



Pharmaceuticals Limited

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Date: 09th June, 2022

To,
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The Manager,
Listing Compliance Department,
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051.

Security Code: 532815

Symbol: SMSPHARMA

Dear Sir/Madam,

Sub: Transcript of the Conference Call held on 06th June, 2022.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find the attached transcript of the Conference Call held on Monday, 06th June, 2022 on the fourth Quarter and financial year ended 31st March, 2022.

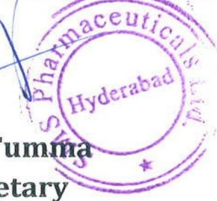
A copy of the said Transcript is being uploaded on the website of the Company www.smspharma.com

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Thanking you
Yours Faithfully

For SMS Pharmaceuticals Limited


Thirumalesh Tumma
Company Secretary





“SMS Pharmaceuticals Limited Q4FY22 Earnings Conference Call”

June 06, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 06th June2022 will prevail.



**KULDEEP JAIN: MR. VAMSI KRISHNA POTLURI – EXECUTIVE
DIRECTOR, SMS PHARMACEUTICALS LIMITED.
MR. LAKSHMI NARAYANA – CHIEF FINANCIAL
OFFICER, SMS PHARMACEUTICALS LIMITED.**



*SMS Pharmaceuticals Limited
June 06, 2022*

Moderator: Ladies and gentlemen, good day and welcome to the SMS Pharmaceuticals Limited Q4FY22 Earnings Conference Call.

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 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 Potluri - Executive Director at SMS Pharmaceuticals Limited. Thank you. And over to you, Sir.

Vamsi Krishna Potluri: Good morning everyone. Thank you for joining the earnings conference call to discuss the Financial Performance for the Quarterly and Financial Year Ended March 31st, 2022. 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 our company website.

FY22 was a significant year for the company in terms of commencement of commercial production for Ibuprofen at our Vizag facility. Improvement in overall product mix and getting a non-exclusive licenses to manufacture and supply of Molnupiravir and Nirmatrelvir, Investigational Oral Antiviral COVID-19 Medicine through MPP, which is aimed towards increasing the access of treatment in one or five low, middle-income countries at affordable price. This is an important milestone and an external validation to the company's ability to provide frugal world-class products while maintaining quality.

The company delivered steady financial performance for FY22 with consolidated revenue of Rs. 519.9 crores. The performance was however impacted Quarter 4 FY22 due to sharp inventory correction at the customers end and minimal off-take of ARV products.

Demand for ARV products has sharply fallen in second half of FY22, mainly due to the decrease in off-take by the customers on the CMO arrangements, which is mainly on account of delay in the bidding process.

The company is focusing more on development, manufacturing, and sales of its own products, developed by own R&D, and penetrating into export markets further to increase the revenues as well as margins, along with mitigating such risks in future. However, we firmly believe that second half of FY22 was a one-off in terms of ARV demand, and the issues are transient in nature.

The ARV demand has already started to pick up and is expected to reach the normalized level by the end of first half FY23. The demand for non-ARV products has also picked up the pace and we are witnessing normalized demand for non-ARV products.

Over the years the company has focused on market leadership, backward integration, and R&D. As a result, the company has not witnessed a significant impact of ongoing recent supply chain issues and higher input costs. The company's near-term focus remains on scaling up production for Ibuprofen, along with expanding the customer base for Ibuprofen. We believe that the demand and pricing of Ibuprofen has almost bottomed out and going forward we should expect a significant rebound.

The company has received a healthy number of inquiries that are generated for Ibuprofen. And we expect the Ibuprofen facility to provide the operating leverage going forward. For the long term, we remain excited about the opportunities across our product line. The company remains well positioned to leverage the opportunity of upcoming patent expiry drugs, especially for anti-diabetic products.

The company is also focusing on growing the revenue contribution from chronic product portfolio, which is expected to grow the margin profile. I think that's it from us. I think we can now begin the Q&A section. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from line of Akash Mehta from Capaz Investment. Please go ahead.

Akash Mehta: The first one being on the revenue contribution. So, the revenue contribution from the ARV segment, which used to be about 40% to 45% has come down to approximately 6% to 7%. So, what is the current status of the demand? And are we witnessing normalized demand or the demand is still suppressed?

Vamsi Krishna Potluri: Yes, so just to answer your question, so I think the last 1 to 2 quarters have been a little dull, because of the bidding process that was supposed to take place with some of these global agencies that kept on postponing. So, now the bids have come out. And I think in the first half of '23, we will see a normalized projections again, going forward. So, it's coming back to normal now. So, the bids have already been out so we expect to come back to normal and see by first half of 2023.

