

**Date: 29.05.2024  
Bangalore**

To,  
**M/s. Bombay Stock Exchange Limited**  
Phiroze Jeejeebhoy Towers  
Dalal Street,  
Mumbai-400001

**Security Code: 524654**

**Subject: Disclosure under Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015**

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we wish to inform you that the Company participated in the Investors Conference Call on Monday, 27<sup>th</sup> May, 2024, enclosed herewith please find transcript of earnings conference call on audited financial results for the quarter and financial year ended 31<sup>st</sup> March 2024. No unpublished price sensitive information was shared/discussed in the meeting.

Kindly take the same on your records.

**Yours Faithfully,**

**For Natural Capsules Limited**

**Shilpa Burman  
Company Secretary & Compliance Officer**





**“Natural Capsules Limited  
Q4 & FY’24 Earnings Conference Call”  
May 27, 2024**



**MANAGEMENT: MR. SUNIL MUNDRA**  
MANAGING DIRECTOR  
NATURAL CAPSULES LIMITED

**MR. RAJ KISHORE PRASAD**  
CHIEF FINANCIAL OFFICER  
NATURAL CAPSULES LIMITED

**Natural Capsules Limited**

## Q4 & FY24 Earnings Conference Call” May 27, 2024

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**Moderator:** Ladies and gentlemen, good day and welcome to Q4 & FY24 Earnings Conference Call of Natural Capsules 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 “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sayam Pokharna from TIL Advisors. Thank you and over to you, sir.

**Sayam Pokharna:** Thanks a lot, Nirav. Welcome everyone. Good evening. Thanks a lot for joining us in this Q4 & FY24 Earnings Conference Call of Natural Capsules Limited. The results and investor presentation have been emailed to you and are available on the Stock Exchange. In case anyone does not have a copy of the same, please do write to us and we'll be happy to send it over to you. To take us through today's results for the quarter and for the full financial year and answer your questions we have with us today, Mr. Sunil Mundra, Managing Director; Mr. Raj Kishore Prasad, Chief Financial Officer.

We will be starting with a brief overview of the quarter and the year from Mr. Mundra followed by a Q&A session. I would like to remind you all that anything said during this call that reflects any outlook for the future, which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that the company faces. These uncertainties and risks have been included, but are not limited to what has been mentioned in our annual report. With that said, I would now like to hand over the call to Mr. Mundra, over to you, Sir.

**Sunil Mundra:** Thank you, Sayam. Good evening everyone. Thank you for joining us today for the Q4 & FY24 Earnings Call. I am pleased to present an overview of our performance for the fiscal year 2024 and share our strategic outlook for the future.

FY24 has been a challenging and transformative year for Natural Capsules Limited. Despite the headwinds, we have demonstrated resilience and adaptability. Our revenue from operations for the year stood at Rs. 155.42 crores, reflecting a decline of 9.83% compared to FY23. This decrease was primarily due to lower realizations in the capsule segment. Our EBITDA for FY24 was around Rs. 19.91 crores, a decrease of 43.18% from FY23 with EBITDA margins at 12.87% down from 20.33% in FY23. Resultantly, profit after tax stood at Rs. 5.55 crores, down by 69.92% and EPS for the year was Rs. 6.23 compared to Rs. 19.82 in FY23.

The operating environment in FY24 presented several challenges. Domestically, we faced a difficult market with fluctuating raw metal prices and availability issues. However, we managed to navigate these challenges by securing stable supplies and maintaining our production schedules. On the export front, currency availability issues in key markets such as Kenya, Ghana, Nigeria coupled with logistic disruptions, particularly in the Red Sea area impacted our performance. These currency issues created a two way impact. They directly reflect on the exports of capsules to those markets and also impact the export of formulation that use our capsules. As a result, the volume that did not get absorbed in those markets led to higher supply in domestic markets and lower realization for our capsules, directly impacting our profitability. Despite these challenges, we recorded an 18% growth in our export business driven by new market entries and expanded business with existing customers. Our capital expenditure plans have been a critical focus area this year. We have made significant progress in our capsules and API segments. The installation of the first HPMC line was completed in March 24 and production has ramped up steadily through April and May. We plan to install the second and third HPMC line in due course, which will further enhance our production capacity.

In the API segment, we inaugurated our Kilo Lab for small volume production batches and received the Drug Department license in month of May. We are now in the process of obtaining final clearances from the Pollution Control Board and consent for operation, which will allow us to commence commercial production of large batches by August. Despite delays in executing our CAPEX plans, we remain committed to our investment strategy and are confident in our ability to scale our operations profitably.

Looking ahead, we are optimistic about our growth trajectory, the commencement of the additional HPMC line and the ramp up of our API production will drive topline growth and improve our margin profile. We anticipate higher realization in FY25 compared to the previous year supported by a stable pricing environment and increased demand for our products. Our focus on R&D remains strong with ongoing investments and process improvements. We believe that our commitment to innovation will enable us to stay ahead of our piece and consistently deliver high quality products to our customers.

In conclusion, FY24 has been a year of resilience and transformation for Natural Capsules. Despite the challenges, we have made significant progress in our strategic initiative and are well positioned for future growth. It is important to note that during this challenging environment, our technology advancements and manufacturing efficiencies in the capsule business have come to the fore. Not only have we performed better than our peers, but we have also outdone ourselves compared to previous down cycles. In earlier downturns, our margins used to drop to single digit EBITDA; however, this time we have maintained a 14% EBITDA margin on a standalone capsule business demonstrating our resilience. We remain confident that as soon as the operating environment normalizes, we will start recording better margin. I would like to thank our shareholders for their continued support and faith in us. We look forward to sharing our progress and achievements with you in the quarters to come. Thank

you. This concludes my opening remarks. I'll now hand over to the moderator for the Q&A session.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ritesh Choudhary from Molecule Ventures. Please go ahead.

**Ritesh Choudhary:** My first question is considering the operational difficulties you're facing currently in the market, what is our expectation of sales and profitability in FY25?

