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Date: November 23, 2021

To,
Listing / Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
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Listing / Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C-1, Block G,
Bandra-Kurla Complex, Bandra (East),
Mumbai- 400051

BSE Code: – 532815

NSE Code: SMSPHARMA

Dear Sir/Madam,

Sub: Earnings Call Transcript – Q2 FY22

Please find the enclosed transcript of the Earnings call for Q2FY22 of the Company held on Wednesday 17th, November, 2021. This will also be available on the Company's website <https://smspharma.com/investor-relations/corporate-announcements/>.

This is for your information and records

Yours Faithfully,

For SMS Pharmaceuticals Limited

A handwritten signature in blue ink, appearing to read 'Venkatish'.

Mr. V. S. Venkatish
Company Secretary & Compliance Officer
M. No: A21785



“SMS Pharmaceuticals Limited
Q2 FY2022 Earnings Conference Call”

November 17, 2021



**MANAGEMENT: MR. VAMSI KRISHNA – EXECUTIVE DIRECTOR - SMS
PHARMACEUTICALS LIMITED
MR. LAKSHMI NARAYANA – CHIEF FINANCIAL OFFICER -
SMS PHARMACEUTICALS LIMITED**



*SMS Pharmaceuticals Limited
November 17, 2021*

Moderator: Ladies and gentlemen, good day and welcome to the SMS Pharmaceuticals Limited Q2 FY2022 Earnings Conference Call. This conference call may contain certain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vamsi Krishna – Executive Director at SMS Pharmaceuticals Limited. Thank you and over to you Sir!

Vamsi Krishna: Good afternoon everyone and a very warm welcome to all of you present on our first earnings conference call to discuss the financial performance for the quarter and half year ended September 30, 2021. I hope everyone must have got an opportunity to go through our financial results and investor presentation, which has been uploaded on the stock exchange as well as the company website. For the benefit of all the participants, I would like to discuss about SMS Pharma in brief initially followed by our financial highlights.

SMS Pharma was established in 1990. SMS Pharma is a global API intermediate player with strong research and manufacturing team supported by a state-of-the-art manufacturing facility. It has capabilities for a wide range of APIs, intermediates and has handled varied process reactions and reactor volumes up to 3,000 KL. Undertaking contract manufacturing of API and advanced and basic intermediates offering a competitive advantage to the clients especially in the later stage lifecycle of the products. With demonstrated manufacturing excellence over the last two decades in a broad portfolio of the therapeutic segments, the company has become a trusted partner to a customer base in over 70 countries including clientele in the top 20 pharmaceutical companies. The API segment is focused on providing products across a diverse range of therapies such as ARVs, antivirals, antiulcer, antimigraine, antiepileptic and anti-erectile dysfunction. This strategy is to focus on equality, market leadership and backward integration driven by strong R&D capabilities, increased key therapeutic areas. More than 90% of the consolidated revenue is derived through the API business. The company is also engaged in providing quality alternative manufacturing destination to various large domestic and multinational pharma companies for their contract research and manufacturing. As mentioned earlier the strategy has always been to focus on quality and market leadership, as a result, rather than offering a wide array of products. The company manufactures around 36 products across 14 therapeutic segments with a significant market share for those products domestically or globally while maintaining the highest standards of quality. The company enjoys global and domestic leadership in key complex specialized products like Famotidine, Rizatriptan, Tadalafil, Sumatriptan, Tenofovir, Ranolazine, Levetiracetam, Efavirenz, Sitagliptin, etc.

Currently, there are two state-of-the-art, strategically located manufacturing facilities at Hyderabad and Visakhapatnam. Hyderabad facility has an installed capacity of 120 KL predominantly focuses on niche, high-value low volume products such as Rizatriptan, Tadalafil, Sumatriptan, Itraconazole and Eletriptan. It enjoys regulatory approvals for major regulated and semi-regulated markets. This facility is one of the largest exporters of Triptans. Our second facility is the Vizag facility with an installed capacity of 3,000 KL with a flagship multipurpose API manufacturing facility aligned for manufacturing niche and large volume molecules such as Ibuprofen, Tenofovir, Ranolazine, Levetiracetam, Lamivudine, Lamotrigine, Efavirenz, Sitagliptin, etc. This facility is one of the largest dedicated single block, single product facilities in Asia. This plant also houses a huge CMO facility to cater to highly reputed clientele.

We also have a joint venture with a Spanish pharma giant Chemo for research and development. The objective of the JV is to develop products, manufacture them at the company's manufacturing facility. The technical ownership of the JV products will be the property of the JV Company which includes DMF for the products under JV. It has a robust pipeline under development and is expected to contribute significantly to the top and the bottom line going forward. For an API manufacturer, strong R&D is a backbone. Our R&D is equipped with cutting edge technology and sophisticated equipments that has the capabilities to support the entire R&D lifecycle. Around 20 new products have been added to the product basket over the past few years along with optimizing many APIs. APDMF and over 30 process patents have been filed till date.

Global presence, strong domain expertise, cost leadership through backward integration, economies of scale and a long-standing relationship with suppliers and customers has created a unique value proposition. As a result, we have emerged a sustainable, scalable and self-reliant API player. Over the years we have strategically invested in backward integration to be self-reliant and reduce the supply chain risk along with creating de-risked and integrated value chain. Approximately 80% of the intermediates are consumed by the in-house API business with a very low dependency on China for raw material sourcing which is approximately 10% to 15%. A well-diversified value proposition across geographies, markets, therapies, products, and customers provides risk reduction and opens multiple growth avenues. In terms of markets and geographies, regulated markets contributed 52% of sales in FY2021 which the USA being the highest at 37%, semi-regulated markets contributed 41% of the sales in FY2021 with Africa being the highest at 38%. The domestic markets contributed 7% of the sales in FY2021. None of the regions contributed to more than two-thirds of the revenue with Africa contributing the highest 38% of total sales.

