February 15, 2025

National Stock Exchange of India Limited,
Exchange Plaza, Bandra Kurla Complex
Bandra (E), Mumbai-400051

Symbol: **ORCHPHARMA**

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort, Mumbai-400001

Scrip Code: **524372**

Ref: (i) Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015
(ii) SEBI Master Circular No. SEBI/HO/CFD/PoD2/CIR/P/0155 dated November 11, 2024

Sub: Transcript of Analysts/ Investors Earning Call held with Public at large on February 12, 2025- Orchid Pharma Limited ("the Company")

Dear Sir/Madam,

This is in continuation to our earlier intimation and submission dated February 06 & 12, 2025.

In reference to the captioned subject and pursuant to Regulation 30 and Sub- Para 15 of Para A Part A of Schedule III of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended read with SEBI Master Circular No. SEBI/HO/CFD/PoD2/CIR/P/0155 dated November 11, 2024, please find enclosed herewith transcript of Analysts/ Investors Earning Call held with Public at large on Wednesday, February 12, 2025 on the financial performance/ financial results of the Company for the Quarter-III of Financial Year 2024-25, ended on December 31, 2024 and the same be read in conjunction with the Audio Recording link submitted via our letter dated February 12, 2025.

Further, pursuant to Regulation 46 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the aforesaid transcript is being made available on the Company's website i.e. https://www.orchidpharma.com/invr_conferencecalls.html

Furthermore, it is confirmed that no Unpublished Price Sensitive Information was shared/discussed during the aforesaid Analysts/ Investors Earning Call.

You are requested to take the above on your record.

Thanking You,
For **Orchid Pharma Limited**

KAPIL DAYYA

Kapil Dayya
Company Secretary & Compliance Officer
Mem. No.: F10698

Encl.: as above

“Orchid Pharma Limited

Q3 FY '25 Earnings Conference Call”

February 12, 2025

MANAGEMENT: **MR. MRIDUL DHANUKA – WHOLE-TIME DIRECTOR – ORCHID PHARMA LIMITED**
MR. SUNIL KUMAR GUPTA – CHIEF FINANCIAL OFFICER – ORCHID PHARMA LIMITED

MODERATOR: **MR. VISHAL MANCHANDA – SYSTEMATIX INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Orchid Pharma Limited Q3 FY '25 Earnings Conference Call hosted by Systematix Institutional Equities. 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. Vishal Manchanda from Systematix Institutional Equities. Thank you, and over to you, sir.

Vishal Manchanda: Thanks, Lizen. Good evening, everyone. On behalf of Systematix Institutional Equities. I welcome you to the Q3 FY '25 Earnings Call of Orchid Pharma. We thank the Orchid Pharma management for giving us an opportunity to host the call today. We have with us the senior management of the company, represented by Mr. Mridul Dhanuka:, Whole-time Director; and Mr. Sunil Kumar Gupta, Chief Financial Officer.

I'll now hand over the call to the company management for opening comments. Over to you, sir.

Mridul Dhanuka: Good evening, investors, ladies and gentlemen. I am delighted to welcome you to our discussion on the results for the third quarter of FY 2025 of Orchid Pharma Limited.

First, let's review the financial performance of Q3 FY '25. Our total income for this quarter reached INR227 crores, and our EBITDA for the quarter was INR37 crores. Looking at the cumulative view, which we always talk about, for the first 9 months of FY '25, our total income has been INR710 crores, reflecting a 15% growth over the same period last year. This growth underscores our continued focus on execution, cost optimization and strategic objectives.

Our EBITDA for 9 months FY '25 stands at INR115 crores, showing a strong improvement over INR99 crores from the previous year. Our continued focus on profitability has seen our PAT improved from INR62 crores to INR78 crores over the same period, a marked increase of 26%.

While this 9-month period has presented some shifts in base, we view it as an opportunity to strengthen our foundation for sustainable growth. Several factors have influenced our financial performance, but we remain steadfast in our commitment to long-term value creation. The market is currently undergoing a realignment between demand and supply, which brings both challenges and opportunities for value optimization.

In line with our strategy, we have focused on maintaining healthy margin rather than opting for higher volume at reduced prices. While our overall volumes have increased by over 20%, price corrections in a few major products have kept the total sales number muted. We have always positioned Orchid as a company focused on long-term sustainable growth.

Our unwavering commitment to operational excellence and innovation ensures that we continue to charge a strong growth trajectory. We remain optimistic about the future growth prospects of the business, especially looking backwards 5 years from today.

This quarter has been particularly dynamic with key projects progressing from planning to execution and early revenue realization stages. While some are still in the initial stages, the momentum is encouraging. In terms of key business updates, let me first start with some good news. The long-awaited EU GMP audit at Orchid facility was conducted in October '24, and we have successfully received the certificate of compliance recently. In preparation for this audit, our general focus was on compliance and regulatory readiness, which has led to a onetime increase in expenses to the tune of INR3 crores.

Coming to Exblifep, which is Orchid brand name for Cefepime and Enmetazobactam. We did a mega launch event in November 2024 during the Global AMR R&D for this product, in particular, and Orchid AMS in general. The occasion brought together global experts on antimicrobial-resistance to discuss emerging challenges and role of new age antibiotics to mitigate those challenges.