**Sunil Mundra:** I think our understanding is that the capsule realizations have bottomed out in the year gone by. Hence, in the current year, we expect higher revenue from improvement in realization of sales from per unit of capsules. Additional HPMC line, which is already installed and another line, which is going to come by in the year. Additionally, we expect improved exports as outlook in RoW market improves. At subsidiary level also, we expect contributions towards the consolidated numbers.

**Ritesh Choudhary:** What kind of demand are we seeing in general in capsule segment?

**Sunil Mundra:** We have been able to produce and market almost 95% of our capacity. Demand is there and supplies are happening, only the question of the realization has gone down and that is why the bottomline is it. Otherwise, there is sufficient demand in the market, both domestic as well as international.

**Ritesh Choudhary:** My next question would be, since the PLI incentives were supposed to kick in from this year, what sort of projection have you built in for the PLI incentive for FY25 given that our capacity utilization will be low?

**Sunil Mundra:** The PLI was supposed to kicked in from January 04, 2023 actually, but considering the starting of the production in the current year in the Q2. At the moment, it is difficult to anticipate what it would be because there are number of conditions there touching the production capacity for all the three products would be difficult. So what we might try and achieve is that the PLI for the one product that is prednisolone, we would focus on and try to meet the committed quantity. Once we do that, then we should be able to get some realization on the prednisolone capacities that is our presumption at the moment.

**Ritesh Choudhary:** I have one last question. Can you give an elaborate breakdown of fund utilization for CAPEX plans. It seems there have been some cost overruns, so if you can give breakdown on that side also and also the mix of the capital, how it's funded, like internal accruals, sort of part of debt or fund raising, if you could just give some flavor on it?

**Sunil Mundra:** The total CAPEX of the API project, which was originally estimated during November 2020 when we made the PLI application was around Rs. 96 crores, which was actually too preliminary and

at that time detailed engineering was not done. It happened after that and it got revised to about Rs. 130 crores in 2021, but after that our decision to go for an improvement in the layout for meeting the regulatory requirements, decision to put all the basic infrastructure like the buildings and all for both phases at one go and of course the increase in the preoperative expenses due to delay in starting the commercial production. All these reasons have pushed this cost and now at this moment we anticipate the cost to be about Rs. 167 crores. As you are aware that we have taken loans of about Rs. 48 crores and then the rest of it has been filled by equity. So I think it's well balanced equity and loan, which has funded the project.

**Moderator:** Thank you. Next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

**Yogansh Jeswani:** One question on your HPMC line, so we had in our previous presentations mentioned the timeline for the expansion, but this time around there seems to be some delay. So can you shed some light on when are we expecting to operationalize the HPMC line?

**Sunil Mundra:** Actually our project for HPMC line was consisting of three lines, out of which the first was commissioned sometime in Q4 and then it has started commercial production by the end of March and stabilized production in April. So right now we are fairly satisfied with the quality of production and the quantity it is giving out output, though it needs improvement over a period of time. So now after looking the technical parameters of this line and any specific modification that needs to be done, we will be taking a call in the second and third line, in which we anticipate that they will be implemented during this current year.

**Yogansh Jeswani:** Currently what would be the realization trends for these HPMC capsules?

**Sunil Mundra:** HPMC capsule realization is about 28 paisa per capsule, Sir.

**Yogansh Jeswani:** What is the trend compared to previous quarters? Is it again getting competitive when the prices are down or how are they trending?

**Sunil Mundra:** HPMC as there are not much competition and HPMC customers also are niche, I don't foresee much challenge in this pricing and we foresee stable pricing at level of 280 to 300, maybe it can go down by up to 260 that's the kind of fluctuation we can see. As far as your question that how it is comparing with the previous quarter, it is fairly stable in last 2 to 3 quarters.

**Yogansh Jeswani:** Sir, if we have to think about our margins, which used to be 20% plus and then they have come down to 10% to 11%. If they have to go back up, so what kind of scenario you want in industry to happen, do you want RM pressure to reduce or is this more because of the demand that the prices are subdued and what is our take on EBITDA margins, how can they get back to 15% to 20% on a sustainable basis?

**Sunil Mundra:**

Actually, if you look at the facts, the consolidated balance sheet results have shown there is a drop in EBITDA margin, but if you really look at the EBITDA margins on a year-on-year basis, the drop is about 6%, 20.33% in FY23 to about 14% in FY24. So having said that, we do realize that the EBITDA margins have to improve and I think it is mostly on both the fronts, cost cutting would be one where we will work on reducing the cost. We have tied up with the power generation company for supplying solar power to our Bangalore plant, which gives an effective saving of around Rs. 1 per unit. Labor cost increases will be much lesser this year that's our anticipation. We're also working to reduce our RM cost by better sourcing. We hope that these measures would improve the EBITDA margin. On the other hand, we also expect the selling prices to improve in the coming quarters. We think that the fall in the pricing has bottomed out and anything can go up from here on onward, so definitely we anticipate that there is going to be an improvement in the EBITDA margin.

**Yogansh Jeswani:**

Secondly on the API business, so again there has been continuous delays in getting the approvals or getting our production on stream, so if you could just elaborate what is the exact reason for these delays and the way the things are happening now and where are these delays, how will the PLI thing get affected, do you think there is a scope for government to reconsider the timelines because if things get delayed more, we might miss out on a few of the PLI timelines?

