CONCORD BIOTECH LIMITED

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November 19, 2024

To The Manager, Listing Department **National Stock Exchange of India Ltd.** Plot No. C/1 G Block, Bandra-Kurla Complex, Bandra (East), Mumbai -400 051 Symbol: CONCORDBIO	To General Manager, Listing Department **BSE Limited** Phiroze Jeejabhoy Towers, Dalal Street, Mumbai – 400 001 Scrip Code: 543960

Dear Sir/Ma'am,

Subject: Transcripts of Q2 & H1 FY25 Earnings call held on November 12, 2024

In continuation of our letter dated November 12, 2024 regarding Audio recording of the Audited (Standalone and Consolidated) Financial Results of the company for the Second Quarter and half year ended September 30, 2024, Earnings call for Investors and Analysts and pursuant to Regulation 30 (6) of the SEBI (Listing Obligations and Disclosure Requirements) 2015, the transcripts of the Earnings call for the said period enclosed herewith and available on the website of the company at the following link after sending this letter to you. Also please note that this transcript and the audio recording of the call, both have been uploaded on our website as follows:

https://www.concordbiotech.com/investors

Kindly take the same into your records and oblige.

Thanking you,
Yours faithfully

For Concord Biotech Limited

PRAKASH LALCHAND SAJNANI
Digitally signed by PRAKASH LALCHAND SAJNANI
Date: 2024.11.19 11:05:30 +05'30'

Prakash Sajnani
Company Secretary and Compliance Officer
M. No. F6242

Encl: as above

CONCORD BIOTECH
Biotech for Mankind...

"Concord Biotech Limited

Q2FY25 Earnings Conference Call"

November 12, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th November 2024 will prevail

MANAGEMENT: **MR. SUDHIR VAID – CHAIRMAN AND MANAGING DIRECTOR – CONCORD BIOTECH LIMITED**
MR. ANKUR VAID – JOINT MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – CONCORD BIOTECH LIMITED
MR. LALIT SETHI – CHIEF FINANCIAL OFFICER – CONCORD BIOTECH LIMITED
MR. PRAKASH SAJNANI – COMPLIANCE OFFICER AND ASSISTANT VICE PRESIDENT, ACCOUNTS – CONCORD BIOTECH LIMITED
SGA, INVESTOR RELATION ADVISORS – CONCORD BIOTECH LIMITED

MODERATOR: **MR. PRASHANT NAIR – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2FY25 Earnings Conference Call of Concord Biotech Limited, hosted by Ambit Capital. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements do not guarantee the future performance of the company, and it may 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 management briefing concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero, on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prashant Nair from Ambit Capital. Thank you, and over to you, Mr. Nair.

Prashant Nair: Yes. Thanks, Shruti. Good afternoon, everyone, and welcome to the Concord Biotech Q2FY25 Earnings Call. From the company, we have with us today Mr. Sudhir Vaid, Chairman and Managing Director; Mr. Ankur Vaid, Joint Managing Director and Chief Executive Officer; Mr. Lalit Sethi, Chief Financial Officer, and Mr. Prakash Sajnani, Compliance Officer and Assistant Vice President, Accounts.

I'll now hand over the call to management for opening remarks, following which we can move on to the Q&A session. Over to you, sir.

Sudhir Vaid: Good afternoon, everyone! Thank you for joining us on our Q2FY25 earnings conference call. We are pleased to report steady and sustainable growth in both revenue and profitability for the first half of FY25. Our revenue for Q2FY25 stood at INR 310 crores compared to INR 262 crores in Q2FY24 and PAT stood at INR 99 crores compared to INR 84 crores in Q2FY24, making an 18% year-on-year growth in both revenue and PAT. This growth underscores our deeper market penetration, our expanded customer base and entry into new regions.

At Concord, we take pride for being the world's only supplier offering a complete portfolio of fermentation-based APIs for immunosuppressants. With decades of experience and specialized expertise, we have developed high-quality products across therapeutic segments such as immunosuppressants, oncology, anti-infectives and antifungals that meets international quality standards.

Just as we have demonstrated robust growth in the immunosuppressant segment, we are optimistic of achieving similar growth and market share in our other segments. In addition, we made significant progress in the formulation business, starting in 2016 with oral solid dosage manufacturing. This segment in Q2 accounted for approximately 26% of our business.

