CIN No. : L24239DL2004PLC125888

AKUMS DRUGS & PHARMACEUTICALS LIMITED

Regd. Office : 304, 3rd Floor, Mohan Place, L.S.C., Block-C, Saraswati Vihar, New Delhi-110034 (INDIA)
Corporate Office : Akums House - Plot No. 131 to 133, Block-C, Mangolpuri Ind. Area, Phase-I, Delhi-110083
Phone : 91-11 - 69041000 Fax : 91-11 27023256 E-mail : akumsho@akums.net ; website : www.akums.in

Ref: Akums/Exchange/2024-25/62

February 11, 2025

To,
The Listing Department
National Stock Exchange of India Ltd
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E),Mumbai – 400 051

Symbol: AKUMS

To,
The Listing Department
BSE Limited
Rotunda Building, Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai – 400 001

Scrip Code: 544222

Sub: **Transcript of Earnings/Analysts Conference Call held for limited reviewed un-audited financial results of Q3 FY25.**

Respected Sir/Madam,

Pursuant to the Regulation 30 read with Part A of Schedule III of the SEBI (Listing obligation and Disclosure Requirements) 2015, please find enclosed herewith the transcript of earnings/analyst conference call held on Friday, February 07, 2025 at 04:00 PM (IST) on limited reviewed un-audited financial results of Q3 FY25.

The said transcript be also available on the Company's website https://www.akums.in/investors_new/announcement/

This is for your kind information and record.

Thanking You

For **Akums Drugs and Pharmaceuticals Limited**

Dharamvir Malik
Digitally signed by Dharamvir Malik
Date: 2025.02.11 11:59:22 +05'30'

Dharamvir Malik
Company Secretary & Compliance Officer

“Akums Drugs & Pharmaceuticals Limited

Q3 FY '25 Earnings Conference Call”

February 07, 2025

MANAGEMENT: **MR. SANJEEV JAIN -- MANAGING DIRECTOR – AKUMS DRUGS & PHARMACEUTICALS LIMITED**
MR. SUMEET SOOD – CHIEF FINANCIAL OFFICER – AKUMS DRUGS & PHARMACEUTICALS LIMITED
MR. SAHIL MAHESHWARI – GENERAL MANAGER STRATEGY – AKUMS DRUGS & PHARMACEUTICALS LIMITED
MR. ANKIT JAIN – DEPUTY GENERAL MANAGER FINANCE – AKUMS DRUGS & PHARMACEUTICALS LIMITED

MODERATOR: **MR. ABDULKADER PURANWALA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Akums Drugs & Pharmaceuticals Q3 FY '25 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an 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. Abdulkader Puranwala from ICICI Securities. Thank you, and over to you, sir.

Abdulkader Puranwala: Thank you, operator. Good afternoon, everyone. And on behalf of ICICI Securities, I welcome you all to the Q3 FY '25 earnings conference call of Akums Drugs and Pharmaceutical Limited.

Today on this call we have with us the following members from the management team, Mr. Sanjeev Jain, Managing Director; Mr. Sumeet Sood, Chief Financial Officer; Mr. Sahil Maheshwari, General Manager Strategy; and Mr. Ankit Jain.

I will now hand over the call to the management for their opening remarks, followed by which we'll open the line for Q&A. Thank you and over to you, sir.

Sahil Maheshwari: Thank you, Abdul, for the introduction. Good evening everyone, and welcome to Akums Q3 earnings call. I'm Sahil.

Let me draw your attention to the fact that on this call, our discussion might include certain forward-looking statements, which are predictions or projections of the future events. Our business faces several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied in such statements. Akums does not undertake any obligation to publicly update any forward-looking statements, whether as a result of new confirmation, future events or otherwise.

Now let's begin, I hope you have gone through the investor presentation that we posted on our website and on the stock exchanges yesterday. I would like to now commence with our performance for the quarter.

We take pleasure in declaring the Q3 results of the company, and thank all the shareholders and the stakeholders of the company for their continued support to the company.

Q3 was an exciting quarter for the company with our focus on establishing Akums' global CDMO footprint, we took a significant step by securing and signing a EUR 200 million contract. The contract involves manufacture and supply of products to be sold in the European markets. We believe this is the first of many such contracts and partnerships we will undertake to serve the European markets in the years ahead.

On the domestic front, we continue to invest in our R&D. Total R&D investment for the 9 months of this fiscal is INR 94 crores. We received DCGI approvals for 7 products in Q3, taking our total tally for this fiscal to 17 DCGI approvals. Among this was the DCGI approval for empagliflozin combination, a major antidiabetic product sold globally.