Akash Mehta: And the second one is on the recent approval for COVID Molnupiravir and Nirmatrelvir. What is the revenue contribution of these two products in terms of percentage or absolute value for 4Q results?

Vamsi Krishna Potluri: Again, so these were investigational drugs that we have got the license, I think from the Nirmatrelvir, we are one of the 19 companies that have received license in the market. I think,

one of three API companies to receive apart from Divi's and couple of other companies. And we are one of only three companies to receive on that front. And apart from that, I think, because you know the current situation of COVID is not very dangerous, right, I mean, it's at a controllable level at this point of time. So, currently, we are taking the validation batches of this product. And we are talking to other MPP licensees who got license to manufacture the finished formulation. So, we are in process of giving them sample quantities and that's the process typically we follow. And once that is done, we will probably be applying for WHO PQ on this product.

Akash Mehta:

My last question is along the same line that you are speaking with a significant drop in these cases across the globe, what are we expecting as a revenue contribution from these products going forward?

Vamsi Krishna Potluri:

So, again, see some of these products which are opportunistic in nature so it is very difficult to predict, because you suddenly could expect an unexpected wave and suddenly the wave could, suddenly gather some good momentum and the product sales could go high. But again, it's all about predictability. So, we are being prepared, we are having a significant stocks, decent stocks lined up for Molnupiravir and even Nirmatrelvir, we want to keep a decent stock at our premises and as and when there is a requirement, we will be more than happy. But the important thing is we want to approach customers and get our product qualified with as many licensees as possible. So, if and when there is a wave, not only in India, even outside India, because we have got this license to manufacture, I think in Molnupiravir, one or five countries and in Nirmatrelvir around 95 countries. So, I think, as and when there is an opportunity that's coming up we will be available for it because we have got all the licenses in place.

Moderator:

Thank you. Our next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh:

My question was related to Ibuprofen business. So, what I see in Ibuprofen, the pricing on year-on-year basis has been under pressure. And your competitors have also expanded capacity in last few years. So, where do you see this business going to, price wise, volume wise, whether demand is there? And what is our market share? If you could give details of it?

Vamsi Krishna Potluri:

So, on Ibuprofen, it's a very important product for SMS as a group. So, we would like to see this as a flagship product for the company, in the years down the line. So, again, Ibuprofen, the biggest advantage with SMS is that we have one of the biggest batch sizes in the market for this product. So, that automatically gives a little better cost position to us and the customers. And see if we are not one of the first entrants we are one of the later entrants to go into the market. So, definitely, we were prepared at the time of launch that there will definitely be a pricing pressure on this product. So, we have developed a product in such a way that it is competing in the market, both domestically and even regulated markets.

So, right now we already have filed a CEP and we are expecting the approval for CEP in the next one or two months. We have also filed the US-DMF sometime back. And our U.S. customers are close to getting approvals for their formulation in the U.S. So, we already started commercially selling good quantities and good traction has been already there in the market. Since last two, three months, we have been selling decent quantities of Ibuprofen in the domestic market. So, once the regulatory business also picks up, it's definitely going to add value to the company. Again, as committed and we are still on track with our timeline. By end of FY23 we will be in a very good, strong position in Ibuprofen, occupying almost 80% of our installed capacity.

Ranvir Singh: What is current capacity we have?

Vamsi Krishna Potluri: Current capacity is around 500 metric tonnes per month, installed capacity.

Ranvir Singh: And that utilization is currently in significant usage. This is --

Vamsi Krishna Potluri: It is picking up, every month it's picking up for a few months like it was 10%, now it's 20%, 25%. So, it's slowly going up. As and when we get more approvals, we get more customers added on. And we are bidding and we are under qualification with many customers. So, this process is ongoing. So, as committed I think last year I believe, I think by '23 we will be full scale commercial, and we are expected to use around 80% to 85% of our installed capacity for Ibuprofen by end of this year.

Ranvir Singh: So, 200 CAPEX, you spent last year was mainly on Ibuprofen, right?

Vamsi Krishna Potluri: That's correct.

Ranvir Singh: So, of that Rs. 200 crore, what kind of peak revenue we can expect from this project, maybe in next two, three years?

Vamsi Krishna Potluri: So, I think we are expecting roughly around Rs. 450 crores to Rs. 500 crores revenue at peak stage operations, like if we do a complete full-scale operation, I think around Rs. 450 crores to Rs. 500 crores is the revenue we are expecting.

Ranvir Singh: And currently, there must be some operating loss there on new CAPEX. So, can you give the figure, what kind of loss we are making on new CAPEX?