We are further enhancing our formulation capabilities with the addition of an injectable facility by the end of this financial year, which will broaden our market reach and product diversity. Over the years, we have dedicated our efforts in developing niche capabilities by leveraging our expertise and innovative approach in fermentation. Through continuous research and development, we strive to stay ahead of the curve, pushing boundaries and setting new standards for product innovation in our segment.

We are proud to offer products that stand out, not only for their quality but also for the manufacturing capabilities and capacity that makes us the preferred choice for API customers with fermentation needs. One of our distinct competitive advantages lies in our backward integration into critical starting materials.

By controlling the entire supply chain from raw materials to finished products, we significantly reduce our reliance on external vendors. This integration allows us to maintain strict quality control at every stage of production, ensuring that we consistently meet the highest standards. As a result, we are able to provide our clients with a reliable and uninterrupted supply of products, giving them the confidence that we can meet their needs with exceptional consistency and quality.

Furthermore, we have all the necessary approvals from both international and domestic regulatory authorities. These certifications reinforce our commitment to quality and compliance, ensuring that our products consistently meet the highest industry standards. Our focus on consistent supply, quality innovation and customer satisfaction continues to drive our growth and success.

As we move forward, we remain committed in leveraging our strengths and capabilities to deliver exceptional value to our stakeholders and contribute positively to the health care industry. With this, I hand over the call to Mr. Ankur Vaid, Joint Managing Director and CEO, for his opening remarks, and thank you.

Ankur Vaid: Thank you, sir. We are pleased to report revenue of INR 310 crores for Q2FY25, reflecting a year-on-year growth of 18%. Our EBITDA and PAT also increased by 15% and 18%, respectively, compared to the same period last year. As we continue to grow our revenues, we remain optimistic about sustaining and further increasing our profitability in the future.

Over the years, we have successfully positioned Concord as a leading supplier of fermentation-based API products, carving out a niche category within this space. We have built a business with our expertise in complex processes, operational efficiency, product development and R&D, thereby creating significant entry barriers.

With a diverse portfolio across therapeutic areas, scaled up manufacturing facilities, flexible plant configurations, regulatory approvals, a strong compliance track record and backward integration, we have positioned ourselves as a preferred partner for our customers. Our API revenues for Q2FY25 stood at INR 230 crores against INR 226 crores in Q2 last year.

We would like to highlight that the interunit sale of APIs to formulations has not been considered in the API revenues. Hence, we see muted growth in our API segment. We continue to penetrate deeper into markets with our existing clients, adding new clients across geographies and also expanding our product portfolio.

By continuing to diversify our offerings, we are strengthening our position and meeting a wider range of customer needs. Looking ahead, we are optimistic about our future growth prospects, particularly given our strong pipeline of products in new segments such as oncology and antifungal therapies.

These areas represent exciting opportunities for expansion, enabling us to broaden our market reach and meet critical needs in high-demand therapeutic segments. The majority of the customers added in the last year in the API segment are for these new therapeutic areas only. We have also supplied qualification samples to several customers and expect validation and commercial supply soon.

We see a very encouraging response from these new segments, especially the antibacterial and oncology segment and are optimistic about the same. Our goal is to enhance our offerings by becoming a one-stop provider of fermentation-based API products for multiple therapeutic areas, thus increasing our market share and solidifying our relationship with existing customers.

This strategy positions us well to offer a complete range of products and continue building on our success in the API segment. Our formulation segment has achieved an impressive growth of 125% in Q2FY25 on a year-on-year basis. This growth is driven by our product approvals and continuous product additions, thereby strengthening our presence in the domestic, emerging and regulated markets with substantial potential.

In the domestic arena, our formulation business, particularly in critical care, nephrology and rheumatology has demonstrated strong momentum. We have also expanded our sales and distribution network with a dedicated team of over 175 professionals serving the Indian market. Our new injectable facility is on track to begin operations towards the end of FY25. This will allow us to serve a larger market with a comprehensive product portfolio that includes both oral solid dosage forms and the injectables.

For Q2FY25, the split between API and formulation was 74% in API and 26% in formulation, while for H1FY25, it was 76% and 24%, respectively. In our CDMO business, we are seeing encouraging momentum with a growing number of inquiries and we have submitted multiple RFQs as companies evaluate Concord as a potential supplier in the CDMO space.

Concord offers distinctive advantages as a CDMO partner making us a strong contender for large companies. We are actively in discussion with several companies. With the passing of the Biosecure Act, global companies are looking at reducing their dependency on China, which is also leading to an increased number of inquiries.

