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November 12, 2024

To

BSE Limited
Phiroze Jeejeebhoy Towers,
25th Floor, Dalal Street,
Mumbai – 400 001

Scrip Code: 524558

The National Stock Exchange of India Ltd
Exchange Plaza,
Bandra Kurla Complex
Bandra (E), Mumbai – 400 001

Scrip Code: NEULANDLAB; Series: EQ

Dear Sir/Madam,

Sub: Transcript of the Earnings call conducted on November 6, 2024

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings call for the quarter and half year ended September 30, 2024, conducted on November 6, 2024. Also please note that this transcript of the call has been uploaded on our website.

The weblink to access it:
https://www.neulandlabs.com/en/investors/investor-meetings/transcripts

This is for your information and records.

Thanking you,

Yours faithfully,
For **Neuland Laboratories Limited**

SARADA BHAMIDIPATI
Digitally signed by SARADA BHAMIDIPATI
Date: 2024.11.12 11:35:13 +05'30'

Sarada Bhamidipati
Company Secretary

Encl: As above

“Neuland Laboratories Limited
Q2 and H1FY25 Earnings Conference Call”
November 06, 2024

MANAGEMENT: **MR. SUCHETH DAVULURI – VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER**
MR. SAHARSH DAVULURI – VICE CHAIRMAN AND MANAGING DIRECTOR
MR. ABHIJIT MAJUMDAR – CHIEF FINANCIAL OFFICER
MR. SAJEEV EMMANUEL MEDIKONDA – HEAD, CORPORATE PLANNING AND STRATEGY

MODERATOR: **MR. RAVI UDESHI – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day, and welcome to Neuland Laboratories Limited Q2 and H1FY25 Earnings Conference Call. 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 Mr. Ravi Udeshi from Ernst & Young. Thank you, and over to you, sir.

Ravi Udeshi: Thank you. Good evening, friends. We welcome you to the Q2 and H1FY25 Earnings Conference Call of Neuland Laboratories Limited. To take us through the results and to answer your questions, we have with us the top management from Neuland Laboratories, represented by Mr. Sucheth Davuluri, Vice Chairman and CEO; Mr. Saharsh Davuluri, Vice Chairman and Managing Director; Mr. Abhijit Majumdar, CFO; and Mr. Sajeev Emmanuel Medikonda, Head, Corporate Planning and Strategy.

We will start the call with a brief overview of the financials by Mr. Abhijit Majumdar and then Saharsh will give you the broad highlights of the business trends and what he is seeing in the market. And post this, we will open up the call for the Q&A session. As usual, the standard Safe Harbor clause applies as we start the call.

With that said, I now hand over the floor to Abhijit. Over to you, Abhijit.

Abhijit Majumdar Thank you very much, Ravi, and good evening, and a warm welcome to each of you for joining our call. The financials are as follows for Q2FY25. We did a total income of INR315.2 crores in Q2 as compared to INR420.8 crores in the same period last year. I'd like to point out that the inherent nature of our business is uneven on a quarter-on-quarter basis. We expect the full year FY25 to be flat as compared to FY24.

Our EBITDA stood at INR65.7 crores, with a margin of 20.8%. The decrease in contribution has led to a decrease in EBITDA in Q2FY25 as compared to EBITDA of INR140.3 crores for Q2FY24. We continue to focus on productivity in order to ensure the financial resilience of our company.

Now turning to the specifics. The gross margin for the quarter was 56.3% as compared to 59.8% in Q2 FY24. This gross margin, as always, includes direct costs pertaining to manufacturing as attributed to the product. The profit after tax was INR32 crores as compared to INR89.1 crores in Q2FY24. The quarter EPS stands at INR24.9 per share.

For the H1FY25, our revenues stood at INR759.6 crores versus INR785.8 crores for the same period of last year, a marginal degrowth of 3.3%. EBITDA was INR194.3 crores in H1FY25 compared to INR239.6 crores in H1FY24 due to slightly lower revenues and higher operating expenses. We continue to focus on cash to optimize our working capital, which stands at 112 days to sales. We have generated a free cash flow in H1 FY25 of INR45.8 crores. We also repaid some part of our debt of around INR17.1 crores for the H1FY25. Consequently, our net debt position stands at a negative of INR94.3 crores.