**Sunil Mundra:**

Actually the project was supposed to have started on January 04, 2023. We were ready for the small volume batches in the month of September, but unfortunately the Pollution Control Board license and Drug license don't materialize, just coming in the month of March, we got the Pollution Control Board permission and we started selling the chemical intermediates and we got the drug license in first week of May and we started selling the drug products for which we got the license. In fact, our R&D pipeline was pretty much ready with another totally 20 products of API molecules. So now we have already applied for another eight and another ten are in pipeline. We initially got production license for two products, but for these delays we would have started the revenue generation from last year October itself. But unfortunately because of these statutory permissions, we were stuck. Now the bigger plant, which is to produce the larger capacity is now we have to get the consent for operation from the Pollution Control Board and for which all the actions that R&D have been taken are ZLD plant (Zero Liquid Discharge Plant), which was a mandatory requirement for the larger operation, it has been made ready and inspected. Actually another factor affected all these was no government officers were working during the silent period due to the general elections going on and therefore we anticipate that for post 4th June, the quicker action by most of these departments. So we anticipate that by end of June or so we get this final consent for operation for the large capacity plant and we start taking the sterility trials and the validation batches immediately thereafter.

**Yogansh Jeswani:**

In past period, you also mentioned that we were working to develop 2 KSMs which we were yet to crack, so any progress or update on those?

**Sunil Mundra:** Out of those 3 KSMS, 2 are already done, and then we have been able to manufacture hydrocortisone and Prednisolone. There were other products for dexamethasone and betamethasone, out of which betamethasone also has been fairly developed and we are getting output on the expected lines. It needs optimization as we go on upscaling, where the dexamethasone, we are still working on. So probably as we stabilize these two products, our R&D is totally focused on achieving the goal.

**Yogansh Jeswani:** And sir last question. So in past, we have consistently maintained that we expect our API business to give us 20% plus EBITDA margins and more or less 2.5x asset turns. So given the way things are panning out now and now you have a better understanding of how the product is behaving at your pilot scale and how difficult or easy things would be at the commercial stage. Do you still think that those assumptions and those workings hold true?

**Sunil Mundra:** I agree that there is a drop in price realization for most of the APIs and we feel that the most of the projections for API projects have gone haywire, but my take is that our initial promise that we will be able to do 2.5 asset turn is in the year 4 when we have significant revenue coming from regulated market customers, we still hold that kind of a view. International business customers are not affected by these kind of fluctuations in the pricing. They are your stable customer for a longer period of time and the margins are pretty stable and good margins. So we still expect the asset turn to be in the range of 2 to 2.2 in the year 4 when we have the significant revenue coming from regulated market exports.

**Yogansh Jeswani:** Sir, in near term, say next one year?

**Sunil Mundra:** Next one year probably, I think we are totally focused on domestic customers. For domestic customer, yes, there is a tough margin challenge there, but still we would see that it to be in the range of 9% to 10% in the domestic business.

**Moderator:** Thank you very much. Next question is from the line of Darshil Jhaveri from Crown Capital Partners. Please go ahead.

**Darshil Jhaveri:** Sir, just wanted to ask with all the new lines and new avenues that we see, so what kind of revenue growth are we building in for FY25 because HMPC line would be on new avenue and we are seeing some better realizations in FY25. So what kind of revenue do you think we will be able to clock in?

**Sunil Mundra:** Keeping aside all the uncertainties of the business, we anticipate somewhere around Rs. 200 to Rs. 210 crores of revenue coming in. This is worked out based on our current gelatin business expecting higher realization by around say 5% maybe additional HPMC line which is already installed, another line which may come through the year and additional export revenues which we are looking from RoW markets. So these revenues plus the revenue from the subsidiary level. At the consolidated level, we would expect about Rs. 200 crores to Rs. 210 crores.



**Darshil Jhaveri:** Perfect, so that's great to you, Sir and with these higher revenues, will we be able to go back to our FY23 operating margins, right, Sir, will we be able to clock in 20% Sir?

**Sunil Mundra:** I would say that the capsule margins would definitely improve from the current level of 14% on an annual basis, of course in Q4 the EBITDA margins were around 12%, so probably they will go up by another 2% -3% now, but of course the API business definitely will have challenge being the first year of operation, it will be less than the capsule margin. Therefore at the consolidated level, there would still be a kind of a growth like what we are currently seeing. So at the capsule standalone, we'll see improvement. At the consolidated level, there could be a small reduction or maybe at the level at which we are today.

**Darshil Jhaveri:** Fair enough, Sir and on a longer term basis with the new lines coming in and new products, so what is our vision, maybe three years down the line, how do we look at it, Sir? I know it maybe a longer term vision, but then just any internal target that we have so?

**Sunil Mundra:** Our vision for capsule business is clear. We are the second largest capsule player in India. We want to consolidate that position. Our HPMC business is in for a major overall in the sense that internationally HPMC consumption is going up and we foresee that our capacity is going up in HPMC over the period of next 2-3 years. So I think there is a consolidation in our industry happening over a period of time that may bring in more bigger size for our capsule business. At the API level, API subsidiary is concerned, we are clearly focused towards going in for regulatory audits for our API plant in about 24 to 30 months. We expect the EU GMP audit or US FDA audit. We want to start with the exhibit batches as soon as the drug license are available and then start filing the drug master files in about 6 months' time once the stability studies are over. So our vision for three years down the line would be for the API plant to have got regulatory approvals and capsule business to be bigger in size and bigger in margin.

**Darshil Jhaveri:** Fair enough, Sir and just any kind of demand environment risk that you see so that you know maybe that can act as a speed bump for our growth or ambition Sir, any risk of further slowdown or realization drop?

**Sunil Mundra:** You are referring to capsule business or the API?

**Darshil Jhaveri:** Capsule business, Sir.

**Sunil Mundra:** Capsule business, of course, we have seen the drop in realization in last six quarters. I've explained the reason in my opening remarks, it happened due to many factors, especially the disturbance in the exports leading to drop in demand of the exporting formulators, which caused surplus supply in the domestic market, thereby causing some surplus quantity here. But as a mature company, we have our own strategies of looking at increasing exports, which always fetch about 15% to 20% higher margin and I'm happy to inform all of you that in the year gone by, we have increased our exports by 18% and to some of the new countries, new

continents itself and some of them are much more mature markets. So it is not only the demand supply which is causing the impact on the net sales realization, of course it is the choice of the customer, choice of the country, type of product that you're dealing in, the type of regulated product that you are supplying in, you are supplying to the capsule products which are going to be exported to US or Europe, it will definitely fetch a better price. So it's a combination of many such factors when we are focused towards maximizing our EBITDA margins and the net sales realization.