Given our expertise in fermentation, ample capacity to undertake CDMO projects and global regulatory approvals, Concord is being considered as a trusted partner for fermentation and semisynthetic API CDMO projects.

Speaking about product development and expansion, our in-house R&D team is at the forefront, continuously innovating and adding new products. Currently, we have a robust pipeline of 8 to 10 new products that we plan to commercialize over the next 3 to 4 years. These products are primarily focused on critical fields of oncology, anti-infectives and antibacterial treatments.

We also have a robust pipeline of finished formulation products and have done new filings in the US and other emerging markets. Lastly, we are optimistic about the growth trajectory for both segments and remain committed to achieving our long-term CAGR guidance. With this, I

hand over the call to Lalit Sethi, our Chief Financial Officer, for financial and operational performance. Thank you.

Lalit Sethi: Thank you, sir. Let me take you through the financials and operational performance for the quarter ended September 2024. On the revenue front, our revenue for this quarter stood at INR 310 crores as compared to INR 262 crores in the same period last year. Let me highlight that we had an exceptionally good Q2 last year, and we have outperformed that this year with a growth of 18%.

Our revenue for the first 6 months stood at INR 526 crores as compared to INR457 crores (misspelled as 557 crores the corrected number is 457 crores) in H1 of the last year, representing a growth of 15%. Revenue from the API business stood at INR 230 crores in this quarter against INR 226 crores during the same period last year. API revenue in H1 of this year stood at INR 401 crores against INR 390 crores during the same period last year. So, as mentioned that, API revenue excludes intercompany sales to the formulation unit, and hence shows a muted growth.

Revenue from the formulation business in this quarter stood at INR 80 crores as compared to the INR 36 crores in the same period last year, representing growth of 125%. Formulation revenue in H1 this year grew by 87% on Y-o-Y basis. Revenue from the domestic business grew by 16% in this quarter and 19% in H1 on a year-on-year basis.

Revenue from the exports business grew by 20% in this quarter and by 11% in H1 of this year on year-on-year basis. Speaking on EBITDA. EBITDA for this quarter stood at INR 137 crores as compared to INR 119 crores in the same period last year, representing growth of 15%. EBITDA for H1 of this year stood at INR 218 crores, representing growth of 14% on Y-o-Y basis.

EBITDA margins for this quarter stood at 44%, and for H1 financial year '25, it stood at 41%. Our PBT excluding profits from JV stood at INR 133 crores as compared to INR 113 crores in Q2 of the last year, a growth of 18% and PBT for H1 of this year stood at INR 211 crores, a growth of 19% Y-o-Y. Our PBT margins, excluding profits from JV stood at 43% for Q2 FY '25, which was the same in Q2 of last financial year.

On profit after tax, our profit after tax for this quarter stood at INR 99 crores as compared to the INR 84 crores in the same period last year, representing a growth of 18% Y-o-Y. PAT margins for this quarter stood at 32%, the same as compared to Q2 of last year. We are a 0 debt company with investments, bank balances and cash and cash equivalents to the tune of INR 284 crores as on September 30, 2024.

So, with this, I shall now leave the floor open for Q&A.

Moderator: The first question is from the line of Alankar Garude from Kotak Institutional Equities.

Alankar Garude: Sir, formulations growth in the first half was quite strong at 85%. So firstly, was there any one-off lumpiness in formulation sales in either this quarter or the first half overall?

Ankur Vaid: So, no specific lumpiness. I think usually, formulation business is driven by most of our products are mostly in tenders and supplies to government institutions. As I've mentioned, sales whether it is in API and formulations is usually lumpy in nature. So - there were certain products that we supplied in this specific quarter. But going forward also, we have a very strong quarter for formulation as well. So, as I say, there is bound to be lumpiness in both API and formulation, which is something that we did see in this quarter for formulations as well.

Alankar Garude: And when you say, Ankur, domestic emerging markets as well as regulated markets are driving the performance in formulations, qualitatively, would it be possible to break the strong growth between these 3? So, I mean, is domestic growing at a faster pace compared to the export markets? Or any colour on this front would be helpful.

Ankur Vaid: So, we are seeing the export market growing faster than the domestic market, while the domestic market itself is growing, but the rate of growth in exports is relatively more than that of the domestic.

Alankar Garude: Understood. The second one is, what was the capacity utilization as of the second quarter across all the 3 sites?

Lalit Sethi : Across all the 3 sites, the capacity utilization is 79% as far as the Unit 1 is concerned and 50% as far as Unit 2 is concerned and 38% in Unit 3.