In terms of customer concentration, in the domestic market, our largest client contributes 35% of the domestic sales whereas the top 10 clients contribute 76%. In the export markets, the largest client contributes 20% of export sales whereas the top 10 clients contribute to 80%. With Rs.200 Crores capex investment at our Vizag facility in FY2021 the company is fully geared up for the next level of growth. This Brownfield capex is aimed towards the capacity augmentation of

multiple products and therapies. The incremental capacity addition through the capex is 1,300 KL predominantly aimed towards ibuprofen capacity expansion. With this expansion, SMS Pharma is expected to be one of the largest ibuprofen manufacturers globally in the coming years. The majority of the capex is funded through internal accruals and minimum debt, thus maintaining a robust balance sheet position. Higher margins and profitability ratios are expected through operating leverage and incremental revenues. By leveraging longstanding relationships domain expertise and strong R&D knowledge the company is also foraying into new therapies, products, and geographies.

Now coming to the financial highlights for the quarter and half year ended September 30, 2021. I will start with the quarterly highlights first. The consolidated revenue stood at Rs. 174.7 Crores up by 34% year-on-year. The robust revenue trajectory was primarily driven by a pickup in the volume. EBITDA stood at Rs. 48.2 Crores up 96% year-over-year. EBITDA margins expanded by approximately 870 bps to 27.6% driven by operating leverage and improved product mix. Profit after tax grew 123% year-over-year to Rs.25 Crores. This performance is a testimony of the company's agility, adaptability, and strong execution capability. The growth trajectory is expected to accelerate in the coming quarters underpinned by the company's leadership position in top therapeutic areas, strong demand, and healthy product launch pipelines. Now coming to the first-half FY2022 highlights, the consolidated revenue stood at Rs. 337.7 Crores up by 39% year-over-year. EBITDA stood at Rs. 93.9 Crores up 100% year-over-year. EBITDA margins expanded by approximately 850 bps to 27.8%. Profit after tax grew 136% year-over-year to Rs.48.2 Crores. The robust performance was driven by improved product mix, pickup in key therapeutic areas and operating leverage.

I will briefly touch upon the API segment highlights: Q2 and the first half of FY2022 revenue for the API segment stood at Rs. 174 Crores and Rs. 324.9 Crores, up 42% and 39% year-over-year respectively. Q2 and the first half of FY2022 API segment contributed approximately 99% and 96% of the consolidated revenue respectively with the API segment 8% of the revenues came from the domestic market, 92% from the export market which also included deemed exports for Q2 FY2022. Within the therapeutic areas, the antiretroviral therapeutic category contributed 55%, antimigraine 14%, antiulcer 10%, antiepileptic 10%, anti-erectile dysfunction 5% and the rest contributed around 6% to the total sales for Q2 FY2022. The company continues to focus on increasing the contribution to a high value and margin lucrative therapies going forward. The balance sheet continued to remain robust. The net debt to equity stood at 0.5x as against 0.4x as of March 2021. The net debt to equity is expected to reduce going forward, driven by strong internal accruals and lower debt requirements. I think that is it from me for now. We can begin the Q&A session. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

- Shanti Patel:** I wanted to know regarding this expansion plan of Rs. 200 Crores what will be the turnover which may be generated and what will be the PAT margin expected from that?
- Vamsi Krishna:** You want us to answer this or are you going to ask another question so that we can answer all that?
- Shanti Patel:** First let me get the answer then I will ask you the second.
- Vamsi Krishna:** Sure our CFO I think Mr. Lakshmi Narayana who is on the call will take this question.
- Lakshmi Narayana:** Good morning. That whatever you asked about the incremental revenue of the ibuprofen correct?
- Shanti Patel:** You are right that is because of one of the leading manufacturers of that particular product is facing some trouble.
- Lakshmi Narayana:** Yes, we completed the expansion mode during the last financial year and the gear upping whatever the ED has already said about this product, gear upping in the revenues in the current year and expected to that we cannot say immediately but the revenue we are expecting there is an incremental revenue of about 15% to 20% of the total revenue and the PAT margins we are sustainably maintaining the same margins of the company.
- Shanti Patel:** So you mean to say the PAT margin will be similar to what you are getting today?
- Lakshmi Narayana:** No, overall we are maintaining the margins of the PAT margins. The PAT margins as compared to the existing therapeutic is low but overall we are maintaining whatever the last three, four quarters we are maintaining the margins that we are anticipat to maintain the same margins and improving.
- Vamsi Krishna:** Just to jump into that actually so for ibuprofen we are aware of the recent current market crunch which I know what you are referring to so based on that see this is a long-term project for us. See, it is not a very short-term project for us or that you want to make quick money and probably move out of this, this is a very long-term project, long-term vision for us. So that is the reason we have invested so much capex into this particular project alone and see it is a slow process first initially because it will take time our major focus will be on the regulated market because that is in the USFDA side so our major focus would be US, Europe and other regulated markets. So in order for us we get commercialize this project very recently for us to get approval in those markets will take time, in the meantime, our incremental growth will slowly start happening on ibuprofen where we initially start offering into domestic, lower ROW countries and then slowly once we get approvals from these regulated markets then slowly our sales and the profits will obviously increase based on the incremental year wise growth.
- Shanti Patel:** What is your return on capital employed and return on equity that we are making?

