial-stage and 20 development-stage CDMO projects, what are the key therapeutic areas and types of molecules you are working on, and how are these projects split across the different therapies? Could you provide some guidance on this?

Management: We have products for antihypertensive treatment, pain management, anticancer treatment, and CNS. We have a varied range of products in our basket. They are not concentrated only on the anticancer side or any single area.

Kushal Sharma – Equinox Capital Venture Private Limited: Are you working on peptides as well? Since we have R&D, do you have any plans for that?

Management: Yes. We are trying to set up the peptide lab, as we mentioned earlier. By the end of this financial year, we will have an operational peptide lab with all the equipment. We have already started recruiting teams with experience in peptides, and we hope that in the next financial year we will start generating customer business on the peptide and oligonucleotide side.

Kushal Sharma – Equinox Capital Venture Private Limited: Of the 20 development-stage CDMO projects, do we have any peptide-based projects?

Management: Not any major project. We have 1 or 2 liquid-phase projects, but no major solid-phase project.

Kushal Sharma – Equinox Capital Venture Private Limited: In the future, do we expect some development in this area?

Management: Peptides and oligonucleotides are 2 areas where we feel there is a lot of opportunity that we can capture. These are highly complex chemistries requiring considerable precision in purification and conjugation. We will have to gain experience in carrying out this work. We are hiring experienced chemists and scientists to work on it. We will see how it progresses. Next year will be the year when we begin, pitch to customers, and see how it goes. After that, I will be able to give you firm commentary on how we are progressing in this area.

Kushal Sharma – Equinox Capital Venture Private Limited: Understood, sir. Thank you very much for answering my question. All the best.

Management: Thank you.

Operator: The next question comes from the line of Dhruv Sitlani with Viomara Capital. Please go ahead.

Dhruv Sitlani – Viomara Capital: Thank you for the opportunity, and congratulations on a great set of numbers. My first question is: how much of the growth in API for this quarter was driven by pricing versus volume growth?

Management: It was largely volume-driven. The current growth was largely volume-driven.

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Dhruv Sitlani – Viomara Capital: On the API and intermediate business, what sort of growth do we expect over the next 3–4 years? Will this largely be volume growth again, or will it be new product-led growth?

Management: I think it will be both. It will be new product-led growth as well as volume growth. In earlier calls also, I mentioned that we would have 10%–15% growth every year in this business, although in certain years we could have higher growth as well.

Dhruv Sitlani – Viomara Capital: Thank you for the color. In the API business, is our competition primarily Chinese competitors or other API companies within India?

Management: Both.

Management: Both. Both.

Dhruv Sitlani – Viomara Capital: Thank you.

Management: Thank you.

Operator: Our next question comes from the line of Aryan Mehta with Shavas Capital. Please go ahead.

Aryan Mehta – Shavas Capital: Congratulations on the great set of numbers. Earlier, you mentioned that there was some spillover of xanthine sales due to shipment issues. Can you quantify how much that was?

Management: It would be around 5% of this quarter's xanthine sales.

Aryan Mehta – Shavas Capital: So, approximately 5% spillover. Our guidance for CDMO this year is 40%–50% growth. I think we will need approximately 280–300 crores more. We also have our LDL-lowering molecule ramping up. How confident are we of meeting the guidance of 40%–50% growth?

Management: As I mentioned, we are maintaining the guidance, so we will reach that number.

Aryan Mehta – Shavas Capital: Thank you.

Management: Thank you.

Operator: Our next question comes from the line of Arun with Unifi Capital. Please go ahead.

Arun – Unifi Capital: Thank you, and congratulations on the good set of numbers. In August, you said that realization per kilogram would decline in Q2 for xanthine, but on a quarter-on-quarter basis, xanthine revenue is almost flat. Could you break it down between the price decline and the volume growth?

Management: What has happened is that, in addition to xanthine, we have allied chemistry that we undertake along with xanthine, which is classified under xanthine chemistry. There was an increase in that chemistry, apart from the [unfinished sentence]. Xanthine numbers have actually declined

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slightly, whereas the top line from the allied chemistry has increased. Overall, on the xanthine side, there has been some decline in average realization. We need to check the exact number, but there has been some decline in realization.

Arun – Unifi Capital: What about the volume side?

Management: On the volume side, I think we have [unfinished sentence].

Management: As mentioned earlier, there was 5% of material that got stuck. Because of that, there will be some decline in xanthine, while the volume and turnover of allied products were higher. So [unfinished sentence].

Management: Yes.

Arun – Unifi Capital: Understood. Is Q2 the peak in debt, or will it rise further with the remaining capex? Can you provide some guidance on that?