Alankar Garude: So then, sir, I mean, the question is when you talk about higher captive consumption in this quarter, now given that our capacity utilization at Limbasi was only 38%, capacity was clearly not a constraint for us. So, I appreciate the point on a high base this time around in the second quarter. But if you look at the overall growth, not just in the second quarter, but even in the first half, as far as API segment is concerned, it's still quite low. I mean, first half, API growth is only 3%. So, can you please help explain the reasons behind lower external API sales growth in the first half?

Ankur Vaid: See, maybe talking first about the interunit sales. So, as I mentioned, that the intercompany sales from API to formulations at the end gets recorded in formulations only. And hence, API had shown that muted growth. And whereas formulation showed the accelerated growth. So if we consider if we include this API sales made to formulation and our API, the API growth would be around 9% to 10%. Going forward, in spite of the interunit sales to the formulation, we see that the API is growing by mid- to high teens.

And with this, we do not see any significant change even to our ratio of API to formulation. So as I had mentioned earlier also in Q1. Q1 typically is on the lower side because we had a heavy quarter 4. But as things are progressing, we are seeing that increase. But in certain markets, rather than catering through the API, we are catering now through the finished formulation. But still, in spite of this, we see double-digit growth in our API also going forward.

Alankar Garude: Sir, I think the question there was if you look at external API sales, our understanding was, given that Limbasi was cleared by the regulators sometime back, more than 2 years now. There would be a faster pickup in external API sales as well from Limbasi. I understand the point on maybe a higher preference on formulations via captive consumption in this quarter or maybe the first

half. But directionally speaking, can you comment on the traction we are getting from our external API clients from Limbasi?

Ankur Vaid: Yes. So, most of the anti-infectives and antifungal products are going to be launched from Unit 3 only, which is the Limbasi facility. And there, as I mentioned, that we are seeing a lot of traction from our customers in terms of qualifying us for those products, to certain customers, we have also given qualification samples and for some customers, we are close to providing them validation quantities as well. So, expect those commercializations to happen soon. Also, for our other products such as in the immunosuppressants, we are also seeing positive feedback from certain customers in LATAM.

And those opportunities also, we see materializing in the next couple of months' time as well. So, there is growth both in the immunosuppressants and more particularly in the anti-infectives, antifungal segment. With that, as I've mentioned that in spite of the interunit sales, the growth in the API, we expect it to be in the double-digit growth in spite of the sales happening interunit sales happening. So, there are orders that we have from customers, which would be executed in the subsequent quarters. So, I do not see any reasons or any concerns about our API business per se.

Alankar Garude: Fair enough, Ankur, just one clarification. When you talk about low double-digit growth, this is for the fiscal year or for the second half?

Ankur Vaid: This would be for the fiscal.

Alankar Garude: For the fiscal FY '25.

Ankur Vaid: Only for the API business. But for the overall business, as I had mentioned, we remain in line with our long-term CAGR guidance of the 25% CAGR growth and grow higher than the historical growth that we have done.

Alankar Garude: Understood. And one final one, generally, before FY '24, at least, we had a heavy skew towards the second half in terms of our sales as well as EBITDA. Broadly, it used to be 40-60, 40% being the first half, 60% the second half. Should we expect something similar this time around as well? Or do you expect the mix to be slightly different?

Ankur Vaid: See, if you see that on our second quarter since last year, it has been relatively on the higher side compared to the historical way that we have grown in quarter 2. But that being said, the second half, as I said, is always going to be heavier than the first half. To what extent, I won't be able to comment now. But definitely, it is higher and it would make us in line with our guidance that we have even for this year.

Moderator: The next question is from the line of Vivek Agrawal from Citigroup.

Vivek Agrawal: Ankur, is it possible for you to give some color on how you grow how the API segment has grown when it comes of volumes, right, and how the prices are faring in this quarter? Because what you are hearing from across the board, the API segment has seen a significant correction in terms of prices. So how are you seeing the pricing and all these things?

Ankur Vaid: So, for our business, as I had mentioned that most of the competition that we have on our commercial products is mainly from Europe and Southeast Asia. We do not see significant competition from China. And as there are very few most of the products that we do, there are there is very limited competition. So given that, we have not seen any significant impact on the API prices. But when we talk about how our API segment has grown, much of the growth has come from the formulations business, which is primarily targeting the emerging markets. And if I have to be more specific, it would be Southeast Asia, LATAM and the US market.