- Vamsi Krishna:** Yes, I think Mr. Lakshmi Narayana you want to answer that.
- Lakshmi Narayana:** Yes, you wanted about the FY2021?
- Shanti Patel:** Yes, it is correct 2021-2022.
- Lakshmi Narayana:** 2021-2022 Sir then whatever you have already seen about the first quarter and second quarter result and the return on capital employed has improved as compared to the previous year and the same line we are anticipating to the running of the same ratio.
- Shanti Patel:** So you mean to say around March 31, 2022, the return on capital employed and return on equity will be probably the same as what we have got in H1?
- Lakshmi Narayana:** Correct.
- Shanti Patel:** If you can quantify both?
- Lakshmi Narayana:** Quantifying of the thing is it is a very early stage then you have to assess your own itself we are confident of maintaining the sustainability in the existing level and by improving some turnover since you have already seen about the last two, three quarters and the last year financial results is one of the best results in the entire company see and the first quarter and second quarter also you have already seen that, based on that we are saying that is continuing the same.
- Vamsi Krishna:** Just to add to that I think on the overall perspective I think on the topline and bottom-line I think we are anticipating a 15% to 20% growth rate than what we have done last year so we are on track for the first half we are on track to achieve it so hopefully I think in the next two quarters I think we will be working towards that.
- Shanti Patel:** Thank you, Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Surbhi R from SMIFS Capital Limited. Please go ahead.
- Surbhi R:** Sir I have one question and that is regarding ibuprofen. The thing is that we believe that there were some demand pricing and market share problems recently so I just wanted to know how is the demand pricing and the domestic and exports market outlook as of now?
- Vamsi Krishna:** Thank you for your question. As you rightly said I think just to give you a small history about ibuprofen like three, four years back I think ibuprofen sales there was a shortage the product was under shortage so the prices have reached a very good high and since last one year I think a lot of companies have come up and obviously the prices have come down because of supply-demand the prices have come down and considering that I think because of COVID also the demand of ibuprofen has come down a little, but again as I was mentioning earlier see this is not a very

short-term project for SMS this is going to be a very, very long-term project we will be in this product for a very long-term and we are vertically integrated on this particular product and we want to be in this product till the end. So irrespective of the prices and the demand, we are going to be there in this month. I agree that there is definitely price pressure that is currently happening and I think that is mostly coming from a domestic and ROW market even for the US market also the demand has come down because of the COVID but I think we are slowly seeing a slight uptick in demand from the last one, one and a half months again. So hopefully I think it will come back but again there will be price pressures but we have developed a process in such a way to handle those price pressures that should not be a problem.

Surbhi R: Okay Sir. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Rathi from Lucky Investment. Please go ahead.

Ashish Rathi: Thank you for the opportunity. I just want to take an update from you firstly if you could explain a little bit more about this Chemo contract CDMO you are talking about the Spanish pharma joint venture you are talking about when did this happen, how big is the contract, how many years, what kind of sales and profitability?

Vamsi Krishna: Thank you for your question. So JV the incorporation has been done last year, but I think the agreement of this JV has almost been signed in from 2016-2017 I think these discussions have already been going on and agreements have been signed. So this particular joint venture says that see together Chemo and SMS will develop projects together and it will be developed at SMS R&D center and the products will be commercialized from SMS API facility. So Chemo being a very large strong European partner has the rights to market these products in the entire world and SMS has the right to market these products in India and the subcontinent, so the profits again are split in the ratio that is agreed and so that is the basic arrangement and as of now I think we have almost commercialized two projects we have already commercialized commercially selling these two projects actively and there are also three projects once the patents are expired we will commercialize that.

Ashish Rathi: So what are these two projects get commercialized right now?

Vamsi Krishna: One is Ranolazine that is part of the joint venture and one more is the Perampanel that is currently being sold in the domestic market because the patent expired recently. Future down the line I think all the Gliptins - Sitagliptin, Vildagliptin will be sold on the JV and apart from that, there are Flozins, Canagliflozin, Dapagliflozin, all the Flozins and partly Flozin that are being developed already it has been currently validated at our plant site.

- Ashish Rathi:** So some of these molecules which you are saying the ones you said are in the patent which are the molecules in the patent because the Sitagliptin, Vildagliptin most of them are off-patent right?
- Vamsi Krishna:** No, Sitagliptin is still not off-patent Sitagliptin is going off patent next year I think Next June in India and I think maybe July or August I think in Europe next year. So even Vildagliptin also in India it is off but in the US, Europe and all the regulated countries it is still under patent. So this Ranolazine is off-patent and that is also just I think one, a one-and-a-half year back I think it has just got off-patent and even Perampanel we have started supplying locally in India there is no patent. So some of our customers have got approvals in the domestic market so they are taking some good requirements from that product.
- Ashish Rathi:** What is the profit-sharing structure like is it a cost-plus basis we are selling for the other molecules
- Vamsi Krishna:** Yes cost-plus basis.
- Ashish Rathi:** So cost plus would be at a 20% kind of a number?
- Vamsi Krishna:** Industrial margin of 15%.
- Ashish Rathi:** What is the profit-sharing, the profit-sharing applies in the Indian market?
- Vamsi Krishna:** The profit-sharing is we sell in the respective markets and once a quarter, once a year we reconsolidate and we split the margins and whoever owes to whom will automatically be transferred accordingly.
- Ashish Rathi:** Sorry sir not clear. So when you are making say the Perampanel or Ranolazine then what you are doing is you are making it for Chemo or other markets, mostly the regulated markets the drug that gets off-patent we are supplying the APIs to Chemo is that we are doing or it is an intermediate?
- Vamsi Krishna:** Yes, in APIs only, so we have a transfer price at which we supply to both of them so once whatever the excess price they sell on that profit we split the profit.
- Ashish Rathi:** So there is a 15% cost-plus basis transfer price and then you have a profit share on the selling price correct?
- Vamsi Krishna:** Exactly that is right.
- Ashish Rathi:** Sir what is your profit share there?
- Vamsi Krishna:** So profit share I think we can disclose this right because I think it is public information right.