This event reinforced Orchid Pharma commitment to tackling AMR through innovative solutions. Domestically, Enmetazobactam is performing as per our initial expectations. The acceptance among doctors and hospitals has been encouraging, and our partnership with Cipla continues to drive strong market penetration.

On the global front, early adoption trends are promising, and we anticipate exponential expansion in this going forward. In the U.S. market, we eagerly await news of progress of a possible partnership by Allecra. Regarding our Ceftazidime filing in the U.S., we previously reported receiving a RTR observation from the USFDA. Since then, we have made substantial progress in addressing the noted deficiencies and are on track to refile in the next quarter, in line with the 181st day launch ended in Q1 CY '29.

Our approach remains focused on ensuring full compliance with regulatory requirements to facilitate a smoother approval process going forward. On the Orchid AMS division, continues to gain momentum with growing doctor adoption and increase awareness of antimicrobial resistance. Our commitment to responsible health care solutions is being recognized and we are encouraged by the engagement we are witnessing from the medical fraternity.

This is a long-term investment for the company. And to support this call, currently, it is an investment phase of the business. It is an EBITDA drag of about INR6 crores on a 9-month basis currently, while we continue to build the team and start interacting with doctors, hospitals and the medical community in general.

Coming to the 7ACA project, which is a crucial initiative that will further strengthen our API capabilities and contribute to India's self reliance in critical pharma ingredients. I'm happy to share that this project is advancing well since the breaking of ground on Ganesh Chaturthi last year. Despite initial weather-related and festive delays, construction is now moving at an accelerated pace.

We have initiated the ordering process for major engineered equipment, which will be completed by Q1 FY '26. This project represents a long-term investment in Orchid Pharma's manufacturing strength and is expected to bring significant cost synergies upon completion. This is a pivotal

element of our long-term growth vision, reinforcing our leadership position in API manufacturing and ensuring supply chain security.

As we step into the final quarter of FY '25, we are confident despite short-term headwinds, our commitment to operational excellence, disciplined execution and strategic expansion remains strong. The upcoming quarters will see an enhanced focus on regulatory milestones, ensuring a smooth refiling for [inaudible 0:07:31] introduction of new products and expanding our AMS division.

Additionally, we will continue executing the 7ACA project as planned. We are confident that these initiatives will drive sustained performance and create long-term value for all stakeholders. In closing, I would like to thank all stakeholders, employees, investors and partners for your trust and support. With your continued belief in our vision, we look forward to achieving new milestones and creating further value.

I now welcome your questions and look forward to a productive discussion.

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

Vivek Patel: All right. I just had a quick question on what could be the potential impact of the launch of WCK 5222 on Cefiderocol? Thank you.

Mridul Dhanuka: Sorry, unfortunately, your voice is not very clear. I could not hear the question.

Vivek Patel: Is it better now, sir?

Mridul Dhanuka: Yes.

Vivek Patel: Yes, Sorry. I just had a quick question on the potential impact of the launch of Zaynich or WCK 5222 on Cefiderocol?

Mridul Dhanuka: Yes. I think both are completely different segments of operations. Unfortunately, I would not have a comparable analysis on them unless Zaynich submits long-term clinical trial data in the public domain but as of now, I believe the market is really large. I have said earlier that with the Cefiderocol currently with the 5 million people dying due to AMR. It has the potential to address one third of that, that's a significantly large number in itself. And any new products which actually address the same market are actually welcome to save more lives worldwide.

Moderator: The next question is from the line of Viraj Parekh from Carnelian Asset Management.

Viraj Parekh: So, a few questions from my end. In your opening remarks, you mentioned that there was price correction in a few of our products, which led to a little bit of a degrowth in our top line. So, if you could elaborate more whether this price correction is temporary and is it in our top three products? And how do we look at it going ahead for the few quarters?

Mridul Dhanuka: Yes. So, the price correction is in the top three products. And as I explained, we are focused on retaining margins, as you would have seen, the margin profile is similar to what we expect. So,

we have maintained the margins largely due to what has happened since the Aurobindo started making Pen-G. Some of the prices from China have dropped.

So, they have been a little volatile. They have seen maybe Aurobindo is not producing in a full-fledged way. So, they've been a little volatile. Whatever benefits are there, and I explained earlier that the emerging market business works on a spot price basis, so customers track the starting material prices.

And that's the impact which has come. Unfortunately, how it's going to behave in the future in terms of Pen-G pricing and Aurobindo producing or not producing, I won't be able to give a forecast on future.

Viraj Parekh: So Mridul, I believe our gross margins may be in the range of 40%, plus/minus 1% or 2% as you've guided before. But what I'm trying to get a sense of is on the top line, how do we look at it going ahead due to the heavy concentration we have in our top three products in our core business, our 9-month growth stands at 13.5%.

I'm just trying to get some flavour in terms of the quarterly growth, which we are looking at from our core business. I'm not looking at margins. I believe there's an EMS drag on our operating margins, that's fine. That's an investment we're making right now. But from a core business growth point of view, how do we look at sustainable growth going ahead?

