INNOVA CAPTAB LIMITED
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November 14, 2024

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400001
BSE Symbol: INNOVACAP
BSE Scrip Code: 544067

To,
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, "G" Block
Bandra-Kurla Complex
Bandra (E), Mumbai – 400 051
NSE Symbol: INNOVACAP

Subject: Transcript of the Investor/Analyst Earnings Call held on Friday, November 08, 2024.

Dear Sir/Madam,

This is in continuation to our letter dated November 08, 2024, wherein we had informed regarding the audio link of the earnings call with analysts/investors for the quarter and half year ended September 30, 2024.

In this regard, please find enclosed herewith the transcript of the said call.

The transcript is also available on the Company's website i.e.

Innova_Captab_Transcript_Earning call_.

You are requested to take this information on record.

Thanking you,

Yours faithfully,
For **Innova Captab Limited**
NEEHARIKA SHUKLA
Digitally signed by NEEHARIKA SHUKLA
Date: 2024.11.14 16:47:45 +05'30'
Neeharika Shukla
Company Secretary & Compliance Officer
Membership No.: A42724

Encl.: A/a

"Innova Captab Limited

Q2 & H1 FY '25 Earnings Conference Call"

November 08, 2024

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 08th November 2024 will prevail."

MANAGEMENT: **MR. VINAY LOHARIWALA – MANAGING DIRECTOR – INNOVA CAPTAB LIMITED**
MR. LOKESH BHASIN – CHIEF FINANCIAL OFFICER – INNOVA CAPTAB LIMITED
MR. AYUSH KUMAR GARG – HEAD OF INVESTOR RELATIONS – INNOVA CAPTAB LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Innova Captab Limited Q2 and H1 FY25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that, this conference is being recorded.

I now hand the conference over to the management. Thank you, and over to you.

Ayush Garg: Thank you, Rituja. Good morning, everyone, and thank you for joining us on our Earnings Call today to discuss the operational and financial performance for Q2 and H1 FY25. Joining us today on the call, we have Mr. Vinay Kumar Lohariwala, Managing Director; Mr. Lokesh Bhasin, Chief Financial Officer and SGA, our Investor Relations Advisor. I hope everyone has had the opportunity to go through the financial results, and investor presentation, which was uploaded on the stock exchanges and on the company's website.

Now, I would like to hand over the call to Mr. Vinay for his opening remarks. Thank you, and over to you sir.

Vinay Lohariwala: Thank you Ayush. Good morning and thank you everyone for joining us on our Q2 FY25 earnings call today. Before discussing the business performance, I find immense pleasure to inform you that, we have received drug manufacturing license from Government of Jammu & Kashmir, Drug Control Organization Jammu for our Greenfield plant. With our necessary approval already in place, we have begun manufacturing validation and trial batches.

Now, with the receipt of the license, we expect commercialization of the facility within Q3-FY25. Now, let me take you through our business performance in Q2 and H1 FY25, and Mr. Lokesh Bhasin will walk you through the financial performance. We are pleased to announce that Innova Captab has achieved a strong quarter driven by volume growth in CDMO business, sustained momentum in the domestic branded generic sector, increased uptake in the Sharon business, and solid progress in the international market.

Our profitability has also seen growth with both margin expansion and a significant improvement in absolute terms. I would also like to take this opportunity to express my sincere gratitude to the leadership team and employees for their unwavering support, as well as their dedication and commitment to improve efficiency and serving our customers.

Let me now take you through the performance of each business area. Number one, CDMO business, we cater to some of the largest Indian pharmaceutical companies as our client with our offering spanning to 2,900+ products in varied dosage form, which include oral solid, oral liquid, ointments, dry powder injections and dry powder syrups. Our client base comprises of more than 190 companies, which includes 14 of the top 15 companies in the pharmaceutical market.

Volume growth in the business was very strong, and we delivered year-on-year revenue growth of 10% in this quarter. For H1 FY25, we recorded year-on-year revenue growth of 5%. We continue to witness traction in the business and are positive on its growth potential.

Domestic branded generic, we are engaged in development, manufacturing and distribution of generic formulation products through our online and offline channel, and have a strong network of 1.5 lakh touch points of distributors, stockiest and pharmacies with a diverse portfolio offering over 600 plus products. This business has expanded at an accelerated pace over the past few years and this quarter was no less.

We clocked the highest ever revenue in a quarter of INR59.1 crores, registering year-on-year growth of 19%. For H1 FY25, the business grew 21%. International branded generic we export our formulation products to 25 plus countries and have 148 active registrations. We have a strong pipeline of 72 in-process products dossier for exports. The business is also growing at a rapid pace and recorded year-on-year growth of 13% in Q2 FY25. For H1 FY25, the business registered year-on-year growth of 12%.