Management: We will further improve our top line in xanthine.

Management: Yes.

Arun – Unifi Capital: My question was also on debt. Debt increased by about 150 crores in H1. There is 250 crores of FY27 capex still to come. Do you see this as the peak, or will you still need more debt to fund your capex?

Management: No, we will need more debt.

Arun – Unifi Capital: Will that be just for this 250 crores [cut off]

Operator: Mr. Arun, please rejoin the queue for more questions.

Arun – Unifi Capital: Sure. Thank you.

Operator: Thank you. The next question comes from the line of Ashish with Leo Capital. Please go ahead.

Ashish – Leo Capital: Congratulations on a good set of numbers, sir. For the xanthine business, how much of our growth was driven by value and volume growth on a quarter-on-quarter and year-on-year basis for this quarter? How do xanthine prices compare with last year and the last quarter?

Management: On average, xanthine realization is up 10%–15% over last year's realization. Overall, in this entire year, we will probably have close to a 15%–20% increase over last year's volume.

Management: Last year was 6,000 tonnes.

Management: Last year we did close to 6,000 tonnes.

Management: 5,000, I think, was last year.

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Management: Yes, we will have a 15% increase in volume this year over last year.

Ashish – Leo Capital: Understood. What was the pricing for xanthine?

Management: On average, pricing is 15% higher this year.

Ashish – Leo Capital: What sort of utilization are we operating at on the expanded xanthine capacities that we added in Q2? By when do we expect full utilization?

Management: We have not planned for full utilization. Over the next 2 years, we will gradually reach 90% utilization. Our nameplate capacity will be 9,600 tonnes, so we will operate at around 8,800 tonnes at the highest level in the next 2 years. Next year, we should anticipate 7,500–8,000 tonnes.

Ashish – Leo Capital: And currently?

Operator: Thank you.

Management: Approximately 7,000 tonnes.

Ashish – Leo Capital: Approximately 7,000 tonnes. Thank you, sir.

Operator: Our next question comes from the line of Ankit Gupta with Bamboo Capital. Please go ahead.

Ankit Gupta – Bamboo Capital: Thank you for the opportunity again. My first question is on the CDMO side. We have been targeting 1,000 crores of revenue, as you have indicated in earlier calls. Whether that is in FY28, FY29, or FY30, we will see. Given the current pipeline and the current capacity, including the dedicated block that is supposed to come in the second half of next financial year, is our pipeline and visibility for 1,000 crores of revenue sufficient? With the capex for this new dedicated block also coming in, will we have enough capacity to reach the 1,000-crore figure?

Management: I think we should have enough capacity to reach 1,000 crores with the new dedicated capacity coming in. However, as I mentioned earlier, we will not restrict our capacity to that. If we have greater visibility of newer projects or if demand for current projects also increases, we will have to add additional capacity because the current dedicated block capacity is planned for only a few projects. If we have more projects with greater visibility, we will have to add more manufacturing assets.

Ankit Gupta – Bamboo Capital: This year we are doing 400 crores of capex. Next year we have plans for the new dedicated block, with a portion of it spilling over from this financial year into next financial year. Apart from that, are we also looking to add capacities? You have indicated that we will put up more dedicated blocks. As of now, do we have any indications of adding new capacities next financial year, as well as new dedicated blocks?

Management: We are still figuring that out. Next year we will decide how much more is needed and where to put it.

Management: Yes.

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Ankit Gupta – Bamboo Capital: On the xanthine side, once we hopefully reach full capacity utilization by next financial year, will we be looking to expand capacity, or are we not planning to undertake any more capex on the xanthine side?

Management: We will have the second-largest capacity in the world, and I think we will be happy to maintain this position for the next few years and then see how it goes. We have increased capacity from 5,000 to more than 9,000 tonnes.

Ankit Gupta – Bamboo Capital: On pricing, there are 2 aspects. One is the impact of crude oil, and the second is the impact of the Chinese government authorities withdrawing the rebate they were giving companies on exports. Even if crude prices come down, do you think the pricing that we are [trails off]

Rupesh Tatia – Long Equity Partners: {? Pricing on the Xanthine side ?} will be sustained, or will it come down? What is your view on pricing, given the current scenario?

Management: In xanthine, there are 3 segments. In the spot segment, prices will face pressure. I think the pharmaceutical and beverage segments will have greater stability in pricing.

Rupesh Tatia – Long Equity Partners: Do you think that, at least in those segments, the existing prices can be sustained going forward as well?

Management: Existing absolute margins will be sustained at least for the next financial year. Then we will have to see how the following year progresses.

Rupesh Tatia – Long Equity Partners: Thank you, and I wish you all the best.

