

Vimta Labs Limited

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Listing Centre
B S E Limited
P J Towers, Dalal Street
Mumbai: 400001
Scrip Code No.524394

Asst Vice President
National Stock Exchange of India Limited
“Exchange Plaza”, Bandra
Kurla Complex, Bandra (E)
Mumbai – 400051
Trading Symbol: VIMTALABS

Dear Sirs,

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Sub: Transcript of the Q1-2025 earnings/investor call held on 18th July 2024.

Please find enclosed herewith the transcript of the Q1-2025 earnings/investor call held on Thursday, 18th July 2024.

Further, pursuant to Regulation 46 of the Listing Regulations, the aforesaid information is available on the website of the Company i.e., <https://vimta.com/investor-earnings-call/>

This is for your information and necessary records.

Thanking you,

Yours faithfully,

for VIMTA LABS LIMITED

Sujani Vasireddi
Company Secretary



Encl: as above.



**“Vimta Labs Limited
Q1 FY25 Investors Conference Call”
July 18, 2024**

MANAGEMENT: MS. HARITA VASIREDDI – MANAGING DIRECTOR

**MR. SATYA SREENIVAS NEERUKONDA – EXECUTIVE
DIRECTOR**

MR. NARAHARI NAIDU – CHIEF FINANCIAL OFFICER

MS. SUJANI VASIREDDI – COMPANY SECRETARY

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

Moderator: Ladies and gentlemen, good day and welcome to Vimta Labs Limited Quarter 1 Investors 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: Thank you, Sejal. Good afternoon, everyone. On behalf of Systematix Institutional Equities, I welcome you to the Q1 FY'25 Earnings Call of Vimta Labs. We thank the Vimta Labs management for giving us an opportunity to host the call.

Today, we have with us the senior management of the company represented by Ms. Harita Vasireddi, Managing Director; Mr. Satya Sreenivas Neerukonda, Executive Director; Mr. Narahari Naidu, Chief Financial Officer; and Ms. Sujani Vasireddi, Company Secretary.

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

Harita Vasireddi: Thank you, Vishal. Good afternoon, everyone. Thank you for joining Vimta's Q1 FY '25 Earnings Call today. As the new financial year has begun promisingly, let me take you through how the industry dynamics were briefly over the quarter, and then I will shed some light on our business.

The quarter began with the global economy showing signs of stabilization, but at a relatively weaker pace, a sustained recovery will depend on factors such as the pace of inflation reduction, the evolution of geopolitical tensions and the effectiveness of policy responses.

Within the industries we operate in, that is the CRO industry and the TIC industry, there are growing opportunities for testing and contract research across many of the industries and more and more companies do rely on external organizations such as ours to outsource services that require special technologies and knowledge.

Over the quarter, the business overall remained kind of stable and despite the capacity constraints that we have been experiencing for over a year now, the company grew 3% on a sequential quarter basis, resulting in a total income of INR824 million. This is the result of hard work and dedication of the team at Vimta. The growth was mainly led by the Pharmaceutical Services.

During the quarter, we had a successful U.S. FDA remote audit with no observations. This was related to the clinical research studies. We recently received grants in aid of INR40.9 million from the Ministry of Food Processing Industries for the upgradation of our food testing laboratories at our Life Sciences facility in Hyderabad. This will assist us to invest in latest technologies, thereby giving a push to the Food division and our overall business.

As you all may know, in line with our plans of doubling our capacity, we will be inaugurating our new buildings at Life Sciences facility in Hyderabad very soon. Our double capacities at Genome Valley, Hyderabad campus will be instrumental for our growth over the next 5 years. The expansion project will add close to 200,000 square feet of additional space for labs and support functions.

The company re-strategized its services portfolio, providing greater impetus for driving growth in food, pharma, and electronics testing, while optimizing our other industry services based on their returns. The long-term partnerships initiated last year with globally leading pharmaceutical companies are progressing well.

On food and electrical and electronics testing for the quarter, the business remains stable, but we are seeing improvement in the overall business dynamics. Here, I would like to mention that we have planned a capex of INR70 crores to INR100 crores for the financial year 2025, out of which a portion will be utilized in setting up one more EMI/EMC testing chamber in our new facility. The transfer of testing equipment's to the new facility has started in June, and this will happen in a phased manner and the facility will be commercial in Q2 FY '25.