Sharon has strong formulation and API manufacturing capabilities with manufacturing units in Dehradun and Taloja, Maharashtra. Sharon recorded year-on-year revenue growth of 11% in this quarter. For H1 FY25, Sharon recorded revenue of INR97.4 crores.

Coming to our innovation endeavour, we boast a dedicated R&D laboratory and pilot equipment located in Baddi, Himachal Pradesh, recognized by DSIR for its in-house R&D work. The state-of-the-art facility is equipped with a comprehensive suite of necessary tools for developing solid or liquid dosage forms, including RMG, FBD, Compression Machines, and auto coater. Along with this, we are setting up a new R&D facility in Panchkula, which will focus on increasing our product offering and development of complex generic formulation.

Moving on to our manufacturing capabilities, we take great pride in the excellence of our production facility. Our manufacturing units are accredited by leading global regulatory bodies, including WHO-GMP, EU-GMP, and the UK-MHRA. These certifications not only reflect the highest standard of quality we maintain, but enable us to reach the market around the world with confidence.

Our new facility in Jammu will consist of four blocks, including Cephalosporins, BFS (General block), Penum and penicillin, allowing us to manufacture a diverse range of products. These will include oral solid dosage, dry powder injections, dry syrup, BFS, Large Volume Parenterals and respiratory respule products. The addition of the facility will bring our total number of manufacturing facilities to five, with nine independent manufacturing blocks. With this expansion, we will significantly broaden our product portfolio, which now covers even more specialized formulation from BFS and large-volume Parenterals to respiratory therapies and ointments.

The strategic expansion in Jammu, backed by a proven track record demonstrated by our strong fixed asset turnover ratio, positions us well to scale operations and generate substantial revenue.

As we continue to grow, we remain confident in our ability to leverage these capabilities and meet the rising demand in the Indian pharmaceutical market, which is poised for sustainable growth.

At Innova Captab, we are focused on tapping into the immense opportunity. Our goal is to keep the organization progressive, innovative, and future-ready, as we work to provide high-quality healthcare solutions to patients worldwide.

This brings me to close my opening remarks, and I would now like to call on Mr. Lokesh Bhasin, our CFO, to share his view on the financial performance for the quarter.

Lokesh Bhasin: Thank you, sir, and good morning, everyone. I will now take you through the financial highlights for Q2 and H1 FY25. For Q2 FY25, in Q2 FY25, we recorded consolidated revenue of ₹ 318.2 crores, with a year-on-year growth of 12.5%. The business mix was as follows CDMO contributed around 52% for the quarter, Domestic branded generics was around 19%, International business was 13%, while Sharon contributed 17%.

In absolute terms, business area-wise, the revenue was as follows:
CDMO was ₹165.1 crores, vis-a-vis ₹149.6 crores in Q2 FY24.
Domestic generic business - we have achieved a sale of ₹59.1 crores versus ₹49.5 crores in Q2 FY24.
International branded generics - This quarter, revenue was ₹40.5 crores versus ₹ 35.57 crores last year.Sharon, INR53.6 crores versus INR48.1 crores in Q2 FY24.

EBITDA margins improved by 80 basis points to 16.3% versus 15.5% in Q2 FY24. On absolute basis, EBITDA grew 18.6% to INR51.9 crores. Profits after tax witnessed strong Y-o-Y growth of 52.8% to₹35 crores driven by higher EBITDA margins and reduced finance costs. PAT margins expanded by 290 basis points to 11%.

Now, coming to H1 FY25. Revenues came in at ₹612.5 crores with year-on-year growth of 19%. The business mix was 54% from CDMO business, 18% from domestic branded generic business, 12% from international business and 16% from Sharon. In absolute terms, business area-wise revenue for H1 FY25 were as follows:

CDMO - ₹332.8 crores versus ₹316 crores in H1 FY24.
Domestic generic business - INR110.5 crores versus ₹91.6 crores in H1 FY24. International branded generic -₹71.8 crores versus₹60.5 crores last year.
Sharon - ₹97.4 crores. It may please be noted that, Sharon was consolidated in our financials after 30th June 2023 last year.

EBITDA margins increased to 15.7% versus 14.8% during the same period previous year. On an absolute basis EBITDA grew 26.2% to ₹96.2 crores. Profit after tax for H1 FY25 - this number was INR64.5 crores with a year-on-year growth of 59%. Our balance sheet continues to remain strong. We have repaid all our debts, excluding the term loan borrowed for our Jammu project, which carries an interest-subvention benefit of up to 6%.

With this, we would like to conclude the presentation and open the floor for questions and answers. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amey Chalke from JM Financial. Please go ahead.

Amey Chalke: Yes. Thank you for taking my question and congrats to Vinay ji, and Lokesh ji, for reporting the good numbers.