Mridul Dhanuka: Yes. So, we still believe that if you look Orchid as a long-term business and even 3 years from today, if you're looking backwards, you would still see that 20% CAGR, which I've always promised.

Viraj Parekh: Will that stand true for this financial year?

Mridul Dhanuka: I'm not sure. I've always maintained QSQT, the Quarter-Se-Quarter-Tak I won't able to give a guidance.

Viraj Parekh: Second question is more on the royalty front. We were expecting some kind of royalty to flow in, in this financial year. So, is there any update on that?

Mridul Dhanuka: Yes. So, we have received the royalty but at this stage, I would not be able to share the numbers with you. So, royalty came in even last quarter, but the number was a very small traction. It is a significantly larger number than last time. And as expected, within the first 3, 4 quarters, the growth and the volume spreading will start materializing. So, anything material to report, maybe in the next quarter, we will -- when we share the annual report numbers, maybe we'll talk about some royalty numbers then.

Viraj Parekh: So, are we tracking the kind of sales that are happening on the basis on which we're getting royalty? Is that something we're actually tracking as a company?

Mridul Dhanuka: So unfortunately, because it's a new product currently is not having coverage from the reporting agencies. But we do have audit rights and annually, we will exercise those to make sure that there is no leakage.

Viraj Parekh: Sure. And just the last question before I get back in queue. Can you have some kind of a timeline we have for a 7ACA project to commission. I believe you started construction last Ganesh Chaturthi.

Mridul Dhanuka: Yes. So, we have talked about the water trials happening in April of '26. Currently, it looks that we should be able to be in those deadlines.

Moderator: The next question is from the line of Neeraj from DAMAC.

Neeraj: Sir, my question was around our potential launch in U.S. It seems like our partner, Allecra, they have -- they are still yet to finalize on a partner. Just wanted to understand what is happening on that front. Actually, companies spend their lifetime going through trials and USFDA, but it's almost one year. Everything is clear. The USFDA has also cleared our product, but it is very unfortunate a partner -- we have not been able to finalize on the partner. So, what is happening on that front?

Mridul Dhanuka: Yes, Neeraj. That's really a cause for concern. I agree with you. Unfortunately, we don't have any control over Allecra, and the communication is also poor. So, when we spoke to them last time, they talked about that they are aware of this challenge, and they are actively working on several discussions. That's what they said. I don't have any further information.

Neeraj: And secondly, like to the answer to your previous participant, you mentioned that like in the just quarter which ended Q3, we did receive some royalties from the European region. I'm not looking for the exact number, but I believe that must have flown through in our P&L but as I can see, there were quite one-offs as well because of which our EBITDA number came down. But assuming that all of those royalty went straight to the bottom line. So, excluding those royalties, our EBITDA would have been even lower. Would that understanding be correct?

Mridul Dhanuka: Yes, but I don't think the number of royalty would be material enough to affect the EBITDA by much. So -- but yes, logically, your math is correct.

Moderator: The next question is from the line of Rupesh from IntelSense Capital.

Rupesh: Yes. Okay. So, my first question, sir, can you give some update on the India market update for Enmetazobactam? How is the traction? What is the hospital coverage. How do you see it going forward in the next 1 year?

Mridul Dhanuka: Yes. So, as I alluded in my opening speech, we are progressing as per our plan in India, and we are able to leverage the distribution network of our partner significantly. So, it is going as per our plan. As a policy, we don't share product-wise numbers, but we expected continued healthy growth in this going forward as well.

Rupesh: And this is not counted in your AMS division, right?

Mridul Dhanuka: No, that is not counted as the AMS division. AMS division is only the sales -- this is a partner sales, not part of the AMS division.

Rupesh: So Cipla sales is not part of this, that I understand, but our own sales force doing selling in Enmetazobactam that would be part of AMS division, right?

Mridul Dhanuka: Yes.

Rupesh: Okay. Okay. So, our sales force, I mean Enmetazobactam sales through our sales force that hasn't picked up materially yet.

Mridul Dhanuka: Yes, yes. So, it will take time. You see nobody knows who's Orchid in the domestic market. So, for the first considerable period of time, we don't see people creating significant traction. Most of the time is just getting the foot in the door, talking to the hospital, asking them to approve us as approved vendor.

All of those things take time. And currently, the time is to build these relationships. That is why we decided that we need to partner with somebody because patent life for the product is minimal rather than trying to reach the universe on our own.

Rupesh: Okay. And I mean, how do you see this progressing? Can we -- can it contribute, let's say, meaningfully to our revenue in FY '26?

Mridul Dhanuka: Orchid AMS, you mean?

Rupesh: No, no, no, Enmetazobactam.

Mridul Dhanuka: I'm not sure what you mean by meaningfully, but it would significantly contribute to the overall EBITDA of FY'26.

Rupesh: Okay. Okay. And the second question is how is Avibactam doing? You launched Avibactam, some 1 year ago and some competition has also come in. So how is that product doing in the India market?