So much of the growth in the formulation has been through these markets. And since we are fully integrated, that impact we are also seeing in the API through our interunit sales. But coming to the other segments, as I've mentioned earlier, we are seeing good traction in the anti-infectives and antifungal, oncology segments, where for many of those, we are trying to qualify ourselves as a secondary supplier because these are already generic products. But given our competitiveness and our global approvals, we are seeing good traction on these molecules. So we expect commercialization on these molecules in the coming quarters.

Vivek Agrawal: Just a related question in the anti-infectives and oncology. So, is it possible for you to highlight which are the products or molecules that you expect to see some significant traction, let's say, over the next 1 to 2 years?

Ankur Vaid: So, if you see our portfolio, most of the products that you have most of the products that we are manufacturing there is very, very limited competition. So, you may see maybe 1 or 2 players on those products. So given that the opportunity is very large on these molecules, maybe the market size may vary between one molecule and the other. But if I have to name a few products, products like Teicoplanin, Nystatin, these are certain anti-infectives products where we are seeing very good traction.

Moderator: The next question is from the line of Sumit Gupta from Centrum.

Sumit Gupta: So just one clarification: the double-digit growth in API for FY '25 you said is on a normalized basis with the formulations not in this thing, right?

Ankur Vaid: Sorry, could you repeat that again?

Sumit Gupta: Just wanted to understand on the double-digit growth in API for this quarter that you highlighted. What was the major reason for that?

Ankur Vaid: No. So, the double-digit growth in the API is to third party sales and does not include interunit sales.

Sumit Gupta: Understood. So, in that case, what is the growth for the formulation segment?

Ankur Vaid: So, the formulation segment continues to do well. And going forward for the full year, it should be relatively in line with the 80-20 split that we have, give or take, 2%, 3% here or there.

Sumit Gupta: Understood. And sir, what is the margin profile for both of these, for API and formulation?

Ankur Vaid: See, margin profiling between the 2 is relatively is quite varied because, as you would see in the API, there are very limited players and hence the competition is very low, and we are competing with players only based out of Europe and Southeast whereas in formulation, since we're supplying to global markets, there are a number of players who we would be competing with, given that the profitability is very different between the 2 segments.

Sumit Gupta: Okay. And sir, lastly, on the status of the unit. So, I just want to understand on so is there any inspection left on like Unit 1?

Ankur Vaid: Sorry, special…?

Sumit Gupta: US FDA inspection on for Unit 1 or the Dholka plant.

Ankur Vaid: No. So currently, there is no inspection right now scheduled for Unit 1. However, as I've mentioned earlier, we've had a very good track record with the US FDA and also in the last few quarters, we have been inspected by other global regulatory agencies like Brazil, Europe and Japan. So given that we are still awaiting any news from the FDA for the Unit 1 inspection.

Moderator: The next question is from the line of Chintan Sheth from Girik Capital.

Chintan Sheth: On the API front, when you mentioned at gross level, 9% to 10% Y-o-Y growth. This is this for the quarter or for the first half?

Ankur Vaid: So, the 9% to 10% growth is for the first half, considering the sales to interunit because, as I mentioned that in certain markets, we instead of going through the API, we have gone through the formulation route. And if we would have considered the API sales to interunit this would have the API growth would come to around 9% to 10%. However, as I said, for the full year base, we expect to grow in double digits without considering the interunit sales.

Chintan Sheth: Got it. And if the gross margin compression, as you are mentioning, the formulation is a high competitive, relatively high competition versus API, the mix between the current quarter where the formulation got to 26% share has the bearing on the gross margin, that understanding looks correct, right?

Ankur Vaid: Yes. So, on account of the formulations, yes, that understanding is correct. In fact, in this half year, the percentage of API versus formulation has been 26% and 74% against 15% and 85%, respectively, in the same period last year. So, since there is a significant shift in the significant shift in the split of these 2 segments. So that's why it's been reflected over there in the gross margin.

Chintan Sheth: Correct. So, nothing sort of any pricing, as you mentioned, no pricing pressure either in the API or the raw material side...?

Ankur Vaid: No, no, because as I mentioned, if you would take it to a full year base and we get closer to the 80-20, relatively closer, the margins in all the others should fall pretty much closer to what the historical ratios have been or the guidance that we have given.