As part of our investments in facility upgradation, we have invested INR103.5 crores in capital spend during H1 FY '25. We are committed to balancing growth with profitability by constantly optimizing costs and processes to ensure long-term sustainability. While we expect FY25 to be flat, we remain confident that our business will regain momentum from FY26 based on significant order pipeline and strong customer demand. Overall, we continue to be cautiously optimistic about the future potential that our business holds.

With that, I would like to hand over the call to Saharsh for his remarks. Once again, thank you very much.

Saharsh Davuluri: Thank you, Abhijit. Good evening, everyone. Welcome to the Call. Over many years, we have been consistently positioning Neuland as a dedicated API solution provider with extensive complex chemistry capabilities, partnering both with innovators as well as generic pharmaceutical companies.

Before elaborating more on this quarter, I would like to reiterate a few comments which Abhijit has already made. Our business is uneven due to the inherent characteristics of the CDMO business as well as the specialty GDS business, which is focused on small volume products. Therefore, annual progression is always a better indicator of the company's prospects than a quarter-on-quarter performance. This quarter's performance has been poor, especially when compared with what we've been doing over the last several quarters. But as I mentioned earlier, it does reflect the lumpy volatile nature of our business.

Completion of additional manufacturing facilities this year, coupled with anticipated commercial launch of molecules on CMS side, gives us the confidence of achieving high growth in FY26 and beyond. We continue to see increasing interest in customers looking at Neuland as their CDMO partner. In terms of the macro picture, we are yet to see significant impact of the Biosecure Act by way of active RFPs or orders, but we believe that the environment remains highly favourable for us in the medium to long term.

In terms of our biotech clients being acquired by big pharma, we see the continuity of customer engagement and are quite excited about the future opportunities and possibilities. Our business development team continues to identify the right opportunities in line with our long-term strategy. The CMS revenues of INR132 crores were driven by molecules in the commercial segment. We're seeing a positive momentum and expect it to continue going forward. You may have noticed from the table of CMS projects that the number of commercial APIs has increased by 1. This is the result of a recent commercial approval for an NCE API supplied by Neuland by the FDA.

On the GDS side of the business, we remain focused on developing new specialty products while optimizing processes and expanding market share for key commercial APIs. The specialty GDS business was primarily driven by Paliperidone. Although there was some

volatility in our specialty business this quarter, we remain optimistic about the full year prospects for this segment, considering our customers' expected growth.

In the Prime segment, strong products for this quarter included Mirtazapine, Levetiracetam and Escitalopram. We believe we are on course to meet our overall targets for the GDS segment. I would like to emphasize the inherently variable nature of our business, which makes it challenging to provide any form of guidance. Having said that, the manner in which the orders are currently taking shape, we now anticipate closing FY25 relatively flat compared to the previous comments we had made about expecting a moderate growth for FY25.

Another reminder from our previous interactions, we continue to maintain that there are a variety of factors that could influence our projections. These include performance of individual products, foreign exchange fluctuations, raw material cost volatility and other dynamic business segments. We are aware of these challenges and continue to closely monitor these variables. Time and again, there is new information about products made by Neuland in the public domain. While the information may be accurate, I would urge you not to correlate such news with short-term business performance.

Regarding future capacity building, we are on track to complete the new production block in Unit 3 by FY25 and expect to commence commercial production in FY26. Neuland's flexibility and agility are essential for effectively responding to the changing business landscape. We continue to seek growth through high-value molecules of innovator companies. We are committed to enhancing customer experience, which we believe sets us apart as a unique API provider.

Our investments in expanding our capacity and capabilities are also to be seen as a testament to our commitment to the future. By staying true to our core principles of customer focus, agility and operational excellence, Neuland is strategically positioned to seize opportunities even as we continue to navigate any short-term challenges which come our way. We continue to make progress on our long-term goals, which gives us confidence in delivering healthy growth starting in FY26.

So, I guess having said that, Ravi, I request you to open it up for Q&A.

Moderator: The first question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just the first one on some of the qualitative comments you have mentioned. I think I forgot asking about the Annual Report comment. One was on, we're starting to see more interest from companies with larger pipelines. I think that was there in the Annual Report. So I just want to understand what does that mean? Also, the second that question is on increasing interest from biotech leading to increase in early-stage projects. If you could elaborate on these 2 points, please?