Operator: Thank you. The next question comes from the line of Kirtan Dongre with Himalaya Capital. Please go ahead.

Kirtan Dongre – Himalaya Capital: Thank you for the opportunity. My first question is regarding Atali Block 1. What sort of asset turns do we expect for the multipurpose block?

Management: The Atali multipurpose block is part of the total capitalization, which is a greenfield project. The block had its own value, and then there were central utilities, a warehouse, land development, and other components. Therefore, asset turns will not be very high. However, for the newer blocks, we have given guidance of 1.2–1.4 asset turns.

Kirtan Dongre – Himalaya Capital: Is some specific number possible?

Management: I mentioned the number to you earlier, on [unfinished sentence]

Kirtan Dongre – Himalaya Capital: No, that was for the new block.

Management: Yes, so assume that the current block is also of the same cost and size. It will have this kind of asset turn.

Kirtan Dongre – Himalaya Capital: The second question is whether we largely expect Atali to be used for the CDMO business, or whether we also expect generic API business to come from there.

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Management: There will not be any API business. There will be some intermediate business as well as CDMO.

Kirtan Dongre – Himalaya Capital: So, largely, it will be CDMO only.

Management: Yes, CDMO plus intermediate.

Kirtan Dongre – Himalaya Capital: Thank you.

Operator: Thank you. Our next question comes from the line of Piyush Bhangar with Widget Global Securities Private Limited. Please go ahead.

Piyush Bhangar – Widget Global Securities Private Limited: Thank you for the opportunity. My question relates to the peptide and oligonucleotide business. You said that the lab will be operational by the end of FY27 and that the numbers will be reflected from FY28 onwards. What kind of numbers do we anticipate, in terms of the percentage of total revenue in FY28 and beyond?

Management: It is too early to give any number or guidance. We are just setting it up. I think this would be a good question to ask next year. Currently, I cannot comment with any greater visibility on this.

Piyush Bhangar – Widget Global Securities Private Limited: Thank you very much.

Operator: Thank you. The next question comes from the line of Tushar Raghatate with Omega Portfolio Advisors. Please go ahead.

Tushar Raghatate – Omega Portfolio Advisors: Thank you for the opportunity. My first question is on API. Historically, over the last 3 years, API's percentage contribution was close to 40%. In the last 3 quarters, it has reduced to 30%. I could see that you have filed a DMF for a prostate cancer drug. What sort of opportunity do you see in that cancer drug? Also, what is your 5-year view on the DMF pipeline that we plan to file?

My next question is on CDMO. We are conducting research on peptides and oligonucleotides. I want to understand your plans for the next 5 years. This is currently focused on small molecules. Do you have any plans or aspirations to enter large molecules and other types of modalities?

Management: On the first point, we have a strong pipeline of 61 APIs. Several patent expiries are expected in the next financial year, and those products will be launched with our partners in the markets where they have partnered with us. This will lead to some sales in those regions. We still have to quantify who is obtaining the market share and how the dossier partners with whom we have sold the products are able to capture the market. That will define the growth for us. In addition, for the existing products, we are trying to add newer customers through an alternate vendor development program. That is another area where we will gain market share.

Coming to your CDMO question on peptides and oligonucleotides, these are large-molecule areas that we are trying to develop. Apart from that, we are also trying to develop linkers as a modality. These modalities—small molecules, peptides, oligonucleotides, and ADC linkers—are what we will currently offer to our innovator customers.

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Tushar Raghatate – Omega Portfolio Advisors: On the API part, what is the right to win for the DMF filings that we have planned going forward? Is there a strategy whereby we are filing only for areas where there is less competition? What is our view on the pipeline for the next 5 years?

Management: We have a strong pipeline, largely driven by oncology products. We have several projects with dossier makers and US-market consumers. We have to see who obtains the market share, and that will define how the segment grows. I have given the guidance number for our aspiration. We will have to see what growth comes on the API side.

Tushar Raghatate – Omega Portfolio Advisors: That was helpful. Thank you.

Operator: Thank you. The next question comes from the line of Ameya Deosthali with {? Val-Equity ?}. Please go ahead.

Ameya Deosthali – {? Val-Equity ?}: With regard to recent filings, whether on oncology, antidepressants, DMFs, or CEPs, what are the targeted therapeutic areas that we want to focus on over the next 2-3 years, which could form a large mix over the next 2 years?

Management: We have a range of antidiabetic products, blood thinners, and antihypertensives. Apart from steroids, which are used for inhalation, we have good projects that are being commercialized there. We also have several oncology projects that will be commercialized. All these are growth areas for us on the API side over the next few years.