We have maintained our margins and will strive to continue the same going forward. We remain focused on the growth drivers and are confident that they will continue to propel the company in maintaining its leadership in our industry.

With this, I now invite our CFO, Mr. Narahari Naidu, to discuss the financial highlights for the quarter. Over to you, Narahari.

Narahari Naidu:

Thank you, Ms. Harita. Good afternoon, and a very warm welcome and thank you for joining us on our Q1 FY '25 earnings call. Our investor presentation and the financial results are available on the company's website and on the stock exchanges. Please note that anything said on this call, or which reflects our outlook for the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks which the company faces.

Now I would like to walk you through the consolidated financial performance for the quarter ended 30th June 2024, after which we can open the floor for questions and answers. I'll start with the consolidated financial highlights for the quarter. Revenue from operations for Q1 FY '25 stood at INR818 million as compared to INR835 million in Q1 FY '24.

Our EBITDA stood at INR252.1 million in Q1 FY '25 as compared to INR252.4 million in Q1 FY '24. EBITDA margin for the quarter stood at 30.6%, which is up by 50 basis points on a Y-o-Y basis. Our margins could sustain despite a marginal dip in the revenue with better operating efficiencies during the quarter. Profit after tax in Q1 FY '25 stood at INR123 million as compared to INR122 million in Q1 FY '24, up 0.7% Y-o-Y. PAT margin for the quarter improved by 40 basis points to 14.9% on a Y-o-Y basis.

On the balance sheet side, cash and cash equivalents, including other bank deposit stood at INR324 million with a total borrowing of INR130 million. I would like to highlight that we have paid back INR62 million, which resulted in debt-to-equity ratio of 0.04x. capex for the quarter stood at INR164 million. Coming to update on capex, as mentioned by Ms. Harita, by Q2 of this financial year, the new Life Sciences plant facility will be commercial along with certifications and validations received. With that, we can now open the floor for Q&A. Thank you.

Moderator: The first question is from the line of Ankit Gupta from Bamboo Capital.

Ankit Gupta: So my first question was on the revenue growth. If you look at the past 8 quarters, we have been stuck in the range of around INR75 crores to INR80 crores from let's say June '22, almost in 8 quarters where we haven't grown our top line on a quarterly basis from that range. So is it primarily because of the capacity constraints on the pharma side? Or is there any other reason that the business itself is facing challenges on the pharma side?

I do understand that some of the other segments like diagnostics might have seen the growth or food and testing laboratory wouldn't have done that well, but what is happening on the pharma side also that we haven't seen a growth in our top line for almost 2 years now?

Harita Vasireddi: Thank you for that question, Mr. Ankit Gupta. You're right, the revenue growth has been kind of flat during the last several quarters. You're also right about the reasons. The primary reason is our capacity constraints. We have been juggling with that for almost 18 months now. But for COVID, maybe we would have had this new facility that is currently under shifting. We would have probably had it with us maybe 1.5 years or 2 years ago.

So that is the prime reason. The other reason also, as you mentioned, is the, let's call it, re-strategizing or re-focusing that we have done during, especially, the last few quarters. We are primarily pushing only our pharma, food, and electronics. There is a defocus on the other services of the organization.

Ankit Gupta: Okay. So, the new additional capacity coming in from quarter 2 of this financial year, do you think we'll be able to go to, let's say, INR95 crores, INR100 crores kind of quarterly run rate by end of this financial year, let's say, Q4?

Harita Vasireddi: Yes, I am definitely hoping those are the numbers that we can reach. We hope to have a step-up in Q2. Now during Q2, also, we will be shifting all our equipment's. We are actually creating more space in our legacy building by sending some services out into the new building. So, we will have to reconstruct some of the quadrants of our legacy buildings.

So, it's not that magically a lot of space will be available, but there will be some additional space available for some of our services. But that, I think, should allow us to take a step-up in Q2. And definitely by Q4, we should see those bigger numbers.

Ankit Gupta: So, we remain confident of achieving INR500 crores top line by, like '25 will be difficult, but at least in 2026 so that will be a substantial jump from, let's say, around INR310 crores, INR320

crores kind of revenue run rate that we are doing currently on an annual basis to almost INR500 crores by FY '26?

Harita Vasireddi: Yes, it's a big jump. We are aware of the very large strides that we have to make quarter-on-quarter in the next 2 years. And we are working very hard towards that goal.