**Moderator:** Thank you very much. Next question is from the line of Ankit Gupta from Bamboo Capital Partners. Please go ahead.

**Ankit Gupta:** So my question is have we seen any significant decline in prices of the three API that we plan to manufacture over the past year or two given the kind of pressure we have seen in other chemicals including APIs?

**Sunil Mundra:** Yes, Ankit, I think you're right. There is a significant decline in the API price across the board and in our segment also, there is a decline. I have seen in last 12 months or four quarters, we would say that there is a 17% decline over the prevailing prices then. But I have seen that in last one quarter post the Chinese New Year holidays, there is an uptick again. The main reason if you analyze are that these Chinese players, most of these API segments had stopped well during COVID period and there was expansion of capacity there. So now I believe those channels are liquidating those stocks or they've liquidated in last three to four quarters and probably things are coming back normal. So in between the Chinese guys were also selling below their cost production that's what we could understand. As far as we are concerned, yes we are geared up to meet their challenge and we will have to adopt some innovative marketing or production strategies whereby we can import some of the intermediates to manufacture the end products, which will be cost competitive, maybe that might impact our PLI realization. But having said that the Indian industry also has approached the Government of India, Department of Pharmaceuticals in recent video conference, Secretary of Pharma has assured that they will look into the cases, they are going to soon form a committee whereby all such cases of predatory pricing from China would be looked into and appropriate actions will be taken. So I am sure that the Government of India is aware of this scenario and it would not allow the local domestic API, the government supported with the PLI scheme to go down, so we are quite confident, but our vision is clear that down the line 2-3 years, we are focused for regulated market business which in any way is not impacted by these vagaries of the Chinese market and most of the regulated market is looking for alternatives to China. So hence our vision is clear, though there are challenges in the first or second year, but as we start our regulated market business, we hope to come back to normalcy on the pricing front or the realization front or the EBITDA margin front in the API business.

**Ankit Gupta:** Sir on the regulated market size, can you tell us about which markets are we targeting and what is the status of regulatory approvals from their respective agencies like Europe or US if you're targeting them?

**Sunil Mundra:** See the regulatory business, the audits will be in form of starting the exhibit batches. Post the exhibit batches, the stability data has to be generated, the stability data has to be filed in form of drug master files with the European Authority for CEPs and for US FDA, DMF and we need to update them. So over a period of 18 to 24 months, we invite the customers to trigger the audit and those customers would initially do validation batches at their end by taking sample quantities from us. Once they are satisfied, they would trigger the audit. So we expect these regulatory audits should trigger anywhere between 24 to 30 months from the date on which we start the exhibit batches.

**Ankit Gupta:** You know, even in best case the regulated market revenues for our API business will not start before FY27, mostly in the second-half of FY27 and even it might possible that it will spill over to FY28.

**Sunil Mundra:** I think somewhere around the second-half of 27, yes, second half of 27, we expect the regulated market business and for a full year of operation, it will be FY28.

**Ankit Gupta:** How do you see the ramp up happening in the API segment, will we be starting from second half of FY25. So let's say in FY26, even if you sell in the domestic market, what kind of revenues are we planning to generate?

**Sunil Mundra:** Domestic market revenues in the current year since we are looking at full operations of about two quarters, we are anticipating something like about. Rs. 45 crores to Rs. 50 crores of business.

**Ankit Gupta:** Will there be breakeven?

**Sunil Mundra:** There may be cash breakeven. Yes, we are anticipating cash breakeven there.

**Ankit Gupta:** Okay and FY26?

**Sunil Mundra:** FY26 could be about Rs. 125 crores. It all depends on how soon we are able to get the approval for our derivative products. Some of the derivative products for RoW exports will start going out from next year, but we will require some expeditious drug licensing approval. Once they come in, I think our revenues can go, but in any case, we anticipate about Rs. 125 crores.

**Ankit Gupta:** Just wanted to understand one thing from you, Sir, domestic imports are big chunk of the market, the entire market is imported and will be like the only manufacture into of the products and the third product will be one of the two manufacturers. Why aren't we so bullish on our domestic markets itself given all these are imported products, just wanted to know your views?

**Sunil Mundra:** Ankit, its basic our Indian tendency of looking at the price sensitivity, people are very price conscious. So I'm not pessimistic. We are optimistic. We have seen some cases where government has gone out of the way and promoted the local industry in case of a company in Gujarat, which came up last year with progesterone and government instructed top companies in India who were importing to stop importing and buy locally even though it was costlier. So I'm anticipating something of that sort should happen and we have already approached. We are in continuous touch with officials in the Department of Pharmaceuticals and we hope that people will support the domestic industry, even though we might not be fully competitive, but look at the import duty, the expenses, the involved are 8% to 10% price difference always will be there because 7.5% import duty, 1% to 1.5% of expenses involved. So we would be rather having that advantage and I'm optimistic that we will gain more business, next year probably if ramp up happens it can increase, yes, you're right.

**Moderator:** Thank you. Next question is from the line of Anupam Agarwal from Lucky Investment Managers. Please go ahead.

**Anupam Agarwal:** So my first question is we've closed this year at a 10% overall sales decline. Can you break it down into volume and you've talked about realization drop, how much is the realization drop for the year?

**Sunil Mundra:** Actually there is a volume has grown, whereas the realization has dropped, 10% drop down in sales is, I would say top of the increase in volume by around 3% to 4%, whereas margins have dropped by about 7%.

**Anupam Agarwal:** Sorry, can you come again, 3% to 4% volume growth?

**Sunil Mundra:** Realizations have dropped by about 12% to 13% and there is a volume growth of 3% to 4%. So thereby 10% net drop in our revenue.

