NGL Fine-Chem Limited

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November 22, 2022

To,

Listing Department, The BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001.	Listing Department, National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1 G Block, Bandra Kurla Complex, Bandra East, Mumbai 400050.

Sub: Transcript of Concall with Investors held on 17th November, 2022
Scrip Code: 524774 NGL Fine-Chem Limited SYMBOL: NGLFINE

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that the Company participated in the Investors Conference Call on Thursday, 17th November, 2022 on unaudited financial results for the quarter and half year ended September 30, 2022. No unpublished price sensitive information was shared/discussed in the meeting.

We enclose herewith the transcript of Concall with the Investors.

Kindly take the same on your record.

Thanking you,

Yours faithfully,
For NGL Fine-Chem Limited

PEDNEKAR PALLAVI SATISH
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Pallavi Pednekar
Company Secretary & Compliance Officer
Membership No: A33498

Encl: As Above.

NGL Fine-Chem Limited

Q2FY23 Earnings Conference Call

17 November, 2022

Management Participants

Mr. Rahul Nachane – Managing Director

Mr. Rajesh Lawande – Whole-Time Director and Chief Financial Officer

Investor Relations Officer

Mr. Abhishek Mehra – TIL Advisors Private Limited

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY '23 Earnings Conference Call of NGL Fine-Chem Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Mehra from TIL Advisors. Thank you, and over to you, sir.

Abhishek Mehra: Thank you, Rutuja. Good afternoon, everyone, and thank you for joining this Q2 FY '23 Earnings Conference Call of NGL Fine-Chem Limited. The results and investor updates have been e-mailed to you and are also available on the stock exchanges. In case anyone does not have a copy of the same, please do write to us, and we'll be happy to send it over to you. To take us through the results of this quarter and answer your questions, we have today with us; Mr. Rahul Nachane, Managing Director; and Mr. Rajesh Lawande, Whole-Time Director and Chief Financial Officer.

We will be starting the call with a brief overview of the financial performance, which will then be followed by a Q&A session. I want to remind you all that everything said in this call, reflecting any outlook for the future, which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that the company faces. These uncertainties and risks are included, but not limited to what we mentioned in our annual reports, which you will find on our Company website.

With that said, I'll now hand over the call to Mr. Rahul Nachane. Over to you, sir.

Rahul Nachane: Thank you very much Abhishek. A very good afternoon and a warm welcome to you all on our Q2 FY '23 earnings call. I believe that you must have gone through the reported numbers and the earnings presentation that has been uploaded on the stock exchanges. Despite a year-over-year decline in reported numbers, we believe our performance has been reasonable in Q2 FY '23, given the current operating environment.

We continue to face several headwinds which led to subdued demand and a decline in our financial performance. On the demand side, we observed a high level of uncertainty among our end customers as a result of the ongoing crisis in Europe and the high rate of inflation in several developing countries. Because of this uncertainty, the entire supply chain is attempting to rationalize their inventories. As a result, demand has temporarily decreased.

Furthermore, as you are all aware, we export our products to China, where the lockdown remains in effect in various areas. In addition, the negative movement of currencies has had a significant impact on the purchasing power of some countries and the demand continues to be subdued. The majority of the year-over-year decline in our topline is attributable to a decline in volumes.

However, I am pleased to report that we have not lost any market share during this time, and we continue to maintain our leadership position across all of our key products.

Positively, our strategy to begin maintaining low inventories at the beginning of this fiscal year has paid off well in this environment and we are not stuck with any high-cost inventories. During this phase, we have also refrained from implementing our strategy to outsource manufacturing as we are not yet operating our plant at optimum capacities.

In addition, we are observing a decline in logistics cost and an improvement in container availability. Our interactions with our customers have led us to believe that the demand scenario will begin to improve beginning in the fourth quarter of fiscal year '23, that is Q4 of FY '23, and we are already observing a few encouraging signs. Our margins this year have been a little subdued due to the aforementioned factors. But we remain confident that once demand recuperates, we will return to our historical margins.

