



Zeal & Innovation in Medicine

Ref No.: ZLL/CS/BSE/NSE

Date: 15.11.2023

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

Sub: Transcript of Q2 &H1FY24 Earnings Conference Call

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), please find enclosed the transcript of Earnings Conference call for Q2 & H1FY24 held on Thursday, 09th November, 2023. The same is available on the Website of the Company at:

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

Request you to kindly take the same on your record.

Thanking you,

Yours faithfully,

For ZIM LABORATORIES LIMITED

(Piyush Nikhade)
Company Secretary and Compliance Officer
Membership No. A38972

ZIM LABORATORIES LIMITED

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“ZIM Laboratories Limited Conference Call”

9th November 2023



Management:

1. Dr. Anwar Daud - Chairman and Managing Director, ZIM Laboratories Limited,
2. Mr. Zulfiquar Kamal - Director Finance, ZIM Laboratories Limited,
3. Dr. Chandrashekhar Mainde - Executive Director and Chief Executive Officer - ZIM Health Technologies Limited,
4. Mr. Shyam Mohan Patro - Chief Financial Officer, ZIM Laboratories Limited
5. Mr. Zain Daud - Investor Relations, ZIM Laboratories Limited

Moderator:

Ms. Deepika Sharma - Go India Advisors

Moderator: Ladies and Gentlemen, Good day and welcome to the ZIM Laboratories Limited Q2 and H1 FY24 Earnings Conference Call hosted by Go India Advisors.

As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing ‘*’ then ‘0’ on your touch-tone phone. Please note that this conference is being recorded.

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

Deepika Sharma: Thank you, Dorwin. Good afternoon, everyone, and welcome to the Q2 and H1 FY24 Earnings Call of ZIM Laboratories Limited.

We have on the call Dr. Anwar Daud, Chairman and Managing Director; Mr. Shyam Mohan Patro, Chief Financial Officer; Mr. Zulfiquar Kamal, Director (Finance); Dr. Chandrasekhar Mainde, Executive Director and Chief Executive Officer, ZIM Health Technologies Limited; and Mr. Zain Daud, Investor Relations.

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

Thank you, and over to you, sir.

Anwar Daud: Thank you, Deepika. Welcome, esteemed shareholders and analysts, to the Q2 and H1 Financial Year 24 Earnings Conference Call of ZIM Laboratories Limited to discuss our company's Financial Results and Operating Performance. I hope all of you have had a chance to review the Financial Results and the Investor Presentation that have been uploaded on the Exchange.

Q2FY24 saw improved performance for the company, with a 27% quarter-on-quarter growth in the total operating income and EBITDA and PAT margins improving to 12.5 and 4.8%, respectively, for this quarter. Total revenue from exports was Rs. 678 Mn, 25.8% quarter-on-quarter growth, contribution from exports was 79%.

Our pharmaceutical business grew 37% quarter-on-quarter, contributing 740 million in Q2 Financial Year 24, or 86% of the total operating income. In Q2 Financial Year '24, our New Innovative Products, NIP revenue grew by 53.6% quarter-on-quarter, reaching 72 Mn, while OTF revenue reached Rs 37 Mn, a 62.6% quarter-on-quarter increase. Together with the NIP and OTF, our new initiatives now make up 13% of our Total Revenue, amounting to Rs. 109 Mn.

The quarter also saw some key product updates. We filed one NIP Dossier in EU in Quarter 2, FY24, making it the third cumulative filing for NIP in EU.

The OTF business saw its first commercial order being supplied in Europe for sildenafil citrate 50 milligram ODS. Our marketing partner in Canada also received Marketing Authorization for antiemetic Ondansetron OTF product using ZIM's dossier. In terms of marketing authorization for ZIM's portfolios, ZIM obtained 6 marketing authorizations for finished formulation in RoW and emerging markets, and our marketing partners submitted 8 OTF registrations using ZIM's dossiers in Pharmerging and RoW markets, while 12 finished formulation dossiers were filed, comprising 8 from ZIM and 4 from the client. Additionally, 9 NIP dossiers were submitted in Pharmerging and RoW market.

The Company's geographical mix is also improving, with Asia and India contributing higher percentage compared to previous quarters. We are also seeing steady growth in the revenue from EU, LATAM, and other regulated and Pharmerging markets, with contribution reaching to 7% of Total Revenue in Quarter 2 Year '24.

We continue to maintain our focus on research and development, with R&D investment accounting to 9.4% of our total operating income in Quarter 2 Financial Year '24.

I now welcome Mr. Shyam Patro, who will take us through the financial highlights.