Lakshmi Narayana: The operating loss only for the 4th Quarter, not as the year, that is mainly because some of the expenditure the fixed expenditure we cannot reduce into the in-line with the top-line, correct, that is the reason only the minimal loss of the operating expense, operating loss during the Q4, which is power and fuel, and also the salaries to the employees, and also other manufacturing expenditure. And one of the other thing is there is a slowdown in the production during the Q4.

We have taken an undertaking the maintenance by taking the opportunity, the slowdown opportunity we have taken maintenance for the plant that is also one of the reason for increase in the operating expenditure.

- Ranvir Singh:** So, my question was what part of operating expenditure is relatable to Ibuprofen facility --?
- Lakshmi Narayana:** We won't have the data product wise; we have in facility wise.
- Ranvir Singh:** Okay.
- Vamsi Krishna Potluri:** So, we don't track it product wise, we do it as per -- because it is part of our entire Vizag facility. So, we do it as per the facility not as per the product.
- Ranvir Singh:** Okay because I thought that by investing Rs. 200 crore, we would have separate block at Vizag, though it was a Brownfield expansion. So, I thought that maybe because they are separate blocks, so you would have separate account --
- Lakshmi Narayana:** Ibuprofen contribution very nominal for the FY22.
- Ranvir Singh:** And on balance sheet side itself, I see that although the debt has not gone up significantly, YonY, but interest costs have gone up 69% YonY, on yearly basis. So, any one-off is there or -?
- Lakshmi Narayana:** We have created a liquidity into the system by taking the opportunity of the GECL I think you are aware of it now; the Government of India through RBI has given us a window for availing the GECL facility. So, we avail the GECL facility and reduced the working capital. We keep ready for the taking up the, my 'Ibu' product and also other products for the working capital availability.
- Ranvir Singh:** So, this is adjustment towards that, so instead of showing money for working capital, we have used in a interest cost we have put it this expenditure, that's why.
- Vamsi Krishna Potluri:** Yes.
- Ranvir Singh:** And the last one, our associate company VKT Pharma, has a presentation says that filed six ANDA. If you highlight what kind of revenue they can make of it or they are already making of I am not sure or what your pipeline there for next two, three years?
- Vamsi Krishna Potluri:** So, I think our associate company, VKT Pharma has just got approval for six products, I think in end February 2022. So, the commercials are just happening as we speak. So, their full performance will be coming in FY23/24. So, first quarter, also the actual commercial batches have been dispatched to customers.

- Ranvir Singh:** So, what kind of products they have, and what they are expecting out of that six ANDA? I believe all six ANDA is commercialized or few are yet to be commercialized?
- Vamsi Krishna Potluri:** So, few are yet to be commercialized, few are being commercialized right now. So, again, that result will be impacting in '24, the full result, because apart from their own products, they have couple of CMOs with some big MNC companies also. So, their financial this thing will come into FY23/'24.
- Ranvir Singh:** These ANDA are in ARV segment or some other segment?
- Vamsi Krishna Potluri:** No it is totally non-ARV segment, so VKT is nowhere in ARVs.
- Moderator:** Thank you. Our next question is from the line of Rupesh Tatia with IntelSense Capital. Please go ahead.
- Rupesh Tatia:** My first question is, it's good to hear that ARV demand has normalized. But what is happening with margins across the industry? Is margins now structurally lower or margins will come back to historical levels?
- Vamsi Krishna Potluri:** See I mean like, again, across the industry, if you have seen, I think a lot of companies margins have reduced because of multiple factors. One is the impact on China because of the Chinese lockdown, there was shortage of raw materials, the prices of all raw materials have increased. And second one is because of the war, all the solvent prices, all the petroleum products prices have increased drastically, increased multifold, I think so that's one of an impact. And one more major impact is the logistics costs have gone up significantly for all companies. So, I mean these are some of the major reasons for the margins to erode apart from your regular every year erosion, because of more competitors coming in and because of multi other factors, your regular erosion tends to happen apart from these, these are some of the major factors that are contributing to this. But hopefully once this war is completed, we are seeing things to go back to normal.
- But coming to our company's this thing, I think our EBITDA margins have been fairly good and fairly consistent because again, as I was mentioning, in my opening speech, I think we are a vertically integrated company so most of the in-house raw materials, we do it in-house. So, our impact on some of these is a little negligible for us. And if you have seen, we have been maintaining EBITDA margins of 23% throughout, so it's for us, I mean, the impact is there but it's sort of negligible on us, on our company.
- Ranvir Singh:** So, just a follow up there is what we heard is there was a little bit of destructive bidding in the ARV pricing in Q3, mostly last year. So, I mean has that stopped now, the prices in the newer tenders are more normalized levels?