Moderator: Sorry to interrupt you, but can you please speak a bit louder? We cannot hear you, sir.

Amey Chalke: Yes. The first question I have is, we have reported 10% growth in CDMO. Is it fair to assume now that 10% is sort of volume growth of what we are delivering and considering prices are now stabilized? Or is it still – there is still negative impact of prices built-in in these numbers?

Lokesh Bhasin: So, Amey, the growth that we have received 10% year-on-year on CDMO businesses is mainly driven by volume growth. And you are right, it is mainly driven by volume growth. So, there is not any negative impact of pricing. So, year-on-year pricing impact is more or less neutral.

Amey Chalke: Sure. And the second question I have on the trade-generic side, the 23% growth which we have reported, is it led by seasonality or should we assume this as a quarterly run rate for trade-generic going ahead?

Lokesh Bhasin: So, yes, there are multiple reasons for growth in a business. But as far as this growth is concerned, it is constituent of mix of both seasonality as well as organic growth, on which our business has been working on for quite some time. Okay.

Amey Chalke: So, going ahead, there could be slight normalization basically, but we will continue to grow.

Lokesh Bhasin: Yes. And I would expect that the growth momentum will increase and we should be within this range itself.

Amey Chalke: Sure, sure. And the third question I have is on the Jammu benefits which we will be getting related to GST and interest subvention. So, how would we report going ahead just from the modeling perspective? Will it come in the revenue line, other operating income or will you adjust the expenses like that would be helpful?

Lokesh Bhasin: So Amey, yes, we are having a few viewpoints and we are still discussing this with our statutory auditors. And as far as the applicable IND-AS standards, we will account for those line items accordingly.

Amey Chalke: Okay, sure, sure. And any reason for the gross margin improvement this quarter? Anything to highlight? Are these-- within gross margin sustainable going ahead?

Lokesh Bhasin: So this is mainly due to this quarter at a consol level. The increase in gross margins are mainly due to the product mix as well as the sales mix. And we expect to remain in the range of EBITDA margin range in the 15% to 17% on a long-term basis at Jammu.

Amey Chalke: Okay, sir. Thank you so much. I will join back. Thank you.

Lokesh Bhasin:: Thanks, Amey.

Moderator: Thank you. The next question is from the line of Sarthak Nautiyal from AKCJ Capital. Please go ahead.

Sarthak Nautiyal: Hello. Hi, Sir. Congratulations for the great set of numbers and as you have achieved the highest ever net profits.

Vinay Lohariwala: Thank you.

Sarthak Nautiyal: Am I audible?

Vinay Lohariwala: Yes, Yes. Thank you. Thank you.

Sarthak Nautiyal: Sir, so just wanted to know one thing. Sir, can you give us a segregation of gross margin on different segments for CDMO, API and Branded? Hello?

Lokesh Bhasin: So Sarthak normally we do not track gross margin at an business area level.

Sarthak Nautiyal: Okay, you don't track that. But sir just wanted to know why we have the lesser gross margin as compared to our competitors Akums and Windlas. Like they are having 35%, 38% level of gross margin.

Vinay Lohariwala: So, it will be difficult for us to comment on the competitive gross margin because everybody is having the different set of product and different style of market. So our is like we need to be competitive for our customer and as well as we need to generate a good ROE, ROCE for our investor. So, that is our punch-line.

Sarthak Nautiyal: Okay. So, sir, what kind of gross margin we can expect in future?

Vinay Lohariwala: So, gross margin basically depends on the product mix, sales, business area and all that. But largely if we see historically that remain in the same territory. Like in Innova if we see our gross margin remain in the territory of say 24% to 28% territory and due to the Sharon and Univentis consolidation, our gross margin improved to say 35% range, 32% to 35% range. So we see the gross margin or the material margin in the same range in the future also.

Sarthak Nautiyal: Okay. Sir, like our API business has better margins. I guess it has a lower margin than other segments, right?

Vinay Lohariwala: So as Lokesh informed that we don't track the segment wise margins. But more or less what we see is – the same range.

Sarthak Nautiyal: Usually API get lesser margins than the other segments, right?

Vinay Lohariwala: Yes, you are right. But in our case, our API is mostly that our sales come from the export or regulated or semi-regulated market. So, therefore, our margin profile in the API also in the same range.

Sarthak Nautiyal: Okay. So, sir, do we have any entry barriers in our kind of business?

Vinay Lohariwala: Of course, the entry barrier is there. If you see our domestic CDMO business, you will find there are only few companies who have crossed the thousand crores marks, right? So, now as you see that the regulator also has imposed a lot of things like the revised Schedule M and now the pharma plant is like a big investment. So as we have now invested INR450 crores approximately in our Jammu facility. So, initially if you see in our inception, our first plant was - we have the gross block of only INR5 crores - INR6 crores.