On the API front, we received DSIR accreditation for our Barwala R&D facility for APIs, reaffirming our strong R&D ethos. We continue to invest in APIs with significant market potential and process optimization of our existing basket. Our commitment to R&D would similarly stay in the future as well.

Along with this in-house R&D, we also in-licensed key novel products from the global markets for the Indian markets. These included our partnership with Triple Hair from Canada and Caregen from South Korea, which were in the dermatology and the metabolic segments.

To further bolster our R&D capabilities, we will incur a capex of INR 32 crores over the next 2 quarters to improve and upgrade our R&D capabilities. This is largely for product development for regulated markets and product development for niche dosage forms.

We continue to expand and increase our manufacturing capabilities and capacities as well. We have also expanded recently capabilities for nasal sprays, eye drops, bi-layered tablets, ampoules and FFS small volume parenterals. Further, we plan to expand into large volume parenterals, dry powder injectable and lyophilized vials soon.

In the 9 months of FY '25 we have incurred a capex of INR 191 crores, which is largely in the CDMO vertical. And over the next 2 years, we will likely incur capex to commission new plants and production lines between INR 175 crores to INR200 crores annually.

On the API front, we are rationalizing our portfolio to focus on high margin products, as well as reducing dependency on cheaper products and focusing on general APIs. We continue to do well in the branded exports and domestic formulation business.

Moving now to the key developments and strategic initiatives we have taken during this quarter, the first one, obviously, which we talked about, about the European contract. As we mentioned, we entered into a long-term CDMO contract with the leading pharma company globally for the manufacture and supply of selected pharmaceutical formulations in the European market.

This includes oral liquid formulations. The total agreement value is approximately EUR200 million over the length of the contract. This includes an upfront payment of EUR100 million. The approvals and product dossiers and manufacturing site approvals is expected by the end of 2026, hence the commercial supply will commence from 2027 and will continue until 2032.

Strategically this allows us to expand further our footprints in regulated markets and replicate the domestic success we have had in CDMO in the global markets as well.

Caregen. Talking about Caregen, we have entered into an exclusive master sales agreement with Caregen, a leading South Korean nutraceutical company and a biotech firm. We have been granted exclusive rights to sell certain Caregen products in India, leveraging their proprietary peptide-based technologies.

For Triple Hair, we've partnered with Triple Hair, Canada for the exclusive licensing of a patented topical solution targeting alopecia for the Indian markets. The partnership expands our

dermatology portfolio with innovative hair care science-backed solutions to the Indian markets. The product is patented until 2035.

Akums has also entered into collaboration with Jagdale Industries in India to expand the underserved segments of the aseptic carton technology for ready-to-drink products in India. The partnership focus on wellness drinks, sports nutrition and therapy support products for critical care, diabetes and weight management.

Now, moving on to operating performance. Operating performance of the company was robust, with overall adjusted EBITDA growing by 12% year-on-year, and adjusted PAT growing 15% year-on-year, driven by better profitability in our core CDMO segment. The EBITDA improvement showed a continued improvement in the product mix.

API EBITA losses reduced significantly in Q3 compared to the last quarter, although prices of cephalosporin APIs still remain low. As I mentioned, the branded formulations continue to do well across exports and domestic segments. We have also been able to strategically reduce our losses in the trade generic segment.

We continue to take pride in stating that we are the largest India-focused CDMO, commanding over 30% market share. Our company serves over 1,500 customers, including both Indian companies as well as multinationals with which we have longstanding relationships. Today, over 26 of the top 30 pharmaceutical companies in India are our valued partners.

Finally, before handing it over to the CFO, I would like to update that Mr. Nand Lal Karla, who had been on our Board since 2014 has retired. We are grateful to his contribution to the overall company over his span as a Board of Director.

Over to Mr. Sumeet Sood.

Sumeet Sood: Thank you, Sahil. I think, Sahil mentioned that the quarter had been exciting on the various contracts and strategic partnerships we did. I'll take you through the overall financial performance of the company.

If we look at the total income on a consolidated basis, we see that we are at INR1,025 crores 2% lower on quarter-on-quarter basis, which was INR1,047 crores and 6% lower on year-on-year basis. It was INR1,092 crores that time, largely on account of falling API prices.

