Zeal & Innovation in Medicine

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BSE Limited, Corporate Relationship Department P. J. Towers, Dalal Street, Mumbai- 400 001 Company Code- 541400	National Stock Exchange of India Limited Listing Compliance Department Exchange Plaza, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051 (Symbol - ZIMLAB)

Dear Sir/Madam,

Sub: Transcript of Q4 & FY 23 Earnings Conference Call

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), please find enclosed the transcript of Earnings Conference call for Q4 & FY 23 held on Monday, 22nd May, 2023. The same is available on the Website of the Company at:

https://www.zimlab.in/investor-reports-earnings-call

Request you to kindly take the same on your record.

Thanking you,

Yours faithfully,

For ZIM LABORATORIES LIMTED

PIYUSH
SIDDHESHWAR
NIKHADE

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(Piyush Nikhade)
Company Secretary and Compliance Officer
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"ZIM Laboratories Limited
Q4 FY'23 Earnings Conference Call"
May 22, 2023

MANAGEMENT: **DR. ANWAR DAUD – CHAIRMAN AND MANAGING DIRECTOR – ZIM LABORATORIES LIMITED**
MR. SHYAM MOHAN PATRO – CHIEF FINANCIAL OFFICER – ZIM LABORATORIES LIMITED
MR. ZULFIQUAR KAMAL – DIRECTOR FINANCE – ZIM LABORATORIES LIMITED
DR. CHANDRASEKHAR MAINDE – CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR – ZIM HEALTH TECHNOLOGIES LIMITED
MR. ZAIN DAUD – INVESTOR RELATIONS – ZIM LABORATORIES LIMITED

MODERATOR: **MS. DEEPIKA SHARMA – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY23 Earnings Conference Call of ZIM Laboratories Limited, hosted by Go India Advisors. As a reminder, all participant lines will be in 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepika Sharma from Go India Advisors. Thank you, and over to you, ma'am.

Deepika Sharma: Thank you, Michelle. Good afternoon, everyone, and welcome to the Q4 and FY23 Earnings Call of ZIM Laboratories Limited. We have on the call Dr. Anwar Daud, Chairman and Managing Director; Mr. Shyam Mohan Patro, Chief Financial Officer; Mr. Zulfiquar Kamal, Director Finance; Dr. Chandrasekhar Mainde, CEO and Executive Director, ZIM Health Technologies Limited; and Mr. Zain, Investor Relations.

We must remind you that the discussion on today's call may include certain forward-looking statements and must therefore be viewed in conjunction with the risks that the company faces. May I now request the management to take us through the financials and the business outlooks, subsequent to which we will open the floor for Q&A. Thank you, and over to you.

Anwar Daud: Thank you, Deepika. Good afternoon, esteemed audience. I extend a warm welcome to all attendees joining us for the inaugural earnings call of ZIM Laboratories Limited. Our differentiation and value proposition is in our ability to develop and supply combination generic products in the oral solid dosage form using drug delivery technology and various non-infringing proprietary manufacturing processes.

Our capability is built on the foundation of a strong, experienced in-house R&D setup which provides various delivery solutions and technology platforms that are comprehensive and cover product conceptualization, product development, clinical studies, dossiers, manufacturing, as well as supplies. We have our current business offering span across pharmaceuticals as well as nutraceuticals.

The pharmaceuticals consist of pre-formulation intermediate, finished formulation, and oral solid dosage forms, which also include oral thin films. They contribute to our about 77% of the revenue and the nutraceuticals are mostly in the form of PFI, although we do have some formulation as well and that's the remaining 23%. 85% of our business is in exports. We are working on moving up the value chain through development of novel and innovative products, as well as expanding our distribution to key developed and farm-learning markets.

In the last four years, we have spent INR843 million on OpEx facility and BE studies and in '23 itself, we have invested 6.6% of revenue in R&D. We have 10 new innovative products under various stages of development for our finished formulation business, 56 dossiers were filed and 44 registrations received in financial year '23. Our Technical Director, Dr. Chandrasekhar Mainde, would be answering your questions and elaborating more on this later on.

Our business performance for financial year '23 saw us achieve a strong top-line growth of 20% and PAT growth of 67%. We have made strong capital commitments to both R&D and manufacturing facilities and have been able to keep our balance sheet strong with gearing at a comfortable 30%. Our OTF division secured second marketing authorization in Europe for the product, Sildenafil Citrate, orally disposable strip in Spain. Additionally, our partners in EU obtained five marketing authorizations on ZIM's dossier. We will continue to focus on entering the key developed and pharmerging markets with new innovative generic products while growing our RoW business in line with historic trends.

At this point, I would like to hand it over to Mr. Shyam Patro to discuss the financial highlights of the company.