So, in the last 15 years, 20 years, there is a day-night change in the plant size, investment size and the technology side. Then you need to have the product dossier document availability, product development, everything. So, these all things create entry barrier in the industry. And of course, the relationship with the big customers, that is also matter. That like we have more than 5 years or 10 years relationship with our all marquee customers. So, that also somehow play a role in our business relations.

Sarthak Nautiyal: Okay, so just a last question. So in 2024, we have achieved the revenue of INR1,085 crores. So, are we going to double this revenue in the next three years with our Jammu facility?

Vinay Lohariwala: Yes. So, if you see Jammu is having the revenue potential of say 1,200 crores - INR1,300 crores in the next five years. And we see that in the next year, we will do approximately say 500 crores, right. By starting the facility in the next December, the revenue and the plant will be stabilized in Q4. And from the Q1 to next year, the full four quarters will be available to us and we expect a 400 crores -500 crores revenue next year, right. So, with the help of Jammu and existing business growing at a healthy rate, we see that the revenue could be doubled from here to 2,500 crores in next three year time.

Sarthak Nautiyal: Okay, so we will be growing at a CAGR of 35% something?

Vinay Lohariwala: Yes, 25%-30%, 25%+. So, three-year doubling is I think 26%.

Sarthak Nautiyal: Right. Okay, sir. Thank you, sir. Thank you for taking my question.

Vinay Lohariwala: Thank you. Thank you.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from JM Financial. Please go ahead.

Sudarshan Padmanabhan: Yes. Thank you for taking my question. So just taking forward on the Jammu facility that is coming in. I mean, next year you said that INR500 crores is possible. And if my understanding goes, when I say that 3 times to 4 times asset turn is possible, historically that's what we have done. You know, we should be able to do between 1,500 crores to 2,000 crores of incremental sales, I mean, over the next few years.

My question is more to understand on the margin side. I mean, today when we look at our margin side, you know, probably 15.5%+. And it has only been increasing over the last few years. When I'm looking at the mix going forward, Sharon has got better margins. Your Jammu, if I add back the GST, it will obviously have significantly better margins than the current business. My thought process is say FY 26 that is in the near-term. And probably say two years – three years down the line as the capacity utilization goes up with higher margins. Where do you think your margins should kind of stabilize?

And sir my second question is now that our debt is zero and the next two years we are going to generate fair amount of cash. And the fact is that we still have Jammu. I mean, still adding another1,500 crores -2,000 crores of sale. So where do we plan to deploy the cash for additional?

Lokesh Bhasin: So regarding your first question on margins. So on a long-term basis, at a steady state whenever Jammu is stabilized and you are absolutely right. We are hitting a better margin profile in Sharon. And from Jammu we are also looking forward to cover certain amount of additional benefit. Despite being transferring or passing through some of the benefits to customers. So on a long-term basis, we are looking at our EBITDA margins in the range of 17% to 19%.

Vinay Lohariwala: Yes. So the second question is regarding the.

Sudarshan Padmanabhan: And next year, sir, I mean, I am just trying to understand. Is the cost of Jammu largely going to impact us in the near term? Or should we start seeing the margin expansion, you know, as we achieve the500 crores itself.

Lokesh Bhasin: Sudarshan, can you please repeat your question?

Sudarshan Padmanabhan: No, I am just trying to understand. You talked about margin expansion. I mean, 18% to 19% which, you know, is very strong. But as the Jammu facility comes next year and we achieve the 500 crores target, should we start seeing the margin expansion next year itself? I mean, just trying to understand the cost and benefit.

Lokesh Bhasin: Yes, Sudarshan see, when I am saying margin expansion, so you would appreciate that there is always a ramp-up phase and first, it is a soft stabilization and then there is a stabilization then steady-state phase. So the way I am looking at it, so when I am able to reach at a steady- state of Jammu, somewhere in the range of 700 crores to 900 crores, we should be positively looking at a benefit on margin expansion. And from there, we should move upward on margin also.

Sudarshan Padmanabhan: Sure, sure. And on the cash side?

Vinay Lohariwala: Yes, so it is a very good question that there will be a surplus cash when we move forward. So this can be deployed towards the acquisition or the greenfield project. So the acquisition could be some strategic fit for us. So some, say, like we are not present in the multiple sections like hormone or the liquid injectable, right? So if we find some opportunity to acquire some asset in that category that can be done. Or we can look at the greenfield project also.

Sudarshan Padmanabhan: Sure, sir. Thanks a lot. I will join back.