Saharsh Davuluri: Okay. Maybe I'll try to answer the questions. The first one is, I think the reference to gaining companies with larger pipelines, I think just refers to the M&A environment that Neuland has been exposed to in the last couple of years. What has been happening is some of the programs that we've been associated with traditionally start by working with biotech companies are resulting in these companies getting acquired by larger companies. This has happened in more than one case. And that has been one opportunity where we are now engaged with companies with larger pipelines.

Typically, Neuland's growth has been with biotech companies which have had only 1 or 2 drugs in the pipeline. And during that period, the growth opportunity with a particular account was limited. But now as we are engaged with larger companies, which have started working with Neuland through M&A. We are just seeing an increasing possibility of new business through the same account because of these larger pipelines.

Other than that, organically, also Neuland has been now because we've been in the CDMO space for over 15 years, we've also started seeing traction with larger companies organically, where there is no biotech acquisition happening, but large companies have started to show interest with Neuland.

With regards to the second question is about biotech Just continued interest on biotech. So, I think the interest with biotech is continuing. I think we just came back from one of the large trade fairs that we have for the pharma industry, the CPHI. I think although there is no evidence of Biosecure Act driving new business to us, there is clear evidence of a lot of new biotechs coming and talking to us because the funding environment also has improved in the US and that has also resulted in more traction. And somewhere, we also get a sense that perhaps in the China versus India narrative, there is a little bit more tailwinds towards India, which is also leading for more biotech companies to come and have conversations with us.

Shyam Srinivasan: Got it. Helpful, sir. Sir, my second question is just on your Slide 12 and just the movement of the active CMS projects, right? So we have seen about 5 or 6 additions. I just want to understand from a commercial or a Phase 3 standpoint, are there any large enough molecules for us to be excited about in the pipeline that you think? I know you may not call out the names, but just for us to understand qualitatively because we have talked about 4 molecules so far, but just want to understand what happens after that.

Saharsh Davuluri: Yes, Shyam. So, I think the number of projects have increased, but the associated companies are, I think, 2 or 3. And these companies are again US biotechs. And in one case, the projects have moved out from a Chinese CDMO and Neuland is kind of taking over these projects. In the other case, we are organically setting ourselves up as the partner for the clinical supplies. I think both are exciting programs, but it's very important to remember that the probability of success is very low at this stage.

So, I think there's no point really trying to quantify the opportunity value or etcetera. But I think incidentally, both of these are in the CNS space. So, I think there is generally a lot of work happening in CNS and these molecules also seem to be in that space. But one of them, which you may be interested to know is moved from China to Neuland. So those are the inputs I can share with you.

Shyam Srinivasan: Sorry, my question was not just on the incremental flow. It was also on the back book as well in terms of most of our current revenues are coming from, say, top 5 products in CMS are 90%. I'm just looking at if there's products 6, 7, 8 somewhere in your pipeline, which we should start getting excited about in the next 12, 24 months?

Saharsh Davuluri: Okay. Sorry. So I think with regards to that, Shyam, I think there are about 2 or 3 molecules which are kind of one step away from commercialization for Neuland. And I think as we start seeing some milestones on that front, we'll definitely update the table and also make that evident in our commentary. But yes, I think the molecules that you had pointed to in the table, I think, are still several steps away from becoming big revenue contributors. But we do have programs. I think there's one in COPD and then there's one in CNS, which are programs which are maybe about a step away.

I think these programs could potentially be large contributors for our CMS business, maybe starting from 2027. But yes, how big they will be, etcetera, I think remains to be seen. And I think we are also pursuing some new projects where we are trying to get into some Phase 2 or Phase 3 programs. There's also a pursuit of already recently commercially approved drugs where we want to enter as a second source. Those could be also probably more short-term opportunities for strengthening the commercial side of the CMS business.

Moderator: The next question is from the line of Amlan Das from Nomura India.

Amlan Das: My question is regarding the CMS business. So, since the last 6 to 8 quarters, it has been contributing around 49% to 55% of total revenues. Since you are saying that the order book has been going strong and you are expecting a high growth in FY26, can we expect this share to go up beyond the 55% mark? And how do you see the CMS business going forward? So, the peak revenue -- quarterly revenues have been around INR230 crores in Q1FY25. So what is the outlook regarding this business in FY26?

Saharsh Davuluri: Yes. Thanks for the question. I think the CMS business is going to grow. I think if you look at the commentary we've made, I think in proportion to the GDS business, yes, I think it's kind of around the 50% mark. It's likely to go up beyond the 50% mark, but we are not really commenting on what the mix should be because both businesses are very independent of each other. And therefore, I think depending on how they perform, those numbers could move up and down.