Mridul Dhanuka: So, Avibactam, itself, whatever when it was launched, we have the same share about more than 50% of the share is with Orchid in the Indian market. And due to the initial launch, there was a lot of exuberance, and I think about 50 brands, or more than 50 brands launched in the initial days.

And due to competition, there has been some price erosion, but this is a product which was -- will be becoming more stable because it is more of a second line treatment. Whatever growth was there was largely because Pfizer product was expensive and not available. And once those numbers are received, it is not going to have exponential growth even going forward.

Rupesh: Okay, okay. And the third Cefiderocol project, I mean where are we? Can you give some update on timelines on commissioning?

Mridul Dhanuka: Yes. So Cefiderocol project, we are under construction phase. The current launch imagine is November, December of '26, subject to the approval of the drug in India. Currently, the drug is not even registered in India. Our facility will be ready by that time.

Rupesh: December '26.

Mridul Dhanuka: Yes.

Rupesh: Okay, okay. And on 7ACA project, I mean, have you got some clarity on PLI? Has anything changed there materially or how is that?

Mridul Dhanuka: No change, materially there.

Rupesh: So, I mean whatever the duration of the PLI scheme, the incentive, all of that remains as originally planned because I think the project is significantly delayed compared to original -- whatever was the government's requirements.

Mridul Dhanuka: Yes. And as I've explained on a few previous calls, so the government's letter has not changed, but the communication that we are receiving from the government is full of assurances. They are saying all the other projects are late, you don't worry, you go and execute the project. We are behind you. So, all of that support and communication is there.

We expect the letter, they have not given as an expansion to anybody. Not even Aurobindo, where they were also 2 years late. So, we don't have any letter from them saying this is extended, but only assurance. So that risk is there, like I've talked about in previous call.

Rupesh: Okay. Okay. And then the final question is -- I mean, at least my expectation was when the Aurobindo penicillin plant will come online, there will be dumping from China, which is what has happened in some of the other pharmaceutical products.

And at least, I was expecting some sort of margin expansion. But what you are saying is in emerging markets, at least the -- or unregulated markets, the end product prices have also reduced. But how is it with respect to the regulated markets?

Mridul Dhanuka: So regulated market, the prices have not much impact with respect to what's happening in the starting material prices. But obviously, because in regulated market, we have a very good share. There's always a competitive strength, not strength, let me say competitive pressure from the Chinese to try and enter. So that pricing pressure is always there, significantly muted compared to the emerging market, which is like a daily battle.

Rupesh: So there -- I mean, do you have some view on how this will evolve, let's say, in the next 6 months or next 1 year?

Mridul Dhanuka: So, nothing short term, but what's going to continue to happen is basically we need to work with expanding our customer base to reduce that risk of anybody switching to a Chinese. And while we may have to watch out for what is going on between customer and China.

Moderator: The next question is from the line of Kumar Saurabh from Scientific Investing.

Kumar Saurabh: My question is on the Enmetazobactam U.S.A. launch I think -- I'm sorry in case it's repetitive, I missed in the beginning. So, I think we got approval, but there has been a delay and there is a

patent expiry. So, we are losing on time. So, what's the update on that? And do we have a backup plan?

Mridul Dhanuka: Yes, Saurabh. So unfortunately, this license is not in Orchid control. It will be -- whenever Allecra decides to license, it could be licensed only then.

Kumar Saurabh: Okay. And the second question I have on if we look at all the three, four triggers, which we have in the business, whether it's the Indian formulation launch or these molecules or the backward integration, everything looks like margin accretive, but you have given a guidance of 17% margin. So is it more a short-term margin guidance where in long term over a period of 4, 5 years as some of these things play out you see the margin expanding beyond 17%...

Mridul Dhanuka: Unfortunately, I have never stated a 17% number, I don't know which margin you're talking about. The guidance we have only given is on the gross margin remaining stable 40% plus, minus 2% for the near term. So that's the guidance I've given. And the other thing I've talked about is due to our volumes increasing and productivity enhancement, we should see an EBITDA margin expansion of 100 basis points or so every year. So, from which year you are calculating 17%, I don't know. So unfortunately, I can't answer.

Kumar Saurabh: Okay. Okay. Okay. And the last question is the Indian AMS business, the formulation business, which we have launched, and we also have a Cipla partnership. I think there in one of con-calls we have said INR100 crores in 3 to 4 years. So, does it include Cipla numbers also? Or is it only done through our team?

Mridul Dhanuka: No, that imagination is only for Orchid's own AMS business, not including Cipla's.

Kumar Saurabh: Okay. And last question, sir, on the sterile business, like what is the capex expansion plan and what is the growth plan for coming years?

Mridul Dhanuka: So sterile, we expanded some capacity last year, we commissioned. So right now, there is no capacity expansion planned in the sterile business. So, whatever we commissioned last year, that is going to serve us well for going forward for a couple of years.

Moderator: We take the next question from the line of Viraj Parekh from Carnelian Asset Management.

Viraj Parekh: So just two questions. How much money do we still have in our banks from the money we've raised?

Mridul Dhanuka: Mr. Gupta, can you please answer that question?

Sunil Kumar Gupta: Yes. Sir, it is INR194 crores.