- Lakshmi Narayana:** Sir that is an open document since we already disclosed it, 55%, 45% is the SMS Pharma.
- Vamsi Krishna:** Yes 45% is SMS, 55% is chemo.
- Ashish Rathi:** So what gets us excited about this project so like this is a joint venture?
- Vamsi Krishna:** Correct so see here the biggest advantage that we have here is Chemo is one of the biggest companies in Europe where they have wide variety of customers where unfortunately SMS currently does not have tap into so those customers have been completely tapped for some of these projects for like Sitagliptin and few other projects all these customers have been tapped and for some of the other projects where we are very strong in the US market like domestically where some of the Indian manufacturers who are selling in the US market so there where we are very strong so these joined forces they are very strong in Europe we are very strong in Indian market so we are creating some good avenues for this particular joint venture like we are one of the largest in Ranolazine as such in terms of because we are commercially selling this product we are one of the largest based on our strategic partnership. So this excites us quite a bit because I mean it is a very big joint venture with Chemo but it still has to flourish because obviously, all these are just sample quantities that we are still selling because the patents are still not expired so once the patents had done I think you will see good progress on that on the commercial front.
- Ashish Rathi:** Right I understand, so it will take some time and it will progress on its way on its core, but on a broader measure like a three- to five-year-old, three-to-five-year horizon can we look at this as a meaningful at the entire JV contribution to topline and bottom-line in northwards of 20%, 25% of the company?
- Vamsi Krishna:** Yes you can easily look at that as the 20% there I would not say 25% I would say 15% to 20%.
- Ashish Rathi:** Alright and I saw the PPT and I remember from the last conversation which we had you are primarily still appears to be an ARV manufacturing company I think Efavirenz was our largest product correct?
- Vamsi Krishna:** So that was back then I believe so now I think Tenofavir had gone up.
- Ashish Rathi:** If we do the various combinations also?
- Vamsi Krishna:** No, we are the API manufacturer right we will get to the API so our formulators to the combination so we are just to the API.
- Ashish Rathi:** Who would be the key clients for Tenofovir?
- Vamsi Krishna:** That is a little confidential information.
- Ashish Rathi:** Is it an Indian client or...

- Vamsi Krishna:** Yes, Indian clients. We did not see more for a couple of big players in India.
- Ashish Rathi:** How big is the revenue for Tenofovir here out of the 57% of the topline which is ARV where are we the 40% is Tenofovir?
- Vamsi Krishna:** On the ARV segments I think this quarter this half-year I think they contributed to 57% that is right so the majority is Tenofovir.
- Ashish Rathi:** We do not do anything in terms of Dolutegravir or anything you are making that?
- Vamsi Krishna:** Not yet, not as of now, but yes we validated the product, but it has not picked up and the volume of Dolutegravir is also not that high it is a small dosage it is a 50 mg dosage so the volume is also not very high on Dolutegravir.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Svan Investments. Please go ahead.
- Sachin Kasera:** Hello good morning sir this is Sachin Kasera here. Two, three questions Sir, one on this ibuprofen we have seen that the margins recently have come under pressure for all the key players so could you just comment a bit on what is like the demand-supply of having scenario there and what is going to be your strategy?
- Vamsi Krishna:** Sure. See again see on ibuprofen we are playing a long game we are not playing a very short game as of now. See as of now we have just started selling sample quantity, small quantities we are sowing all the seeds for all the regulatory customers for the US, Europe, all these markets will be our main primary focus markets. So apart from that we have been slowly selling the product in the domestic market as well also slowly and see definitely we understand that there is definitely price pressure in this product and see one big advantage with our ibuprofen that we are currently doing is the batch size my batch size currently is 6 metric ton I think in the market I think if I am not wrong we are the highest batch size company that is doing this product at that scale and in future we want to make it a 11 ton batch size actually so we have all the equipment to do that 11 ton batch size so we are working on those so some small ways we are trying to figure out optimize it see wherever we can say, see end of the day this is a commodity product SMS is known for commodity products like SMS was the largest producer for ranitidine which is the commodity product again, when we enter this product there were 23 players or something and we became the world's largest player on this product that is how the commodity product so this is our bread and butter commodity products playing them is our strength and definitely we are playing to our strength and this is definitely a long-term product and long-term vision for SMS it is not something that a quick revenue can be spun out of it and it is definitely a long run project for SMS.

- Sachin Kasera:** So what is our current capacity on a monthly or yearly basis for ibuprofen and what are our aspirations you are going to be like even the top three players globally?
- Vamsi Krishna:** Yes, absolutely, and currently our capacity is around 500 metric tons and we built a block for 1,000 metric tons per month capacity but we have not installed and obviously we are taking phase-wise so the first phase is already completed it is around 500 metric tons per month.
- Sachin Kasera:** Sir you mentioned that your reactor will go from 6 tons to 11 tons so once we go to these 11 tons that is why your capacity is linked with the 1000 tons per month?
- Vamsi Krishna:** That is speculative right so again if you increase the batch size time cycle also will increase so you cannot do a direct comparison in that sense but yes it might increase by 100 metric tons here or there.
- Sachin Kasera:** So eventually we will be like a 1000-ton capacity in ibuprofen?
- Vamsi Krishna:** Exactly based on once we start getting more orders we will slowly incrementally once we hit that 70%, 80% on a consistent basis we will go for our next phase of expansion to 1000 tons.
- Sachin Kasera:** What is your assessment today are we according to this because of our skill set we are probably the lowest cost or that will happen only once we reached a much larger capacity?
- Vamsi Krishna:** We need some scale of operation, to be honest with you we need some scale of operation, we need to start selling some products and we need some continuous customers to start picking up the product which is definitely happening. So once we get to a scale once we start say for example like in 500 tons we start producing every month 300, 350 tons so that is when we have that scale so once we get that scale of operation that is when the real crunch starts coming in and we tighten the screws on the wheel see how to like reduce the cost even further and see how we can achieve a little higher margins so that is where it will actually come at, selling 50 tons or 100 tons at this point of time we have not given that leverage on that opportunity once we hit a certain threshold that will probably give us a better benefit.
- Sachin Kasera:** Secondly this Rs. 200 Crores capex that you mentioned so what will be our ramp-up plan and what is the type of revenues we can expect from this new block over the next two to three years?
- Vamsi Krishna:** So as of now I think it is only I think this question has already been answered I think the first question was this so see definitely I think we are expecting the Rs. 200 Crores that we put in, we are expecting a 20% growth in our top and bottomline and again so it will be a stage wise it has to be I think this is a product that has to be taken off with lot of patience ibuprofen so it will not do miracles overnight but it will definitely be one of our like we will definitely be in this product for a very long term and it will slowly add up revenues because in the initial year we are only focusing mostly on domestic and ROW market because it will take time DMF approvals for our ANDA partners to get their approval so it will take time, they have to do the qualification, they

have to do stability which is six months time again they have to file with the agency that will again review time is another six months to one year so again that will take another year, year-and-a-half so we are betting on all these Europe and US commitments a little because we are expecting.

Sachin Kasera: In FY2024 you will get full capacity from this new plant?