Ankit Gupta: My next question was on the electric and electronic testing. In your opening comments, you made a comment about expanding capacities on that side. So earlier when we used to talk that you used to say that at current capacity within this around INR25 crores, INR30 crores kind of run rate from the existing facilities. So, have we reached that number? And how do you see the growth for this segment over the next year or so?

Harita Vasireddi: The capacities in electronics testing, that especially EMI/EMC testing is in a couple of dimensions. One is the chamber capacity where we actually do the EMI/EMC testing. So we are just going to add another chamber. But the investment that we have done in terms of the testing tools, testing equipment, that will suffice for the INR25 crores, INR30 crores that we originally talked about. So, it's a chamber we are adding. It's like a room, another room, a very expensive room, but we need one more room because the current EMI/EMC chamber is occupied at 80% or sometimes even more every day.

Ankit Gupta: Okay. So, but we haven't reached that scale INR25 crores, INR30 crores as of now?

Harita Vasireddi: No.

Ankit Gupta: With this capacity addition, will there be any improvement that we can see in our target numbers for the electrical and electronic testing, or it will remain around INR30 crores only?

Harita Vasireddi: This chamber, the plans are moving forward by the time we order it and it's installed. I think it will be Q4, late Q4 even. So, the additional capacity will be available to us very likely in the next year itself. Meanwhile, we are trying to enhance the scope of services by adding a few other equipment, so we can address more products in the market.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: Ma'am my first question is on the food segment. If you can give some color, I think you mentioned that it was stable. So, I assume that it was flattish kind of a number. So, between non-JNPT and JNPT, how is the growth panning out? And also, you mentioned that you see some uptick in the overall environment for that segment for growth, if I understood correctly? So, some color on that would be helpful.

Harita Vasireddi: Compared to last year, the Food segment, I think, is faring much better. Last year, we were impacted by the export/import scenario of the country, so compared to that there are no headwinds to food industry as of now. In fact, there is a lot of trust from the government. Government is planning to increase its surveillance and therefore, even private testing labs will

get some share of that additional work that government will do in terms of taking care of food safety and quality.

So, in that aspect, we are, I think, in a very stable mode with respect to food industry. And for us, usually Q4 and the last quarter is the highest quarter of the year. And then it sort of comes down and then starts picking up, depending on how well we are able to drive our sales strategies. So, in that aspect, compared to Q4, Q1 the sample volumes will be slightly lower, and this is very typical. This is a very typical trend and that's the reason I made that statement that is quite stable.

Dhwanil Desai: Okay. And how is the ramp-up at JNPT happening? Is it kind of coming in line with our earlier expectation? There was some hiccups there so have you overcome that? Some color on how we see JNPT for this year.

Harita Vasireddi: We did see an exceptional month during last quarter, but that's all it was, an exceptional month, where the sample flow was high. So, we continue to pursue our dialogue with the government partners to see if they can help us with more volume. So that is going on. Nothing significant has transpired so far.

Dhwanil Desai: Okay, got it. Second question ma'am, you mentioned that you are defocusing except for the 3 segments. So, I think diagnostic and environmental are the 2 areas where probably the defocus would be happening. Does it mean that those revenues will kind of go off the books in terms of you slowly scale it down and there will be degrowth in revenue from those segments? Is that how you're looking at it? Or you are thinking in terms of more capital allocation and the sources your focus will change?

Harita Vasireddi: Both environmental testing services and diagnostics are not capital intensive. Yes, they are manpower intensive. And when we say we are defocusing, I think you may be aware that we have rolled back a couple of regional labs that we set up. Now we roll back our plan to be B2C service provider. So, our original strategy of being a B2B player in diagnostic that continues, and that is being grown organically now.

And coming to environmental testing, we have been very critically reviewing the sub-services in that. And there are some services that were not really adding value to our bottom line. So those we have deliberately cut off. So, some revenue dip has occurred, and now we are trying to pull up the other revenues from other services in the same environmental testing.

So, we are optimizing there. Our focus is very intensely on the margins because last 18 months or so we couldn't do much around capacity. So, we have done a lot of work around rationalizing the services, which ones we will push, which one we will not. So that kind of analysis in-depth work has gone into our service portfolio.

And therefore, you see those stable margins in spite of a flat top line because typically, when the top line is flat, your margins shrink, but we have made sure that the margins didn't get affected

only because we were operationally very focused on improving our productivities as well as the efficiencies.