Finally, on the ongoing capex plans, we are reviewing the project costs in light of the reduction in metal prices. We are renegotiating with our vendors. Once we have more clarity on this matter, we'll provide you with an updated estimate of the capex shortly. With that said, I am now open to questions.

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

Rahul Jain: Thanks for the opportunity and sir, in a tough environment, maintaining market share, Surely, its appreciable. A couple of questions from my side. Firstly, sir, you have mentioned in your initial remarks and also in the presentation about early signs of demand reviving back. And -- so typically, do we see now going ahead things improving on a quarter-to-quarter basis, seeing the improvement from quarter 3, both in terms of demand and also pricing. In the previous call, you had mentioned that the pricing pressures had continued with quarter 2 and you had expected that it will start easy from quarter 3. That is my first question, sir.

Rahul Nachane: Thank you, for your question. With regard to when we said we see early signs of demand revival, it means that there are some of our customers who have started expressing interest and are giving us new inquiries for their demand. Quite a few customers still continue to carry high stocks, which they had bought during the last financial year. But we anticipate most of this destocking to take place probably by the end of this year or towards the later but in mid of next quarter.

So yes, we are seeing demand reviving now. We are seeing some inquiries coming. It hasn't translated into orders yet, but we are seeing early signs of this recovery. With regard to pricing, pricing has always been under pressure because the prices are pretty inelastic and all price increases cannot be passed on to customers. Chemical and commodity prices have started softening a bit, and there is definitely an easing of pressure on that side. I hope this answers your questions.

Rahul Jain: So we will see gross margins improving now here onwards? We have seen a marginal increase on the gross margin in the previous quarter, the quarter 2. Can we see that this trend of improving gross margins will continue now in the next two, three quarters to come. So we'll see some improvement every quarter.

Rahul Nachane: Yes. I think the first quarter in this year was pretty much the low. We saw more or less the worst time of the year. The second quarter, as compared to the first quarter has already seen a significant recovery. Prices of chemicals started going down around July of this year, and they continue going down. So we are seeing them now start bottoming off around this time. So there is definitely an advantage. We are pretty sure that margins will improve from here onwards.

Rahul Jain: And sir, on new product development, you had mentioned in the earlier call, two new products, the pilot sales were completed in the previous quarter, that is quarter 1. And in the current presentation, we have spoken about completing the ongoing pilot stage for another two products in quarter 3 is my understanding right.

And so typically, does that mean in the current year say by December, there will be total four new products which will come into the pilot stage being completed. And with regards to these new products, when do we start generating revenue from them? What is the likely sales possible for us from these four new products in FY '24 and FY '25? And typically, what is the potential size of these products? -- market size?

Rahul Nachane: Yes. See, we have totally planned on five products to be taken through the pilot plant in the current fiscal year. Two were already done earlier two more were started last quarter, which will continue on in the current quarter. And there is one more product which is being slated, which will start in December and probably go on until March because that's a multiple step product. So there are a total of five products.

Commercial sales typically start anything from six months to 12 months after the pilot atrial are complete. Because it takes us six months to complete the stability data, which most of the customers ask for. So we use the time to do the sampling and approval pre-approval stages and then the commercial sales start. So whatever we are planning in the current year, sales will start probably towards Q3 and Q4 of FY '24.

Rahul Jain: And the market size of these five products and what is the potential sales, which we can do from these five products in, say, FY '25?

Rahul Nachane: I think there is a combined sales potential of roughly about INR 40 crores from all these five products.

Rahul Jain: Four zero. Okay. Then I have some confusion, sir, because in the previous call, pardon for my confusion, if it is so, you had mentioned that the total market size is around INR 1,500 crores. And with these three new products you had mentioned that the size will increase by around INR 800 crores.

Rahul Nachane: That is a total potential. In the first year, I'm talking about what is the potential for us for the first year or two years. So that potential total remain, but it will not mean that it is going to be turnover, which will be attributable to us. Our end what is the total amount which we can hope to generate from this. It will in the range of INR 40 crores in the first full year of sales -- sorry, not the first, probably for the second year, we should be able to generate about INR 40 crores sales from these products.