Vamsi Krishna: Yes, that is the plan yes FY2024 I think you will be able to see full-fledged ibuprofen.

Sachin Kasera: By that time we should be like Rs. 800 to 1000 Crores revenue company so basically once we achieved 1000 Crores we will have to do incremental capex again for growth.

Vamsi Krishna: Exactly so I think that is the plan I think post Rs. 1,000 Crores we will be looking at more capex expansion.

Sachin Kasera: And that will have to be done Greenfield or do we still have a lot of infrastructure to keep expanding Brownfield?

Vamsi Krishna: So I think it is too early to comment I guess but I am guessing I think a Greenfield probably will be the direction but again this is very early to comment on that but yes we are guessing a Greenfield because I think our facility in Vizag has also reached this capacity so I know though it is a 100-acre site but there is a lot of space available but that the threshold probably will be crossed so I think we will probably have to look at a Greenfield facility but again that is very early to decide on that at this point of time.

Sachin Kasera: The last question was on the margins so we used to be in the 19% to 20% margin band last four, five quarters we are now closer to the 25% band and we have been seeing the numbers. I was just hearing that there is a lot of pressure on the API side we are a very few companies, in fact, this quarter we have sustained the margins so how should we look at it margin scenario, going forward?

Vamsi Krishna: Sure so see definitely I think the margin scenario is see that is the biggest advantage of a backward integrated company because most of the companies you see probably see maybe if ibuprofen we are also doing maybe I think we will also have a little price pressure because of the Chinese this thing but see as of now I think our majority of the intermediates and the key products are all done in-house or if not we are actually bringing them in-house so I think that has created us a quick leverage and obviously I think we are also not increasing the cost because I mean customers also are very, very important so we are not increasing cost to the customer so I think we are trying to take that small burden whatever it is but yes I think also one more very key important thing is our own products apart from the CMO projects our own products started picking up I mean last two, three quarters you have seen our own products have picked up quite well so because of that it is more than CMO if your own products goes your margins are sort of

better so that is what has happened and if you see the percentage of revenue like comparatively I think our own products have increased compared to ARVs or CMOs so that is the reason for that.

- Sachin Kasera:** This Rs. 200 Crores capex large part of it is going for ibuprofen?
- Vamsi Krishna:** Yes, I think it is a dedicated block that we built for ibuprofen obviously other major products also can be handed but yes as of now we dedicated to ibuprofen that we bought in 30 KL reactors which are very, very huge in size so yes any other major products can also be done there but predominantly we are only focusing on ibuprofen on that.
- Sachin Kasera:** Are we also vertically integrating this ibuprofen?
- Vamsi Krishna:** Yes, and no but I mean like one of the KSM we buy from outside but yes I think we are I think like again as I told you right till we achieve the threshold it is not required for us because that the contribution of that KSM is hardly 20% in our ibuprofen costing so it is not like it is not a 50%, 60% above so it is not crossing a threshold to make it in-house actually to be honest with you as per our process is slightly different from the current existing players in the market.
- Sachin Kasera:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hiten Boricha from Joindre Capital. Please go ahead.
- Hiten Boricha:** Good morning Sir. Sir my question is on the Visakhapatnam plant. So our current capacity is 300 KL and this is excluding the 1,300 KL which is going to commercialize in Q4 right?
- Vamsi Krishna:** No, this is including that actually the total volume is 3,000 KL yes.
- Hiten Boricha:** Including 1,300?
- Vamsi Krishna:** Correct, yes.
- Hiten Boricha:** Can you help me with what kind of asset turnover we are expecting from this Rs. 200 Crores kind of capex?
- Vamsi Krishna:** Yes, so again as we just answered previously the same question I believe right I think so that predominantly that is being that the capex has been whatever block that is built is dedicated to ibuprofen so again we are expecting an overall growth of, as a company as overall growth of about 15% to 20% top and bottom line so based on that again in a couple of years we require two years to commercialize that block fully so I think you will see the actual revenue from that block maybe FY2024 so yes at that point of time it will be expecting to be around 20%, 25% from where we are by end of this year.

- Hiten Boricha:** I have one more question on the bookkeeping side that is on the inventory level so our inventory has gone up from Rs. 140 odd Crores to Rs. 220 odd Crores YoY so can you help me what is the reason behind that and is it going to normalize going forward?
- Vamsi Krishna:** Yes, Mr. Lakshmi you want to explain on that or you want me to explain.
- Lakshmi Narayana:** Yes Sir I will explain you that the inventory level is increasing because of the buffer inventory we are putting to that by considering the global factor one of the major reasons and another thing is my ED will explain to you about the COVID related products and whatever the inventory is increased from last year to this first half-year is only increasing of our product portfolio and volume of the product portfolio and we are maintaining the high buffer because of the global factors.
- Vamsi Krishna:** So again as he mentioned right so we have multiple factors here so first on this I think global shortages and China shutdowns and all so we have put in inventory just to make sure that we do not run out of intermediates where a couple of other things and apart from that I think if that is minor I think probably I think we are doing a lot of work on some of these COVID projects I think so some of these projects we make sure that we have gotten some inventory from outside from China and we are waiting for a couple of approvals on some of these projects so once we get those approvals I think yes those inventories will normalize I think in the next one-two quarters.
- Hiten Boricha:** One more question on the other expenses side. Our other expenses are declined by some 6 Crores to 4.5 Crores on QoQ basis so actually, I just wanted to understand how is the logistic cost and everything is playing in the other expenses part a bit is it should go up on quarter-on-quarter basis I just want to understand how are you managing this thing?
- Lakshmi Narayana:** The logistic expenses depends upon the market conditions only I think you are already aware of it the recently the end of Q2 there is an increase of the logistic cost by all globally that we are directly showing to the head wise into my books.
- Moderator:** Thank you. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead. As there is no response we will move to the next question which is from the line of Praveen from Prosperity Wealth. Please go ahead.
- Praveen:** Thanks for the opportunity. Earlier you had mentioned that incremental revenue for FY2022 be roughly 15% to 20% from the previous quarters so what would you attribute this to and we also see that you have developed a few COVID related APIs Favipiravir and Remdesivir now that the COVID pandemic has slightly prices have gone down and reduced so what would you want to see this going forward how would this API help you in the coming quarters?