Dhwanil Desai: Very helpful. And last question before I come back in the queue. Is that you mentioned about this INR70 crores to INR100 crores capex, so does it include the capex which is remaining for the Pharma segment? And if you can give some idea about how this capex will be divided between food, electronics, and pharma?

Narahari Naidu: So, the current capex budget, which is about INR70 crores to INR100 crores is for the operating capex, which doesn't include the project, Sahasra. For this project we already had incurred about INR50 crores in the last year. And we may incur about INR10 crores, INR15 crores or close to INR20 crores during the current year. So that's budgeted separately. The INR70 crores to INR100 is the equipment with the instruments to get the revenues, as well as replacement of our operative equipment's.

Dhwanil Desai: So how much of that would be allocated to the pharma, food and E&E?

Narahari Naidu: Majority goes into pharma and food, probably 20% or 10% to 15% goes into food, but for that majority goes into pharma.

Moderator: The next question is from the line of Nitya Shah from Kamaya Kya Wealth Management.

Nitya Shah: I wanted to ask now that the capex will be operational, what is the level of utilization you are seeing for FY '25?

Harita Vasireddi: See what we have done is invested money on infrastructure. Now infrastructure is not something that you keep on building. You do this once in a few years. So, the utilization rate will depend on the rate at which the company is able to add more business.

Nitya Shah: So around about you have spent close to, around about, say, INR80 crores to INR100 crores of this capex. So, you also guided for crossing INR500 crores in sales by FY '26. So, I just want to understand how would the ramp-up be? Are you seeing that considering the amount of sales available? Will you be able to touch, say, 40%, 50% utilization in the first year?

Harita Vasireddi: 40%, 50% utilization in the first year may not happen. My guess would be around 20% to 30%.

Nitya Shah: Fair enough. And secondly, I wanted to ask was regarding the JNPT lab. What is the peak potential of revenue from the JNPT lab?

Harita Vasireddi: I won't be able to comment on the revenues there. We are bound by confidentiality agreements with our government partners.

Nitya Shah: I wanted to ask is that you had mentioned about preclinical trials, if I'm not wrong on that, now you would be able to start catering towards that. So preclinical trials and electronics testing, how do you see the ramp-up going forward?

Harita Vasireddi: Electronics testing, I think, India is in a very good vibration. We are seeing a lot of push on Make in India, the variety of products that are coming for testing. And the industries are growing. The labs that are providing these services also quite proliferated in South and North India during the last 1 to 2 years. So, I feel the industry is very vibrant and it's going to be one of the major industries for India.

And therefore, us being in that space will definitely be beneficial to our business. Coming to clinical trials, I think I mentioned this in my previous call also, we are conducting our maiden trial, and this is going well.

Nitya Shah: Okay. Fair enough. And electronics, currently, say, in this current quarter of INR82 crores revenue, what was the percentage allocation towards electronics?

Harita Vasireddi: We don't disclose that kind of bifurcation. Now what I've always shared, I can share again. Food and pharma put together is about 85%. The rest is in the remaining 15%.

Moderator: The next question is from the line of Chirag Jain from Yogya Capital.

Chirag Jain: Most of the questions have been answered. Just a quick clarification on the Hyderabad facility that we have and are now operational almost. So, do we have the U.S. FDA inspection completed for that or it is pending?

Harita Vasireddi: It's in the same life sciences premises. So, it has the same establishment number or identity. We will not need any additional inspections from any regulatory authorities. All the existing licenses, approvals, accretions will continue.

Moderator: Thank you. The next question is from the line of Viraj Mehta from Enigma Investments. Please go ahead.

Viraj Mehta: Madam, if I look at last 4 years of our capex, we have spent more than INR200 crores of capex, including obviously the new food laboratory that we started with government, but we are again talking about INR75 crores to INR100 crores of capex. If I look at the overall capex, it will close between INR275 crores to INR300 crores, whereas we have not got anything close to a decent number in terms of revenue to compensate us for that kind of capex. What kind of KRAs you and the team think about when you keep doing such capex without any revenue increase that even we have guided in the past and we have not achieved?

Harita Vasireddi: First thing is our capex spending is of two kinds. One is on infrastructure that we don't do regularly. The last investment we have done for our Life Sciences was in 2004 to 2006 when we build the Life Sciences campus. That costed us at that time also about INR100 crores. And now is the second time we are actually adding capacity in the same campus after almost 20 years.