Shyam Patro: Thank you, sir. Good afternoon to all our esteemed audiences. We are pleased to present the financial performance for the year FY23. Let me present the overall financial results. Total operating income for the financial year 23 amounts to 3,985 million, which indicates about 19.5% on a year-on-year growth. EBITDA for the year FY23 reached at 584 million, which shows about 28.7% year-on-year increase. The EBITDA margin for FY23 stood at 14.7% as compared to 13.6% in FY22. PAT, that is profit after tax for FY23 was 244 million, experiencing substantial year-on-year growth of 67.2%.

The PAT margin for FY23 was 6.1% compared to 4.4% in FY22. The finance cost for FY23 was 56 million, which is down from 83 million in FY22. The gearing stood at 30%, with overall borrowing at 596 million in FY23. Return on capital employed in ROE for FY23 were 16.8% and 13% respectively, compared to 12.5% and 8.7% for FY22.

The export business for FY23 amounted to 3,382 million, contributing about 85% of our total operating income and experiencing a 25.2% growth from 2,701 million in FY22. The domestic business for FY23 was 603 million, comprising 15% of our total operating income. The number of borrowings has been reduced to 596 million in FY23 compared to 899 million in FY20. We have invested over 261 million in upgrading plant and equipment, specifically for the manufacturing unit for novel innovative products, which is otherwise we call it NIP products. The gross loss added in FY23 was amounted to 261 million, with total gross investment of 618 million over the past 4 years.

Let me update you briefly on the quarterly basis. Our total operating income for Q4 FY23 was 1,054 million, representing a 4.4% Q-to-Q increase. EBITDA for Q4 FY23 reached 161 million, with a 3.9% Q-to-Q increase. Similarly, EBITDA margin for Q4 FY23 was consistent at 15.3% compared to Q3 FY23. PAT Q4 FY23 amounted to INR72 million, experiencing a 9.1 million Q-to-Q increase. PAT margin for Q4 FY23 stood at 6.8% as compared to 6.5% in Q3. The finance cost for Q4 FY23 was 13 million, went down from 16 million in Q3 FY23.

So now we can open the floor for further questions. Thank you.

Anwar Daud: Along with Shyam, present are Dr. Chandrasekhar Mainde, our Technical Director; and co-promoter Mr. Zulfiqar Kamal.

Moderator: Thank you very much, sir. We will now begin with the Question and Answer section. Anyone who wishes to ask a question, may press star (*) and then 1 on their registered telephone. If you wish to remove yourself from the question queue you may press star (*) and then 2. Participants are requested to use handsets while asking a question. Ladies and Gentlemen, we will wait for a moment while the questions you send in.

The first question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Hi, sir. Thanks for the opportunity. Firstly, congratulations to you and the entire team on a good set of numbers and for the detailed presentation that you gave. If we can also talk about a few of our products, like you mentioned the revenue breakup in terms of export, in terms of PFI formulation, OTF. But if you could further break it down for us in terms of what are the key products that we do? And given by the fact that most of our products are in pain management and generic, which are quite old. So how is the competitive dynamic there and how are we able to grow despite such competitive dynamics?

Anwar Daud: Yogansh, this is Anwar Daud speaking again. You know, as we have been saying in our presentations which are posted on our website, we are a process innovation company. We are therapy agnostic basically. We use our technology platforms to create differentiation and usually we make difficult to manufacture products. So they can be in any therapeutic category and that's what gives us our margins and our edge. Coincidentally, the portfolio happens to be leveraged towards pain, urology, supplements, and antibiotics. But we believe that we can take on any difficult to manufacture products where we can offer a drug delivery solution which really targets patient convenience and treatment adherence.

Yogansh Jeswani: Got it, sir. So sir, another thing on the same, so if you could just break it down in terms of which therapy contributes to how much percentage of the revenue? Basically, what I am trying to understand is out of this INR400 crores, which therapy or say 5 or 10 products if you could name it out for us and tell us what contributes how much?

Anwar Daud: I think at this moment it's not possible. Maybe later on when we are in a position to do that we will post it as well. Good question to ask and good question to answer later on.

Yogansh Jeswani: Got it sir, we will follow it up later. Secondly, we have mentioned in one of our slides and also in our opening commentary that we have developed several new OTF products and we have gotten a lot of approvals from European markets. So, if you could help us understand in terms of what is the potential of it? Are we looking to start these businesses in commercial scale from FY24 and if yes, what could be the proportion? Like currently you mentioned 15% of our business is from OTF. Going forward what this number could look like in FY24?

Anwar Daud: See the OTF technology itself is massive although it's an $8 billion market. We believe, we have a fairly wide range of products which we have been able to obtain MA and which are under co-development with various partners. Because the whole dosage form is at an early stage, it's difficult to put numbers on it. However, we believe in the potential and the promise of this dosage form because it imparts convenience and treatment adherence and solves many problems for the patient.