Lokesh Bhasin: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, I have two questions. One on Jammu, when you are at 30% utilization next year or less than 30%, let's say, so about 30%-35%, will you be having a company-level margin or this at 35% Jammu unit will be margin-dilutive? That's number one. Number two, the blocks that you are adding at Jammu, that- sorry, the blocks that you are creating at Jammu, are these complementary to your existing product offering to in the CDMO or they are expansion of capacities of the existing offerings in CDMO?

Lokesh Bhasin: Yes. So, see, Pritesh, on the Jammu margin standpoint, so by next year in most probably when we reach to a level of somewhere around 400 crores –500 crores, so our margin should be within in line of our company-level margin. And as I stated earlier also, when we are going to achieve that 700 crores –800 crores level from there we should see the expansion in our margins.

Pritesh Chheda: Okay. My second question on blocks that you have created?

Vinay Lohariwala: Yes, so we have four blocks there in Jammu, the one block that cephalosporin is already we have, that is the common in Jammu or Baddi, and the rest three blocks are new to our market.

Pritesh Chheda: The additional offerings to your CDMO customers?

Vinay Lohariwala: Pardon, come again. Hello?

Pritesh Chheda: Hello.

Vinay Lohariwala: Yes, you need to repeat.

Pritesh Chheda: Hello?

Moderator: Mr. Pritesh Chheda, please go ahead with your question because your line is not clear.

Pritesh Chheda: Okay. So I was saying that the three blocks that you are referring to, one you said is Cephalosporins, so I am assuming it's capacity expansion of existing offering, everything else is newer offering to your CDMO customer?

Vinay Lohariwala: Yes, yes.

Pritesh Chheda: So in INR300 crores…

Vinay Lohariwala: 75% you can Yes, please go ahead.

Pritesh Chheda: Sorry sir, please you go ahead, sir.

Vinay Lohariwala: So, what I am saying that 75% of the portfolio is the new to our market.

Pritesh Chheda: Okay.

Vinay Lohariwala: That will be a new offering to our CDMO customer, and if you see the Cephalosporin is already we have the EU-GMP certification, so that facility we will dedicate for, say, catering to ROW and regulated market in export, and Jammu facility will cater the domestic business for even for the Cephalosporin. So there we, as you know that we have the 12% GST incentive for the domestic sale.

Pritesh Chheda: Okay. I understood, sir. And when you say 75%, we are assuming 75% of the 1,200 crores revenue - 1200 crores, 1,500 crores revenue that this block can generate, right? That's how we should.

Vinay Lohariwala: Correct. Yes, roughly you can say, Yes.

Pritesh Chheda: Okay. My last question is being a CDMO player, where you are selling largely servicing Indian pharma companies, what is the thought process behind creating your own branded generic?

Vinay Lohariwala: So let's say that, we see that as an independent vertical of the branded generic business, and that is in name and style of Univentis Medicare, and they are working there independently in the market and Univentis also help us in early identification of product, and what you can say that we are near to market. We have the market intelligence, market insight because of the Univentis. So, we can understand the market better, and we can serve the CDMO customer also because of that Univentis in a better way.

Pritesh Chheda: Will the product lines be similar as what you would supply to a domestic CDMO and what you have as an offering in branded generic?

Vinay Lohariwala: Yes. It is generally the it could be similar to the offering to the Univentis. We treat in Innova we treat Univentis as a CDMO customer only.

Pritesh Chheda: Okay. Univentis is where we have direct holding or anything or?

Vinay Lohariwala: It's a 100% subsidiary of Innova Captab.

Pritesh Chheda: Okay. Okay. Okay, sir.

Vinay Lohariwala: Yes. Thank you.

Pritesh Chheda: Does it Yes, thank you, sir.

Moderator: Thank you. The next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Yes. Hi everyone. Thank you for the opportunity, and congrats on good set of numbers. So, my first question is on the Jammu facility. Could you please highlight what is the total capex you have incurred so far on this plant?

Lokesh Bhasin: So the estimated capex on this facility is 450 crores, Abdul.

Abdulkader Puranwala: Okay. And that is entirely spent or is there any balance going to happen?

Lokesh Bhasin: Sir, almost on this is. We are already on the ballpark of this range.

Abdulkader Puranwala: Okay, okay. When we talk about commercializing the facility in Q3, so we are commencing operations at all the four blocks or that will happen in a staggered manner?

Vinay Lohariwala: So, this will be like all together.

Abdulkader Puranwala: Okay, okay. And just one more on Jammu. So sir, I mean we are talking about generating INR500 crores of sales and this is almost equivalent to the current CDMO revenues what we have. So, what is driving this confidence in terms of the sales which we can achieve? Do we have certain commitments from your existing customers or what's your plan which can drive this kind of a sales ramp-up here?

Vinay Lohariwala: Yes. So Abdul as we are in the last leg of starting the facility, we are in discussion with our all marquee customers, and we are getting a very good response. So, based on that feedback and requirement, we are confident that we will achieve this target of 400-500 crores sale in next year.