Chintan Sheth: Right. Got it. And if you can speak about the new pipeline, we were planning to launch working 8 to 10 products and planning to launch at least 1 or 2 products every year on the API side. If you can talk about where are we in terms of new launches as well as what kind of market will open up in terms of the global market will open up the opportunity for us? That will be last, and I will join back in queue.

Ankur Vaid: See, if one would have to look at the market size for these 8 to 10 products, I would say it would be close to around $1 billion at the API level. And in addition to these 8-10 molecules, we also have other API products that we are working on. So, it is not just limited to these 8-10 molecules. So, the market potential is quite huge for these newer products that we tend to commercialize in the next 3 to 5 years. And all these molecules are again where we see limited competition and these are complex products. So ample growth opportunities on these products. But every year, we expect maybe around 2 to 3 products to launch every year.

Chintan Sheth: Right. Okay. And any product you want to call out that can be differentiated in high-value products among the...?

Ankur Vaid: So, I won't specify any particular product. But as I mentioned earlier, all these products, maybe the market size may vary, but if there is limited competition, I think it gives us ample opportunity to gain a significant market share over the next 3 to 5 years once we commercialize those products.

Moderator: The next question is from the line of Rushabh Shah from Buglerock PMS.

Rushabh Shah: Yes, I just wanted to ask what is the USP of the Concord Biotech for immunosuppressants APIs, and we are one of the few Indian manufacturers. So, what is different we are doing that other players are not able to do?

Ankur Vaid: So, I think what differentiates us is our expertise and our focus on growing on our strength, which is fermentation. And based on our expertise, we have set up the infrastructure accordingly. So, we have the economies of scale. Concord has a 1,250-meter cube of fermentation capacity spread across 2 unit, which I would say is one of the largest globally. So, with our expertise, with economies of scale, with global regulatory approvals, as our sites are inspected by the U.S., Europe, Japan, Korea, Brazil, and many other authorities. So, we become a one-stop shop for people who are looking customers who are looking to source these fermentation API products.

And based on our expertise, over the years, we've been able to capture a significant market share globally from some of our competitors who are based out of Europe and other parts of the world. So given that the way that we have grown in the immunosuppressants and also in other segments, like in anti-infectives and oncology, there are certain products where we currently hold more than 20% of the market share like we have in the immunosuppressants. So, it is not only about immunosuppressants, but it is also about other products where we have significantly grown our market share over the years for these products. So, it is mostly about our focus on what we do best and then keep working on building that portfolio.

Rushabh Shah: Okay. So, sir, as you said, we don't see many companies having that kind of fully integrated approach in some of the niche anti-infectives also so which are for the fermentation so what

would be the reason why other companies are not able to do it? Is it because you are in this business for 2 decades? Or what is it, sir?

Ankur Vaid: So, as I said, that it is all about the expertise. I think companies in India have not focused on the fermentation while other segments, whether it is synthesis-based or formulations have grown. But fermentation is a very challenging process and it requires expertise to kind of run that. And in addition to that, you need the economies of scale also because you typically need very large fermenters to kind of run that process. So, to set up that infrastructure also has high entry barriers, which kind of limits newer players to enter into segments such as this.

Rushabh Shah: Sorry sir, I might be repeating, but you said there are not many players in the industry who have done the fermentation process, correct?

Ankur Vaid: That's correct.

Rushabh Shah: In any of the areas. So, sir, why is it that no one has done it? Like I wanted to understand the basic crux of it. Why hasn't anyone been able to crack this fermentation process in any of the areas from...?

Ankur Vaid: So, I think there are higher entry barriers, as I mentioned. So, when I talk about because in fermentation, what happens is that if you do not have a control on the process, an A+B can give you C, C1, C2, C3, you can get very different compounds if you do not control the process. Whereas in chemistry, if you see, you will always get the same product every time you do because it is a chemical reaction.

So, to have that control requires that expertise. And that, as I mentioned, that's not there are not many companies who have that kind of expertise in the area of fermentation. And hence, that limits players. And in addition to that, there are a lot of entry barriers, which I spoke about, whether it is the infrastructure cost as well, which also plays a role in limiting competition in this segment.

Rushabh Shah: Any more entry barriers would you like to suggest other than the cost of the infrastructure?

Ankur Vaid: So, expertise, I think having that expertise itself is one of the biggest barriers if you think about in the area of fermentation.

Rushabh Shah: Got it. Okay. Sir, then my last question is, so what is the reason for the increase in the demand for immunosuppressants APIs and why will it keep on increasing further?

Ankur Vaid: Sorry, your voice is not clear.