Viraj Parekh: And sir, approximately from this, how much interest income are we earning?

Sunil Kumar Gupta: How much? We are getting around the 7% interest.

Viraj Parekh: Around 7%, right?

Sunil Kumar Gupta: Yes.

Viraj Parekh: Right. And within, in your opening remarks, you mentioned that we had a European inspection get completed in October. So just wanted to have a follow-up for the USFDA. Do we have any -- have you received any kind of notification from them in terms of the order?

Mridul Dhanuka: So, as we speak, the inspection is going on. They came on Monday.

Moderator: The next question is from the line of Vidit Shah from Spark Capital.

Vidit Shah: My first question was on the AMS division. We've seen a significant ramp-up of expenses in this quarter in terms of what the employee costs and other expenses. So, if you could just help -- is this in account with new product launches, increasing geographies? And when are we expecting this division to break even going forward?

Mridul Dhanuka: Yes. So, this is not just new product or geography. It's a completely new business segment, which is B2C or its -- till now was only presenting B2B business. So, we expect a negative EBITDA run rate for another year or so more after this financial year. And then it will become EBITDA accretive to us.

Vidit Shah: Okay. And what would the revenue have to be? Are all the cost factor in -- are factored in now? So, I mean, so we are doing about INR200 -- about INR300 as cost. So, is that the breakeven revenue? Or do we have to go up to INR40-odd crores to sort of breakeven?

Mridul Dhanuka: Sorry, can you come again, please?

Vidit Shah: Yes. So, I was asking that we're doing about INR3 crores of cost on a quarterly basis or, let's say, annualized run rate of about INR12 crores. So, is that the breakeven revenue that we should expect? Or is the breakeven number something different in terms of revenue?

Mridul Dhanuka: So, the revenue number, unfortunately, I will not be able to share a breakeven, but it would be higher because out of the revenue, there will be significantly gross margins would not be the same amount as revenue. So, there would certain amount of gross margin. And then whatever is the gross profit on that INR12 crores drag if we calculate the same extrapolation.

Vidit Shah: Right. And just a clarification on the EU GMP audit that we got done. Did you say in your opening remarks that the expense incurred was about INR3 crores for this?

Mridul Dhanuka: Yes.

Vidit Shah: And do we expect a similar number for -- on the USFDA as well?

Mridul Dhanuka: No, that was in general, we were expecting that was a planned audit for Europe. So, we had called them, and we knew about it. So that was general let me say, look and feel of the facility kind of on time. So, nothing more needs to be done for the USFDA.

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

Harsh Bhatia: Just one clarification. I joined the call a bit late. You mentioned on the pricing part from the Chinese counterparts, particularly for the top three products. So, we have been seeing the pricing coming off sharply since the last couple of quarters. Is that the same thing that was going on from these three products. But this time around, we decided to not basically grow up profitability and therefore reduce the volumes? Or what exactly happened?

Mridul Dhanuka: Yes. So, the general price that you were seeing from China was not reflecting in Cephalosporins and Orchid is never the first one to go out and reduce the price. So, while we were able to maintain significant growth in the first two quarters and maintain the pricing, what we realized while we come into quarter 3 was that those prices were no longer relevant, and we had to drop the prices. Of course, the costs had also significantly dropped. That's why you see the gross margins have been maintained.

So, this time, we decided to not sell the capacity that we had and even the product in stock, you would see that the inventory has increased for this quarter. So, we have decided to keep some stock with us rather than sell at a lower price. So, I'm not sure what's going to happen this quarter. I don't expect any further fall. But it's not that we were not passing to the customer. The customers are tracking the price of the starting material and negotiating with us.

Harsh Bhatia: But you would say after this third quarter, whatever you could share, you are sort of benchmarked to the pricing for the Chinese competitors, that would be fair to say?

Mridul Dhanuka: Yes. Spot market prices businesses like even for $1, which is like less than 1% of the price at times the business will shift. So, the prices are that close.

Harsh Bhatia: Sure. And Enmetazobactam, you mentioned second quarter as well as third quarter fractional royalties have already been booked. Obviously, third quarter would be slightly higher than second quarter.

Mridul Dhanuka: Yes.

Moderator: The next question is from the line of Aashita Jain from Nuvama Institutional Equities.

Aashita Jain: Just two questions from my side. See, firstly, is there any update on the Dhanuka Labs merger?

Mridul Dhanuka: We are just receiving dates after dates from the court.

Aashita Jain: Yes. So, what's the internal expectations of this merger now?

Mridul Dhanuka: Unfortunately, I stopped forecasting in this matter.

Aashita Jain: Okay. And secondly, in terms of capacity, I understand sterile, had expanded last year and oral was this year. So, what are our current capacities in both and the capacity utilization for your 9 months FY '25 business?

Mridul Dhanuka: Yes. So, as I've explained earlier, the capacity in terms of tonnage is not relevant for Orchid because of the fungibility and the price varies between different products ranging from $100 to

almost $10,000 per kilogram. So let me say that for the next 2 years, we don't need any capacity expansion to be on the growth track as we imagine.