Ameya Deosthali – {? Val-Equity ?}: On peptide R&D, I was looking at the renovated website, where you have provided good disclosure on SPPS, LPPS, and the types of peptides on which you are starting work. Do we see R&D spending accelerating over the next 1-2 years? How do we see Aarti Pharmalabs hiring the top R&D talent required for such intensive chemistry as peptides?

Management: As you rightly mentioned, as a company we will invest more in research, and we will incur more R&D expenses going forward. Attracting talent is a very important function of management, and we need to determine how we can attract talent. We were glad that we could attract good talent during FY26, FY27, and last year as well. We have a new CSO who joined us 9 months ago. We also have a new API R&D head who joined us. We are further recruiting additional team members on the R&D side. With the renewed focus on peptides and complex chemistry, we are very confident that we will have good talent in our team to deliver on the strategy we have defined.

Ameya Deosthali – {? Val-Equity ?}: May I ask one final question on xanthine? Do you have a breakup of spot-market sales versus pharmaceutical or other-grade sales?

Management: We do not provide that.

Management: We are not providing that breakup, Ameya.

Ameya Deosthali – {? Val-Equity ?}: Thank you. Congratulations, and all the best.

Operator: Thank you. The next question comes from the line of Rupesh Tatia with Long Equity Partners. Please go ahead.

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Rupesh Tatia – Long Equity Partners: Thank you for the opportunity, sir, and congratulations on a good set of numbers. My first question is on the API segment. I was looking at some numbers, and I think we did approximately 920 crores of API sales in FY25, which came down to 660 crores, and in the first half this is around 345 crores, in round figures. I think we were aspiring for FY27 API sales to be closer to FY25 levels. Do you still aspire to get there this year?

Management: API sales in FY25 were 43% of total sales, which last year became close to 36%. In the current financial year, we are at close to 30% of total sales from API. That is where we stand. Overall numbers are increasing, and our xanthine number is increasing faster, so the overall pie is increasing. Last year we had a decline overall on the API side. We first have to regain the previous year's number, which we will cross this year, and then move forward.

Rupesh Tatia – Long Equity Partners: Will we reach the previous year's high this year and then achieve 15%–20% growth next year?

Management: We will have to see how this year progresses. That is our target: to reach a new high.

Rupesh Tatia – Long Equity Partners: The second question is on Slide 12, where we are looking at 1,000 crores of CDMO revenue in 2–3 years. There are 2 ways to think about it. In FY25, FY26, and H1 FY27—the last 18 months—6 molecules have gone into commercialization, with the number increasing from 33 to 39. One possibility is that these 6 molecules have very large potential and could generate 500–600 crores, allowing us to reach 1,000 crores. The other possibility is that the under-development pipeline has to increase from 20 to approximately 100, or at least 70–80, because the under-development pipeline has not moved at all over the last 3–4 years. Could you address both of these aspects for the commercial molecules?

Management: I will explain how we maintain the pipeline. The pipeline number you see as constant is actually a moving number. The pipeline has new additions as well as deletions. Projects that fail in the clinical phases also exit the pipeline. This is the current pipeline; it is not a cumulative number that only increases. The number keeps churning. That is why you see the number remaining high. Of the 21 under-development projects, some will exit and will not be commercialized. We will then add more commercial molecules. Therefore, we have more certainty on the 39 projects than on the 21 under-development projects.

Among the 39 projects, there are also certain projects that were transferred only last year and are campaign products. There was a significant increase in projects that moved from China to us as part of the China-plus-one strategy, where we were added as an additional source. These projects are not very large, but the number of projects has increased. These projects have an approval cycle and a campaign cycle. All these factors make the situation more complex than the simple justification you derived.

However, we have a few good projects that will drive the bulk of the sales number. The 80/20 rule, under which 20% of the projects drive 80% of the revenue, still applies here as well.

Rupesh Tatia – Long Equity Partners: Just to summarize, if end markets perform well, which is not in our control, is there visibility of 800–1,000 crores of revenue with the existing combination of commercial and under-development projects? Is that a fair inference?

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Management: The 10-12 projects that we have out of the 60 projects—the 20% of projects—will drive 700-800 crores of revenue out of the overall potential of 1,000 crores.

Rupesh Tatia – Long Equity Partners: Thank you for answering my questions.

Management: Thank you.

Management: Thank you.

Management: Thank you.

Operator: As there are no further questions from participants, I now hand the conference over to management for the closing remarks. Thank you, and over to you.

Management: I would like to thank everyone who participated in our conference. Thank you. Happy Diwali.

Operator: Thank you so much, sir. Ladies and gentlemen, on behalf of Aarti Pharmalabs Ltd. and PhillipCapital India Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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