- Vamsi Krishna:** Sure thanks for your question. So as discussed earlier see I think our current customers are picking up the products as per the schedule and we have added new customers for the same product. Some of the customers where we have pitched in products for approval for the development phase last two, three years I have been getting approvals recently and I think they had started picking up the product. I think product-wise also our own products and our own formulation facility I think one facility I think is going up I think it is picking up some API as well so considering all that so we projected a 15% on a conservative basis 15% year-over-year growth actually because our current products are also increasing because we have expanded the portfolio we have got into new products obviously ibuprofen will impact revenues from this year onwards and obviously, it will not be that high but yes obviously some impact will definitely be there on ibuprofen and our regular products are also doing quite well. So that is the major highlight of that.
- Praveen:** That is it. Thanks.
- Moderator:** Thank you. The next question is from the line of P D Gupta from Investors Forum. Please go ahead.
- P D Gupta:** Good morning and actually at the outset I congratulate all at SMS Pharma for a good set of numbers. Certainly first starting this concall with good platform to get with the investors. Thank you for that. Sir, actually my question is only one that so many questions already come and replied, in India NPPA has increased the price of ibuprofen by 50% so whether we will be benefiting by it and supply it in India?
- Vamsi Krishna:** Sure so the problem there was I think the number of manufacturers parallely I think the number of so it is again multiple factors affected it so because of COVID I think the ibuprofen globally has gone down a little so that was one of the key drivers and apart from that I think the number of competitors also have increased I think on ibuprofen so based on that, that impact is not very high because it is because again supply-demand right so the number of players offering this product is high, the demand is lower and obviously the prices will obviously be little on the lower side so that is the current thing that is impacting. Again as we told you Mr. P D Gupta that again it is not a short-term investment for us definitely it is a long-term product for us we are definitely going to be in this product and based on our history with some of these commodity products we have done well like Famotidine again we are one of the world's largest Ranitidine so in that scenario we are definitely very confident on ibuprofen that definitely it will be a long-run product for SMS and definitely there will be good revenues coming out of this product in the future.
- P D Gupta:** Fair point. Actually my second question is that is on the order position as on date for contract manufacturing?
- Vamsi Krishna:** Is it for ARVs or like order book position?

- P D Gupta:** The total order position.
- Vamsi Krishna:** Yes, Lakshmi can you give out this information or I will answer this.
- Lakshmi Narayana:** The Company is having a sufficient order book for the current financial year and by having a clientele for the longstanding relationship with the clientele and the market conditions for our product is also in the favor whatever ibuprofen since already we explained in detail and then the company is well maintaining the order book.
- P D Gupta:** Thank you and once again I thank for starting this concall and please continue to interact with the investor at the appropriate time. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Anish Moonka from JST Investment. Please go ahead.
- Anish Moonka:** Thank you, Sir. Have you seen any inventory stocking this quarter from the customer's end and if you did then how much we affected?
- Vamsi Krishna:** So typically we have not seen too much inventory stocking from the customers' end. From our customers' end we have not seen too much of inventory stocking it is a regular business that is happening so unlike last year so this year we have not last year there was FY2020-2021 there were some stocking at this stage because the pandemic was at peak and I think the customers were little worried about the product coming out of India because of the lockdowns kind of the scenario so at that point of time the stocking was quite high but I think this time around I do not think that the customers are placing advance orders so it is as per our regular business schedule there is no emergency buy or anything on that.
- Anish Moonka:** Sir did you see some destocking happening this quarter?
- Vamsi Krishna:** Not much also, it is not much it did not have much impact on us actually so it is like a regular maybe one, two products maybe might have happened but our regular business is going smooth actually.
- Anish Moonka:** What is the vision for the CDMO segment in the next three to five years like what is our competitive advantage and are we only present in the end of lifecycle management and what sort of a business are we targeting from there?
- Vamsi Krishna:** Currently we have not taken up actively CDMO business at this point of time to be honest with you so we are still at the initial stages for the CDMO business so the only CDMO that we are doing is for that joint venture that we are doing where so rest all will be rest all is our product process but definitely I think this is one particular segment that SMS is very keen to get into further and definitely want to foray into this in the near future but as of now we have actually are

in the very initial stages and the only CDMO that we are doing is for the JV right now but we have clients to get into this in the near future.

Anish Moonka: Just a final question Sir, so is the new capacity fungible enough to be used for other molecules and how much time will it take additionally how much cost-competitive do we think we are compared to the existing ibuprofen players who are already backwardly integrated?

Vamsi Krishna: Correct two questions so the first one is I think we are this line can be converted and used for other products also is that is your question so the second one is we are competitive again as I mentioned clearly on the batch size which we have one of the highest batch sizes that is currently being operated in the market so for such a commodity product analytical cost is also very important parameter so when you increase your batch size the cost of analysis decreases by five times than what our competitors are doing so apart from that raw materials again as I very clearly mentioned in the past also so once we get that scale of operation that helps us to work more aggressively on this particular product and see how we are in the market. We need to acquire that volume first then we can probably go on the cost at that point of time.

Anish Moonka: Just a part of this question so how much time will it take to transfer from ibuprofen to other products?

Vamsi Krishna: Well it depends on product to product, equipment feasibility, maybe three to four months max I guess depending on product and feasibility.

Anish Moonka: Thank you so much.

Moderator: Thank you. The next question is from the line of Surbhi R from SMIFs Capital Limited. Please go ahead.

Surbhi R: Sir my question is again a follow-up on my earlier question regarding ibuprofen. You said that the demand and pricing pressure is continuing but in the last one month you have seen a slight uptick in the demand. So I just wanted to know if you could give some long-term view of the demand and pricing scene both in the domestic and export market. Do you see the numbers going back to pre-COVID level if yes then by when?