So you cannot club this investment with our regular capex investment. And this industry, you may be aware, is quite technology intensive. One of the main reasons companies come to us is

because of the technologies that we have and the rate at which technologies get obsoleted also depends on the regulations.

So, regulations also have been fast moving in, especially on the Pharma industry. And sometimes they were on the food side. So, every time, typically, what we invest is the depreciation value. And that's why you see those numbers repeating year-after-year. But in between, unless we add more infrastructure, the business will not grow. So that's the reason you will see those numbers. And every time we have put in a big amount of capex. I think we have shown an inflection of sales.

Viraj Mehta: So, ma'am, is it then safe to assume that if you do this INR75 crores, INR100 crores of capex that you are saying, inflection of sales, anyways, you're talking about INR500 crores by '26 now that you're saying that it looks difficult. But post that capex, what's the number we are looking at? Because there has to be some game plan that you and the management are working with, right?

Harita Vasireddi: INR500 crores is definitely possible through the investment infrastructure that we have now built. So, I'm thinking we can do even more than INR500 crores, but this is a business where you will have to keep on expanding. One is expanding in terms of infrastructure within a location, but also you will have to go and add more locations. Otherwise, geographic penetration also will not come that easily. And this is all to be considered as a build phase.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: So, my question was that I wasn't very clear as to when this new facility will start commercial production? Is it sometime Q2 next year? Or is it Q2 of this year? That was the first question.

Harita Vasireddi: Q2 this year, now, this quarter that we are in.

V.P. Rajesh: So, when you're talking about, let's say, 20%, 30% in the first-year utilization, that is for primarily this financial year and then from next financial year, we can expect a full ramp-up. Is that a fair assumption?

Harita Vasireddi: There will be a ramp-up. I wouldn't call it a full ramp-up.

V.P. Rajesh: So next year, let's say, will it be 60%, 70%, 80% kind of ranges? Or will it be still lower?

Harita Vasireddi: Very difficult for me to say at this point of time, depends on which services are scaled up, so very difficult at this point of time.

V.P. Rajesh: And because you are doing the shifting of the equipment, is there any revenue loss at the current facility because those things are obviously in transit, and they are out of circulation. So just curious, have you lost any revenue because of this shifting of equipment in Q1?

- Harita Vasireddi:** We are trying to do it efficiently. Obviously, there will be some impact, but teams are working very hard to bring down the impact.
- V.P. Rajesh:** And just last question on this INR275 crores of capex. How much has gone into this facility which you are talking about, you do once in 20 years? And how much is the capex for growth? Of course, the facility expansion is also for growth, but I'm just curious, this is sort of once in 20 years and everything else is, let's say, for a lesser time frame.
- Narahari Naidu:** So, Mr. Rajesh, so if you have to break down the entire INR275 crores, so INR120 crores has already been incurred in the past 3 years, 4 years and INR70 crores will go into the infrastructure addition, which we talked about the capacity enhancement. And the other INR70 crores to INR100 crores of budget, which we have given for the current year.
- So, this INR70 crores is to cater to our operations, which again, has to be divided into two buckets. One is for the existing services, which we are planning to cater to. Second is, obviously, we will have to replace our instruments because of the nature of the instrument is such that for every 7 years to 8 years these may become obsolete.
- V.P. Rajesh:** So let me ask my question differently. So, if INR70 crores has gone in infrastructure -- so let's say, INR200 crores, right? And out of that INR200 crores, what is sort of the maintenance capex versus the growth capex?
- Narahari Naidu:** So currently, I don't have that number, but we can definitely connect offline to discuss that.
- Moderator:** Thank you. The next follow-up question is from the line of Nitya Shah from KamayaKya Wealth Management. Please go ahead.
- Nitya Shah:** Yes, I wanted to ask was regarding that 30% of the company is owned by players in the industry. So, in the past, you have mentioned that they are silent, and I want to understand is there any other kind of angle in any way, what is their intention of owning such a big part of the company, if you put some color on that?
- Harita Vasireddi:** I don't have any specific information that would be useful. They have been with us for a long time. I think it's a good investment, therefore they are there.
- Nitya Shah:** So, there is no angle of any collaboration or synergy of that sort?
- Harita Vasireddi:** No. We are actually competitors.
- Moderator:** Thank you. The next question is from the line of Faisal Hawa from H.G and Hawa Company. Please go ahead.
- Faisal Hawa:** So, ma'am, what is our R&D spend on a yearly basis? And do we spend to -- do we increase the spend by any significant measures?
- Harita Vasireddi:** Company does not have any R&D of its own. We do contract research for our customers.