Abdulkader Puranwala: Okay. Okay. And just on the incentivization, so, I mean, how does this work? Is it only applicable on the third-party sales? So what you would be -- I mean for the products, what you would be manufacturing at Jammu or is it for your subsidiaries also what you typically do at your Baddi plant? So, will that manufacturing also get covered under the incentivization plant?

Vinay Lohariwala: So from Jammu, whatever we sell to the domestic customer, including our subsidiary on an arm's-length basis, that will be covered.

Abdulkader Puranwala: Got it, sir. I'll get back into the queue, and wish you all the best.

Vinay Lohariwala: Yes, thank you.

Lokesh Bhasin: Thank you, Abdul.

Moderator: Thank you. The next question is from the line of Hiten Boricha from Sequent Investments. Please go ahead.

Hiten Boricha: Hello Yes. Good morning, sir. Thanks for the opportunity. My question is again on the Jammu capacity. So just wanted to understand, you've mentioned we are going to do a revenue of around

INR500 crores next year. So, at what sales this Jammu facility comes at break-even level, sir? So the question I am asking is because, I wanted to understand this impact on the margin. So if our Jammu facility is starting commercializing in Q3, the cost is going to come in Q3 and Q4 itself, right? So, just wanted to understand the impact on margin in H2?

Vinay Lohariwala: Right. So Hiten, if you see, generally it takes say six months to one year to cross the break-even level. But in Jammu, what is the beauty that we have the 12% GST incentive, right? So our expectation is that after Q4, means even in Q4, there may be some lag. But from the Q1 next year, we will be - we will cross the break-even level and start positive EBITDA generation from the Q1 next financial year.

Hiten Boricha: Understood, sir. But my answer is not clear. So want to understand if -- are we going to generate revenue in Q3 and Q4 also? And if we are generating a revenue it will be EBITDA loss, right on Jammu facility? So eventually it should expect a 15% margin on blended basis.

Vinay Lohariwala: Right. So as we are saying that we will start commercialization in the next month. So in December, the revenue number will be very less. But from the Q1, number will start updating. And next year, it will be EBITDA positive.

Hiten Boricha: Okay. So, there is no cost incurred in H2 from Jammu facilities. That - is my understanding, correct? So this 15% margin is going to sustain?

Vinay Lohariwala: At company level, yes.

Hiten Boricha: Okay, sir. Okay. Yes, understood. Thank you, sir.

Vinay Lohariwala: Thank you.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda: Yes. Congratulations on an excellent set of numbers and commercializing the Jammu plant soon. Sir, a few questions. First on Jammu and then the other businesses. On the Jammu plant, will you be doing only CDMO or you would be doing their domestic branded, international generics from that plant?

Vinay Lohariwala: So at Innova Captab level, if you see, we will sell to Univentis Medicare also. That is our domestic branded generic arm, right? So we treat that as a CDMO. But in consolidation, that revenue will go and fit in branded generic business. And this facility will be we will target the export business also. So we will register in the ROW and semi-regulated, regulated market as well as the time proceed. So the facility will be a replicate of our Baddi facility that we are doing the export business, CDMO business and trade generic, our domestic trade generic, branded generic business also.

Bhavin Chheda: Second thing on your guidance of 400 crores, 500 crores Jammu turnover in next fiscal. This surely would be an incremental turnover or there would be some cannibalization effect of the Baddi turnover also. Since, obviously, we have very high incentives from this plant. So obviously, when this ramps up, majority of the sales to be booked from the new plant makes more sense. But my question was that will there be a cannibalization of some part of the turnover from the Baddi plant here?

Vinay Lohariwala: So, the INR500 crores will be the incremental turnover. There will be some cannibalization from the Baddi facility. The domestic cephalosporin business will be transferred to the Jammu facility. But as we have the capacity constraint in our existing cephalosporin facility, this facility will be used for export to the ROW and regulated market. And we are hopeful that in that category of the we will get the order there also from the ROW market in our Baddi cephalosporin facility. So overall, what we expect is the500 crores will be the incremental turnover.

Bhavin Chheda: On the third question sir, if I see your CDMO revenues from the presentation for last three years, it was on a declining trend whereas the customers were going up. So, I understand part of this was probably due to pricing pressure though there would have been volume. Can you throw some light since last three years CDMO has declined from 687 crores to 682 crores, 622 crores in FY '24?

We have managed growth in first half and this quarter looks to be a very strong 10% growth. And I think at the start of the conference call you mentioned this was purely driven by volume and price has stabilized. So, can you throw some light of what happened in last three years where CDMO turnover was declining despite increase in customer count? And now it has started growing. What has happened to some accounts have given some clients have given big sales or what has happened in first half?