Aashita Jain: And just one clarification, when you say 20% growth for over 3 years time frame, you're not including -- are you including Enmetazobactam also in your 20% or forecast?

Mridul Dhanuka: Enmetazobactam with respect to the domestic market, Cipla would be part of that. The royalty fees will not be part of that.

Aashita Jain: And Cefiderocol is not part of that?

Mridul Dhanuka: Cefiderocol also will be commissioned only in December '26. So next 2 years, so I don't see any revenue there, right?

Aashita Jain: Okay. And lastly, how are you looking at Enmetazobactam pricing in India as compared to Meropenem, how are you looking at it from the Indian perspective?

Mridul Dhanuka: So, in India, Meropenem is now under DPCO and Enmetazobactam's price a significant premium to Meropenem.

Aashita Jain: Significant premium.

Mridul Dhanuka: Yes.

Moderator: The next question is from the line of Rupesh Tatiya from Intelsense Capital.

Rupesh Tatiya: Sir, this -- can you -- I mean what is the spend -- capex spend for 7ACA total plan? And how much have we spent already? This is for fixed assets.

Mridul Dhanuka: Yes. The budgeted spend was INR600 crores, out of which Mr. Gupta, can you just say how much have we spent till now?

Sunil Kumar Gupta: Yes. It is around INR80 crores we have already spent.

Rupesh Tatiya: Okay. So then if you're expecting water trials by April, so significant spend will come in Q4?

Mridul Dhanuka: Yes. A lot of material has been booked. It will be -- the payments would be back ended. Some of the largest orders for equipment has gone, but their payments will be staggered and closer to delivery, there would be large chunks of amounts flowing done.

Rupesh Tatiya: Okay. Okay. And I mean, given how these trials go, is it fair to assume, sir, that in second half, there will be significant capacity utilization at least 50% and even on a quarterly run rate there can be full capacity utilization because everything needs to be consumed internally.

Mridul Dhanuka: So, I don't think there is going to be any challenge with respect to the demand of the product in terms of capacity utilization. But fermentation is a typical product, and it was a chemical product, I would have fully agreed with you. But in a fermentation product, it does take some time to actually scale up and get everything ready and up and going. So, we have multiple fermenters

and each of them have almost like a mind of their own, right? So, if sometimes they don't like the food, they will say we are not going to produce the product. So, I don't want to scare it -- the idea is basically the ramp-up will be slower than a chemical product typically. But yes, our intention is to do as fast as possible.

Rupesh Tatiya: Okay. And I mean, including PLI and your own margin assessment, what would be the return period in which we will recoup this investment, at least in your assessment in planning.

Mridul Dhanuka: So, in terms of -- I have not look at the business like that, but within 3 years, it must come by, the investment.

Rupesh Tatiya: Okay. And I mean, generally, what I have seen is when Indian companies are trying to backward integrate for some of these large volume critical products a lot of dumping happens. I mean with Aurobindo penicillin happening for Meropenem backward integration, I think most people are facing the dumping problem. So, I mean, how do you see the dumping in case of 7ACA also, when our line comes online?

Mridul Dhanuka: So obviously, there are going to be pricing pressure, but it's going to be different than Pen-G because Pen-G long-term weighted average price is about $10 to $12 and just recently after India announced the PLI, the price went to $30, so I think the Chinese can still make money in the long-term average price at $10 to $12 kind of number. So, I do see a possible crash once India starts producing full-fledged. I don't think current prices are sustainable. But in 7 ACA, the long-term average price is only $63.

Now I'm not saying that the Chinese will not drop price, but I don't think that the price can go drop by 20%, 30%, 40%. So, a small drop in price, we are significantly cushioned with the PLI, the GST benefit and the custom duty impact that any import from China would have.

Rupesh Tatiya: So, I mean are you working at some proactive antidumping duty with the government as and when the line comes online?

Mridul Dhanuka: So, we've had conversations with the government, and they are like we will support you, but the dumping actually has to happen before antidumping duty can be placed.

Rupesh Tatiya: Okay. Okay. And then, sir, this USFDA inspection. Did I hear you right that this is like you invited USFDA, this is not triggered due to some product filing, anything like that.

Mridul Dhanuka: No. That was for the EU GMP. The triggered the EU GMP.

Rupesh Tatiya: Okay. What about USFDA?

Mridul Dhanuka: USFDA, they walk in as they please.

Rupesh Tatiya: But then how is the business development going? I mean one of the customers we were working with that customer had issues which this plan. But how is the business development happening in the U.S. region?

Mridul Dhanuka: So that has significant set back. Unfortunately, there are not too many customers who can take our product because of the limitation of site. So, we are working on how to mitigate that, maybe a couple -- in a couple of quarters, we will come out with a new plan.

Moderator: The next question is from the line of Romil Jain from Electrum PMS.

Romil Jain: Sir, just one question on the Enmetazobactam, so because we've already got -- we are selling in Europe, so just want to understand how is the ramp-up in that as compared to your expectations because we've already started getting royalty from last quarter and this quarter also you mentioned that there is a substantial growth. So just want to understand whenever we get approval in Europe in terms of distribution, can it be a similar on kind of a ramp up? So just some directional points on that.