Rahul Jain: Sure. aprdon my misunderstanding. I got it wrong. So now I got it, right. Just last thing, sir. The greenfield capex, we had spoken that we are hopeful to commence the greenfield capex number in January 24 -- so we continue to maintain that.

Rahul Nachane: Yes. In fact, we have already restarted the entire purchasing exercise now. Civil construction is roughly 60% complete for the site. And we have now started the procurement process for the equipment. So probably in the next 30 days, we will have reestimated on the cost, and we will commence our ordering. So we are still on track to start ordering by Jan Feb.

Moderator: The next question is from the line of Yogansh Jeswani from Mittal Analytics.

Yogansh Jeswani: Sir, my question is, again, on your product basket. So I was looking at your presentation and top 10 products are now contributing 70% kind of revenue. And if you look at the market share that we have in top five, seven products, it will be higher, say, 40%, 50% kind of market share. So just from a thought process, if you could share what is the kind of growth that we can still see from these products? I mean with this product combination, we are at INR 300 crores and our aim is to be around INR 500 crores in next couple of years. So going forward, this growth that we are selling, is it mainly from these products or is it solely from the new products?

Rahul Nachane: So we have seen really subdued demand in our top three products. And you can see that our share of top three products has gone down from probably around 35% earlier around 27%. So that is not because of loss of market share, but because overall, the demand for these products has been pre-subdued. But the sales from the top 10 products has actually remained at around 72% as compared to 75% - 80% earlier. So the other products are slowly increasing in the total volume and quantity. So to a large extent, broad-basing the product range has helped us to has helped us to tide over these issues.

Yogansh Jeswani: Sorry. So what I was also trying to understand, Sir, what is the potential for these products wherein we have 40-50%-plus percent market share. So is there a scope to further go any higher from these products? Do we still feel that we can get some more business out of these products? Or going forward, our majority of the incremental business has to come in from the newer products. The heavy lifting has to be done by the new product.

Rahul Nachane: For the top three products are more or less in mature life cycle. So we can expect only incremental sales coming from increase in the natural growth, which takes place in the market. This is likely to be in the range of anything between 8% to 12%. So most likely larger growth will come to us from the newer products. I am talking about the next five years for us. Large growth will continue to come from newer products which we have added to our basket.

Yogansh Jeswani: And sir, in terms of selecting these newer products, how is the thought process now? Because now the scale is bigger. So are we now targeting at molecules or products which are typically of higher value? Because I think you mentioned INR 40 crore is the NGL's target, while I think market potential you said is of INR1500 crores right?

Rahul Nachane: No, market potential of total NGL's basket is over INR 1,500 crores is what I had said. We are probably at INR 300 crores on that right now. And the new products which we are taking right now, those will add to another INR 40 crores for our sales in the first versus 10 year of its operations.

Yogansh Jeswani: And these new products that you are starting on, what will be the market potential of these?

Rahul Nachane: Market potential should be in the range of about INR 400 crores, INR 500 crores for these core products. You're talking about overall market size not for those products.

Yogansh Jeswani: Yes.

Rahul Nachane: Global market size, yes.

Yogansh Jeswani: INR 400 crores, INR 500 crores for all these 5 products combined.

Rahul Nachane: Correct.

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

Dhwanil Desai: Sir, my first question is regarding the realization. So our -- we have taken some price increases in last six months due to higher RM prices. So our realization would have gone up, right? So -- and our volumes have gone down. So if we go back to the same volume as we are doing, let's say, last September or December, our revenue potential will be higher than what we were doing at that point in time. Is that understanding correct?

Rahul Nachane: Assuming that the prices stay at the same level. But as the chemical prices go down, prices will also start going down.

Dhwanil Desai: So that also comes to a lag or that happens much faster than the price increase?

Rahul Nachane: That happened much faster. Unfortunate, but yes, true.

Dhwanil Desai: Sir, second question is on the new products. So sir, I wanted to get some better understanding on this because last call, we had mentioned that these 5 products will have a very large potential numbers. I think last call, we are seeing INR 700 crores, INR 800 crores this call, you're seeing around INR 500 crore. So let's assume INR 500 crores to INR 800 crores anywhere there between. But our total product basket of 20 products as a potential of INR 1,500 crores and five products has a potential of INR 500 crores.