I think it also really depends on what kind of new launches we have on the generic side in the

next couple of years. So, I think where we are currently, I think, is a fairly reasonable balance between GDS and CMS. I think we see strong growth in CMS in the next couple of years. So, we think that it should be above 50%. But beyond that, it's difficult for us to give too much colour.

Amlan Das: I was actually trying to understand the margin profile since the CMS business is a high-margin business for you. So, what do you see as the stable EBITDA margin going forward? Would it be stable at around current levels of 27%, 28% that you are making? Or we expect it to go up?

Saharsh Davuluri: See, I think you'll see the margin profile, actually, the GDS specialty business margins and the CMS business margins are not too far away from each other. They're very similar margins. So, I think trying to figure out the business mix to determine the margins may not necessarily be a helpful exercise. I think if you look at how we did in FY24, I think those margins were real margins. We thought that, of course, the factors are all there were a lot of tailwinds. So therefore, the EBITDA margins were really optimal. I think going forward, we think if the factors are very favourable, then the margins should be like that, or they should come down a little bit.

But I think the business mix I think split is something that I've already answered that. I think on the margins, what we've seen in FY24, maybe a slight drop on that is what we think is reasonable. But again, I think it really depends on how specific products pan out. And therefore, maybe let's see how FY25 goes, and that gives you a good indicator. But we again don't want to give any kind of a number or some sort of a guidance on the overall margins.

Moderator: The next question is from the line of Sajal Kapoor, who is an individual investor.

Sajal Kapoor: I have 2 questions. Maybe I can flood them together or ask them separately. What do you prefer?

Saharsh Davuluri: Together, Sajal. We'll note it down.

Sajal Kapoor: Okay. So, I'll ask them together and then because they are related anyway. So the questions are, I mean, today, almost every other pharma company is enthusiastic about things like GLP-1 peptide chemistry in general as well as India emerging as a key manufacturing destination outside China and how all that can propel their own CDMO plans. So, every company is very vocal on CDMO plans and aspirations. So, the question really is that given the scarcity of high-quality talent and the escalating demand for it, how is Neuland balancing the retention of top talent alongside hiring the fresh energy and capability from the available capability pool? That's part one of my question.

And then related to that, I mean, it's obvious that as the number of projects in the CDMO pipeline increases, we need more people to handle the larger funnel of possibilities. And I've

seen we have added more projects in the early-stage pipeline, which obviously requires more people. So, the question is the number of scientists when I look at them, they have not materially changed for Neuland over the last 2 years. And we are still at tracking close to that number of 360 where we were a couple of years back. So how do you see this number of scientists moving over the foreseeable future, given that every company is gunning for the talent?

And in India, especially, there is a very limited and finite pool of scientists available. I can give you another number, Saharsh. WuXi AppTec alone has or had close to 28,000 scientists. That number, if I add the unlisted and listed Indian CDMO ecosystem together, I don't think we'll reach that 28,000. So, when you talk about China Plus One and Biosecure possibility, etcetera, I mean, has India got what it takes to even come closer to China?

Sucheth Davuluri: So, I mean that there's a lot of questions built into it, Sajal, and that's fine. Good questions, I think. One is when we're talking about the whole momentum for business, the Biosecure Act India versus China, what we are doing in Neuland, Sajal, is making sure that we are really keeping a close tab on what's actually happening in the market rather than getting carried away by all the press that's coming on the Biosecure Act and what is expected to happen in the future. We're in touch with our customers.

We're engaging with them, finding out their preferences, how many projects are being outsourced, how many are going to China, how many come to India so that we keep our expectations, our projections and the related capital expenditure much closer to reality rather than get carried away by all the rhetoric that's happening in the market. So that's one thing that we're doing at the strategic level.

As far as manpower and R&D is concerned, I think your observations are absolutely right. We've tried to maintain the headcount very close to what we expect the demand and the growth of the business to be. Notwithstanding that, over the last several years, we have focused more on the quality of manpower and specific skills of manpower that we are recruiting rather than just numbers of manpower.

So, the way we see at least Neuland strategy play out in the future is that we want to focus more and more on technologies, which are challenging that will continue to differentiate Neuland that will help us continue to focus on the quality of business rather than the quantity of business. And that's been a single-minded focus over the last couple of decades, and that's why you've seen the margins of the business also grow.