We've held on to the EBITDA and seen a growth there of 1%. So in Q2, we were at INR134.6 crores. EBITDA, we are at INR136 crores EBITDA. And on a year-on-year basis, our EBITDA is 12% higher from INR121.2 crores. EBITDA growth is largely driven by the CDMO segment and the margins.

Our PAT stood at INR66 crores. It was similar during the last quarter at INR67 crores. And it was, however, much higher than what we did in the Q3 last year, which stood at INR57 crores.

The cash flow for the Group stands at surplus at around INR340 crores, which is similar to the last quarter. But before the IPO, the company in the quarter had a debt of INR322 crores.

Net cash flow from operations increased from INR19 crores to INR91 crores on a quarter-on-quarter basis. Further, our free cash flow increased from negative INR73 crores in quarter 2 '25 to a positive INR50 crores in quarter 3 '25. On a year-to-year basis, the cash flow from operations stood at INR162 crores against INR316 crores, while our free cash flow stood at negative INR27 crores compared to a positive INR90 crores on a year-to-date basis.

Working capital saw a reduction of INR40 crores on YTD basis, it was INR1,035 crores in December '23, and our working capital is INR995 crores in December '24. If we were to spend a few minutes looking at how each of the segment has performed, we've been over the past stating that almost 78% revenue comes from the CDMO business and 18% from branded generics and 4% from our API segment.

So if we were to look at the whole numbers, it is almost INR787 crores, which would come from CDMO. Branded generics would do INR182 crores.

And our API business, which Sahil was mentioning, is at INR40-odd crores.

Our CDMO business continues to grow at 15% margins. So that's how the business has been. The CDMO business has increased EBITDA of 9% year-on-year, and this is largely because of better gross margins, which you would see.

Our branded generics business EBITDA has been at 10.8%. It is at INR19.8 crores, similar to Q2 levels of 10.3% and INR18 crores. However, it is lower than the Q3 of last year, which was at 13.8% and INR24 crores.

API business, our losses reduced this quarter. EBITDA losses declined to almost INR11 crores in Q3 compared to INR14 crores in Q2 and INR16 crores in Q3 last year. This was largely driven by rationalization of portfolio and focus on higher-margin products. We continue to improve our margins and focus on achieving breakeven in this business.

I think that's the overall gist of the financial side from the company. We are very happy to take questions from all of you. Thank you.

Moderator: The first question is from the line of Gautam Gosar from Monarch AIF.

Gautam Gosar: My first question is on the formulations business. So sir, can you highlight what was the revenue for the trade generics, specifically in the formulations segment in Q3 as well as in 9 months? And you've indicated some provisions in the trade generic business, so if you could throw some light on that and quantify it as well.

Sumeet Sood: So while we don't give a complete breakup of our marketing business, but the way we broadly look at is, almost 60% of this business comes from our Akumentis business; Unosource does 21% - 22% and the remaining is trade generic. I think that's the limited information we can give you, because beyond that we don't give financials, but we are happy to -- I mean, the business is -- trade generic business, as we mentioned, we had consolidated over a period of time, and it is doing well.

So I think that would be where we would limit our answers specifically for the subsegment of a segment, which we are not disclosing in our financials. I don't know if I missed out something, you can ask me. But have I answered your question...

Gautam Gosar: The provision in the trade generic business.

Sumeet Sood: I'm sorry, can you repeat, please?

Gautam Gosar: You indicated some provisions in the trade generic business, right? So if you could highlight what is the provision about EBITDA write-off we have taken or what is that exactly?

Sumeet Sood: So the way the trade generic business provisioning works is, there are date value medicines that we have, right? The date value medicines, if are unsold, then those would be provided, right? That is in the normal course of business.

And I think the larger provision we made was during COVID when some of the distributors and some of the medicines which sort of expired because, fortunately, COVID went over. So I think that was the 2 limited provision that we do in this business, and that's what we have done also.

Gautam Gosar: So sir, the reason for asking this question is that, if the formulation share is increasing in the overall branded formulation business, then why are our margins stuck at around 10% only, they should have increased?

Sumeet Sood: Yes. So I think the way we look at this business is that the margins -- if you look at the last period, our margins were around 10.3-odd percent, right? And we are at 10.8%. So I don't think that the margins are decreasing. But from a period last time, right, if you're trying to ask from there, there is a dip. But I think the margins are slowly recovering back to those levels.

Gautam Gosar: So sir, can we expect some CDMO level margins in the formulations business?