Mr. Shyam Patro:

Thank you, Sir. Good afternoon to all our esteemed participants.

Let me present the overall "Financial Results" for Quarter 2 of Financial Year '24:

In Quarter 2, our total operating income stood at Rs. 858 Mn marking a 27% increase on a quarter-to-quarter basis. EBITDA for Quarter 2 amounts to Rs. 107 Mn which stood at 81% on quarter-on-quarter basis with an EBITDA margin of 12.5%. While the PAT for Q2 was at Rs. 41 Mn and the margin stood at 4.8%. Exports, which make up a significant portion of our revenue, constituted 79% of our Total Operating Income. For ongoing commitment to parts and machinery upgradation resulted in Rs. 339 Mn being added to our gross block for the H1 Financial Year '24.

Our R&D investment Q2 was at 9.4% of the Total Operating Income, while we spent Rs. 81 million on specifically OPEX, facilities, BE studies, and registrations in Quarter 2 that said will remain strong in terms of a balance sheet. Our borrowings for H1 stand at Rs. 601 million with the leverage ratio of 27%. The finance cost also declined to Rs. 12 Mn, a decrease of 30% on quarter-on-quarter basis

I would now hand over the floor to the Managing Director to share his closing thoughts. Thank you.

Dr. Anwar Daud: Thank you, Shyam. We hope to continue on the progress of this quarter and keep working towards our strategic goals. We would now like to open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press * and 1 on their touchdown telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use their handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Darshil Pandya from Finterest Capital. Please go ahead.

Darshil Pandya: Hello Sir, Good afternoon. I just wanted to understand if you could give a ballpark number of revenue contribution from top 10 molecules.

Dr. Anwar Daud: Our top 10 molecules, actually, we have not disclosed, but they are in the range of about 57%.

Darshil Pandya: And sir, the second question was, like OTF business accounted for approximately 4% while the NIP business contributed around 8%. Looking ahead, what are our expectations regarding the contribution from this segment and any specific geographic region that you are focusing on right now?

Dr. Anwar Daud: Just now, as you can see, the filings in the regulated markets are taking place, and more and more of the translation into business from these filings will be as we have projected in the second half of 25. That is our projection, but as you can see, there are several filings in the RoW and emerging markets and in those areas, we see a very welcome acceptance of these products, and you can see the contribution this made in the last quarter. We think that the NIP and the OTF business will see an overall increase in the coming quarter of this financial year and the next one, and also as a percentage of the total business.

Darshil Pandya: Okay, and sir, when we met on the plant visit, so there, we discussed that you recently launched a new product called “Sassa” in Europe, and you were actually working. So, any update on that?

Dr. Anwar Daud: Yes, it's been supplied. The first supply has taken place, as I said, and two orders will be accepted, and that's from only one partner. The product has also been registered using our dossier with another partner as well and the orders are there with us, so and you can see, the OTF MAs were the first to come in, and the business related to that has started, and it is showing an increase and as the different partners in different areas in Europe and the regulated markets start launching these products, the businesses will see a natural growth.

Darshil Pandya: One final question sir. You are also developing Suboxone on that time when we met and any update on that?

- Dr. Anwar Daud:** Yes, development is the chemical part of it is over. We are waiting for the co-development partner to come in, and then we will go in for the bioequivalence as well.
- Darshil Pandya:** Any tentative timeline or something for this?
- Dr. Anwar Daud:** Because it is in the court of the partner because the partner has to finalize the bioequivalence protocol, the study center, and all those things. I hope we will be able to conclude the preliminary work that needs to be done because the bioequivalence has begun by December. But it not a now decision to make then the partner involved in it, hopefully by December or by March, we should have the bioequivalence.
- Moderator:** Thank you. The next question is from the line of Darshil from Crown Capital. Please go ahead.
- Darshil:** So, congratulations on the great set of results, Sir just wanted to know what kind of guidance that we may give for FY24 and FY25 with our new launches coming in. So, you know any terms of revenue and margin?
- Dr. Anwar Daud:** For 25, it's too early to call at this moment because so many things are happening. The company is in transition. We expect that will start hitting the early numbers in 25 for the regulated markets as far as the NIP products are concerned. But at this moment, we wouldn't like to give any, give any forward-looking statement on that any numbers on that. However, in the financial year 24, the order position is robust, and we seem to be bouncing back from the external problem that was there in the first quarter. The order position is robust at this moment, and we think we will be able to repeat the performance of last year.
- Darshil:** Perfect, sir. We will be able to maintain that, and in terms of our margin, that we will be able to get to last year that margin, as there seems to be somewhere close.
- Dr. Anwar Daud:** I think so. At the moment, maybe Shyam can add to that.
- Mr. Shyam Patro:** See like definitely giving a ballpark number and a forward-looking statement, we past now. Then we are not like we are bit optimistic about the H2 rather. So, the revenue run rate will remain same audit path, with last year's number. It was increased due to the operating leverage, what we have.
- Darshil:** Okay just wanted to get a sense of margin will see sequential improvement, right. So, revenue we have pretty.....
- Dr. Anwar Daud:** Yes. As you can see the difference between the Quarter 1 and Quarter 2 , there is a very interesting operating leverage we have the moment it starts going above a certain number. All the numbers and volume.