Yogansh Jeswani: Got it. So sir, one of the products that we mentioned, the European customer has got approval, marketing authorization on our dossier. So is there any fixed contract or any such arrangement wherein we have some visibility on what could the business be like from that or this is still a very nascent thing and still under development?

Anwar Daud: I think we believe in using our dossier to help our partners obtain MA and we also have supply agreements with them. We have a supply agreement with all our partners who have obtained MA using our dossier. So we do have some projections. At this moment we are not in a position to speak about those projections. We do believe, the OTF technology has an interesting time ahead.

Yogansh Jeswani: Got it. Sir, if I may squeeze in one more question. I have been looking at the R&D spend that our company is doing for last several years and in the presentation also we have given a very detailed break up in terms of how much of it was capital expenditure and how much in employee and so on and so forth. We have been doing this R&D expense consistently for last several years and we have been also talking about the differentiated products that we have.

So if we have to go a step further in this apart from just the quantitative details of it, if you could share few instances because we have been doing this R&D for last many years, few instances of our successes, what has been the outcome of these spend that we have done? Maybe if you could probably share the example of one or two products that we might have come out with and just give us a little more qualitative aspect to this R&D spend also?

Chandrasekhar Mainde: Hi, this is Dr. Chandrasekhar Mainde. I am the Technical Director. I wish to mention you here, we have developed some of the platform technologies like which has been Micro Emulsion Coating Technology, Pellet Cold Forming Technology, Rapid Gel Forming Technology, and Matrix Pore Forming Technology. These are platform technologies on which we have already developed the product.

If you see the products available with this technology, some of these are very new technologies. This is alternative technologies to the existing technologies. So, this is offering a lot of saving in terms of the generic products. So based on this technology till date, we have a very big program for the submission to the Europe and the regulated market. Based on this technology, like Micro Emulsion Coating Technology and Pellet Cold Forming Technology, we already submitted the two products in the Europe market.

Another two products will come into this quarter and three to four products in third and fourth quarter. So whatever we have done in the investment is in the platform technology, that is now a real investment and it has been appearing in the generic submission in the EU market. Most of the — till 2 submission has been accepted as a generic submission and further submissions will also be accepted as a generic submission.

Anwar Daud: So this is Anwar Daud again. As you were speaking about examples, I think the fact that we were able to innovate and be a pioneer in the oral film technology by itself. We have several patents covering -- a family of patents covering the technology that we have. We make oral films which are, which don't curl up or which don't have -- which are not hygroscopic and clumped together.

And we were able to get two marketing authorizations in Europe using our technology, Rizatriptan and Sildenafil Citrate, and two more products have been filed. So we will be reporting the progress of the unique and very differentiated products that are emerging out of the investment that we have made in technology platforms to start with, enabling technology platforms and then the various products as they will be filed, of course we will be disclosing them suitably. Just to add to what Dr. Chandrasekhar Mainde stated about the technology and its power.

Yogansh Jeswani: Got it sir. That's really helpful sir and I will get back in the queue if I have any more questions. Thank you for your time.

Management: Thank you.

Moderator: Thank you. A reminder to all the participants, you may press star (*) and 1 to ask a question. We have the next question from the line of Yogesh Tiwari from Arihant Capital Markets Limited. Please go ahead.

Yogesh Tiwari: Thank you for taking my question. My first question is what will be your capital expenditure for FY24 and '25? And what would be the potential of our current facility? What would be the utilization? And are we planning for any future expansion?

Zulfiquar Kamal: Yes. So this is Zulfiquar Kamal, Director Finance, Promoter Director Finance taking this question. So, as we have mentioned, the CapEx going forward will be on the similar line. And all the CapEx, presently all our facilities are well equipped to do the existing turnover and it is around, depending on around the requirement of the market and the condition, we will further do our CapEx accordingly. And presently, looking to the pace of the growth and the requirement, we will be going in for further CapEx, which will be more on the similar line.

Yogesh Tiwari: So what would be like the utilization of our facilities as of now?

Zulfiquar Kamal: Presently our utilization around 60%, which is normally the optimal utilization of any pharmaceutical plant. It mostly depends on the batch manufacturing and product mix. It is mostly dependent on the product mix and batch manufacturing requirement and the timings of the product.

Yogesh Tiwari: And sir, the future expansion, it will be on the existing plant or like we will have, we'll also look for additional land buying or similar assets?

Anwar Daud: So this is Anwar Daud speaking again. Sir, expansion, we have an expansion going on in the existing campus. We are creating new blocks for some of our NIP products where we feel that there will be large volumes in the coming years.

We also have expansion plans in the form of expanding our nutraceutical facilities. In the form of a new greenfield nutraceutical plant in another new facility. There are upgradation and de - bottle necking-making projects also in process to increase capacity.