- Faisal Hawa:** But we don't want to go into any kind of things which we will make our customers task easier or process-oriented patents or anything?
- Harita Vasireddi:** Those things are done, like for example, if there are some test methods, which have a certain run time on the equipment, we are always trying to make the methods more efficient. So we invest in developing new methods, more efficient methods. So that kind of R&D we do, but it's not the R&D that people understand. We are not into any development or discovery of products. So we don't do that kind of R&D.
- Faisal Hawa:** Have we done any kind of hiring at the top executive levels to facilitate this expansion that we are doing and particularly on the marketing front? And second is that what is the concentration of our top 5 customers to our total revenue?
- Harita Vasireddi:** Top 5, I don't have the number. Top 10 would be around 35%, 40%.
- Faisal Hawa:** Okay. That's good enough. And any hiring that we have done, which are very significant hiring which are people who are industry-relevant people?
- Harita Vasireddi:** They have been typically replacements, no additional hiring.
- Moderator:** Thank you. The next question is from the line of Raaj from Arjav Partners. Please go ahead.
- Raaj:** I wanted to know how much of a peak sale we can do post this expansion from new and old facility combines and from the new facility as well?
- Harita Vasireddi:** Like I said, 20%, 25% is the expectation that we have in terms of capacity utilization. That's a good question. The whole facility could probably deliver around INR600 crores to INR700 crores.
- Raaj:** Okay. So, this includes new as well as older equipment's, both combined?
- Harita Vasireddi:** Yes, new, older yes.
- Raaj:** All right. And in last 2 years, 3 years, you incurred capex of INR275 crores, out of that, INR120 crores has already been incurred, right? INR70 crores is for the additional infrastructure?
- Harita Vasireddi:** It's not only for infrastructure, it is for adding equipment also.
- Raaj:** And for adding equipment and now another INR85 crores, it is for what?
- Narahari Naidu:** I'll clarify that, Raaj. We haven't incurred INR270 crores until now. Referring to the earlier question we had already incurred about INR120 crores towards equipment's and INR70 crores is what we may incur towards the infrastructure addition. INR70 crores to INR100 crores is what we have given the budget for the current year. So that's where the other gentlemen have summed up the 3 things and has mentioned, INR275 crores as a total investment.

- Raaj:** Including this, okay. And I wanted to know if you can provide a segment-wise EBITDA like if you go to electronic testing, if you go for food test?
- Narahari Naidu:** Sorry, we don't have that information, Raaj. We don't disclose such kind of information.
- Raaj:** All right, yes. And going ahead, where do we exactly see growth coming from? Is it from food? Is it from electronics? Is it from pharma?
- Harita Vasireddi:** All three.
- Moderator:** Thank you. The next question is from the line of Nagraj Chandrasekar from HT Family Office. Please go ahead.
- Nagraj Chandrasekar:** I just want to understand the size of the outsourced analytical services market in India and who are large peers here would be?
- Harita Vasireddi:** I won't be off hand able to recall that information, but there is the latest Annual Report that is on our website. We have some interesting numbers there. All I remember is that the Indian industry is growing at a faster pace than the global industry and the Indian industry is growing at the early double digits. So, it's a very good growth rate, I think, especially all the fields that we are operating in, both domestically and globally.
- Nagraj Chandrasekar:** Okay. And the global pharma companies that you have started working with or in talks with for past year or so, I see that roughly 1/3 of our revenues already coming from overseas clients. What is the scope of work exactly with these customers? And how does it differ from the scope of work we do for Indian drug companies and -- exactly and are there any new scope of work that you're doing with these global pharma companies with the new facility that you are setting up?
- Satya Sreenivas Neerukonda:** The scope of the work for domestic companies and global companies, more or less, is the same scope. The only difference in the work we get from overseas is overseas companies do a lot of discovery research. There's not much of discovery research which happens in India. India is more of a generic market. So, from outside markets, we are able to serve both the generic companies for the requirements and also the discovery lines. So that is the major difference in these two markets.
- Nagraj Chandrasekar:** And what stage exactly of the clinical trial process would you be serving this function and exactly at what stage will you be involved for new molecule research?
- Satya Sreenivas Neerukonda:** In a new molecule research, we associate with companies much, much ahead before it even reaches the clinical stage. We are there with them right from the concept phase to the preclinical studies. We do a lot of animal studies for them, the analytical development validations. And on the clinical phase, we are with them on the trials, Phase I, Phase II, Phase III trials. We're able to support them in that phase.