Vamsi Krishna: No definitely I think pre-COVID level we are definitely going to see this ibuprofen crawlback into because this is a very eligible product and those numbers will come but again it is very tough to predict the timeline but our estimation is maybe it will take a year we are enhanced to probably reach to those levels in terms of volume obviously but pricing depends on the competitors right because during the past there was one or two competitors in the market the pricing will be dictated by that but more competitors will reduce the pricing but I think in terms of volume as we mentioned I think in the next one, two years I think one, one-and-a-half years I think it should be back to the levels where it was.

- Surbhi R:** That is quite informative. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Ashish Rathi from Lucky Investment. Please go ahead.
- Ashish Rathi:** Sir for FY2022 you are saying 15%, 20% topline growth and bottom-line growth?
- Vamsi Krishna:** Yes, that is the target.
- Ashish Rathi:** Which means no growth in the second half because we have done 39% in the first half on topline 139% on the bottom line?
- Vamsi Krishna:** Again when we give our projections it will be conservative so that is a conservative projection that we are projecting.
- Ashish Rathi:** That is what we are expecting that third quarter you will have some visibility on the entire year right?
- Vamsi Krishna:** Correct the thing was in see first one, two quarters there were some good opportunities on some COVID projects where we had some good sales that was opportunistic right so that was not planned or that was not forecasted so that is opportunistic, again there we are also getting on a couple of other products which we cannot disclose at this point of time but there are some projects that we are banking on but you do not forecast those in your projections right so you would not be little more pessimistic when you give such projections out but I think the vision of the company is very clear that there will definitely be growth that will be showing from this year.
- Ashish Rathi:** Sir on ibuprofen you are doing 500 MTPS per month right now correct?
- Vamsi Krishna:** No we are not doing it but that is a capacity we have installed.
- Ashish Rathi:** And you are indicating 1000 MTPS per month say three years out, right?
- Vamsi Krishna:** Correct.
- Ashish Rathi:** So that is 12,000 MTPS per annum at the current market price even if I assume \$10 per kg that will lead to around Rs. 750 Crores of topline?
- Vamsi Krishna:** Correct.
- Ashish Rathi:** You are saying 25% of 1000 Crores kind of a topline that is 2 million 50 Crores I am not able to currently match here?

- Vamsi Krishna:** No, so this complete this thing that you are talking about three-four years down the line right so this 1000 plus Crores is you are talking about these numbers this four, five years down the line so that is I mean you have taken the 20%, 25% from today so from today every year you are expecting...
- Ashish Rathi:** No, no I am assuming 25% of 1000 Crores topline of the company so that is 250 Crores and you are saying 12000 MTPS capacity even if I assume 70%, 80% utilization...
- Vamsi Krishna:** No, at that point of time our revenue could be higher right in 1000 Crores so that is what you are probably missing.
- Ashish Rathi:** So Rs. 750 Crores is the potential from this capacity which you are setting up?
- Vamsi Krishna:** Correct so this is four years down the line that we are projecting.
- Ashish Rathi:** Four years down the line we expect that.
- Vamsi Krishna:** Exactly.
- Ashish Rathi:** We are not having in-house?
- Vamsi Krishna:** No, we are not having in-house again as I mentioned right so it is like the contribution of our product is hardly 20% so yes it is 20% to 22% so it is not a major limiting factor so we have evaluated.
- Ashish Rathi:** We want to set that up in-house later?
- Vamsi Krishna:** Maybe later yes again it is depending on the quantities, we have a couple of other parameters that we have to work on once we get all these I think this is a little lower down the priority order for us so we are working on a couple of other strategies where we can get the pricing down but yes I mean this is little on the lower priority list because obviously, we do not get immediate impact on that.
- Ashish Rathi:** Yes understood and which are the three products key intermediates?
- Vamsi Krishna:** Most of the products I think we have in-house like some of the like Sumatriptan we have it in-house, Levetiracetam we are bringing it in-house, there is Ranolazine that we do it in-house, Eletriptan that we do it in-house so most of the products like Tadalafil we do it in-house and Sildenafil we do it from our sister company SMS Life Sciences so like that most of the products I think we should vertically integrate itself I think most KSMs are so that is typically our strategy when we launch we launch with Chinese sources but slowly once we get that scale of operations most of those intermediates are born in-house to get competitive net from the costing.

- Moderator:** Thank you. The next question is from the line of C Shrihari from TCS Securities. Please go ahead.
- C Shrihari:** Thanks for the opportunity. Sir, you have been mentioning about demand contraction with ibuprofen so that is my first question, the second I wanted to find out is volume contraction and in this conference, I do not think Paracetamol has been giving a similar problem so is it that Paracetamol which cannibalizes on and second is that that two of the verticals that is your contract manufacturing and the JV if you could please indicate the capacity utilization for these two verticals?
- Vamsi Krishna:** For the JV versus our products is it?
- C Shrihari:** Yes that is right.
- Vamsi Krishna:** So regarding Paracetamol see to be honest with you we have not done a lot of study on Paracetamol because it is not in our radar but yes typically because see Paracetamol also the number of competition players is little lower I think depending we see in China for Paracetamol is a little on the higher side so the last I have seen I think the prices have increased also of Paracetamol and see Paracetamol quantities have picked up you have seen couple of news articles from during the time of COVID so that is sort of what a little pressure on ibuprofen but again so it is coming back to normal we see because that is once this COVID sort of settles down I think we will see the ibuprofen numbers back to where they were in the past so also because at that like three-four years back there was a severe shortage I think couple of this thing has shifted to Paracetamol but I think now this ibuprofen is back and it is more cost-competitive I think and we are very positive that the volume will come back.
- C Shrihari:** What is your overall contraction can you please quantify that?
- Vamsi Krishna:** Overall contraction it is I think it is around 8% to 10% is what I am guessing but yes I think it is around that 10% range.
- C Shrihari:** Basically in tonnage you sold around 8% to 10% lower?
- Vamsi Krishna:** Yes but that typically because that is the market is what is guessing still we have not supplied this product yet so it has not had any impact on us yes.
- C Shrihari:** Price outlook for ibuprofen?
- Vamsi Krishna:** So price outlook again see at this point of time there are number of competitors on this product so some of them are short-term, some of them are long-term definitely I think pricing will be a very key aspect that we will have to keep in consideration but see judging by at this moment the only thing I could tell you is based on our history which we have replicated over last two decades is like we are very, very strong on some of these commodity products we have already through

taking some of these products that we have been very successful in some of these commodity products so again pricing at this point of time is not right to discuss because I mean it probably is an outlier at this point of time because of the number of players in this product but definitely I think after one year or maybe one-and-a-half year I think the number of players as well because there might be new entrants there might be exit and definitely I think the price and the customers settle down on ibuprofen once that is done I think there is a good opportunity there.