So it's all around. We are trying to increase capacity looking at the future and where we will have the maximum pin points which we are likely to face in looking at the product that we have. And also we are trying to use, as you have seen in our balance sheet also reflect, we use our cap. liquidity very judiciously and conservatively.

Yogesh Tiwari: Thank you sir. So, any timeline for this expansion like you mentioned, there is some ongoing expansion in the pharmaceutical segment also in the nutraceutical. So any timeline we can expect for this brownfield expansion?

Zulfiquar Kamal: The warehouse is nearing completion. The other Nutra facility will be on the basis of the similar expansion plan which we have already mentioned. Other special suits for specialized NIP products will be taken over in this year and we will be trying to complete by somewhere early next year.

Yogesh Tiwari: And sir, any particular market which will be targeting in the exports side?

Zulfiquar Kamal: It will be further regulated in European market.

Yogesh Tiwari: Okay. So have we received the required approvals for targeting the regulator? I think so we have received some for Europe, but any further approvals in the regulated markets for these upcoming products?

Zulfiquar Kamal: Yes, so Dr. Mainde can take on this.

Chandrasekhar Mainde: Yes, thank you sir. I would like to tell you, as Dr. Daud has mentioned, that this expansion are in our existing premises. So this is an additional capacity that we are creating within the same premises. So this will be added to our existing plan and this will be, approvals will be taken for this thing. This will also extend our filings in this thing.

So basically, this type of expansion doesn't need any separate approval. This approval will come along with our existing approvals. And we have a very good schedule for this thing, for this approval. In ‘24, once this facility is ready, we will take EU-approval. We will not have any issue because this is already in the expansion of our existing facility. Another word, expansion is what we are doing, that is the automation of particularly the packaging line, which will save us a lot of manpower from the existing.

Yogesh Tiwari: Sure, sir. And sir, in terms of export markets, if you can share some outlook, what would be the potential from our current markets of MENA, South East Asia and Africa, and from upcoming markets in Europe and other regulated markets, what is the outlook like and current export potential and the future? If you can give some, share some thoughts on that.

Anwar Daud: See, we will continue. This is Anwar Daud speaking again. We will just answer your question in short because it requires a long answer, unfortunately. But we are continuing on our journey of transformation of the company. And the transformation is all around in the terms of moving up the value chain, moving up the regulatory chain, going into markets where we have not been present before, working on the products which are complex and where the competition space is favorable to the company, going into new areas like Nutraceuticals, which has delivery solutions, which requires delivery solutions as well.

So, I don't know. It's transformation. We will continue to grow. There might be some temporary headwind. Current markets will grow, will show stable growth. But, in general, there will be a growth on what we have been projecting in our presentation.

Yogesh Tiwari: And, sir, can you share some thoughts on the debt reduction? So, there was a debt reduction in FY '23. Going forward, what would be the number we will look at? Like, any other further debt reduction on the balance sheet?

Zulfiquar Kamal: Yes. So, already we have mentioned that it will be on the similar lines. It depends on the CapEx what we are planning this year. So, if there is not major CapEx, there will be not much change in the debt. But definitely, if CapEx are required to be done, we have already taken bank sanctions and similar debt sanctions available with us. But again, by next quarter, we will be able to give more clear picture on the same.

Yogesh Tiwari: Sure, sir. And finally, last question. So, if I take a medium-term view of three years, what would be our targets in terms of revenue growth and operating margins? Are we comfortable at current levels, around 15%? So, what would be like the revenue and guidance we are looking at, the revenue margin?

Zulfiquar Kamal: As Dr. Daud mentioned, our RoW and existing business will have an upper teen growth. And the major growth we expect, future outlook will come from the NIP products in the regulated market. And on similar lines, we will be able to have the growth of the company going forward in the revenue and both in the margins. The margin will, can also see an upgrade where the NIP products and the high technical value products from regulated market will come.

Yogesh Tiwari: Sure, Thank you sir.

Moderator: Thank you. The next question is from the line of Naman from Perpetuity Ventures LLP. Please go ahead.

Naman: Hi, sir. I have one question on the gross margin side. So, over the last couple of quarters, we have seen a sustained improvement. So, what is the drivers of these improvements and where can we expect your overall gross margins to be at in the future? And secondly, can you share any split or any differentiation in gross margins which you see in the domestic business or the regulated market business?

Zulfiquar Kamal: Yes. So, Naman, as I mentioned earlier also, the gross margin is basically a combination of product mix and the product what we are giving in different markets. So, the gross margin what we are expecting will be stable for the existing business. We will try to be a competitive player in our RoW and MENA segment. And for other, definitely for the regulated market which will be coming down the line and also our co-development income and licensing fees, there will be definitely some increase in that.

Moderator: Thank you. The next question is from the line of Raghav Vedanarayanan from JM Finance. Please go ahead.