And I think you had mentioned last time that predominantly Chinese players are there in this product? And will still expect to make 55% kind of a gross margin. So very competitive market you are saying, but we still make good gross margins, much larger products. So how does this fit in? And I mean, is there a potential for us to 20%, 30% kind of market share even in larger products? Or we think that will be at a much lower level in these products, maybe three, four, five years down the time?

Rahul Nachane: Market share build up typically take anything from five years to seven years. It doesn't happen overnight because there are well-entrenched people in the market and to displace them, it takes a little longer. Now why we are confident about the margins on these products. The product is almost 13 chemical stage of synthesis. So obviously, it is a highly backward integrated product. One of those, two of those are not as backward integrated, probably about four or five. So overall, we hope that the mix should help us to retain the same level of gross margin.

Dhwanil Desai: And is it that we'll be competing mainly on the price and service that has been the case so far with all our products. That will be the only thing we'll be competing on that even if there is Chinese competition?

Rahul Nachane: See, we are in a B2B business. And in a B2B business, there is no branding. There is no brand image, which helps you get a higher price. It is always a very price competitive market.

Dhwanil Desai: So I'm trying to understand is that will we be as competitive as Chinese guys and take our market share? I mean, where does that confidence come from? That is what I want to understand.

Rahul Nachane: Okay. So it's not an easy thing, which will happen overnight. It is definitely going to take us over a year to get the expertise and the efficiency is up to a level where we can start and compete with them on their own footing. But we have done it in other products earlier, and we are quite confident of doing it in the current product.

Dhwanil Desai: And sir, last question, you said that we will reconfigure our capex number post we received the estimate on the equipment side. So are we expecting a much higher number than INR 140 crore or a slight reduction in that number?

Rahul Nachane: So we have started reviewing the entire cost now. And the exercise is continuing right now. We just started this for probably about two weeks ago. So it's too early for me to tell you whether it will go up or down. We will need a little more while to work it out. Probably I'll be in a better position to address this in the next call.

Moderator: The next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: My couple of questions, first is on the top five products where we have 50% plus market share, what would be the growth rate in that market right now? Is it declining? Flat? How should we think about it?

Rahul Nachane: Very frankly this year we have seen at least a 20% drop in volumes.

Naysar Parikh: And we should expect that to continue or?

Rahul Nachane: We are very hopeful that it will revive in the next year.

Naysar Parikh: And on the business development front, how do you think about revenues going forward between, say, the top 10 and other customers and other new customers that we are adding? And the reason I ask is given the mix for top 10, other than top 10 has obviously gone down much higher at around 30% year-on-year drop. So how do you think about adding new client's lot of potential there?

Rahul Nachane: What has happened is that when the volumes have dropped by almost 20% now of our top five products. The larger customers have been able to keep their market share. So they continue buying the same amount, but overall the smaller customers have lost more than 30% of their market. So there is a temporary imbalance over there which will correct in the next year.

Naysar Parikh: And last question, in terms of the new product development, etcetera, that you're talking about, where is it that we are trying to win? Is it the cost position that we're trying to win in? Or is there some complex chemistry or something like that which is difficult to be trying to do? What's our strategy and focus area over there? Especially on new products?

Rahul Nachane: So there are three parts to it. The first part is we are looking at products where there is no supplier other than China. So there are two products where we are taking on which we have taken on now where we would be the first producer in India for those products. The only producers are the Chinese.

The second part which we have been trying to do is to develop the chemistry skills so that we can produce these products efficiently and at the same time be competitive in the market, alongside the Chinese. And finally, when we have the product, we will have to go with a price point which is equal or a little lower than the Chinese, otherwise we will not get the market share required for it. So all these things have to fall into place for them to succeed, the large to succeed.

Moderator: The next question is from the line of Shivan Sarvaiya from JHP Securities.

Shivan Sarvaiya: Yes, Sir, my understanding on our product portfolio. So out of the 22 APIs that we currently have, sir, what would be the mix between companion animals and farm animals and poultry? If you could give a bit of understanding there?