The last part of this is I think really, Sajal, there's not one thing any company can do to retain manpower. It's always a combination of several initiatives from making sure that we are recruiting the right people, people whose purpose is also aligned with the purpose of the organization. We see that, today, the manpower, they actually want to work for good

companies, companies that have a vision, where there's a lot of stability.

They have a purpose. They're passionate about what they're doing. And those are the kind of people that we're also recruiting. We have a scientific as well as a manufacturing advisory board with very qualified accomplished scientists, engineers on there. And we use that network, including the network of our customers to identify the right kind of people for the organization and recruit them.

We use a combination of tools such as exit interviews, retention bonuses, employee engagement surveys to identify what are the top 3 or 4 things that are keeping our teams completely engaged. What are the top 3 or 4 things which are actually creating any kind of demotivation? We're constantly working to overcome those so that we have a workforce that is passionate and engaged into the business.

Notwithstanding that, we also focus a lot on doing our annual customer surveys, and we always make sure that our teams are completely connected to how we are impacting the customer on an ongoing basis that keeps us motivated as well. So there's multiple ways we could go on, but these are the top 3 or 4 things.

Saharsh Davuluri: Yes. I think maybe just also another perspective I'll add, Sajal is I think, see, if you look at Neuland's business, and it's interesting how you brought up the WuXi comparison, which I think is great. I didn't know they had 28,000 scientists. But the fact is that our focus is very narrow, right? We are an API company. We do API CDMO work. And therefore, for us, the kind of scientific staff we need per molecule or the scientific staff we need is also comparatively lesser.

When we are engaged in doing a lot of work that involves maybe medical chemistry or early-stage drug discovery work, the need for scientists is a lot more. I think since Neuland is not in that space, I think with a team of 7 scientists, we are able to develop a molecule which can be a multimillion-dollar product. And so, I think there is a little bit of a comparison issue over there.

You mentioned GLP in your opening remarks. Now a GLP-1 kind of a molecule, which Neuland is making one for generics for the GDS business, takes a team of maybe 8 scientists, 2 to 3 years to develop a GLP-1. What's important is the quality of the scientists, which is what Sucheth was emphasizing on.

So therefore, I think we are more driven by purpose, and I think we are not compromising on the headcount. But definitely, I think China as an industry is far, far ahead. I think we are still more in the chemistry and the small molecule space. And China is definitely way ahead of us. So, it's difficult to make that comparison also.

Sucheth Davuluri: And you're absolutely right. I mean, China has invested a lot in technology, the way they get

support from the government also is uncomparable. And in certain areas, they are way ahead of actually not India, but any other country for that matter. However, I think in areas where Neuland has positioned itself and wants to continue positioning itself in the future, as Saharsh was saying, our goal is to build that depth of expertise and that specialization, which we believe that has brought Neuland to where it is, and that's what we look forward to.

Moderator: The next question is from the line of Harsh Bhatia from Bandhan AMC.

Harsh Bhatia: Sir, one question, again, very directionally more qualitative in nature when you made this comment of the US rather opportunities shifting out of China and the customers approaching Neuland to proceed with the molecule. How do we think about the pricing dynamics and the overall cost structure for the business as such?

Because at the end of the day, when you are trying to pursue that molecule, you are going to compete with other players also and you're going to, to a certain extent, going to compete with the Chinese pricing as well because that's the benchmark. So how should we think about pricing from Neuland's perspective and industry in general because I think that's going to be something that we'll have to keep in mind, right, for a lot of business that is different from China. So just a thought?

Sucheth Davuluri: So Harsh, I think a couple of things is when we look at our list of molecules, both on the generic side as well as the CDMO side. We don't find too many competitors from China. What China has done is that it's invested a lot of money as well as technology for large-scale manufacturing to take on the scale. Whereas we've invested, as Saharsh was saying earlier, on a lot of capability development, skin development, specific technology, specific IP, and that's how we've developed our molecules.

So going forward, unless it is a very large volume API, we do expect competition from China, but we don't expect competition on each and every molecule. I think it will be limited to a few molecules. Notwithstanding that, within the organization, we do have a process of life cycle management where we benchmark our costs globally across competitors, whether it's Europe or China, and we are constantly looking at ways to invest in technology so that we can also continue to stay competitive.