Raghav Vedanarayanan: Yes. Hi. So, basically I have two questions. So, building upon the previous participant's question, you had mentioned that the major growth will be coming from NIP products in the regulated market, right? So, I just wanted a timeline on when we can expect the earnings to flow in from these products? And the second question is just a guidance on what we expect the ETR to be going ahead and also how can we look at interest costs going ahead. Thank you.

Zulfiquar Kamal: Yes. So, as Dr. Mainde mentioned, the NIP product, we have already filed registration and it normally takes around 1.5 years. So, by end of '24, we will be expecting revenues to come on the manufacturing and sales side. However, the revenue may also be coming from our dossier income and other income, out licensing income, which will start coming in this quarter, continue to start coming in this quarter or in next quarter for other products, including some of Oral Thin Films. Other question was?

Raghav Vedanarayanan: Growth in NIP products and timeline?

Zulfiquar Kamal: Timeline. Interest costs. I mentioned that interest costs already we have brought down by having a better credit rating and other things. And we don't foresee any interest costs further to raise as and when the debt department will come looking to the project, we'll be according in the similar line going forward.

Raghav Vedanarayanan: Yes, that's helpful. Just one more question. So, regarding the dossier filings, how many have been done for this quarter and this year? Could you please give us a break up?

Chandrasekhar Mainde: Hi, this is Dr. Chandrasekhar Mainde. We have done in the last quarter of the '23 – '22 - '23. We have done the two submissions in the Europe market. Along with that, we have a seven, eight submission in the RoW market. And what we are planning now in the coming year, this quarter, the first quarter, we will have a two submission in the Europe market. In the second quarter, we will have a two submission in the Europe market, as well as the some of the highly regulated South American markets. And three submissions in the last quarter of this year. So, it comes to approximately overall 10 submissions till the end of this financial year.

Raghav Vedanarayanan: Thank you so much, sir. And if you just permit me one more question. Could we also have a split of the in-licensing, out-licensing, and the income from the dossier filings?

Chandrasekhar Mainde: Yes. Actually, what we are doing, we are filing these products on our own in the Europe. And we are searching for the partners who can give the licensing fees and then a supply agreement with them. Also, similarly, we are extending this product in the highly regulated market, in the South American market, where we can get a dossier fees for our technology, existing technology development. And also, we are getting a supply contract.

So, basically, our model is to get whatever we are doing investment in the product on the terms of product development and bioequivalence, we are getting a dossier fees and subsequently we are signing the supply agreement for the period of three to five years.

Raghav Vedanarayanan: Okay, so that's understood. No, but actually I wanted a split of the income from these three different verticals, the in-licensing, out-licensing, and the dossier filing?

Anwar Daud: We don't do any, this is Anwar out speaking, we don't in-license anything. We build our own technology, so we out-license. And most of our out-licensing agreements can, in a way, Dr. Mainde was speaking about how you kind of recover and profit on the R&D, that kind of R&D that we do. First of all, through co-development, there is a second stage where we out-license dossiers without filing them on our own. The third stage is we file and we wait for the right partner and then we transfer the MA to them and enter into a distribution and supply agreement.

So all these three methods are equally viable. And just as an information, we almost never enter into any exclusivity agreement. All our agreements, all our out-licensing deals are non-exclusive. So we are free to have any number of partners, multiple number of partners, geography-wise, with whom we can enter into agreements.

Raghav Vedanarayanan: **Okay sir. That was helpful.** Thank you, sir.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Hi, good afternoon, sir. So my first question is, if I look at our presentation, we have spent close to INR84 crores on R&D on various technology platforms. So when I look at our numbers over the last five, six, seven years, our revenues have been close to 8% to 10% and margins, block margins, have been around 50%.

So is it safe to say that all the efforts and money that we have put in R&D, they are yet to materialize, to reflect in terms of both revenue growth and margin expansion? Is that the right way to look at it?

Anwar Daud: That's right. We believe that the company is at an inflection point and most of the work that has been done, we are yet to see the results. All the results that you see now are based upon some initial shoots and the existing and the legacy business that the company has already had.

Dhwanil Desai: Okay. So taking this forward, does it mean that let's say next three, four, five years, we will see significantly higher revenue growth from let's say from 8% to 10% to maybe 15% to 20% and gross margin also will expand. Is that a right way to look at our company from next two to four year perspective?

Zulfiquar Kamal: Yes. So this is Zulfiquar Kamal, Finance Director. Yes, as we have mentioned earlier also, you must have heard our existing business will keep on going on the basis of the similar growth pattern of the upper teen. And definitely the future growth we are expecting that will come from NIP products which have been filed in regulated markets, which we are confident it will be somewhere in the last quarter of 2014. We'll start.

Dhwanil Desai: Okay. The second question is in our overall region-wise revenue for export for the total revenue. Can you help me understand what is our contribution coming from the regulated or semi-regulated markets currently? And how do we see that changing over the next two, three years?