Rahul Nachane: So right now whatever is in manufacture is going completely into farm animals only. There are two products which we are manufacturing which have a potential to go into companion health also. There are some companies, which are doing it for companion as well as farm so we really don't know the break up or how they are using their products. But otherwise most of our products are for farm animals. And for poultry right now we have just one product.

Shivan Sarvaiya: And so, sir, you said that some of the companies that we give to they use the same API maybe for a companion animal formulation also? Is that the understanding?

Rahul Nachane: Yeah, it is the same product. The dosage changes because the body weight of companion animals is much smaller than that of farm animals. So the dosage form become small tablets.

Shivan Sarvaiya: Okay. But we do not have any understanding on what the mix would be -- I mean, how much of our sale is going towards companion and how much is going towards farm?

Rahul Nachane: No. If you were doing exclusive products, which are exclusively for the companion health market, then we would be able to see that very clearly. But there are clients who are present in both the markets. So we don't know how much they are selling where.

Shivan Sarvaiya: And sir, the distribution chain would be similar for both the segments or there would be some change there when you go for a farm animal sale or do for companion animal sale?

Rahul Nachane: So in companion animals the market is very well segregated basically in Europe and USA. In rest of the world it is not well segregated, which means that the same company is making it for both the markets. And we operating mainly in the rest of the world markets.

Shivan Sarvaiya: And sir, if I recollect correctly, all our sales are directly to the formulators. It's not through distributor, right?

Rahul Nachane: Very small percentage goes through distributors. But yes, over 90% or probably around 95% is straight to end user.

Shivan Sarvaiya: And sir, you've mentioned that we supply to five of the top 10 global animal health care companies. So sir, what portion of our sales would be attributable to that?

Rahul Nachane: I don't have that number to give you state, sorry, on that.

Shivan Sarvaiya: Sir, I'll take it offline. And sir, my last question, I had come across this article, which spoke about antimicrobial resistance in humans and the European Union ban on the use of antibiotics, routine use antibiotics. So sir, how does this affect our business? I know, we are not there in the regulated markets, but would this have any bearing or any effect on our products? Or the market that we are supplying to?

Rahul Nachane: Yes. So Europe has mandated a 70% reduction in the use of antibiotics for farm animals.

Shivan Sarvaiya: Correct, yes.

Rahul Nachane: So this started in 2016 and over a six or seven year period, I think which ends next year, they have mandated a 70% reduction from the levels in 2016. And it has definitely led to an impact of wherein the total market has gone down. For us, this really does not have any impact because of two reasons. Number one, we don't make any antibiotics.

And number two, we are not present in Europe. These are basically antibiotics which are also used for humans. So it is mainly penicillin-based derivatives. So those are the ones which have been cut down.

Moderator: The next question is from the line of Rajat Setiya from iThought PMS.

Rajat Setiya: Just one clarification. The reason for the drop in top 5 products by 20% is basically stocking up last year and now the destocking is happening, correct?

Rahul Nachane: Yes. That is our understanding, yes.

Rajat Setiya: Because I was just wondering because these are essential products. I mean, if you got a use, you have to use it. So there is no decline in demand as such, but it's largely stocking of that happened last year is leading to this.

Rahul Nachane: No, there is definitely a decline in demand also for it because the prices went up due to the commodity prices. When prices go up, people move to substitutes. So now prices have started correcting and started coming down. So we are hopeful of demand getting restored from the next year onwards.

Rajat Setiya: So what exactly the substitutes, I mean cheaper medicines or?

Rahul Nachane: So there are two parts of it. Number one is substitutes, number two is that farmers are just come down on their overall cost because, in the end, this is being sold by us to other pharma companies. Pharma companies have in selling it to farmers. Farmers need to make money finally from their produce. So they just cut down the treatment for their livestock.

Rajat Setiya: Sir, second one, once the destocking normalizes and also what kind of normal growth you envisage for the top 5 and the next four products?

Rahul Nachane: So we hope that over a period of time, it will normalize back to at least levels which we did last year. But I guess it will take at least a couple of years because last year was pretty exceptional, we saw huge growth in those products. We are visible it should grow between 8% and 12% for the next two to three years now.