Rushabh Shah: Sir, what is the reason for increasing demand for immunosuppressants APIs? And why will it keep on increasing further?

Lalit Sethi : In fact, immunosuppressants, we have been there in immunosuppressants since the beginning from 2000. And now we have the full basket of products in the immunosuppressants category. So, if you look at the market of even use of immunosuppressants, it is growing at a CAGR of around 10% annually. And in addition, there is a possibility of getting a market share from the

existing customers as well. So that's why we expect that the market for immunosuppressants, going forward, may also be lucrative for us.

Moderator: The next question is from the line of Harshal Patil from Mirae Asset Capital Markets.

Harshal Patil: Sir, I just need 2 clarifications; I've missed it in your comments earlier. One was for gross margins compression. So, sir, here, we are saying that almost 450 bps of Y-o-Y gross margin compression has come on the back of a change in mix, wherein we've got a higher share of formulations. So, sir, are we trying to say here that the formulations would have lower margins? Or if you could just help me understand that.

Ankur Vaid: That is correct, yes. The margin in formulation is lower than that of the API.

Harshal Patil: Okay. And probably the trend would continue going ahead as well, right?

Ankur Vaid: So, as I mentioned that for us to have a double-digit growth in API, the second half should be more heavy on the API given that we would see a similar ratio of 80-20 between formulations and API. So, give or take, we expect to maintain that ratio of 80-20 at the end of the year. And with that, most of the ratios then should fall in line with that.

Harshal Patil: Got that, sir, got that. Sir, so just a follow-up to this point would be like as we're expecting the overall mix to be around 80-20 for full year FY '25 and going on ahead also. So, are we therefore saying that in the second half, the formulations would slow down? And if that's the case, then what exactly which exactly where the products which drove the performance for Q2?

Ankur Vaid: See, as I mentioned that 80-20 is our long-term guidance given the capacities, the portfolio and R&D products that we have. So, this is our long-term guidance of 80-20. However, you may see some variability on that on a year-on-year basis. But for this year, we do not see any significant variability on the 80-20 split. But the 80-20 is more of our long-term guidance given the capacities and the portfolio that we have, which are commercial or under development.

Harshal Patil: Okay. And sir, so just one last question, if I can squeeze in. So, the traction into the formulation segment, which is there in Q2 to a certain extent, would be maintained around in the second half as well? I mean I wouldn't say that so much of a big growth, but maybe in absolute numbers, the traction should be maintained?

Ankur Vaid: So, if I understand, we do see growth in the formulation segment in the second half of the year as well.

Moderator: The next question is from the line of Husain Bharuchwala from Carnelian Capital.

Husain Bharuchwala: Sir, just wondering, this will be 2 things. Like one is on the basically on the injectables, we have been delaying the launch of the injectable facility for some time now. So, what is the primary reason that we have been delaying the launch of the injectable facility, if you can explain?

Ankur Vaid: So initially, the injectable facility was expected to be commercial by September or October. However, we have now taken it to February. So, the facility is as I say, is ready. We are just undertaking the media fill studies and there was some delay in getting the approval from the

Indian regulatory authority for the site. So given that we are going with our media fill studies, we expect that we would initiate the commercialization of products by February. So these 3 to 4 months of delay have been primarily due to the team is taking a little bit more caution in terms of doing these studies and qualifying the water systems and other equipments.

Husain Bharuchwala: Got it. And second thing, sir, just wanted to understand in the formulation, what is the percentage of the hospital business? Because what we understand is in the hospital business, probably the working capitals is a little elongated so and there are very less margins in the hospital business. So how much percentage of our overall formulation business is towards the hospitals?

Ankur Vaid: So, we supply our formulations to in the Indian market to the large corporate hospitals, mid-corporate hospitals, nursing homes. So, we do not see any challenge in pricing from these hospitals. But yes, when you talk about the institutional sales, which is to government institutions, there the margin profiling is slightly different from that you would see in the corporate hospitals. But in that case, you do not have the spend on the marketing team. So, it kind of then offsets the cost and the margins.

Huseain Bharuchwala: Got it. And anything on the working capital that is higher than you do in terms of the government orders or on the hospital side, if you can highlight?

Lalit Sethi: Working capital with respect to the government orders, yes, that's definitely slightly different because the receivables time is slightly more as compared to the corporate hospitals and the trade business.

Moderator: The next question is from the line of Sumit Gupta from Centrum.