Darshil: So, what would be that level, and 100 crores is the number where we will be able to do 13%, right? So, is that a fair assumption, sir?

Dr. Anwar Daud: Yes, it looks.

Darshil: Perfect.

Dr. Anwar Daud: And also, unless there is a product mix and the market related, the products made when the market made makes a difference, but more or less, it is perfect.

Darshil: Sir I just want to know, sir, any kind of you know macro environment risk that you are seeing that you know like you know maybe hamper our recovery. Anything that you could you know point out that you know we will be able to. That will be a speed bump for us, maybe. So, just wanted to ask that: do you see any kind of risk that you know maybe this is a factor that can hamper us, any kind of you know that part?

Dr. Anwar Daud: There is. We have made these filings now. How soon the registrations come in and we have been as conservative as we can be about when the filing will come, when the MAs will come in, and when the registration will come in, but we will never know about these things because they are not in our hands.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from Prithvi Finmart Private Limited. Please go ahead.

Abhishek Agarwal: Hello, sir, thank you for the opportunity. So, in the Investor Presentation, you stated that Nutra business has yet to fully rebound from the currency crisis effect in Q1 FY24. So, when can we anticipate this situation to stabilize, and what potential consequences could it have on the revenue and margin projections for the current fiscal year and next year.

Dr. Anwar Daud: See as the order position that we have now itself shows a steady increase in the Nutraceutical business. We are growing in India, Asia, and Southeast Asia as well. So, there is a lot of derisking coming in the coming quarter, and these numbers can, because we have a three-month view of because of the orders that we have, we can only give a three-month view at this moment. It looks like, in general the Nutra, but I don't know what kind of effect it will have on the margins. On a very simple reason that as we go into from RoW to emerging in regulated markets, the margin will generally improve. So, probably by this quarter end, everybody will have a better feel of as to what extent margin than other indices would be impacted. But to what extent it would be positive. In general, I can say the margins and the numbers are positive because of the order that we have in our hands, including the Nutraceutical order.

Abhishek Agarwal: So, you mean to say whatever existing order we have, so that is that look like that we will stabilize our Nutraceutical business in the quarter.

- Dr. Anwar Daud:** Yes, to what extent we can't say, but certainly it looks like it is stabilizing, and the next 2-3 quarters we feel, although we cannot have any certainty looking at the how it will play out, but it is towards normalization. The margins are improving. There were greater what the kind of Nutraceutical business we saw in the last year, and a lot of that it seems to be coming back.
- Abhishek Agarwal:** So, the currency crisis which we have faced from last two quarters now, do you see that it still persist in the market.
- Dr. Anwar Daud:** It seems to be easy.
- Abhishek Agarwal:** Okay, and sir, one more: is there any geographical concentration risk associated with the Nutraceutical business, particularly considering that its revenue has been bounced back compared to the positive recovery since in the pharmaceutical segment?
- Dr. Anwar Daud:** Yes. So, especially in MENA region, where we have our big chunk of the Nutraceutical business was there currency issues certainly affected the order, but as I said, it seems to be easing in those areas as well, as we see that a lot of the Nutraceutical business is now also coming from India, Asia, and Southeast Asia. There is a deriksing at that level as well as far as your Nutra business is concerned.
- Abhishek Agarwal:** So, do you foresee any impact because of the recent geopolitical issue in the MENA area because of because we have the largest presence in the RoW market?
- Dr. Anwar Daud:** No, it is usual. We do not feel. I mean, besides what we said in the first quarter and the effect on the Nutra business because what we have stated already because of the currency crisis, and this is what we learned from all of our partners in the MENA region that also seems to be actually regularizing. Geopolitical issues do not affect pharma business that much pharma and Nutra business.
- Abhishek Agarwal:** Sir, actually, I am talking about this Israel and Palestinian?
- Dr. Anwar Daud:** We do not have business there, no. We do not have business either in Palestine or in Israel, and I mean, we are far away from there, so that's not the risk for sure.
- Abhishek Agarwal:** Okay, sir, my last question: currently, we are mainly present in the RoW market and pharmemerging market, and our product launch and approval pipeline is not looking strong for the regulated market as of now. So, when do you see that significant contribution coming from the regulated market and how significant it can be for our overall business?
- Dr. Anwar Daud:** I think by the second-half of '25 you would see a good traction because those are the normal timeline after submission and then the volume and all these things will start increasing because the first after the first submission, then there are the moments, then there are a lot of agreements which gets signed, and even if the agreement gets signed in this year after the first MA, and then