- C Shrihari:** Yes, so what is the capacity utilization for the JV products?
- Vamsi Krishna:** Yes, I think in our Vizag site I think it will probably, we are only doing the joint venture in our Vizag site, not in our Hyderabad site our Hyderabad site is full, so in the Vizag side I think probably it will be around maybe again depends on volume I think around 15% actually approximately around 15% will be the volume for JV products.
- C Shrihari:** 15% or 50%.
- Vamsi Krishna:** 15% to 20%.
- C Shrihari:** For your contract manufacturing?
- Vamsi Krishna:** Contract manufacturing well again I think that will be again I think it will be around 40% approximately. So what our plan is to reduce the dependency on contract manufacturing reduce the dependency and increase our own product line so that return over the bottom line settle it is more on the higher side.
- C Shrihari:** Definitely that is helpful thank you.
- Moderator:** Thank you. The next question is from the line of Dhiral from PhillipCapital. Please go ahead.
- Dhiral:** Thanks for the opportunity. If I see our FY2017 to FY2020 financial year performance it was largely remained flat so wanted to know what explains the muted kind of a performance for maybe four years?
- Vamsi Krishna:** What was the reason for the muted performance for the last four years is what you are saying right?
- Dhiral:** Yes, except of FY2021.
- Vamsi Krishna:** Regarding the last four years again the company was majorly focusing on CMO, CROs in those sort of activities actually and now I think more products have been validated again as my speech has mentioned right so we validated a lot of products and it takes time again most of the customers that we operate from that facilities are US and Europe customers it will take easily two years for them to validate the product, get their approvals required so I think we have been

sowing seeds since the last two-three years and I think all of them have been converting into commercial sales at this point of time so considering that so that was the major this thing. I think year-wise I think our dependency on CMO was like at that point of time around 80% slowly it came down to 70%, 60% now 50%, 40% like that we want to the percentage we do not want to take that revenue that revenue will be there but we want to parallelly add our own products and balance that CMO listing thing out so that we are not a one product or a one listing company actually.

Dhiral: Sir in FY2021 what was the contribution from the COVID portfolio, COVID related benefit which we have seen and what was the growth seen in ex of COVID portfolio?

Lakshmi Narayana: First of all we are not seeing any growth on the COVID related products so that is only our Executive Director has already told that is only for the opportunity selling but it is not we are putting into our portfolio in the next couple of quarters or couple of years.

Dhiral: I am talking about FY2021.

Lakshmi Narayana: Yes, I will tell you FY2021 about 10% of my total contribution is the COVID related products.

Dhiral: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Ashish Rathi from Lucky Investment. Please go ahead.

Ashish Rathi: Sir Ranitidine?

Vamsi Krishna: So again see the impact on SMSPharma is less as major Ranitidine is being produced at SMS life sciences I think SMS Pharma only supplied Ranitidine into regulated markets actually. So as of now again Ranitidine is being such a sensitive issue in the US and Europe so as of now we have not manufactured anything post the NDMA so before NDMA also obviously not much sales were there because we were just about to launch with some of our partners I think but it was very, very minimal contribution Ranitidine I think I would say less than 1% actually.

Ashish Rathi: Yes correct sir. SMS Pharma and SMS Life were merged, right?

Vamsi Krishna: No. Demerged.

Ashish Rathi: Yes from SMS Pharma demerged with the SMS Life Sciences, we have no stake in that company now or we have?

Vamsi Krishna: We in the sense like you mean the promoters or like...

Ashish Rathi: No the company.

- Vamsi Krishna:** Look SMS Pharma does not have any stake in SMS Life Sciences.
- Lakshmi Narayana:** I will tell you Sir. SMS Pharma is independent and SMS life Sciences is independent. There is no consolidation of the revenues or anything.
- Ashish Rathi:** But there are overlapping business is here right
- Vamsi Krishna:** No, different products actually not business I would say there are overlapping products but it is a different market so directly there is no overlapping business.
- Ashish Rathi:** Overlapping products are there you are saying?
- Vamsi Krishna:** Overlapping products are there yes.
- Ashish Rathi:** Which products are overlapping?
- Vamsi Krishna:** The thing is SMS life sciences is not USFDA approval so SMS pharma is USFDA approved so we are selling only some of these products to US markets and European markets. SMS Life Sciences is taking ROW and domestic markets with some of those products so that is the only difference.
- Ashish Rathi:** What is the sales for SMS Life?
- Lakshmi Narayana:** You are asking about the independence of SMS Life Sciences or SMS Pharma to SMS Life Sciences?
- Ashish Rathi:** No I am asking sir how big is SMS Life.
- Vamsi Krishna:** See this is not a right forum to ask about another company actually.
- Ashish Rathi:** No it is relevant in the sense that as an investor...
- Lakshmi Narayana:** No it is not relevant, Sir. I already told about that there are the independent companies and independently listed companies.
- Ashish Rathi:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. Vamsi Krishna for closing comments.
- Vamsi Krishna:** Thank you. So multiple industry tailwinds such as favorable geopolitical conditions, Make in India, PLI schemes, China Plus One strategy, cost structure coupled with internal triggers such as capacity expansion, leadership position in key therapeutic and strong balance sheets are expected



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to drive the next leg of growth along with improved margins and return ratios. I thank everyone for joining us on the call. Please reach out to our IR consultants strategic growth advisors or us directly should you have any further queries. I think that is about it from our side I think we can close the call now.

Moderator:

Thank you. On behalf of SMS Pharmaceuticals Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.