Rajat Setiya: And what was the volume growth in the first half?

Rahul Nachane: That's the range which I'm talking about 8% to 12%. I can't be more precise than that.

Rajat Setiya: No, sorry, volume growth in the first half has been 8% to 10%?

Rahul Nachane: Volume has fallen by almost 20% in the first half. There is no growth. There is a degrowth of 20% in the first half.

Rajat Setiya: And finally, on the freight cost in terms of what kind of, if you can quantify something for us? I mean what kind of declines, freight or power and fuel, what kind of declines are you seeing now?

Rahul Nachane: Okay, sir. I'll give you examples. Container of freight to Europe, pre-COVID used to cost us roughly about $1,200 to $1,400. Last year, during the container crisis, it went up to about $10,000, $10,000 to $10,500. In fact, I remember one container, we had paid $11,200 for one container at the peak. Currently, it is down to roughly about $3,500 to $4,000. It is still 3x what it was pre-COVID, but at the same time, it's come down almost 75% from the all-time high.

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

Rohit Balakrishnan: Congratulations on decent performance in this challenging environment. Sir, I had two, three questions. So one was, in terms of the new capex, so you said that you have done, I mean, you've started the work and 60% civil construction is done. When do you anticipate it to be operational? We had said in FY '24, I was not clear. I think you mentioned a time line in this call as well. I could not hear it. So if you could just repeat that?

Rahul Nachane: Yes, we have actually not mentioned any time lines because right now, we are with spare capacity. And doesn't look as it will be start of capacity for the next two years. So we have slowed down this entire project. We saw that prices of commodity had gone up and our project cost was also looking at a substantial increase. So we decided to wait. During this waiting period, we decided that we will continue with our civil construction so that the plant is ready for receiving equipment. So that is proceeding as per schedule. Civil construction, most of it over 90%, 95% should get over roughly by June next year. On the machinery ordering front, we haven't commenced ordering machinery yet. We have just initiated that whole process now, and we hope to commence ordering equipment between January and February next year. So once we start, if it goes as per schedule right now, then in Q4 FY '24, we should have the plant operational.

Rohit Balakrishnan: Q4 FY '24 you were saying you'll start ordering machines January of calendar '23, and similarly in January, February, March of calendar year '24, you think the plants will be operational given the things at this point in time, correct?

Rahul Nachane: Correct, yes. Let me clarify that by saying that call on whether we start or not has yet not been taken.

Rohit Balakrishnan: No, I understand that, got it. And sir, another question I had was in terms of, sorry, before that, so just a follow-up on this was so you mentioned that as you see that given the current scenario enough spare capacity for the next two years, right?

Rahul Nachane: Yes.

Rohit Balakrishnan: Would that have, are you assuming that from as things stands in Q4, let's say, the demand, I mean, demand comes back and things are normalize. Do you see any issues in terms of margins in the sense that we may have to, in order to fulfill our capacity, we may have to go for slightly lower margins? Is that a scenario that you envision or that won't happen? Assuming a normalized scenario, I'm not talking about the current scenario where things are just not normalized?

Rahul Nachane: So margins pressure will depend, prices are already coming down for chemicals. They are still not down to the same levels as earlier. But again, it has gone up almost 150%, and from the top now, it has come down by roughly about I think between 50% and 65% for various products. But yes, they are still about 20%, 25% more expensive than what they were at pre-COVID levels. So at that time, margins should improve, but margins are also a factor of competition.

So when you see subdued demand, everybody sitting on capacity. The panic hasn't come in to the market yet, but there can be a panic coming in with some suppliers who are sitting on inventory. So we have to wait and watch and see it carefully. A person sitting on will be sitting on very high cost inventory because they have bought it earlier. We have to also see how they start behaving in this scenario.

Rohit Balakrishnan: And sir, just last question on this from me, in terms of competition again. So large part of the competition, I would assume will be from China for us. And over the last few years, and especially with all the geopolitics, there is a preference of moving away from China for a lot of suppliers for a lot of customers. I mean, right now, again, you mentioned the demand has been challenged. And even during COVID, you would gain some market share and you've not lost that. So are there any chances of increasing market share further in, let's say, in your top 10 products that you see that you can grow much faster than the overall market growth?