Sahil Maheshwari: So let me help on the margins of the formulations business. So as we said, Akumentis as well as Unosource, they operate above the corporate average margins, right? Trade generics where we are reducing our losses, so gradually, you should see an uptake. Also, we'll also have to acknowledge that the Unosource margins also has R&D expense to it for various countries that we enter and file our dossiers and the regulatory approvals for. So this is also an investment we make to the future growth business.

So having said that, slowly and gradually, yes, you are very right that the margins will move up to the corporate average margins.

Gautam Gosar: And secondly, on capacity utilization. So what is our company level capacity utilization right now?

Sahil Maheshwari: So this is around 40-odd percent.

Gautam Gosar: And how is the injectable --

Sahil Maheshwari: Operational plants we operated at 40-odd percent and we are slowly commissioning new injectable facility and other Baddi facilities, yes.

Gautam Gosar: So the utilization for the injectable facility would be currently?

Sahil Maheshwari: So this has recently started, right? So we started our operations in the last week of August. The new injectable facility you are mentioning about? Then we recently in January, we also received the WHO GMP approval. So slowly and gradually, we'll now see client audits and subsequently orders from the clients. So as of today, this operates -- so the utilization is insignificant, but I think this is a better question if we address 6 months down the line.

Gautam Gosar: Sure. And for this business, the margins will have -- it is a higher margin business. So if you could guide around how much margins can this business do with optimal utilization?

Sahil Maheshwari: So injectables -- and not just injectables, so we also do complex dosage forms within oral solids as well. So as I mentioned, bi-layered tablets, it's something we have recently started. Then we also have other complex dosage form within oral solids, we have some complex formulations in all the dosage forms, right? So that is there.

Injectables, we have been doing since 2007 when our first plant was there. Subsequently, almost half of our facilities today are either completely sterile or have significant sterile blocks. So I don't think that you would see relatively a huge jump just because of this one injectable facility, while this will contribute significantly to our injectable portfolio. But I would still say that our overall EBITDA margins for the CDMO business should remain in the ZIP code we operate today.

Moderator: The next question is from the line of Naman Bhansali from Nine Rivers Capital.

Naman Bhansali: My question is on the CDMO side. So while we've seen some decline in revenue and as you talk about API prices falling impacting that, what would be the volume growth in the 9-month period that we've seen in the CDMO business?

Sahil Maheshwari: So I'll break it down. So for the CDMO in the 9 month, we had a volume decline of roughly 1%. If you look at this business, we had almost a 14% volume growth in the first quarter and an 11% volume decline. If we compare it to the previous quarter, we have grown volume by almost 0.6% QoQ. If I talk about complete 2024 to 2023 levels, on a trialling 12 month basis we have grown our volumes by 1.6%, where the industry was largely flat, right? So quarter 2, which had a sizable volume decline, we are seeing some green shoots, and we have already turned positive in Q3 compared to Q2. Q4 also looks good.

Naman Bhansali: Second question is, you provided the scale of the European business that you've signed. Can you provide us more insight into the addressable market or the potential benefits that we can get from the Triple Hair and the Caregen as well as the ready-to-drink agreement that you signed?

Sahil Maheshwari: Sure. So these 3 are in-licensing and not manufacturing. So these are not global CDMO, but these are manufacturing for the Indian markets, right? So, obviously, the opportunity size is smaller compared to that one large contract we had.

Having said that, Triple Hair, if I talk about, it is a patented product, a combination product, topical product for the hair loss segment. This is a large segment driven by a few molecules, right? So this has a large target addressable population. With our patented product, which we'll launch in 2027, we will make some inroads into the hair care segment.

Similarly, Caregen, it has biotech peptide-based products for skin care as well as hair care and has a metabolic product as well, right? Similarly, Jagdale, it is a partnership for ready-to-drink formulations for the sports and wellness nutrition as well as care.

So individually, as a basket, so the beauty about this business is none of the products or a segment of a product becomes large enough that we are concentrated in our offerings. So this is similar to the R&D project that we do. That each of the product will have some size and scale. But if your question is hinting towards, will it become sizable within the overall CDMO business? That will not be the case, unlike the global European CDMO contract, which we signed.

Naman Bhansali: And lastly, the Mumbai R&D project that we are taking up, so the rationale here would be more to be closer to our customers or gaining more customer traction sitting in Mumbai? Or is it some other rationale that we are seeing here?