Zulfiquar Kamal: Yes, it is again on the similar line. Present business is mostly from the existing MENA markets and our exports from other rest of Southeast Asia and others. Regulated market group is hardly not more than 7% to 8%, which will further increase going forward because all our submissions and filings are done to European markets. And now the submissions are done. So other than the existing growth, the future growth will be added from the regulated markets. Especially Europe and South America, as Dr. Mainde mentioned, where we are filing the dossier.

Dhwanil Desai: So this Europe and South America, whatever difference we are supplying is reflected in the 18% of the rate. Can you quantify the percentage in terms of what we are supplying to Europe and South America?

Zulfiquar Kamal: As of now, it will be very difficult for us to quantify any percentage.

Dhwanil Desai: Okay, got it. And do we see our R&D expenses going forward also remain in the same range at 6%, 7% of revenue? Or do we see that with the scale coming in, as a percentage of revenue, that number may go down to absolute numbers may remain same on growth like we are?

Zulfiquar Kamal: You are right. The absolute numbers will remain the same because we believe in continuous investing in R&D and we are a technology company. We have already many technologies and already Dr. Mainde has briefed, we are working already on many technologies. So the absolute number will have some consistency, but as a percentage, they may go a little down.

Dhwanil Desai: Okay. I missed out on the number from our current facility, how much we can do. And let's say if we have to grow at 18%, 20% for next 3-4 years, don't we think we need to take those significant CapEx going forward?

Zulfiquar Kamal: No, we will be able to manage from our existing facility looking at the CapEx plan what we have already mentioned and which is under process. We don't require any separate big CapEx plan or a new facility for going forward.

Dhwanil Desai: Thank you, sir.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Pritam from Wealthyvia. Please go ahead.

Pritam: Sir, my question is regarding the new NIP products. Why our products are better than any of our competitors and what will be the EBITDA margins in those products going forward after two years? Also, how will be the mixed earning out from the Nutraceutical versus Pharma going forward?

Anwar Daud: Sir, I'll answer your part of the question. This is Anwar Daud speaking. You asked about the margins and other things. I think the answers already given are enough of a giveaway. We believe that in general the margins will improve. We believe that the kind of business that we are doing is focusing on drug delivery solutions. That's a very powerful and important method for formulation in an age where we are looking for convenience and treatment adherence.

If you read up some of the information on treatment adherence and loss to any country or any nation due to non-adherence by patients, in some cases it's as much as 30%. So, our focus on using technology to target convenience and treatment adherence is very apt for this time. That's where we are putting most of our technology, our intuition, and our strategy behind.

Now, you asked another question on NIP products. So, these technologies are targeting that and again I will ask Dr. Chandrasekhar Mainde to join in and elaborate.

Chandrasekhar Mainde: Hi, this is Dr. Chandrasekhar Mainde. See, our NIP product, your question was how and why our products are better. Basically, we are using the alternative technologies which are our patented technology. That gives a better product than the existing generic product. We cannot disclose more at this moment how it is developed, but our products are generally coming with the removing the drawbacks of the existing reference, what we call the innovator product and adding value. So, we can call our products as a value-added generic.

So, this is in terms of changing the size of the product, this is in terms of changing the costly technology to somehow to the normal technology and matching the product in terms of bioequivalence, what is the requirement. So, our products are value-added generic. Thus, we are getting a better value in the generic market for that.

Anwar Daud: And to add, finally, you also asked about the composition in terms of pharma and nutra. For some time to come, we believe that the pharma and nutra business will continue to have the 75%-25% ratio.

Chandrasekhar Mainde: But we are basically a pharmaceutical.

Anwar Daud: We are a pharmaceutical company.

Pritam: Okay, sir. Thank you, sir.

Management: Thank you.

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

Ankit Gupta: Thank you for the opportunity. I have a few questions. I wanted to understand our new key business or regulated market business. So, currently, we have some OTFs; oral films business from which we get some marketing authorization. So, are we getting any revenues from this or we are not getting much revenue from this currently?

Anwar Daud: Yes, this is Anwar Daud. So, as we said, there have been licensing fees and co-development fees received up till now. So, there is some business and then a few supplies have started. Some approvals have been received. And some of these products have been sold in the RoW markets as well. So still, it's a small business.

Ankit Gupta: So, you expect this business to pick up in the EU market in FY ‘24-FY ‘25?

Management: Yes, so already we have mentioned -- this is Zulfiquar Kamal. So, we have mentioned that the filing and permission has already been received for two products, that is Sildenafil and Rizatriptan, as Dr. Daud mentioned. And we are expecting the order -- this revenue may start in the second quarter or maximum by third quarter.

Ankit Gupta: So, this will be based on agreement with your partners, which will be either on profit sharing or revenue sharing?