there is a period of five or six months in which the other partners and other areas where the MAs were submitted would get registered, the MA would come from the local European area and other regulated markets where submissions are made on the basis of an existing MA. So, those are quick, but they also take some time. So, volume builds up over a period of time. So, that is what we think, our management, we think that by Financial Year '25, latter half, you would see the significant traction on in the regulated markets; we do see the NIP products in the RoW and emerging markets also getting registered and showing an increasing trend in the sales coming in from there, and we have said already and that is going to increase and those margins are also they will contribute positively to the entire balance sheet, and I think Dr. Mainde can add to that related to some agreements and other things we have signed and other things which are going on.

Dr. Chandrashekhar M: Hello, this is Dr. Mainde. As you are aware, we are in the process of filing, as we mentioned to you that we have done the three submissions already, and three submissions is due in the H2. Now the submissions are under review, and we are expecting that all the procedure there is at least a procedure of one year means 210 days, which generally extended up to one year, will get over by the '24 end, and then subsequently, in the second-half of the 25 we will see there is a significant difference in the most of the most of the NIP products, and these regulated market are the Europe we are already submitting in the Europe also we will go to the most difficult market like Brazil in the second-half of the 25. So, this will bring a lot of change from the revenue in the regulated market.

Abhishek Agarwal: Okay, sir, what are product pipeline we have? It is more on the OTC category or the prescribed category.

Dr. Chandrashekhar M: It is in the prescribed category what we are submitting, most of the products are in the prescribed category in the regulated market.

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

Naman Bhansali: Sir, the first one is on the industry side, so how do businesses like you typically go about incorporating the cost of API users and to the pricing structure, and generally, how long does this process usually take to implement? I am asking how do businesses typically go about incorporating the cost of API usage into their pricing structure, and how long does this process usually take to implement?

Dr. Chandrashekhar M: I would like to answer this question. Say we are always having a structure where we decide on the particular cost of the API in the ratio with the finished product formulation below that we do not go, and generally we have a very good and reliable sources for the API. Generally, we have two sources of API. So, we are risk-free, and we are managing well within our expected cost of the API in tune with the formulation cost.

Naman Bhansali: My second question was on the model which you follow. So, on the marketing model side, do you have field force, or do you run on a total partner model with the companies or the distributors which you have?

Dr. Anwar Daud: We do not have feet on the street. We do not have a sales force in the market. We have a business development team who actually build long-lasting relationships with different partners who are strong in their local market, and we engage with them at different level. If we have an already existing MA, we can transfer the MA to them, or we out license ours to them, and they file with their brand. But we do have, in all cases, a supply agreement with the partner which is very long term, almost as long as the business will be there, and this helps us because we do not transfer any technology to any other plant than our facility except our own. Is this the right clarification for you.

Naman Bhansali: Yes. That's it from my side.

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

Kunj Nandwani: Thank you for the opportunity. First, on general business understanding question. So, how is our supply chain work in both our PFI and finished formulation businesses, especially on a PFI side how the sourcing work, and what are the key geographics on which we are currently depending on.

Dr. Anwar Daud: Supply Chain thing,

Mr. Shyam Patro: In supply chain, that does not differentiate between PFI and formulation because under PFI, also the major component is API. API is sourced from the same approved vendor only, and all APIs, we have two vendors.

Dr. Anwar Daud: Minimum 2.

Kunj Nandwani: Okay, sir, on API side in the PFI, our client is not giving us the raw material right, we have to source on ourselves.

Dr. Daud and Mr. Patro: No, that is like your job work basis. We are not in that field. We are not in contract manufacture. We actually outlined ourselves, and we leveraged that. This is the way in which we leverage our IP. The transfer prices include the profit and premium in proportion to the kind of IP we have for the product, and we also will collect our out licensing fees from the partners.

Kunj Nandwani: So, also could you offer an outlook regarding the margin and expenditure for FY24 and 25?

Mr. Shyam Patro: See, the absolute number will remain same, will improve but our R&D expenses are normally 7 to 8% on overall revenue.