Sahil Maheshwari: So we already had R&D in Mumbai. If you see, we have 4 R&Ds, couple in Haridwar, one for API in Barwala and one in Mumbai, which we already had, right? So what we are doing is, we are expanding and upgrading the R&D for the new dosage forms as well as the additional markets we had. Also the previous one which we had was on rent. Now we are moving to a property which we'll own.

Moderator: The next question is from the line of Shruti Jaiswal from Indira Securities Private Limited.

Shruti Jaiswal: Actually, sir, if I have missed out, I wanted to ask the capacity utilization for the current facility and the optimum level?

Sahil Maheshwari: Can you please repeat? I think if -- are you asking the capacity utilization?

Sumeet Sood: Utilization, yes.

Sahil Maheshwari: So as I said, we largely operate on a 40% capacity utilization for our already commercial established facilities.

Shruti Jaiswal: And another question is, what would be the margin -- operating margin or any guidance for the upcoming period as you have CDMO contracts and some -- many other deals like Triple Hair and Caregen, et cetera, partnership. So what margin can we expect in the upcoming period?

Sahil Maheshwari: So both the European contract as well as Triple Hair will kickstart contribution to the P&L in 2027. The calendar year, right? And also, these are on the margins which we'll operate usually in CDMO. So I don't want to comment that on the margin specifically, what we guide the market towards is the margins which we currently operate at.

Moderator: The next question is from the line of Darshil Jhaveri from Crown Capital.

Darshil Jhaveri: Sir, I just wanted to know how do we look at API currently? Because I think even the absolute terms, our EBITDA losses have come down, but on a percentage terms, it increased, right, quarter-on-quarter. So just wanted to know what is happening currently? What do we look at like the turnaround coming in? Because -- I think it's a INR10 crores loss on a INR40 crores revenue, this eating up our good work in CDMO and formulations, right? Sir, so just wanted to know what do you see the business as currently going?

Sahil Maheshwari: Sure. For the entire Group, as well, let me spend a couple of minutes on API, right? So as you rightly said, API, we have reduced our revenue to INR40 crores, which was roughly in quarter 2 was INR59 crores and the quarter 3 of last year was roughly INR55 crores. The challenge is not driving sales. You'll have to understand that number one is the market wherein the overall oral cephalosporin prices, which were almost 90% of our revenues, they dropped by 20% to 30%. With our COGS being over 80%, most of the cephalosporins which we marketed we thought it's a wiser decision to reduce our sales in a way which will reduce our losses as well, right?

So I just want to give you comfort that this is not the sales which is declining. It is a conscious decision that we took in a way to reduce our losses. If you really look at it, we have been able to significantly reduce our losses from INR16 crores in the last Q3 to just INR11 crores in this quarter.

Now bringing down then what we'll do next? So there are 2 things in pipeline. One is, we are also reducing our dependence from the cepha-oriented APIs. So within Lalru, we had good commercial success in 3 APIs.

We are also bolstering our R&D efforts to move to more general APIs in a way that, while cepha in the near future and a couple of other -- 2 or 3 years down the line will still contribute more than the general facility, but the share of general products will increase. In a way, this will limit our exposure to one segment of the API. So that is one.

The second is we are also, with our Dera Bassi, which is the cephalosporin facility, we're also targeting exports. We have already kickstarted exports. This is in high single-digit percentages. We are targeting that we expand our exports where the realizations are better. And also, we go into regulated markets. For this, we are already in works in our R&D. And slowly and steadily, we'll see commercial successes.

So I think it's a transient phase wherein we have brought down our revenues, but have dramatically increased our profitability. Over the next 1, 1.5 years, we are continuing our efforts on R&D and improving our product basket. We will surely have good results in the years to come.

Darshil Jhaveri: So sir, just wanted to know like on an overall terms, what kind of revenue can we expect like in FY '25 and overall margin, if you could guide for in FY '26? Even like a range would do, sir?

Sumeet Sood: So the way we've been guiding the markets on most of our calls is that, if you look at how the business has performed over the last 3 quarters, right, so -- and the margins, if you look at. So if

you look at the 3 quarters, we are at almost INR3,062 crores top line. And we have almost an EBITDA margin of INR401 crores.

So we sort of see that as we have guided earlier that for this period and the way we are guiding is that the business should see similar revenue and similar EBITDA. So that's how we have been guiding. We had said H1 would look similar to H2.

So largely, I think if we look at the organic part of the business and some of the new initiatives that Sahil spoke about, some of them were long term, some of these sickle cell business, which didn't sort of trigger for us, this could have been another segment of revenue which would have come in. So the way we are guiding the markets is, as is the business is pretty similar, and I think we should perform the way we've done it over the past 3 quarters.