**Anupam Agarwal:** Also you mentioned that 18% is the volume growth in export, so does that mean domestic volume growth has declined?

**Sunil Mundra:** Yes, we have a deliberate policy, we try to divert the domestic business to international business so that we get better margins.

**Anupam Agarwal:** Understood and Sir, how much was this volume and price for the quarter YoY?

**Sunil Mundra:** You mean the export business?

**Anupam Agarwal:** No, for the overall business that we did Rs. 40 crores for the quarter, it's a 7%.YoY growth? How much is volume and how much is price?

**Sunil Mundra:** Volume growth would be about 2% to 3% as compared to Y-on-Y.

**Anupam Agarwal:** Understood. Second question is on the HPMC line 1, you mentioned you've already started and capitalized, how much CAPEX had we invested in the first line?

**Sunil Mundra:** First line CAPEX has been around Rs. 7 crores.

**Anupam Agarwal:** Rs. 7 cores and what is the likely utilization in the first year of operation, which is FY25?

**Sunil Mundra:** FY25, this machine will be utilized 95% of the capacity, maybe going forward as we have already stated in our opening remarks, the line number two and three also will get commission. Utilization is always in the range of about 95%.

**Anupam Agarwal:** Understood and you mentioned 28 paisa per capsule in the HPMC. How much is the per unit realization in the base business?

**Sunil Mundra:** Capsule is roughly around 10 paisa.

**Anupam Agarwal:** Okay, understood. My next question is on the API business, you mentioned that there has been price decline in the three products that we had gone for and you mentioned that deflation is about 15% to 17% and there's a delay. My question is what sort of implication is there if we are not able to on a timely basis execute the project and apply for the PLI benefits and incentives. Is there any implication on that front that we're not able to execute any?

**Sunil Mundra:** The project has got delayed, now the project has got completed practically, but the approval for the larger plant is expected now by end of first quarter and we hope to start the large volume batches in Q2 of the current year and the implication of the PLI is that the current year PLI revenue would be reduced to the proportion. So therefore we have revised our strategy of instead of focusing on three products, we would focus on one product so that we achieve the full quantity, which is a committed quantity for the PLI benefit and try to get the incentive out of that.

**Anupam Agarwal:** Okay and of the Rs. 167 crores CAPEX, how much have you invested so far in FY24 and how much is spill over to FY25?

**Sunil Mundra:** I think only about Rs. 11 crores is remaining to be spent. As on 31st March, we had spent Rs. 156 crores, around Rs. 11 crores, most of that has already been spent, except maybe another.

**Anupam Agarwal:** What is our cost of debt, our overall cost of debt?

**Sunil Mundra:** All around 9% to 9.25%.

**Moderator:** Thank you. Next question is from the line of Chirag from RatnaTraya Capital. Please go ahead.

**Chirag:** Sir, is my understanding correct that we are one of the lowest cost producers of capsules?

**Sunil Mundra:** Yes, our cost of production has been one of the most minimum I would say because this is on the basis of our claim that we have been manufacturing on a machine, which is producing the highest output and assuming all things being equal, I would say my cost of production is less. The other producers are having overrides, which I believe are higher than ours, so we believe that our cost of production is low.

**Chirag:** Actually my next question, the question is related to this fact, if that is correct, then when we are making 10% to 12% margins, is it fair to assume that a bunch of industry participants would be either underwater or broadly just breakeven?

**Sunil Mundra:** Yes, you are right Sir.

**Chirag:** So this year, the domestic industry, there are multiple participants who sort of probably are the basically manufacturing at cost?

**Sunil Mundra:** Yes.

**Chirag:** Understood and Sir, when you expect an evolution of price around say 4% to 5% next year, is that is what your expectation is from the current broadly 9.5 paisa to more like 10 paisa next year?

**Sunil Mundra:** Yes, I'm expecting that.

**Chirag:** Sir, if that happens, then won't our margins go back to more 20% because everything else is fixed cost, right? Predominantly below that, I can't reconcile that with the 14% guidance that you also gave. Just wanted to understand that because at 10 paisa, we'll probably be able to generate a 5.5 paisa gross profit and probably Rs. 2 EBITDA?

**Sunil Mundra:** I would say our margins are definitely going to improve, say, I expect 5% realization improvement, but that need not necessarily get converted into 5% EBITDA margin improvement because certain costs will also go up. So I presume that there will be a reasonable increase of about 3% in EBITDA margin going forward.

**Chirag:** Understood, so what you're saying is that the ASP increase is coming along with some RM cost increase also, so gross profit itself would not go up that much per capita?

**Sunil Mundra:** RM and other overheads. Overheads are always the annual growth on the labor cost, electricity cost and all those will always be there. So we anticipate there will be some increase in input cost. Therefore on totality, we could see about 300 basis point increase in EBITDA number.

**Chirag:** Opex cost that you're saying are sort of going to go up, is that going to be in the 8% to 10% range, is that a reasonable way to think about it?

**Sunil Mundra:** Gradually, it has been growing at the rate of about 8% to 10% Opex costs, which invariably consist of mainly the salaries and wages and of course the electricity costs. So this year we have taken certain measures to control our electricity costs and will not go that much high. We have used some green energy and invested in a solar power generating company and we have tied up for one of the plants in Bangalore to 100% source solar energy, so thereby our cost per unit has gone down by Rs.1.5 or so and that would provide some savings to us and otherwise Opex cost should go up by 6% to 8%, but I expect it to be in the range of 5% to 6%.

**Chirag:** Understood and Sir, exports though it has grown 18% to 20% this year, it's still our base is decently small given the overall market size. Is there anything that's sort of broadly stopping us from dramatically shifting more and more capacity to export, what is the constraint on sort of growing even faster there on exports? Because if I'm not wrong, that allows you to sort of have stable realizations over a period of time, right?