Vinay Lohariwala: Yes, sure Bhavin. If you see that after COVID there is a decline in the API prices. So as you know that our pricing with our customer is the transfer through model that if the API price goes up, our pricing goes up nd if it is reduced then our transfer price is also reduced. So due to the -- there is continuous price decline. We see that top line decline in the case of CDMO.

But if you see the volume in the CDMO sector, there is a consistent volume growth in the CDMO section. So that's why the margin gets better. If we say there is a API price reduced or transfer price reduced, but our margin that's why improving – that margin is basically a function of – totally a function of, say, volume. So that is why our margin gets improved. And this quarter what we have seen is that, there is a normalization in the API price. Now there is no further decrease or more or less the price are in the stability territory. So that is why we witness the growth in the top line also.

Bhavin Chheda: Yes, that will be helpful. Last one on generics. Branded domestic plus international has reached a 100 crores run rate in this quarter and also grown at almost like 17-18% combined I am saying. So will this continue and what kind of scalability you are projecting here in two to three years?

Vinay Lohariwala: So let me take the first domestic branded generic business. So last year, we have done almost 200 crores and that business has last year also witnessed a 25% growth. So we see the same momentum to continue in the near future. So there we can grow at the same level of 20%, 25% plus in the near future.

And as far as the international branded generic is concerned, with the acquisition of Sharon Bio-Medicine, so that is 100% or what we can say, 85% revenue comes from the export only that covers the regulated, non-regulated market and with the Innova, we are well focused on our international market presence also and with the Jammu facility, we are going to register that facility also into the export markets in the different territory. And we feel that the same growth rate will be continuing in that segment also.

Bhavin Chheda: Thank you. Thank you.

Vinay Lohariwala: Thank you.

Moderator: Thank you. The next question is from the line of Rohan Vora from Envision Capital. Please go ahead.

Rohan Vora: Hello. Thank you for the opportunity. So sorry if the question was already answered. I joined the call a little late. So my question was on the interest cost. So basically, we see borrowings on the balance sheet. However, interest cost has substantially reduced over the last two quarters. So what is the reason for that? Thank you.

Lokesh Bhasin: Yes, sir so the borrowings are still there. But so the major part of the borrowing is of 230 crores of term loan that we have taken on our Jammu project. And that loan carries an interest subvention benefit of up to 6% on the overall rate. So hence that is the main reason why you are able to see the debt. But the cost is not showing that much in the P&L.

Rohan Vora: Okay. And when does the cost start flowing to the P&L?

Lokesh Bhasin: So post commercialization.

Rohan Vora: Okay. So basically...

Lokesh Bhasin: Even at that time also, the net landed cost of interest would remain at a range of 2% to 2.5% only after considering the interest subvention benefit.

Rohan Vora: Okay. So 2% to 2.5% will be the impact in the P&L in the coming quarters?

Lokesh Bhasin: Yes, after commercialization of the project.

Rohan Vora: Got it. Thank you, sir.

Moderator: Thank you. The next question is from the line of Karthi VK from Suyash Advisors. Please go ahead.

Karthi VK: Sir, good afternoon. A couple of clarifications. You were answering the question on pricing for CDMO. Can you elaborate a bit more? How do you benchmark your API prices? What is the benchmark and how do you determine your markup? Some thoughts on that could be helpful.

Vinay Lohariwala: So the API price is the market price, the price at which we are buying the API. So that is available to the customer also and to us also, right. And then let's say we have the bill of material cost and then the cost of conversion, cost of packing, analytical cost. And then we have the markup, margin markups.

Karthi VK: Right. And typically how low do you go, sir? I mean, assuming there is competition, how do you work backwards? Do you work on, say, 18% IRR basis, 24%? How exactly do you think about that? I'm asking this because if it's a cost plus model, it seems fairly attractive for incumbents, which is why I'm asking you this question.

Vinay Lohariwala: So that is in line with the industrial standard. That profit margin, cost of conversion, cost of packing are in line with the industrial practice.

Karthi VK: Industrial practice, okay. The other thing, sir, can you elaborate on what would be your typical, shall we say, market share for a particular customer for a particular molecule? Would you have some sense of that? What is the highest you would be supplying to any customer and a range in which you would be typically supplying?

Vinay Lohariwala: So, sir, basically market insight about the detailed data of the CDMO is not available. So it is difficult to comment on this question.

Karthi VK: You would have some sense of at least what volumes they purchase and therefore how much of that you cater to?

Vinay Lohariwala: No, sir. No, we cannot track that. Okay.

Karthi VK: Okay. Fair enough. Thanks for answering the questions and best wishes. Thank you.

Vinay Lohariwala: Thank you. Thank you.