Rahul Nachane: Very frankly, for the top 5 products, we don't see any chances of increasing market share drastically. So we are more or less at our optimum position right now. And all customers would definitely want to keep two or three suppliers, so they always split buying from different people because nobody likes overall dependent on one single supplier. I think we are optimal place in those 5 products right now.

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

Dhwanil Desai: Sir, can you give capacity utilization number for Macrotech and NGL separately for this quarter?

Rahul Nachane: We have been roughly at about I would guess around 70% capacity utilization.

Dhwanil Desai: So Macrotech also is operating at 70%?

Rahul Nachane: Yes. Because what we did was all what was being outsource out, we have now brought it back. So it is being manufactured in Macrotech now. So we have literally brought other outsourcing down to, I think, barely 1% or 2%. Everything is now being done either in Macrotech or NGL.

Dhwanil Desai: Because I remember you saying that in outsourcing, generally, it's very difficult to take things back because people plan their capacity based on our outsourcing, and it's very difficult to take it back. So I mean, will it mean that we'll have to work again in terms of gaining traction on outsourcing once situation normalize?

Rahul Nachane: Yes. But we were looking at almost a 12-month to 18-month highs where we would have making working on somebody else's factory and your factory starving doesn't make sense. So we thought it's worth bringing everything back in, wait for everything to settle, and then we'll again start the whole exercise.

Dhwanil Desai: And sir, I think before this entire destocking and demand softness started, we were thinking that we should be able to grow at 18%, 20%. And barring FY '23 from FY '22 was, will we be again looking at that 15%, 20% growth from FY '24 onwards?

Rahul Nachane: We will definitely aim for a 20% growth for '24, yes.

Dhwanil Desai: On the base of '22, right?

Rahul Nachane: No, on the base of '22, attaining that is difficult. Because first, all the demand, which is lost to it needs to come back. So we would not be able to aim for that over '22 now. Over '23, yes definitely.

Dhwanil Desai: And sir, so you mentioned in one of the responses that incremental product selection, we are trying to look for products where China is the main competition. And a lot of people across the world are looking at China Plus One. So are we getting any kind of stop signals from our customers that if we do those products, they may be able to give us entry into those products. And hence, we are entering or it is more of our educated guess with which we are going ahead with the product?

Rahul Nachane: No. We have had very recent interactions just two weeks ago with customers. And it has been very encouraging. There are customers who are actually eager and willing and encouraging us to come with those products because they really want to ensure that their supply chain is well diversified, and they are not overly dependent on just one country source.

Dhwanil Desai: So there can be a ready market available for new products? Customers willing to at least give us an entry then scale up is a function of how we compete with?

Rahul Nachane: The opportunity is very much there.

Moderator: The next question is from the line of Prateek Chaudhary from Saamarthya Capital.

Prateek Chaudhary: For the capex in terms of the EC approval or the product mix that we are planning to start with, will it largely be the top 5 products that we currently make that will also be made for the capex whenever the production gets started in two years down the line?

Rahul Nachane: No, our production lines for the top 5 products are pretty well set. We don't need to do any additional investment in terms of increasing their capacity. This is all meant for the other products which we have got now, the remaining 10, 15 products are showing very good signs of growth. And in fact, we saw a very steep decline in the top 3 or 5. And the newer products which we have introduced have helped us to stabilize the business quite a bit. So it's more for creating capacity for these products.

Prateek Chaudhary: The newer ones?

Rahul Nachane: Yes.

Prateek Chaudhary: And what is the percentage contribution of newer products presently? Revenue contribution?

Rahul Nachane: So top 10 products are contributing 72% of our turnover. So the remaining 10 are contributing 28% currently. But their share is up from 20% to 28% of our turnover as compared to Q2 FY '22. In Q2 FY '22, our top 10 products were 80% of our sales. And Q2 FY '23 top line production, 72% of sales.