Mridul Dhanuka: Can you just repeat your question, Romil. I could not completely understand what you were trying to ask?

Romil Jain: Yes. My question is in Europe, we have started selling Enmetazobactam. So how is the pickup versus your expectations?

Mridul Dhanuka: So, we had planned for the 3 geographies, which we thought would be large geographies in a cumulative way. This is only one quarter of actual business, which has happened. And looking at how we are looking at launch in India, the same thing would repeat for Europe. It's not going to be that easy because the doctors need to be convinced country by country. U.S. will be significantly better or faster, I would say, because it's one country. Europe being amalgamation of several markets. Each would have their own dynamics and the ramp-up would be slower but obviously, it would be exponential month-on-month, year-on-year, quarter-on-quarter.

Romil Jain: Okay. And let's say, in Q4, the quarter we are in, how is the growth versus, let's say, Q3 I mean, is there also a substantial growth happening?

Mridul Dhanuka: So Q4 is what is starting. So, we don't have month-on-month visibility. We only get to see the numbers once Allecra reports to us, which is the period is 45 days at the end of the quarter.

Romil Jain: Okay. And just one question on the tax rate. So, from when do we see the tax coming in fully or if you can give some understanding on that?

Mridul Dhanuka: Mr. Gupta, can you please answer that question?

Sunil Kumar Gupta: Yes. Actually, sir, right now, we have carry forward losses of INR790 crores still in our book.

Romil Jain: INR790 crores.

Sunil Kumar Gupta: INR790 crores. So, all depends on our future profitability and assuming an investment also because then we will get depreciation benefit also income depreciation benefit. So, I don't think for next 4, 5 years, there will be any possibility of tax.

Romil Jain: Okay. Got it. And sir, just last one on Enmetazobactam. If you can just reiterate the kind of market size that we are seeing because obviously, it's a very important drug for the whole world, so I just want to understand a little bit on that?

Mridul Dhanuka: So, the market potential is immense. And unfortunately, I don't understand the new drug market very well. I don't think anybody in India having not invented anything understands that. But I do have certain key guiding numbers which give me comfort that it could be a very large product. And some of those I said earlier, I'll just repeat.

So, this product is targeted directly against comparison against, Piperacillin and Tazobactam, the originator brand name was dosing, which was a $1 billion product just in U.S. in 2007 when the patents expire, right? Then it is also comparable to Meropenem because it provides an opportunity for the doctors to treat patients with Cefepime and Enmetazobactam rather than Meropenem. So, it is Meropenem-sparing therapy.

For a large percentage of patients instead of Meropenem, this product can be given. And even as you look at India market, that's a 1,000-ton business, just for India, for Meropenem. So, it can replace that also. And other antibiotics is a very, very potent product being a new antibiotic. So, it can be a significantly large number. Now what number actually translates to our sales. I am unable to forecast.

Romil Jain: Okay. On the global number, I just wanted to understand what can be the size of the market over the next 3 years?

Mridul Dhanuka: Yes. So, I have imagined that when I came out with the first guidance note of this product 3 years ago, my imagination was a $2 million lifetime sale across the world.

Moderator: The next question is from the line of Nikhil from SiMPL.

Nikhil: Mridul, you'll have to bear with me because I missed the initial part of the call because there were a few other calls there. So, I joined the call a bit late and some of the questions could be repeated. Just on the sales, if you -- we've seen some drop year-on-year, while a lot of new capacities had come up for us in the first half. So, if you can just spare a minute and explain what exactly happened here?

Mridul Dhanuka: Yes. So, our volumes have increased by 20% but there has been price; correction in 2, 3 key products, which has led to the overall numbers being muted.

Nikhil: Okay. And on Enmetazobactam, I think you were discussing about we're getting the revenue visibility in 45 days. But if I remember, we -- Allecra launched it in, I think, October or November. So, one is how do we book the royalty? Is it at the end of the year? Or is the royalty booked on a quarterly basis, some guidance here?

Mridul Dhanuka: Yes, quarterly basis.

Nikhil: And have you booked anything in this quarter?

Mridul Dhanuka: Yes, we have.

Nikhil: Have you shared these numbers?

Mridul Dhanuka: No. We don't share product wise numbers.

Nikhil: And on the domestic side, have we launched the product? And how large is the MR team today? And added to that, what all other products we have launched?

Mridul Dhanuka: Yes. So, on the domestic Orchid AMS business, the team is about 50 people on the ground. It's a hospital business. So, it does not involve doctor to doctor promotion like a technical product. The business is only for injectable products, so it's holding hospital. And this is launched with a wide portfolio of about 25 to 30 products covering the entire gamut of antimicrobial resistance management.

Nikhil: Okay. And a last question from my side. On our capex, if you can share the timelines, any changes there or largely we are meeting the guidances?

Mridul Dhanuka: No changes as of now.

Nikhil: On both 7ACA and Cefiderocol line?

Mridul Dhanuka: Yes. Yes.

Moderator: The next question is from the line of Vishal Manchanda from Systematix Institutional Equities.

Vishal Manchanda: Sir, you had talked about filing for Zavicefta through a different route in Europe. So, if you could update on that, where are we?