Nagraj Chandrasekar: Okay. And are you directly getting involved in the clinical trial stages? Are you entering that field as well? And how exactly that work for you?

Satya Sreenivas Neerukonda: We also work with companies directly at the clinical stage and that's a very strong vertical we have at Vimta's. Till I think a couple of years back, we were majorly supporting the generic industry. But from the last 2 years, we have now started also supporting the clinical trials in patient population.

Moderator: Thank you. The next question is from the line of Ankeet Pandya from InCred Asset Management. Please go ahead.

Ankeet Pandya: I just had two questions. So firstly, like we are investing in new chamber for the electronic business. So just wanted to understand like if there's a way to guide by when will be the next investment required to add an additional chamber for electronic because that is important for the growth? So if there's a way like by when can we reach peak revenue or what kind of an asset turn can we expect from this?

Satya Sreenivas Neerukonda: So, sir, as Harita mentioned, we have already doubled our capacity in the last 2 years when we began. We have added a chamber. We have already ordered a chamber. That chamber is going to get commissioned around October. So having that chamber itself doubles our capacity. If you are asking about the next, the third chamber, so maybe that will be towards end of next financial year or probably before depending on the opportunities.

Ankeet Pandya: Okay. So basically, roughly one can assume that 1, 1.5 years takes to achieve full peak capacity utilization and post that use will build a new chamber if that is the right way to look into it?

Satya Sreenivas Neerukonda: I mean there is no such formula by which you can say. If the demand picks up, the industrial growth picks up. If you look at this first quarter, has been a little slow due to the election time and all the manufacturing industry was slow. The manufacturing picks up the pace again. So the addition of this new columns could be much, much earlier.

Harita Vasireddi: Just to add to that, the next chamber, I don't think we will add in Hyderabad. We would want to look at a different city.

Ankeet Pandya: Any like a particular city that we have been looking at or something we have been evaluating?

Harita Vasireddi: We have multiple options, too early to decide on that. As of now, the good options are Pune, Bangalore.

Ankeet Pandya: So, sequentially, if you see, we have seen a 30% top line growth. But on the gross margin front, it has slightly come down by around 60, 70 bps to 77.1%. So, like given that we have one more facility coming up in the second quarter. So, how should we look at on the gross margin front going forward or on a sustainable basis?

- Harita Vasireddi:** We will be pushing the top line. And my expectation is to maintain the margins. Now I was making a comment earlier, in a flat kind of situation, it's very uncommon that the margins are retained. They are typically pushed down because we are very human resource-intensive industry. And the cost of human resource keeps on only going north year after year. And also, we have a lot, we consume a lot of material. We have multiple facilities.
- So, every input cost only keeps growing year after year. Now despite that, our margins have been doing pretty well, which means that we have been taking care and focusing on profit-making services, pushing more profit-making services with the capacities that we had.
- Ankeet Pandya:** Okay. So, in the second quarter, we have the life science facility coming up. So, again, the input costs will be there. But like you said, initially, the capacity utilization will be at around 25%, 30%. So, will there be these minor constraints on the gross margin front or even the 77% that one can see that on sustainable level, we will be able to maintain it?
- Narahari Naidu:** So on the gross margins front, we don't see any significant impact because the majority of the investment is into building. This has a higher life for depreciation. Especially at gross margin level, we don't see that it's going to have any impact. We can expect our existing margins to continue going forward as well.
- Moderator:** Thank you. The next question is from the line of Chandrapal Singh who is an individual investor.
- Chandrapal Singh:** Ma'am, any incremental samples from the JNPT side?
- Harita Vasireddi:** No, they are kind of stable. There was a high volume experienced in the month of May. But otherwise, it has been back to earlier revenues.
- Chandrapal Singh:** Okay. Not any growth that side?
- Harita Vasireddi:** No.
- Chandrapal Singh:** Okay. Last year, I was able to vote for the AGM because you put that on the NSDL site. This year, I missed it. So I request you to always put the voting procedure through the NSDL.
- Harita Vasireddi:** I'll convey it, yes.
- Chandrapal Singh:** Okay. Ma'am, regarding the electronic testing side, earlier, you projected the revenues of INR30 crores to INR35 crores with the chamber that you're already using. So, has the revenue fructified?
- Harita Vasireddi:** No. The plan was always to add a second chamber and we are in the process of adding a second chamber.
- Chandrapal Singh:** Okay. The revenue projection will remain the same.