Sumit Gupta: Sir, just want to understand pre-empting the global scenario on the fermentation-based API market. So how like overall, how big is the market and how many players do you directly compete with?

Ankur Vaid: So, the overall fermentation market would be close to around $11 billion to $12 billion, but the kind of products that we are currently having, I would say that our target markets, our TAM would be around $7 billion to $8 billion. And this includes the pipeline products as well. Talking about the competition, I would say that there is no company globally with whom we compete on the entire basket of products. There are competitors globally where we compete with them on maybe 1 to 2 or maximum 3 to 4 products. But we have a basket of almost 30-plus products. And most of this competition comes from Europe and Southeast Asia.

So, when we talk about Europe, you have players like Teva or like AMRI with whom we are competing and in Southeast Asia, names like CCSB would be the one with whom we are competing. But globally, I would say a handful of companies with whom we are competing. And some of these new products where we are working names like Exilia are there, which is again based out of Denmark. So, with whom we they have maybe 1 or 2 products with whom on which we compete with them. So limited competition and limited players who are in this space of fermentation. But no company has a basket with whom we compete in entirety.

Sumit Gupta: Understood. So, sir, a follow-up on this was so basically the let's say, 2 or 3 large products of you which are the major products for you. So, in that case, what market share would you be having and the other player the second player would be having? Sir, what is the differential market share between the 2?

Ankur Vaid: So, it varies from product to product, but our market share goes from anywhere between 20% of the world market share in terms of API volumes to anywhere around 40% to 45%. And still, as I say, that even on 45%, there is ample opportunity, and we are already targeting customers to kind of capture the balance market share, given our strength in the pricing as well as on the regulatory approvals and the economies of scale that we bring in.

Sumit Gupta: Okay. Okay. Sir, second is on the like just want to ask on the growth aspect. So, it is majorly volume-led, right? You have not taken price hike over the last 3 to 4 years and you expect the trend to follow over the next 4 to 5 years?

Ankur Vaid: That's correct.

Sumit Gupta: Okay. Okay. And regarding the capex, is it maintenance only or you plan to add more?

Ankur Vaid: So, it is going to be maintenance capex. However, as we have significant cash reserves, if we see that there are fewer opportunities on the inorganic growth, then we may explore organic growth strategies as well.

Sumit Gupta: Okay. And what will be the criteria to do inorganic?

Ankur Vaid: Again, adjacencies to fermentation.

Moderator: The next question is from the line of Chintan Sheth from Girik Capital.

Chintan Sheth: On the utilization part, you mentioned the Unit 2 at 50% and Unit 3 at 38%, right?

Ankur Vaid: Yes.

Chintan Sheth: This is for first half.

Ankur Vaid: Yes.

Chintan Sheth: Okay. And the injectables if you can speak a bit more given the time line being taken up. Is it fair to assume that the ramp-up in the injectables will be a little faster given the approvals and everything you are kind of pre-empting before the commercial launch?

Ankur Vaid: Yes, it should be faster because much of the development work has already been done on the first phase of molecules. So, our timelines to filing would be faster, but the timeine that the regulators take to approve, I do not see any change there. So but yes, time lines to file would be relatively faster. And as I say that in February or so, we would be initiating the validation batches for some of our products, which are already being concluded by our R&D development team.

Chintan Sheth: Right. And any initial orders, or some confirmation from our clients visiting that site or it will happen after the commercialization happens?

Ankur Vaid: Yes. So, after the commercialization, this is primarily going to be, first, for the Indian market while we'll submit our dosages in the emerging markets. And once we get the approvals in the emerging markets as well, the supply would start there. But till then, it will be primarily catering to the domestic market, where we already have a significant sales force to cater to that market.

Chintan Sheth: Correct. And when the injectables come through, do you see the mix between API and formulation to change materially from 80-20 over the next 3 to 4 years because it will take some time to reach optimum level revenue?

Ankur Vaid: So, I think, as I said, that our long-term guidance still stands at 80-20, given the capacities and the asset turnover that we expect from all the 3 sites or all the 4 sites once they are optimally getting utilized. But intermittently, you would see certain years where that mix could change, but not that significantly.

Moderator: That was the last question. I would now like to hand the conference over to the management for the closing remarks. Thank you, and over to you.

Ankur Vaid: So, thank you, everyone, for joining our Q2FY25 earnings call. We hope we have been able to address all your queries. For any further information, please get in touch with us or SGA, our Investor Relations advisor. Thank you once again and have a good evening. Thank you.

Moderator: On behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.