Management: Basically, normally a supply chain agreement and the margins are built in.

Ankit Gupta: Okay sir**.** Coming to our new innovative product, NIP business. So, currently we have filed two but we don't have any approvals for the EU market in NIP products.

Management: We already submitted our product in the last quarter of the ’22 - 23 year and it's just been three to four months. We are expecting approval approximately within 18 months to 24 months.

Ankit Gupta: Got it, sir. So, how competitive is the product currently? Is it already genericized or the patent is still prevailing and will go up in the coming few months?

Management: As I mentioned earlier that our products are based on the technology, so it is a unique product. So, products are -- products what we submitted are, one product has genericized but the competition is not that much. The second product has not been genericized and whatever the products we are submitting, many products will have some formulation patent hurdles even after the API patent goes. So, this will give us the added advantage.

Ankit Gupta: Sure. So, the market potential of 0.5 billion to 1.5 billion per product that we have written in our presentation, this is like the current market size for the innovators?

Management: Yes, it is based on the current market size but many of the products are even a little bit genericized with the one generic it is showing the growth. So, that is a positive side for our product.

Ankit Gupta: So, the remaining 10 new products which are under development and four which we are planning to file in FY ‘24, those are also expected to be genericized or it is a mix of both? They're already off patent and some are expected to be off patent in coming few years?

Management: Yes, some of the products, what we are filing, the products are going gradually out of patent. Like that, some of the products will go out of patent in ‘24, some will be ‘25, ‘26. Like that, we are filing the product approximately one year to 1.5 years before the product patent is getting on. Maybe that time is sufficient for getting approval and we are in the race for the generic product.

Plus again, I would like to add here, we have some added advantage. Like there will not be many generic because there is this product are basically technology oriented products.

Ankit Gupta: So, our facilities are EU GMP approved?

Management: Yes, our facilities are EU GMP approved. We have almost 15 different approvals.

Ankit Gupta: Apart from EU, which other regulated markets are we targeting?

Management: We are targeting to Australia, we are targeting to the highly regulated markets of South America, also some of the EU related regulated markets.

Ankit Gupta: Sure, sure. My second question was on the export business that we do to MENA, South East Asia, and Africa, last year we have seen or even this year we have seen quite a bit of challenges on the currency side. So, are we seeing some issues on the currency side which is impacting our business or we haven't seen any such challenges?

Anwar Daud: You are right, there are some challenges. Basically currency and inflation related, in some of the countries where we operate. But these are just early signs. I think because it is a pharmaceutical business, these things -- our experience shows even out in the air and everything gets smoothened out over a period of time.

Ankit Gupta: Sure. Also, I wanted to understand your strategy on the domestic business side. We are largely a B2B supplier on the domestic business side. So, we supply to state government, others and deemed export. So, any plans of starting our own brand or selling in our own brand name? What is your outlook on the domestic business as well, going forward?

Anwar Daud: We feel that as an Indian company, we certainly should look at the Indian market and we are doing that and at this moment, the Indian market looks interesting for us. We have the OTC business, we have an e-commerce idea, e-commerce launch, which we are ideating with, regarding the ODS business, nutra and domestic market. But we will come back to you with more details as the months – quarters go by.

Ankit Gupta: Sure. And then last question on the OTF business side. So, despite being a very innovative technology which is pushing up globally, our business hasn't grown much. From FY '20 to FY '23, as you mentioned, the growth rate has been just 12% and even it's still a very small, at a very small base, it looks a bit low. So what has been the reason for such a low growth in OTF business over the past three years?

Anwar Daud: I think we are, as far as the technology itself is concerned, it's still at the very nascent stage, I would say. Although, the technology has been around for a long time, but taken a lot of time to pick-up. We are a pharmaceutical company, particularly which doesn't do too much of nutraceutical, where you see a lot of action in most markets. But as far as pharmaceutical is concerned, we think that the business will grow in the EU after our submissions and out-licensing deals are played out.

And OTF and RoW is difficult because most of the RoW countries, as well as India, as you know, are more of a price sensitive, follow-on market. Something is accepted very well outside India, then it catches on in India. So in that sense, we are early, but we do believe in the technology. We have positioned ourselves as a pioneer in the technology. We have a rich portfolio of pharmaceuticals, as well as nutraceutical products, ready for whenever the market is ready for us.

Ankit Gupta: Thank you.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Romil Savaliya from Concept Investwell. Please go ahead.

Romil Savaliya: First of all, congratulations on a great set of numbers for FY '23. A few questions on the new product side. So first is, what is the expected EBITDA margin? As you guided in your IP data, it will be better than whatever we have currently around 12%-13% on console basis. So what will be new products EBITDA margin?

And secondly, on the revenue side, revenue potential for the new products. That's it, sir.