Kunj Nandwani: And on the margin side.

Mr. Shyam Patro: The transit will remain the same.

Moderator: Thank you. The next question is from the line of Anil Sharma from Ed Capital. Please go ahead.

Anil Sharma: Hello! Thanks for the opportunity. Sir, just a couple of queries from my side. One was I wanted to understand, in terms of any instances or any you know where our business has actually benefited from drops in API prices, any kind of a significant drop in API prices, and how have we benefited from them? Secondly, I just wanted to check any upcoming products in the pipeline that you can highlight which is expected to be introduced over the course of next, probably, let's say, a quarter or a couple of quarters, yes. Thanks.

Dr. Anwar Daud: See, because we have geared towards entering the regulated markets and we have long term contracts with the partner from whom we are well known, the dossier that we make also contains the dossiers for the DMF of the API manufacturer as well, and they are supposed to provide all the details and other information that is required by the approving authority wherever the products are submitted. I am just giving you this background to inform you that drops or increases in API prices are modulated with long-term supply contracts. So, unless they either drop beyond a certain level or they increase beyond a certain level, we are protected from that. But we always factor in gradual drops in the prices of APIs over a period of time as the product gains traction and volumes improve, so we are expected to drop our prices as well. We have seen this from my experience: margins tend to increase slightly over a period of time as a result of whatever is slightly whatever we put in there; there are no commodity related swings in prices as far as business is concerned, or either upwards or downward in the margin due to the prices drop in the API or increase in the API. The upcoming products in the pipeline in next two I think this is we normally do not disclose this. We will be making disclosures for you relating to our submission. So, we have the NIP product, which is only already on the website, whatever we develop for confidentiality, and we will be protecting the company's land for the future. At this moment, I am not at liberty to discuss for sure. For sure, as we keep our submissions and bioequivalence and partnership agreements, they get signed over a period of time. Certainly, we will disclose at the appropriate time and place. In general, I would like to add here the company is in the business of complex and difficult to manufacture our product and we try to solve a problem. We identify products where a problem is to be identified and solved by the company through its technology and IP, and these are the kind of productivity.

Moderator: Thank you. The next question is from the line of Rohit from Ithought PMS; please go ahead.

Rohit: Hello, Good afternoon, Sir. I think in one of the previous interactions that is publicly available, you mentioned that you see that Financial Year '25 to be the year in which a lot of the efforts that you have done in terms of, uh, NIP or getting into regulated markets sort of getting justified in terms of financial numbers. So, I just wanted to understand. I mean, if you can just maybe so first question is, I mean, do you still hold on to that statement and do you see FY25 numbers

improving substantially for you, and if you can just maybe talk a bit more on that, like how, how much, or, I mean whatever you can share?

Dr. Anwar Daud: At this moment, it is difficult to give you a number because 2025 is, at least, we are in this current year, two more quarters to go, then four more quarters in the next year. Right. So, we are 6 to 8 quarters away from when the numbers start kicking in. Only in due course, after two or three quarters, maybe we will have some idea because we are signing several agreements just now and we have the commitments from the buyers from our partners for a certain number. This is all. There are a lot of market dynamics involved, where you know. It won't be prudent to share number which are at the moment being signed because things change in 1.5 years. You have all seen that change. We still hope to see the Financial Year '25 numbers according to the strategy. According to the projections that we have already made and the public domain.

Rohit: No. Sure, Sir. I understand. I mean, things can obviously change. So, what I am saying, I mean, I noticed that you disclosed the sales from NIP and OTF for the first time now in the presentation. So, I mean, one way to say is that there are 6 to 8 quarters still left. The other way to say is that only two quarters are left in FY24. So, I mean what I am trying to say I understand is that all the efforts that you have made are they on track for you to sort of see the truth of that.

Dr. Anwar Daud: There seem to be on track, and you will see a further traction in terms of the NIP and oral products that are in the regulated markets, and also the quickly all the registrations and filings that are being made in the emerging markets as well. So, we certainly we can say there will be a positive trend, and I said in my original opening remarks that over a period of time, you will see these products contributing to the overall revenue as well as making a positive impact in terms of the margin.

Moderator: Thank you. We have no further questions. I would now like to hand the conference over to the management for closing comments. Over to you, Sir.

Dr. Anwar Daud: Thank you. And we wish to see you again in the next quarter's call and wish all of you a Happy Diwali in advance and a prosperous new year in the coming days. With that, thank you very much for giving us this time to explain how we are doing and what plans we have. More or less, as I said, we are on track, and we are confident.

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