**Sunil Mundra:** Yeah, you are right, Sir. So actually we are working hard and we have added on more marketing team members on the export side. I'm happy to inform that this year was the first year we started exporting to US market. So US, to nutraceutical customers we have been supplying now and maybe we'll tie up with the pharma customers also, generic pharma there in US. So I think we are looking at more new geographies as we are consolidating with our existing customer base also. We are hopeful of increasing it gradually there as the markets are challenging there. There is a competition from China, but having said that, we also have our own advantages, strengths there, and we have been consistently growing on exports.

**Moderator:** Thank you very much. Next question is from the line of Arun Singh, individual investor. Please go ahead.

**Arun Singh:** This is actually a new company for me. So thank you very much for the opportunity. So my question is about the raw materials that we export, how much margins are we expecting for the next year?

**Sunil Mundra:** You are referring to raw material means what, we are exporting gelatin capsules, HPMC capsules.

**Arun Singh:** Yes, I want to know about both of them.

**Sunil Mundra:** Generally as I mentioned that our sales realization in domestic on a blended basis is about 97 paisa in this quarter, which probably if you break it on the domestic and export basis, it will be something like 92 paisa to 93 paisa domestic, whereas about 112 paisa for the exports. So there is a 20 paisa difference between the two, so the export fetches about 20% better realization.

**Moderator:** Thank you. Next question is from line of Vanessa from Prestige Investments. Please go ahead.

**Vanessa:** Sir, out of this total installed capacity of 18.75 billion capsules, how much would be HPMC capsules?

**Sunil Mundra:** Actually till now we have been producing HPMC capsules on a campaign basis on our gelatin lines. So this was the first HPMC dedicated high speed line that we introduced, which added on 750 million in this current year. Our gelatin capacities are about 18 billion, 750 million is the HPMC capacity.

**Vanessa:** Okay and once we add these two proposed lines in FY25, what will be the total HPMC capacity and how much more money we will spend for these two lines?

**Sunil Mundra:** Our total HPMC capacity would increase to totally about 2.25 billion.

**Vanessa:** Okay, so total capacity will move towards somewhere around 21 billion.

**Sunil Mundra:** We will have to spend another because already part of the money is spent on the project, we need to spend another Rs. 4 crores to Rs. 5 crores or Rs. 7 crores for completing the project balance.

**Vanessa:** Okay, so for remaining 2 lines, we will be spending Rs. 5 crores to Rs. 7 crores more?

**Sunil Mundra:** Yes.

**Vanessa:** After that Sir, what is our plan to move towards, let's say 2530 billion capsules over FY26-FY27, are we thinking in that direction and what kind of investment or do we need to go to a new location?

**Sunil Mundra:** Yeah, as I already mentioned in one of the previous answers that we are looking at consolidation in next 2-3 years as there are players who probably are looking for consolidation. So yes, we will look for opportunities wherever it meets the synergies. We will look for that and there could be organic or inorganic growth both ways.

**Vanessa:** Okay, we are open to inorganic growth as well and this capacity addition can take place in our existing facilities, right?

**Sunil Mundra:** Exactly, this has already been planned, infras they already existed.

**Vanessa:** Okay and Sir, usually how are these contracts with our customer structured, are these spot sales or are these like quarterly agreements, annual agreements, offtake agreements. If you can just help us understand the way in which we are structuring these capsule sales contracts with our customers, usually what's the norm and what are we doing in exports and domestic both?



**Sunil Mundra:** Yes, in domestic, it depends on the type of customers, large customers like MNC company, large Indian corporates or midsize pharma companies. They generally tend to give scheduled deliveries maybe over a period of three months and generally the prices are negotiated, maybe once a year only, but since last year was a tremendously under pressure year, so probably they were negotiated more than once, whereas the domestic export formulators or the generic players, they do spot deals on purchase order to purchase order basis. There is an export market, it is fairly stable. There we have annual contracts with our distributors and the large customers.

**Vanessa:** Historically, our capacities have gone up or we have operated at more than 100% as well, so that is a possibility even this time as well, right?

**Sunil Mundra:** Yes, I think it can happen, generally the installed capacity is declared maybe a little conservatively and sometimes depending on the demand, we run machines without shutdown, so it can produce theoretically more than 100%.

**Vanessa:** Sir, I have a follow up on the API subsidy. So in our presentation we are talking about the ESOPs given to our R&D team. So what is the strength of our current R&D team, how many people are there and are these ESOPS being given at a subsidiary level or at a Natural Capsule's level if you can just help us understand?

**Sunil Mundra:** To answer your question about the strength of the R&D team, R&D team in API's business is about 34 people, today they consist of three teams, the Fermentation R&D, the Chemical Synthesis R&D and the Analytical R&D. So we have a fairly good team led by senior people who are Doctorates, PHDs and postgraduates and most of them are postgraduate. Now coming to the ESOP, we have ESOP scheme both in the main listed entity as well as a subsidiary entity. The listed entity gave one ESOP to one of the employee who was initially recruited for starting this R&D for the API, who was allotted one tranche of ESOP in the listed entity, rest he has been transferred onto the ESOP in the subsidiary. In subsidiary company, we have granted ESOP to at least four of the senior employees there.

**Vanessa:** Can you quantify the size of the ESOP program and how it can evolve in the next 2-3 years?

**Sunil Mundra:** We have in the API, got an approval from the shareholders and the investors up to 5% of the total paid up capital.

**Vanessa:** And Sir, because we have invested a large chunk of outside money into our subsidiary and we have seen that you earlier in these investors, they have exited via IPO route in their earlier investment. So what is the possibility that we should look at over here, let's say 4 to 5 to 7 years, whenever it materializes, whether the investor would want to exit via IPO or OFS route or demerger, eventually demerger will happen and existing shareholders will also get shares of the subsidiary company. What is the thought process or how should we think about it Sir

**Sunil Mundra:** Our understanding is that the investor would exit, they have various options, one of them would be of course listing the subsidiary on the Stock Exchange whereby all the shareholders of the listed entity would get the shares in the subsidiary as well, that is a fair possibility.