Mridul Dhanuka: Sorry, you're talking about selling in Europe.

Vishal Manchanda: Yes. So, you earlier than some of the -- one of the calls you had indicated you are also planning to file generic Zavicefta in European markets and through, you have a process innovation or a patent non-infringing route?

Mridul Dhanuka: Yes, yes. So, the U.S. and the Europe products, both are ready. So, for Europe, we are currently preparing the documentation for filing the DMF. And then we will go with the MA registration. So, while in U.S., our intention is to file ANDA on our own. For Europe, Orchid being we don't have local entity, and we don't plan to have in the future as well. So, we are looking for partners to partner with to sell in Europe.

Vishal Manchanda: Okay. And so, with this non-infringing route, how early can we be there on the market in Europe?

Mridul Dhanuka: Unfortunately, I don't have the number right now, but I think it should be slightly earlier than U.S.

Vishal Manchanda: Okay. And any sense on how large the market is. So, the ex-U.S. is about $500 million around and how much of that would be Europe?

Mridul Dhanuka: I'm just making a very wild guess here. I think ex Europe, one third of the market should be Europe.

Vishal Manchanda: Okay. So around about what the U.S. is about $150 million to $200 million.

Mridul Dhanuka: Yes. Yes.

Vishal Manchanda: Okay. Okay. And just a clarification, you said we have 20% volume growth this quarter, but…

Mridul Dhanuka: I was talking about 9 months cumulative.

Vishal Manchanda: Okay. And how about this quarter, if you could?

Mridul Dhanuka: Unfortunately, I don't have the number handy, but it would not be much different, should be around 15% to 20%.

Vishal Manchanda: Okay. And so like -- so would -- do you think we can grow 20% like we have grown in the last 2 years on a Y-o-Y basis for full year FY '25?

Mridul Dhanuka: I don't give short-term forecast, Vishal, things can happen. So unfortunately, with the price correction, I'm not sure whether I can say that on Y-o-Y basis, we should reach that number. But like I said earlier, if you look 3 years from today backwards, you would still see a 20% kind of CAGR.

Vishal Manchanda: Okay. And for the price correction that you are -- you're talking about, is this more related to the oral products or also with the sterile products as well?

Mridul Dhanuka: One of the sterile products but yet largely related to oral products.

Vishal Manchanda: And these are spot prices reduction, not for your long-term contracts that you run with your customers?

Mridul Dhanuka: Yes. Largely the spot price reductions.

Vishal Manchanda: Okay. And these prices are volatile. So, we can also expect prices to go up as you would have seen in the past. So -- or is there a case to worry like they tend to remain at lower levels for a longer time?

Mridul Dhanuka: No, I don't think so. It's also dependent on the demand and the supply. So, they will continue to remain volatile. Although this correction is a sharp one, which normally does not happen in such a short period of time.

Vishal Manchanda: All right. Sir, what we have also been witnessing is what China typically does is they tend to kind of lower the final API prices while they do not reduce the key starting material prices as much. And the lower it to the point where your gross margins are negative if you kind of use the raw material to manufacture the final API, the gross margins are negative. So how are we looking at this from a Ceftriaxone perspective?

So, when -- like when we do 7ACA and we do Ceftriaxone and they cut down on Ceftriaxone prices and I think right now, even the Ceftriaxone prices trend is not very encouraging.

Mridul Dhanuka: You are absolutely right, and that's the idea that we want to be free from the clutches of China on the starting materials. That's why the investment is 7ACA. So, although even at current prices, we can compete on Ceftriaxone, but that's a product we don't want to increase significant volumes because it's not significant margin accretive, as I explained earlier. But in principle, your argument is correct. And therefore, we have decided for the 7ACA, how do we become free from China and not allow them to control our margins.

Vishal Manchanda: Okay. And sir, just one final one on the EU GMP inspection. This was triggered by -- this would have been triggered by one of your customers whom you would be supplying the...

Mridul Dhanuka: But we requested the customer to trigger that because the period had become long. So, we asked them, we were talking to a few customers. Unfortunately, because of the after COVID, there is a significant backlog, and I think we were planning it for more than a year before we got the confirmation of a possible audit.

Vishal Manchanda: Okay. And sir, any sense on the market opportunity for this product? Would this be a decent opportunity for you? Or this is a competitive market that you would be selling for?

Mridul Dhanuka: Which product?

Vishal Manchanda: This product-specific inspection that happened the EU GMP inspection.

Mridul Dhanuka: Not only for just one product. It's for the entire range of operated products for the European market.

Moderator: As there are no further questions, I now hand the conference over to the management for the closing comments.

Mridul Dhanuka: Thank you. I would like to thank all the participants for the insightful questions, keeps us on our toes. I would also like to thank all our stakeholders, the employees, partners and investors for their trust and support. With the continued belief in our vision, we look forward to achieving new milestones and drive further value creation. Thank you.

Moderator: Thank you, members of the management team. Thank you, ladies and gentlemen. On behalf of Systematix Institutional Equities, that concludes today's conference call. We thank you for joining us and you may now disconnect your lines. Thank you.