- Harita Vasireddi:** Yes. For this capacity, the revenue projection will remain the same, unless, of course, something in the market significantly changes with respect to competition, prices, and stuff like that.
- Chandrapal Singh:** Okay. Ma'am, our new facility is capable of handling NCEs?
- Harita Vasireddi:** Yes.
- Moderator:** Thank you. The next question is from the line of Anupam Agarwal from Lucky Investments. Please go ahead.
- Anupam Agarwal:** If you can breakup your revenue into public and government business, that will be helpful.
- Harita Vasireddi:** I don't have that kind of a breakup.
- Anupam Agarwal:** Okay. Any ballpark figure as to what percentage comes from either of them?
- Harita Vasireddi:** No, we don't look at it in that angle at all. At least I have never looked at it in that angle at all. But we do work with a lot of government agencies for our food testing and also environmental testing.
- Anupam Agarwal:** Okay. So, when we say that 40% of business comes from top 10 clients, any government clients from them?
- Harita Vasireddi:** Yes. One of them is, yes.
- Moderator:** Thank you. The next question is from the line of Vishal Manchanda from Systematix Institutional Equities. Please go ahead.
- Vishal Manchanda:** I have a question on the clinical trial that you are doing. I wanted to understand whether this is a single-site clinical trial or this going to be conducted at multiple sites and at third-party sites?
- Satya Sreenivas Neerukonda:** Vishal, these would be multisite trials at the third party, mainly the hospital setups spread across the country.
- Vishal Manchanda:** And we've already started enrolling patients for the trial or that yet to start?
- Satya Sreenivas Neerukonda:** We are on that stage where we have identified the sites, and we are also at the advanced stage of discussions with the enrolments.
- Vishal Manchanda:** And how many patients would you be enrolling?
- Satya Sreenivas Neerukonda:** I don't have that number, but usually these trials, the sizes range anywhere from 200 to 300 odd, depends on the product. This particular trial, I'm not sure. I can let you know.
- Vishal Manchanda:** Okay. And this will be an 18-month long trial?
- Satya Sreenivas Neerukonda:** Yes. That's a typical life cycle of a trial.

Vishal Manchanda: And sir, would you have enrolled so that you would need internal resources to conduct the clinical trial? Is the recruitment done at your end?

Satya Sreenivas Neerukonda: Yes, our site, we have the team to manage clinical trials. It's a separate team. And then externally, we also have CRAs on board who will be doing the site monitoring and all. So that team is there.

Vishal Manchanda: Okay. And when do you expect that kind of the patient to start -- basically the trials to start dosing to patients?

Satya Sreenivas Neerukonda: It should start this quarter.

Vishal Manchanda: And revenue should accrue post that? Is that the right way to think about it?

Narahari Naidu: So, Vishal, revenue is recognized based on the milestones of performance, based on performance completion method. So irrespective of the contract invoicing, we recognize based on the activity completion. Probably some of it would have been recognized in Q1, some of it may get recognized in Q2 and so on and so forth.

Vishal Manchanda: And just 1 more, this trial would more or less be at the same margins as the company margins? Or do you expect this to be accretive or dilutive to the company margin?

Narahari Naidu: That is very difficult to understand at that level because a lot of resources are common, so we will not be able to understand the margin for a project because we don't see project-wise margins. But it would be more or less in line with our existing margins.

Vishal Manchanda: Okay. So, going forward, you don't expect your company margins to be diluted at least or meaningfully diluted from where it is today?

Narahari Naidu: We are not expecting any dilution, rather we are putting efforts to improve the margins. Of course, the efforts are already seen factored in the current result as well. So, we have initially mentioned that 28% to 30% which is something which we are looking at. And we will try to improve on that number as well.

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

Harita Vasireddi: I want to thank all the participants in this call and also Systematix and Vishal and the conductor of the call. Thank you all, and I wish you a good remaining day. Bye-bye.

Moderator: Thank you. On the behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.