Darshil Jhaveri: And just on a last, like -- again, sir, you were saying -- just one more last question about API. So the turnaround, like when will we -- when do you see the business will be breakeven like on a PBT level or EBITDA level? Like, maybe it will be a year or so, just a range, what do you think, sir?

Sahil Maheshwari: So we are progressing well. I think this is in a ZIP code of 1 to 2 years when we'll be in a breakeven.

Moderator: We have the next question from the line of Vivek Agarwal from Citigroup.

Vivek Agarwal: Sahil, you highlighted that as far as the, say, European contract is concerned that this is one of the many contracts that you are going to sign, right? So just want to understand what gives you the confidence that you will get many more contracts of similar kinds? Are you in discussion with any players or any company in the Europe? Or it is, for example, that this particular contract has given you the confidence?

Sahil Maheshwari: Sure. So first, I'll talk about the infrastructure. I think we are already in pipeline for a few more facilities will be European GMP, right? So one is, we'll have the scale in infrastructure along with product development capabilities that is out there. So we are ready for opportunity that knocks our door.

Second is we already have started our presence within the European market. So while this is a large contract, we already are seeing some discussions around contracts, which are not this big. But this is a phase, Vivek, you will understand that this is proving yourself right for the first 2 products and then getting deeper within. This is the same that happens within the domestic CDMO as well. So this gives us confidence that over the next 2- 3 years, we'll also have a good business coming from the European CDMO. And Europe is just one of markets, I think the focus is regulated ex-U.S. as of now.

Vivek Agarwal: Sahil, just one more thing on this contract, right, you're starting. You are expecting the revenues shall kickstart in CY '27. So is it going to be spread across the length of 5, 7 years? Or it is like some kind of back-ended or front-ended kind of revenue realization that is going to be?

Sahil Maheshwari: Right. So just to clarify, this will start in calendar year '27, so likely Q4 of '27 or quarter 1 of the next fiscal, and this will be evenly spread across the years.

Vivek Agarwal: And one clarification here that you mentioned that the margins in this particular business will operate in line with the CDMOs, right? So is it your CDMO business that you are talking about or the overall global CDMO industry that is operating in the European market?

Sahil Maheshwari: This is our CDMO business.

Vivek Agarwal: And just actually one more question, if I can squeeze in. As far as the volume growth is concerned, if you look at the next couple of years down the line, so what kind of the growth you are expecting? Is it going to be in line with the overall IPM? Or is it going to be higher than the IPM? Or what kind of, for example, the delta that you can have and what is going to drive that?

Sahil Maheshwari: Sure. So I'll maybe answer it historically and then -- because future is something in volumes, so I think we both can sit and have a long debate, but still we'll be still debating and discussing. So if we talk -- if you leave this FY '25, if you have to see ourselves as a 5-year historic period, largely, we grew in 6% to 8% of volume on an average. So this was always 2x, 2.5x higher than the market.

If you also look at 2024, where we grew 1.6%, the industry was largely flat. So we sit in the market. So, obviously, our volume growth is definitely tied down to the market. But what we have always delivered is, we have delivered a good growth over what the market growth is.

Having said that, the volume should come back. I think this is a transient period. The volume should come back. We are seeing good green shoots in Q4 as well. Q1 also looks good. As you understand this business, we already have 60 days of orders in hand, and hence, we can deliver them. So Q4 sitting out of Q4 today, Q4 looks good. And similarly, we should have continued good success in the next fiscal as well.

Vivek Agarwal: So barring this blip, barring the blip in this particular year, you don't see as far as the story changing as far as your ability to get the kind of market share in India, especially in the CDMO industry.

Sahil Maheshwari: No, absolutely. Absolutely right. And if you really recollect what I said, the new dosage forms that we are adding, whether it is small volume parenterals, large volume parenterals, bi-layered tablets, dry injectables, the whole focus, if you really carefully think through is to drive value products rather than volume-based products. So while volume growth is there and we are still in the market where it is dominated by solids, our continued focus is how we can improve the overall product mix.

Moderator: The next question is from the line of Prashant Nair from AMBIT.

Prashant Nair: So just a couple of questions. Sahil, I don't know if you mentioned this before because I got disconnected a couple of times. What was the volume growth in CDMO this quarter?

Sahil Maheshwari: Volume growth in CDMO for quarter 3 was 0.6% compared to quarter 2 of FY '25.