So long story short, I think we're always looking at China, at Europe. We are constantly benchmarking our costs. We are benchmarking what our prices could be 5 years down the line. And we are actually initiating projects within Neuland now that will keep us competitive even 3 or 5 years down the line as well.

Harsh Bhatia: Sure. That's really helpful. Just one clarification, if I may. When you talk about this particular molecule, as an example, shifting out of China, again, from a benchmark perspective, let's say, if you have the biotech company coming to you in the initial stages and you being the primary supplier as compared to the same molecule shifting out of China, would there be a

material difference? Or is this something that we should not lose our sleep on?

Like I understand that over a 3 to 5year period, whatever you're projecting with the particular level of volume, it might not make a very large difference. But let's say, for the initial period of time, is there something we should keep in mind in terms of a large gap for the pricing perspective?

Saharsh Davuluri: Yes. I think when usually for the CMS molecules for biotech companies shifting out of China, coming to India, one, we don't have such a large data set to tell you exactly how it works. But the way typically biotech companies work is if pricing is a concern, I think we typically understand what the target price is, and we try to work towards it.

And in many cases, our whatever business we have seen shifting out of China or even shifting out of Europe coming to Neuland, price has not necessarily been or a price target has not necessarily been the key consideration for us. It's always been driven by either technology or a capacity need or a batch size requirement. And price obviously plays an important role, but we are not so much driven by the customer on pricing.

I think Neuland, as Sucheth said, because of our generics business expertise, we tend to work towards cost leadership. But it doesn't so happen that a biotech company sets us a cost target, compares us with a Chinese source and drives us towards that. Again, your voice was not 100% clear. So, I'm not sure if that was your question. Maybe you could type it out in a chat box, but I think that's how I would probably respond to it.

Moderator: The next question is from the line of Akul Broachwala from Avendus Investment Managers.

Akul Broachwala: Just wanted your insights on the recently sort of commercialized molecule by the large customer. And as it was getting discussed that there are some further increasing possibilities of new molecules as well from the same set of customers. So just wanted some qualitative thoughts around this entire collaboration. I mean, how are you looking this move forward? Some thoughts around this?

Saharsh Davuluri: Opening comments, I think the business in general, I think, is looking good. I think as consolidation is happening and larger companies are becoming customers, I think there is a lot of prospects of increasing business with these customers. But at this point, I think CMS molecules, we can't really comment on them at an individual level, even if it's a cryptic conversation. So, I would refrain from answering anything further on that.

Akul Broachwala: Sure. Understood. And with regards to the revised guidance that you've given for this year, so like what's pushing you to undertone your guidance? Is it specifically coming from the development side of your of the CMS business where the biotech funding has just recently kind of started to improve. , are you kind of witnessing some sort of slowdown in that part of the business, which will take some time to pick up?

Saharsh Davuluri: No. I think also maybe just be cautious. I would not call it guidance. It's more of an outlook. I think on how the business is stacking up. I think it's not got anything to do with the biotech funding environment, etcetera. I think the new business component is intact. I think whatever we wanted to do as new business for the CDMO business, I think has been coming on track.

I think if some things are have led to us to change our outlook from moderate growth to flattishness, I think it's more because some things have right shifted either because of some execution delays or because our customers want us to kind of move things out. But nothing to do with dampening of new business or business prospects. It's just how things are falling into place.

Moderator: The next question is from the line of Sagar Tanna from Alchemie Ventures.

Sagar Tanna: From the existing projects or molecules and the forthcoming ones, how many of them we will be primary suppliers and how many of them will be secondary suppliers?

S E Medikonda: So, if I were to, I think most of our projects that we are working on. Since we are working with innovators who are looking at commercializing our products, they are at least from a risk perspective, there are 2 suppliers. And in many cases, and we are part of the NDA filing. So, I think we should just look at it from that perspective because what we are seeing that over time as we are on the file, we are a key supplier that is get a significant part of the share, and that's the way that we look at.

Saharsh Davuluri: Yes. The first supplier doesn't necessarily mean that you are the key supplier. I think our goal in all our CMS commercial molecules is to be the key supplier or the primary supplier. It may or may not be that we are the first supplier.

Sagar Tanna: But what percentage market share would we have?

Saharsh Davuluri: I think it really varies. There are we have 100% wallet share. There are some molecules where we have 50%. But yes, I think in almost all the molecules, we have a majority share, wherever there is a share.