**Moderator:** Thank you very much. Next question is from the line of Hemant, individual investor. Please go ahead.

**Hemant:** My question is related to the Mexico order, which you got last year. What is the status of that order?

**Sunil Mundra:** Mexico order was with a large MNC company there, which operates in Mexico, one of the top three companies there, though it was slow to materialize, but now last quarter we have exported 2 containers and we are hoping more and more orders. Given the market where the approvals come very slow and that's why it has taken time and in between the international lead times for the delivery of capsules also improved. So therefore it took some time, but now our partner in Mexico is also fully focused on developing the business and we have been continuously giving them techno commercial support. We hope to do bigger business in the current year.

**Hemant:** So we were expecting Rs. 40 crores to Rs. 45 crores of revenue from this. So what is the expectation for this year?

**Sunil Mundra:** I think this business brought us about not more than Rs. 3 crores to Rs. 4 crores last year, of course, because there was a lot of delay in their approval process and then of course, as I just mentioned, the lead times in their international other suppliers came down that went down, but looking at the current forecast given by them, we anticipate about Rs. 15 crores from exports in full year of operation.

**Hemant:** Is it Rs. 15 crores Sir?

**Sunil Mundra:** Yes, I anticipate that.

**Hemant:** In the previous answers you were mentioning that you have supplied few capsules to US this year. So did we have any USFDA audit in your company?

**Sunil Mundra:** No, I mentioned that it is for nutraceutical company and we are now targeting some generic pharma company, but as per the US FDA guidelines, this capsule is being categorized as excipient and they are not at this moment giving priority for excipient site inspections. But I don't know any point of time if we supply to pharma companies, it can trigger audit from USFDA. Yes, we are prepared for that.

**Hemant:** Regarding the API small batches, what we are doing, Sir, what is the feedback from domestic customers?

**Sunil Mundra:** The feedback is quite reasonably okay. We have just started supplying the pharmaceutical pharma grade of products, just got license for two products, another eight products expected in next week or so then are in the pipeline. So we will have a portfolio of the product by the end of this quarter. We will be able to generate a reasonable amount of business from that and we will get the feedback and based on the feedback, we'll definitely be able to meet the customer requirements.

**Hemant:** My last question is related to your HPMC line. So we were purchasing these lines from DBDS Robotics, if I'm not wrong. What can be the maximum duration for us to purchase these lines?

**Sunil Mundra:** At the moment, we already have orders booked with them. We had booked order for three lines, out of which one got commissioned last and the other two lines are in pipeline. We will be commissioning them, so at the moment we don't plan to add on more lines and going forward we will evaluate it, if required we can always add on. Their lead times are about 6 months since we order, we can deliver in six months.

**Hemant:** So maximum is 6 months only?

**Sunil Mundra:** Right.

**Hemant:** If you are not purchasing any line in next 6 months, can they start selling outside?

**Sunil Mundra:** In fact we had an understanding with them about the high speed lines till about last year they did not sell, but once our Opex is not there, they are free to export it to other countries.

**Hemant:** Okay and they can sell it internally in our country as well right?

**Sunil Mundra:** If we do not continuously produce them.

**Moderator:** Thank you. Next question is from the line of Praveen Sharma, individual investor. Please go ahead.

**Praveen Sharma:** I have just one question. I think the earlier participant asked this. Since most of the delays from the part of the regulators, wherein we got delayed due to the pollution license and the drug license, is there a possibility and are you excluding writing to the government, there was an extension for the PLI?

**Sunil Mundra:** We have spoken on this subject and not only we, there are several projects which are impacted like this, out of the 43 products, there are at least about 27 products which are still facing delays from various angles, so the Department of Pharmaceuticals, the concerned officers are still not able to commit anything on the extension of the scheme, whereas they are helpful in expediting the approvals, they have been writing to the concerned officers at the state level to expedite that, but they have still not been forthcoming and committing on this, they said there

is an in-principle decision and only the NITI Aayog level they will be taking some decision. So far we have no clarity on it.

**Praveen Sharma:** Basically because the delay was on part of the State Government also, one can consider it all of you would be raising it to the government and they should favorably consider it. Sir, you said that we got the license for two products. So we had the PLI for the 3, correct and we have applied for 8, but we have our capacity ready for 3, so which one is the missing one?

**Sunil Mundra:** So, Mr. Praveen, the licenses we got for the derivatives. Now the main PLI products are to be expected in next 8 to 10 days and our focus as I just mentioned in my earlier answers was that in the current year in order to take some PLI benefit, we would be focusing on one product since we are already through half of the year, by the time we launch the large scale batches. So we will focus on a product called Prednisolone and then we will try and achieve the targeted capacity as committed in PLI scale. The other two products will also be taken up and as we commission our other two lines of fermentation, right now two trains have got commissioned, another two trains have to come. So other two products also will be taken up.

**Moderator:** Thank you very much. Next follow up question is from the line of Ankit Gupta from Bamboo Capital Partners. Please go ahead.

**Ankit Gupta:** One challenge that fermentation players face is that when the transfer happens to the commercial plant from the pilot plant, the large scale manufacturing is a challenge. So how confident are we to successfully stabilize all the three APIs and commercially manufacturing on a large bases?

**Sunil Mundra:** I think that's a very valid question, but we are confident in the sense that that we have a team of people who have worked on those scales in China, like right now because we didn't have access to a fermenter, which was at a commercial scale. We have done batches up to 300 liter fermenter and now we are scaling up to 1 KL and then to 10KL to 60 KL but we are fairly confident since the team which we are having have hands on experience.

**Ankit Gupta:** You said that in FY26 you're targeting Rs. 120 crores kind of revenues, so at that capacity utilization and output what kind of EBITDA margins can we expect?

**Sunil Mundra:** EBITDA margin I presume in the next financial year, FY26, we expect part of the revenue coming from RoW exports. So therefore our margin are definitely going to be better than the margins in first year, we expect about 10% to 12% EBITDA in the year.