Prashant Nair: And second question is on the API business. Now when you say that you have rationalized your portfolio, so can you give us some sense of scale? So for example, if your sales was 100 earlier, how much would -- the balance portfolio, which you have left with you, how much would that -- I mean, just to get a sense of how much you have cut out, that will help us also take a call on how you will grow?

Sahil Maheshwari: So Prashant, honestly, I also don't have an answer to this as of now. But if you really look at our Q2 to Q3, we have dropped by almost INR19-odd crores in our revenue. This is largely on account of a few cephalosporin APIs, which we used to do sales, but they were simply too competitive for us to be in the market.

So Q2 to Q3, if I talk about for the products which are of higher margins, they still continue to remain that kind of sales. But the drop in the sales was largely on account of the ones which we discontinued.

Prashant Nair: And when you say you discontinue, I mean, is this -- would you retain the infrastructure, the product capabilities and come back into the market if pricing improves or --?

Sahil Maheshwari: Yes, certainly. Yes Prashant, certainly. So when I say discontinue, it is discontinued at the current price levels. As I said, cephalosporins are almost down 25%, 30%, while the KSM prices have not moved down that much. So whenever the prices normalize, we already have done investments in R&D and process optimization of the products. We already have the infrastructure, the reactor and the blocks in place. So whenever it is commercially viable, it is just a matter of KSM procurement and supply.

Prashant Nair: And one last question. Maybe not exact numbers, but can you give us some flavor of, say, the mix of customers on the CDMO side? Say, how much would be going to the prescription market, which is, say, captured by IQVIA or AVAX and how much would be to trade generics or any other segments?

Sahil Maheshwari: Unfortunately, Prashant, we do not calculate customers that way -- our revenue that way.

Moderator: We have the next question from the line of Palak Shah from Entrust Family Office.

Palak Shah: Just a couple of them. So firstly, on the API side, you mentioned that you have discontinued a few of the products. Are they actually below or negative GC? Is that the reason why you're discontinuing the product?

Sahil Maheshwari: Yes. So GC and on top of it, if you add just the direct manufacturing expenses of manpower and utility, they would be -- the amount will be higher than the current selling prices.

Palak Shah: Okay. So given that we are actually under-utilized on the capacity even before this discontinuation of the product, where would our capacity utilization stand now? And just to go -- venture back to 65% odd, which makes us breakeven of this capacity, what's the delta that we need to generate in terms of the number of products or absolute revenue?

Sahil Maheshwari: Sure. So just on the capacity utilization, as I mentioned, this was directly variable costs associated with that production. So capacity underutilization does not impact the business of this product. And on the API side, we are largely at a 30-odd percent utilization. And that's broadly about it as of today.

Palak Shah: So is the math right that we need to reach at least 60%, 65% to breakeven on the operational cost, I mean, EBITDA level?

Sumeet Sood: Yes.

Sahil Maheshwari: Yes. So not that high, but yes, as we scale up our capacity utilizations, we will, in a way, absorb the fixed expenses.

Palak Shah: Sir, secondly, on the branded generic side, last quarter, we mentioned we used to have a 1 quarter -- INR1 crores per month loss in the business of trade generic. Adjusting for that, our margins would be around 12%, 12.5% during this period. So can you give us just some -- broadly given that we're doing R&D in the global side, on the Unosource side, and the Akumentis side would not have such a large cost of R&D, fixed cost.

What will be the percentage difference in margins there? And when you talk about going to company level margin, which is close to 14% odd, how fast that delta can accrue as the cost absorption of Unosource R&D happens for us?

Sumeet Sood: So the trade generic business that we had mentioned and where we had consolidated, so while I was mentioning to an earlier participant that we don't give a breakup of it. But largely, the EBITDA margins for Unosource and Akumentis remain in 18% to 20% bracket. So that's, as Sahil was mentioning, higher than our overall CDMO business, which is close to 15.4%. I think the trade generic business, which you mentioned is the one which is still at a negative EBITDA.

Palak Shah: Sir, even if I adjust for that INR1 crores loss per month, you are at 13% margins. So if your Unosource and Akumentis augment are about 18% to 20% margin, then what is leading to this almost a 6%, 7% gap in the margin delta -- adjusted margins?

Sumeet Sood: So I think the way you're looking at the trade generic losses, it is slightly higher. It is slightly higher. It's around INR2 crores per month. Okay, then your math should tally. I think we can get the exact figures, but then your math should tally.