Moderator: The next question is from the line of Vivek Patel from Ficom Family Office.

Vivek Patel: I'm hoping on multiple. Just wanted to have a quick update on a few products that you launched a couple of years ago, if I'm not wrong, NEXLETOL and NEXLIZET. I just wanted to understand where they're at. And also, some questions in terms of how are you planning to launch this product? Do you plan to have any partners? And what would be the size of the opportunity? Just wanted to confirm if it's $7 billion, $8 billion, if you could correct me. And what are the other competitors on this particular product?

Saharsh Davuluri: Yes, Vivek, I think as we keep mentioning, our CMS business, the CDMO side of our

business, the molecules that are part of that portfolio are governed by confidentiality agreements we have with our customers. So, we are not at liberty to discuss them individually. So, any questions about molecules on our CMS portfolio at an individual level, we will not be able to comment. So, all your questions that you've asked, unfortunately, cannot ask them because they pertain to our CMS business. So, if there's any other questions that you have, could you let us know?

Vivek Patel: No, sir. That was all from my side.

Moderator: The next question is from the line of Atirek Roy, who is an individual investor.

Atirek Roy: So, the question is, as a CMO company, what should I do to attract big pharma companies to partner with me?

Saharsh Davuluri: I'm trying to find an answer to that question. But yes, I think it's a continuous process, Atirek. The challenge that companies like us, which are more emerging on the CDMO space is that big pharma already have a lot of qualified suppliers in their network, and it takes a lot of effort to displace an existing supplier network. Moreover, the big pharma also continuously try to consolidate their supplier network because it is also administratively difficult for them.

So, one strategy which we have talked about in the past is when any of our existing CMS customers like biotech companies get acquired by big pharma, we use that opportunity to build trust and goodwill with the big pharma and then try to not only continue the current business but expand into new business. So that is one way to do it.

Another way to do it is to actually acquire technical capabilities, which are unique and not available with the big pharma's existing network. So, for example, one area we've been working on like that is the area of peptides. Now Neuland has been one of the few companies who's been working on peptides, both for the CMS side as well as on the GDS side.

Now peptides are not being offered by a lot of other CDMOs. So, it could be a vehicle to attract big pharma, and that's one way to pursue it. There could be other technologies which we might invest in and build on. Those could be ways in which we could try to attract big pharma as well. It is a longer process. So therefore, we have to kind of be continuously at it. And hopefully, we will be able to have a strong big pharma portfolio in Neuland as well.

Moderator: The next question is from the line of Rahul Bhardwaj, who is an individual investor.

Rahul Bhardwaj: So, in the last 5 years, I guess, the guidance from Neuland has been that they've made an effort to shift from generic molecules to specialty molecules. Could you give us a colour on how do you foresee the landscape for the next 5 years? And what's the strategy going ahead? I think if you look at the mix now, it's heavily geared towards CNS we've kind of made a footprint and made a reputation and we have access to a lot more clients.

How do you foresee things going ahead in the next 5 years? And from a revenue and sales and profit growth perspective, do you anticipate the coming 5 years to be that we can maintain or better the progress we've seen in the last 5 years?

Saharsh Davuluri: Yes. Thanks for your question. It was not very clear, but what we could gather is you want to understand how what we think will drive the growth of the business over the next 5 years. That's what we'll just try to answer. I think the emphasis will be on the specialty business as well as on the CMS business.

Right now, I think a lot of the growth has been driven on the specialty side by a few molecules like Apixaban, Paliperidone and a few others. We've also had some prime products, which have been very strong in growth. So, although we've had a few products like Levetiracetam and Cipro, which have not really grown so much, these molecules on the specialty side have driven our business.

Going forward on the specialty side, we are becoming more selective in terms of the kind of products we are filing. We are looking at peptides as part of the product portfolio. So, our team is working on a peptide called Difelikefalin for which we expect to file the DMF next year. There's tirzepatide, which is a GLP-1, which we are working on for which we hope to file a DMF maybe the year after next.

And then there are a lot of other small molecules as well. We expect that these molecules should drive growth may be from 3 years and beyond. I think the growth in the next 1 to 2 years should be driven by the DMF filed already. On the CMS side, we want to continue expanding our current relationships with the innovator companies. We have a portfolio of maybe almost 80-plus projects, out of which there are at least 25, 30 customers in which we have deep relationships. Our idea would be to expand on those relationships. Other than that, also our priority is to focus on technology.