Prateek Chaudhary: So, or just another part of the questions that I asked previously. For the new capex, I mean, these products are, I mean, the products that we will commercialize over there two years down the line. Most of those products are already being made by us currently, but maybe in a smaller size because they don't contribute as much right now to the top line. Is that correct? Or would we be introducing even more newer products than what we currently produce?

Rahul Nachane: See from 20, which we are currently, we want to get to 25 by next year, for which 5 products are already in the pilot plant in the current year. So the basket is expanding. Next year, we'll try a plan on another 5 products to go into the pilot plant. So in calendar year, sorry, in FY '25, we should have those 5 also coming out in commercial. So essentially, the objective is to go from a product base of 20 products APIs roughly to 30 over the next two years.

Prateek Chaudhary: And do these additional 10 products have they already been incorporated in the environmental clearance filing that you have filed for the new capex?

Rahul Nachane: No, they are not included.

Prateek Chaudhary: So you will have to ask for a product mix change over there?

Rahul Nachane: Correct.

Moderator: The next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: My question is on currency. Do we have all our contract, customer contracts in US dollars or currency varies?

Rahul Nachane: No. Almost everything is in US dollars.

Naysar Parikh: And what would be the FX gain/loss impact in our financials?

Rahul Nachane: You want for...

Naysar Parikh: The first this quarter and half year.

Rahul Nachane: In the first quarter, our mark-to-market was, had an impact of almost 2% as a loss. And in the second quarter, it was 0.7%, again as a loss.

Naysar Parikh: of sale?

Rahul Nachane: Of sale, yes.

Naysar Parikh: And last question, is you mentioned 20% revenue growth in FY '24. My question was on margins. Where do we see the margins? Can we get to the 20% margin level? Or is that still a bit uncertain?

Rahul Nachane: No, I think we should be back at that level between 18%, 20%. We should be back at that level in '24.

Moderator: The next question is from the line of Ankur Kumar from Alpha Capital.

Ankur Kumar: Sir, congrats for an improvement in number. Sir, my question, are you saying that we will be having 20% growth in FY '24 or on the current the number? Because current numbers are kind of down compared to last year.

Rahul Nachane: I'm saying we are hopeful of growing by 20% over '23 year number, FY '23 next year.

Ankur Kumar: And in terms of peak revenue potential, what will be the peak revenue potential when we fully utilize? I think in the PPT we are saying asset turns have been close to 3x, over 3x in the -- so what is our peak revenue when you recall?

Rahul Nachane: Based on the current capacity we have got, we can attain that turnover of between INR 360 crores and INR 400 crores.

Moderator: The next question is from the line of Prateek Chaudhary from Saamarthya Capital.

Prateek Chaudhary: For the additional 10 products, which we are planning to introduce taking the numbers from 20 to 30, the product mix change, which we the approval for which you would have to seek from the ministry. How much time do you envisage for this and whether it can delay our plan in any way? What's your current understanding?

Rahul Nachane: I have not understood. What delay are you asking about here?

Prateek Chaudhary: In one of your previous answers for the questions that I asked you said that you are, for the product mix change, which are incorporating the additional 10 molecules, you will have to take permission from the environment clearance department, did I understand that correctly?

Rahul Nachane: Yes.

Prateek Chaudhary: And how much time would it take is what I want to know further?

Rahul Nachane: Typically takes anything from six months to a year.

Prateek Chaudhary: And have you already filed for that, for this product mix change?

Rahul Nachane: No. Right now, these products are in the pilot stage. So when we know after the pilot is finished, when we know that these are going to be commercialized, that is the time we'll approach for the change of product.

Prateek Chaudhary: And then if you take six months from that time for you to get the approval or?

Rahul Nachane: Six months to a year, yes.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Rahul Nachane for closing comments.

Rahul Nachane: Thank you, everyone, again, for participating in the call and for asking us pertinent questions about our performance this quarter and the outlook. In addition, suggestion regarding the content of our presentation will be highly appreciated and will help us establish a strong communication channel. We will do our best to provide you with additional data point that will enhance your ability to analyze and comprehend the business. If you have any additional unanswered questions, please feel free to reach out to TIL Advisors, our Investor Relations partner. Thank you.

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