Moderator: Thank you. The next question is from the line of Sagar Tanna from Alchemie Ventures. Please go ahead.

Sagar Tanna: Thank you, sir, for an elaborate discussion on Innova. I have one question. What are our thoughts what is the capacity utilization in Sharon currently? And what are our thoughts in wrapping up that asset?

Lokesh Bhasin: So, yes. So, our capacity utilization currently is a formulation is around ranging between 45 to 50% and considering the normal formulation business, the optimum capacity range between 70 to 75%. So since its acquisition, we have already started working on developing the products and as already submitted that Sharon is into regulated market in exports. So basically, onboarding a customer or onboarding a product carries a long gestation period. So that period resources and product investment has already been started with the help of our R&D and our strong RA team. So, over the next coming years, we are very much positive to ramp up this available capacity through introduction of new customers and new products.

Sagar Tanna: So do you expect that, you know, you will be able to ramp it up to 70-75% in FY26?

Lokesh Bhasin: The way we see it, we are looking at a growth of roughly around- so the way we are looking is, since I believe that it is these things, regulated market, onboarding carry some longer gestation time. So the way we look at it is that, we are looking at growth of Sharon in early teens of incoming years.

Sagar Tanna: Got it. Second thing sir, just one clarification. Since we have not commercialized the Jammu plant and hence the CWIP is showing still as on September. Is my understanding correct?

Lokesh Bhasin: Yes, you are absolutely right. We are showing a CWIP of452 crores on 30th of September. And the majority of it carries our Jammu project cost.

Sagar Tanna: So now since that plant will get commercialized in this quarter, this will move to the gross block. Is that correct?

Lokesh Bhasin: Exactly. This will move to PPE accordingly.

Sagar Tanna: Got it. Thank you so much and all the best sir.

Lokesh Bhasin: Thank you, sir.

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

Ankit Gupta: Thanks for the opportunity and congratulations for a good set of numbers.

Moderator: Sorry to interrupt you, but can you please speak a bit louder? We cannot hear you sir.

Ankit Gupta: Sure, I will do that. Sir, my question was on the CDMO segment. So given the Schedule M changes, how is that impacting some of the larger players like us? How has been the movement from a lot of formulation companies, marketing companies to establish CDMO players like us? If you can elaborate upon that and how do you see the impact of the same on our growth over the next year or so?

Lokesh Bhasin: Ankit, I'm sorry, but can you please repeat the question, we were not able to hear you properly.

Ankit Gupta: Sure sir, I'll repeat that. So the question was on the CDMO segment. Given the changes in the Schedule M which is happening from the government, how do you think this is expected to benefit and establish and maintain plant player like us? So, if you can elaborate on that, how has like how has been the inquiry pipeline from the formulation players forces changes are taking place.

Vinay Lohariwala: So if you see, there is an implementation of revised Schedule M, and due to this new act, new revised Schedule M, there is a stiffness in the plant guideline and so that is at par with what we can say is the international guidelines. As most of our facility is having SRA approvals like EU-GMP or MHRA or WHO-GMP, so we are complying with all these guidelines. So, we see it as a positive trigger. The industry will further consolidate to the larger players due to this implementation of the sticker norms.

Ankit Gupta: Sure, but have you already started seeing some changes in the inquiries from the formulation players, from the marketers?

Vinay Lohariwala: Yes, definitely. So, this is happening since last one or two years that the business is getting consolidated towards the larger players.

Ankit Gupta: Sure. Has there been a few instances of some of these smaller players shutting their shop or available for sale or the plant is available to sale to larger players like you?

Vinay Lohariwala: So, that is the part and parcel of the business that always happens, that consolidation and all that. But we need to look at that, if the plant is complying and it is strategically fit, then only we can go ahead with the acquisition.

Ankit Gupta: Sure. And our plans to set up almost or spend almost 450 crores in the Jammu plant was also, like we had thought about it, keeping in mind the revised guidelines which have happened in Schedule M.

Vinay Lohariwala: Yes. So, the Jammu facility is designed and in compliance with all international guidelines, as well as our local FDA guidelines. And it is a state-of-the-art facility complying with all guidelines, as well as, let's say that, all equipments are with the latest technology.

Ankit Gupta: Sure. Thank you.

Vinay Lohariwala: So, the efficiency-wise also, one is the guideline, other is the operational efficiency. So, this facility will give the highest efficiency to us.

Ankit Gupta: Sure. Okay. Thank you.

Vinay Lohariwala: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Vinay Lohariwala: Thank you, everyone, for joining us in the earning call. We appreciate your time and showing interest in our company. In case of any inquiry, you can get in touch with us or SGA, our Investor Relation Advisor. We look forward to meeting all of you over the next call.

Lokesh Bhasin: Thank you.

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