And I think as Sucheth and I had elaborated previously in the call, we want to invest in newer technologies like peptides and maybe even beyond that and use those technologies to try to acquire newer projects. The goal would be to stay within the active ingredient space, not really venture into any other areas. And the goal would also be to stay in human health areas. That way we are able to stay focused.

I think we have a plan for the next 7 years charted out, and it's fairly exciting. It involves us to stay focused in this active ingredient space, but it will require us to venture into some newer technologies, which we will make investments in a timely manner. So, I think that's how the picture is looking at, and it's quite exciting for us. So, it's just a high-level view of what the next 5 years is looking at for us.

Rahul Bhardwaj: In the rest of time, if your management can look into the stock split question that was discussed in the last call, and I'll let other people ask their questions.

Moderator: The next question is from the line of Sanjay Kohli from Gold Stone Capital.

Sanjay Kohli: So just please indulge with me because I'm a new person in this industry. Post-COVID, we had about 3 years now. And if we take the second wave also in 2021, there would have been a significant addition to API capacity in India. So, I just wanted to get a bit of the macro landscape over here. And I mean, it's been great for the Americans to throw this Biosecure Act and get a large number of additional capacity globally for APIs. When does this sort of begin to get commoditized? And what are the Chinese doing to protect their turf?

Saharsh Davuluri: Yes. So, I think with regards to the capacities being created post-COVID in India, so, what we would see today in the market is there is business as usual. I think capacities have been created during COVID. I think a lot of that what you're referring to is probably the PLI schemes that were launched around that time.

There's also the India-China geopolitical tensions that led to creating more capacity for cephalosporin and antibiotics, etcetera, within India. But I think when you look at the market conditions today and if you compare it with China, which is one of your questions, see, I think the kind of capacities that exist in India today versus the capacities needed for Indian companies to cater to the Biosecure Act, there is a degree of mismatch.

If you look at what exists today in India, it's a lot of small molecule API capacity. That's what really exists in India. If you look at what capacities exist for companies like WuXi or many of the Chinese CDMOs, it's a mix of small molecule biologics, even other new modality-related capacities.

So, I think for Indian companies to be able to capitalize on the Biosecure Act, I think what capacities that have been created in the last 3, 4 years are not necessarily going to be sufficient to take away business from China. I think there will have to be some new capabilities that have to be created. And those capabilities, we will require us to either invest in technologies, recruit scientific talent.

And that is how that capturing the opportunities from the Biosecure Act happens. So, I think that's kind of the question which you had asked about how does Indian capacities help in taking on some of the Biosecure Act.

Sucheth Davuluri: Yes. So just a couple of additional comments. I think it's important to put everything in context. One is during COVID, there was no significant capacities that were created in India for the sake of COVID or otherwise. For us, what we've seen is it's been business as usual. I think as I was commenting earlier, it's very important to keep the Biosecure Act in context. So right now, within Neuland, we still believe, and Neuland has never competed as a low-cost producer, as we were clarifying earlier.

We've always competed based on our technology, our ability to meet the price targets set by

the customer, the supply requirement, the capacity requirements, so on and so forth. So, we've never really positioned Neuland as the lowest cost producer in order to get business, and that's not part of our strategy going forward as well.

Now as part of the Biosecure Act, I think what the world economies or the United States has realized is that they cannot be a significant dependence on one economy for supply or the needs of that economy. Therefore, we do see that over a period of time, I think the world's largest economies will have multiple options in place so that they can secure supply into their country, and that's the way we are looking at it.

So, I think it will be interesting to see how things play out, but we honestly believe that ultimately, the business is going to follow the economics of it. I think any kind of policies that will constrict basic economics are not going to be sustainable. So, we continue to focus on where Neuland can add value, what are the molecules that we need to invest in, where do we need to create those capacities. Those are the areas that we continue to focus on.

Moderator: We will take that as the last question. I now hand the conference over to the management for closing comments.

S E Medikonda: Yes. We'd like to thank everyone for your questions and interest in Neuland. Even as we attempt to answer all the questions possible on the call, please understand the time on the call is limited. So please reach out to Ravi Udeshi in case you have further questions. Good evening, everyone.

Moderator: Thank you very much. On behalf of Neuland Laboratories, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

(This document has been edited to improve readability)