Sumeet Sood: That will be better.

Palak Shah: Sure. Sir, just last one, the CDMO business, you reported a 9-month volume growth of 1%, but the revenue growth decline of 7%. So the effective 8% pricing impact that you have seen. Again, in the previous calls, you have mentioned that you usually run 2 to 3 months ahead of the industry because you supply to the industry and then the IPM shows the growth. Given that, even in this quarter we are effectively sort of a flat on the volume. But if you talk to industry peers, they're still talking about a volume growth in Q4 for them.

I'm saying your customers are still talking about a volume growth in Q4. While it's a subdued quarter for them, but still on a Y-o-Y basis, they're still expecting a growth. How do we marry the 2? Because in our IPO roadshows, you have mentioned that you want to grow ahead. Our aspiration is always to grow ahead of the industry in volume terms, not only absolute revenue terms.

Sahil Maheshwari: So if you really look at quarterly volume growth, I think, is not the right reflection for the kind of business. Because while these are 2 different businesses, marketing is secondary to the patient, and hence that's where the uptake is. For us, it is batch manufacturing and shipping at their warehouses.

So a 12-month period is a better way to look at these businesses. As I said, 12 months, we have done a 1.6% volume growth. The industry numbers are out there, whichever database you wish to consider, but these are largely flat. While we acknowledge that the volume growth was subdued this time, but barring a few quarters, we have been fairly doing well in terms of volume as well.

Palak Shah: So what will get us our volume back to like 4%, 5% because our aspiration to grow ahead of IPM, which is -- at least average, we take a 9% to 10%, and you want to grow at 12%, 13%. And the pricing sales swing comes back to normalization, that's 8% delta, would you expect the volumes to grow at 4%, 5% for you thus achieving a 12% to 13% approximate revenue growth in CDMO?

Sahil Maheshwari: Yes. So 4% to 5% certainly, right. So what are we doing? I think, essentially, everything we do, right from R&D to establishing manufacturing capabilities to the client engagement, we have. Everything we do is to sustain the business and drive volumes. Ultimately, this is how -- based on 3 things: how quickly we can supply, the quality we can supply and the pricing which is there. So everything we continuously work on. And the ultimate aim is how much market share we can command.

Moderator: The next question is from the line of Abdulkader Puranwala from ICICI Securities.

Abdulkader Puranwala: So just first question on the CDMO business. And Sahil you mentioned that there are certain new contracts for the next -- which are to be executed for the next 6 months. Could you provide us some flavor as to how that translates in the CDMO growth for you maybe in terms of volumes for the next 2 quarters, at least?

Sahil Maheshwari: Sorry, Abdul. So which contracts on the next 6 months? So the contracts which we talked in our call earlier were largely commercializing in 2027.

Abdulkader Puranwala: No, I was talking with reference to the order book for the CDMO business. So if that gets executed as what you would have planned, then at least for the next 6 months, what would be your volume growth like?

Sahil Maheshwari: So as I said, we have visibility for Q4, sitting in early Feb, 60 days is what we are. So I can only talk about Q4 and not next fiscal. The volume growth looks decent as of now. I'll not be able to

give a number to it because ultimately, this is on production and final delivery. But the pressures on volumes, which we had midyear this fiscal, these look to be a story of past as of now.

Abdulkader Puranwala: And my second question is with regards to the European contract. So in the PPT, you mentioned that EUR100 million is something there would be an upfront consideration. So has it already been received? Or this is kind of a milestone income which will come in due course of your contract period?

Sumeet Sood: So the money has been transferred from overseas, and we are still to receive it in our account. So it's in the NOSTRO account of the bank. So once we receive it, it will be an advance received against that contract.

Abdulkader Puranwala: And a final one on the API business, on the losses. So I understand you're trying to curb the losses, then any colour by when we can break even in this particular segment, maybe in a year's time or 2 years' time? I know some colour if you could provide would be helpful.

Sahil Maheshwari: Yes. So we just talked about, Abdul. So I think we still need at least an year where we are targeting. So 1, 1.5, 2 years at max, this is something which we are looking at this business.

Moderator: Ladies and gentlemen, we have no further questions. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Sahil Maheshwari: I think thanks a lot, everyone, for this engaging discussion. We continue to work on our strengths and looking forward to catching up with you all in the next quarter. Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

Note: This does not purport to be a verbatim account of the earnings call. It has been edited for readability and statements made in Hindi have been translated to English.