**Ankit Gupta:** Year to 10% to 12% is what we are looking at and at least we'll be able to break even on the cash basis?

**Sunil Mundra:** Yeah, cash breakeven I think we should have in year one itself. Probably yes, we will be having cash breakeven.

**Ankit Gupta:** PBT level, there still be losses because of high depreciation, I guess.

**Sunil Mundra:** Yes, interest costs are not that high. Of course looking at the overall scenario, interest costs are under control.

**Ankit Gupta:** Okay and the depreciation will be like Rs. 170 crores kind of CAPEX. So around Rs. 8 crores to Rs. 10 crores per annum for the API plant?

**Sunil Mundra:** Yeah.

**Moderator:** Thank you. Next question is from the line of Godwin, individual investor, please go ahead.

**Godwin:** Sir, we had already taken approval for manufacturing of 26 APIs right including these three one?

**Sunil Mundra:** Those were test licenses taken for R&D in stability batches, 26 test licenses means we had taken the permission to do stability studies on those 26 molecules, of which 20 were completed in our R&D Center and tech docket was transferred to our commercial site and those twenty we have applied for the manufacturing license now.

**Godwin:** How soon can we expect these things to get materialized in the production phase?

**Sunil Mundra:** Production is already as I mentioned to you, 2 products, we got the license, started the commercial production, another eight are expected in about 10 days or 12 days. Another 10 licenses by 30th June. It took us some time for the first license because first license consisted of not only the product license but the facility approval. So they took some time, but the once the facility is approved and first set of licenses were received, follow up additional product license come little easier. So we expect this 20 product license to be available with us by June and based on the harder position we hope to start supplying those products.

**Godwin:** Okay and one more question from my end Sir, since we are the single producer of some of these mentioned APIs, how do you see the competition intensity scaling up into this thing and what competitive advantage we have in blocking other competitors from this segment?

**Sunil Mundra:** I would say that probably our project is backward integrated fully. One is that advantage, so probably we don't have to be dependent on intermediate supplies from China. So fluctuation we will be able to commit a longer term price to our customers. Second is probably with only type of plant outside China with the fully backward integrated fermentation and synthesis kind of a facility, we have a much better chance of exporting to regulated markets. So once we have

those businesses, we have sustainable profitability and that would sustain us to see the competition domestic market, we will be able to sustain that competition.

**Moderator:** Thank you. Next follow-up question is from the line of Vanessa from Prestige Investments. Please go ahead.

**Vanessa:** Sir, just to follow up on that demerger/IPO exit for the investor. So you said we are open to doing the demerger and then going for an IPO or I didn't get that part, if you can just help me understand that thing.

**Sunil Mundra:** Demerger of a subsidiary of a listed entity is a technical listing. Basically, it's a technical listing, so there is no need for us to do an IPO as such to list the stocks, so effectively demerging the company will lead to listing of the stocks. So to give an exit to the investor, probably one of the routes which they have proposed and we have thought about it, but there are secondary sale is another option, buyback by the company is another option. So there are multiple options given there.

**Vanessa:** But the current inclination is towards doing a demerger.

**Sunil Mundra:** It would be decided, Sir, we still have some time to deliberate upon it. It will depend on the situation, kind of the financial strength the company has, depend on the time how it pans out. This decision will be taken and I'm confident that if not giving exit to the investor in any case it will be done. In case the companies are doing well, so it will be demerged and listed stocks will be available to all the shareholders.

**Vanessa:** Sir, if you can just give us some sense on the timeline for the domestic market, because our products will have to go through the validation batches and approvals and DMF changes etc., even for the domestic manufacturers as well. Because I assume the export markets will take some more time to take off, but by when can we expect the end derivative sales to start in the domestic market?

**Sunil Mundra:** The domestic market is again consisting of three types of customers, one who are generic players would probably look at our data, will take a quick testing of the samples and start by. Then there are some midlevel companies who put their product into stability, maybe three months is the timeline for those kind of customers and there are some of the bigger customers, which probably have big brands and all that, probably they come and audit the plant and then probably that we take it as six to nine months as a timeline. But those customers which are looking at exporting their finished products to some of the regulated markets, yes, it might take some time, probably they might wait, wait for our audit to trigger or maybe they might itself be helping us to trigger the audit.

**Vanessa:** Just last question from my end. Sir, you said we are open to some M&A activity in the capsule space itself and since we are the second largest, what kind of capacities are there available in the system? Are there many players with 2 billion capacity, 5 billion capacity who are available for sale? They are not able to efficiently manage their operations because of scale? What is the landscape of these smaller players who may be up for grabs? If you can just help us understand that scenario.

**Sunil Mundra:** There are a couple of companies with a range of about 6 to 8 billion capsules capacity each and we have got some hints from them and at this moment, we are lying low, maybe at the appropriate time will take the decision. So opportunities are available.

**Vanessa:** Sir, what is the life of this plant or life of the equipment capsule machine that we buy, capsules life?

**Sunil Mundra:** I think easily about 25 years plus.

**Moderator:** Thank you. Next question is from the line of Ketan Athavale from RoboCapital . Please go ahead.

**Ketan Athavale:** Sir, you mentioned a 3% improvement in margin that you expect. So by when can we achieve that?

**Sunil Mundra:** We are working on that probably maybe in Q2 we can see that improvement coming.

**Ketan Athavale:** So entire 3% by Q2 you are saying?

**Sunil Mundra:** Could be.

**Ketan Athavale:** This is for consolidated level, right?

**Sunil Mundra:** No, this is for capsule level. For consolidated level, as I already told you, this is the first year of operation. Probably margins in the API subsidiary would be much lesser than the average EBITDA margin in the capsule unit, so probably at the consolidated level it will be less than the average.

**Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Mundra for closing comments.

**Sunil Mundra:** Thank you for joining us today. We appreciate your time and interest in Natural Capsules Limited. Have a great day ahead. This concludes our Earning Call. Thank you.

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