Zulfiquar Kamal: Yes. So this is Zulfiquar Kamal, Finance Director. As already mentioned to you earlier, the revenue projections, we have already submitted these products and some products are under submission. And these projections we are expecting in two ways. That is the licensing fees to start with and then the revenue, which we expected, may end up somewhere after 18 months. It will start when the supply and sale agreement will start.

As far as the EBITDA margins are concerned, definitely there will be more EBITDA margins. There will be more in this new product because they are highly innovative products.

Romil Savaliya: Thank you, sir.

Management: Thank you.

Moderator: Ladies and gentlemen, the line for the current participant has been disconnected. We move on to the next question, which is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Hi, thanks for the opportunity. On the CapEx, it seems to me this year our CapEx has been one of the highest compared to what we have done over the last few years. So, if you could also share how much of this CapEx is towards plant and machinery and how much was it for the warehouse and in total how much this CapEx has added to the capacity?

Management: Yes, so the capex, most of this year it was more on the warehouse part. It was maximum on the warehouse and as far as other CapEx was on -- 117 million was in the warehouse and rest was on the more of a capacity balancing and on the increase in the other packing material and the packing belt capacity and further details we will update you as and when we can get the full details. And this capitalization is already going on for this next year also.

Yogansh Jeswani: Got it. And sir, lastly one of the participants asked you this question around gross margins. So, just to get a more sense on it, so going forward with the kind of pipeline that we have in terms of both OTF products and NIP products. So, do we think, that say in next one year, two years our margin profile can change, gross margin or operating margin? Can we move from 13%-or, 12%-13% operating margin to something like an 18% to 20% operating margin kind of a level? I am not asking for exact guidance as such. I am just trying to understand is that a possibility going forward with the kind of product that we are working on, or is the product profile that we are in is competitive and this is a fair operating margin level?

Anwar Daud: Well, as you can, I am Anwar Daud speaking, as you can understand the company is in a transformative stage and of course that is the intention to increase the margin to grow the company in the right direction. So, we are expecting that. But as you also know that pharmaceutical is a long distance business. Approvals come in, when the approvals come in there can be a different competitive landscape. So, that is why we are very wary of giving these kind of specific calls on by how much and what will it be actually but that is the intention that is the general trajectory in which the company is growing itself.

Yogansh Jeswani: All right, fair enough. That is it from my side sir. I wish you and your team all the best.

Anwar Daud: Thank you very much.

Moderator: Thank you. The next question is from the line of Rohit from I-thought Financial Consulting LLP. Please go ahead.

Rohit: Thank you sir. Most of the questions have been answered. Just two or three questions. One was, sir, so what is the cost of debt right now? In the annual report you mentioned that you have got it down from 15% to 12.5%. What is the cost of debt right now?

Management: Around 10.5% as of now, the cost of debt. This is Zulfiquar Kamal, Director Finance.

Rohit: Sure, sir. And in answer to one of the previous participant's question, you mentioned that the regulated business today is very small. So, in terms of revenue mix, so let's say three-four years out, I mean, what kind of share do you expect from the regulated markets? If you can give a broad range, that will also work. Just to give us a sense of what will be the opportunity for us?

Zulfiquar Kamal: So, as we mentioned earlier, the normal growth in the regular business will continue at a higher deal but, the future business will come mostly from the regulated business. So, we can foresee that as of now it will be doubled in the coming few years. The regulated contribution from the present mix.

Rohit: Okay, so you mentioned about 6%-7% was regulated market. So, you expect it to be around 15% or 12% to 15%, is that fair?

Zulfiquar Kamal: Yes, sir. Percentage to the total mix. Between 15% to 20%.

Rohit: Okay, sure. And sir, I missed it. I don't know if you shared it earlier. Did you quantify the amount of revenue that we got from some of these arrangements, the income that we get for filing dossiers from some of the partners? Did you share that? If you can, if you haven't and if you can share that?

Management: Yes, so it is clubbed under general category. Other income is not included.

Anwar Daud: It is difficult to quantify just now. Maybe in future quarters we might be able to make a much more elaborate presentation on this. As the quantum of the out-licensing in business grows.

Rohit: Sure, sir. Thank you, sir. I think most of the questions have been answered. Thank you, very clear. Thanks. All the best.

Management: Thank you.

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

Anwar Daud: Thank you. We trust that we have been able to address all your inquiries to your satisfaction. If there are any remaining unanswered questions, please don't hesitate to contact our Investor Relations agency, Go India Advisor. They will be more than happy to assist you further. It is almost impossible to understand all the questions and we are not facing each other. I apologize for that. But I think we were very happy to take all the questions that were asked and we are very happy to take this forward as well. Once we hear from any of you who have attended and seen our presentation.

Moderator: Thank you very much, sir.

Management: Thank you.

Moderator: Thank you, sir. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.