Vamsi Krishna Potluri: Yes, see, again we are not the front end company so price levels, we are not very sure about what our partners that bid, so because we are not a front end company, so we are a B2B company. So, our customers actually bid so I have absolutely no idea at what prices they have got the tenders or anything. But more or less our prices are remaining slightly intact. And I think there are small fluctuations because of the petroleum prices and the solvent prices, there are small plus or minus fluctuations, but anyway that's all covered as per our regular system.

Ranvir Singh: And my second question is on Sitagliptin. It is, I think one of the diabetic products that is going off patent in Q2, Q3 somewhere in U.S., somewhere in Europe and you have capacity of I think 30 metric tonnes per month. So, at peak capacity utilization, what kind of revenue we can expect in two to three years.

Vamsi Krishna Potluri: So, again, it's going to be a very big product for SMS going forward, post-launch, we are expecting, again see it depends on the market share any new product going off patent, definitely, I mean, like one thing is the launch, which is most important, post-launch, the amount of market share that you will be able to capture actually decides the fate of the product going forward. So, we are very aggressive in terms of our pricing, in terms of on this particular product, it's a joint venture product and with our partners, Chemo. And we are very aggressively looking at this product.

So, it could be a very strong product for the company going forward. But to answer your point, exact at what volume and what turnover, we will not be able to do now, until the launch of the product that will give us a good position where we are at, if we get 15% market share, are we able to get 20%, are we able to get 25%, 30%. So, at the time of launch, post-launch, we will be able to assess the percentage of market share and post that we will be able to give you a better picture.

Ranvir Singh: So, can you give a broad range of opportunity size in Sitagliptin at let's say lowest and what is the market size and if its competition is not as much as high than what is the market size? Can you give a broad range, is it like Rs. 2,000 crores to Rs. 5,000? Is it Rs. 500 crores, Rs. 1,000? Can you give some broad range on the market size?

Vamsi Krishna Potluri: Yes, I think the market could be around Rs. 500 crores for the API it would be around Rs. 500 crores at the peak level, but out of the Rs. 500 crores how much you will be able to get is the most critical point. So, I think the market for the APIs will not be more than I think Rs. 400 crores to Rs. 500 crores actually.

Ranvir Singh: And this is all U.S. and Europe combined?

Vamsi Krishna Potluri: No, Europe, U.S. is '24 expiry. So, there is still time for U.S. expiry.

Ranvir Singh: U.S. expiry is in January or February?

- Vamsi Krishna Potluri:** It's in 2024.
- Ranvir Singh:** So that is one supplementary, that matter is not --
- Vamsi Krishna Potluri:** Correct, **[Inaudible 22:30]** exclusivity also I believe on that product. So, it's going off patent in 2024. So, which is almost two years from now, so we still have time for U.S., but for Europe it is going off next month, July.
- Ranvir Singh:** So, Rs. 500 crore size and 15% to 30% is the range we are working with.
- Vamsi Krishna Potluri:** We are working, let us see how much we will be able to achieve, and we will not be able to commit on that, until we do a post-launch. Again, this Rs. 400 crore to Rs. 500 crores also, is depending on the price erosion, I mean, like from what our price erosion we calculated was at say maybe 93% to 94% and the price erosion is at 98%, it will be even lower, it will be a Rs. 300 crores product. So, again, it depends on multiple factors that's why we are not very comfortable in giving those numbers because those are bound to change for sure.
- Ranvir Singh:** So, now Ibuprofen is a Rs. 400 crore to Rs. 500 crore product for us. Sitagliptin, let's say Rs. 100 crore product. So, in next two, three years, what is another one or two big products, which can be meaningful for our size? What is in the pipeline?
- Vamsi Krishna Potluri:** So, currently, our R&D is working on a couple of other major products. Again, volume-based products, due to confidentiality I will not be able to reveal the names of those products at this point of time. But again, we are working on some of these volume products. Again, that's SMS's strategy, right some of the volume products we are very strong and so like Ranatidine, Famotidine then we are really strong in some of Ibuprofen, some of the volume product Levetiracetam and Pantaprozole, all these products were very strong. And so some of these volume products is the way we probably will be apart from some of the niche segments where we have the anti-migraine segments so, in that way also we will proceed. But I think Yes, we are working on two three other important products for a long-term scenario that unfortunately, I will not be able to reveal it due to confidentiality at this point of time, but in the next one-year span, I think those will come into the picture.
- But those will be for our existing capacities only, no CAPEX, maybe minor CAPEX here and there is required, maybe couple of equipments, but not a major CAPEX, like the one that we expanded for Ibuprofen.
- Ranvir Singh:** And in terms of competitiveness of Ibuprofen, there is IOL is one player, so then there is Marksans Pharma, there is Aarti Drugs, then we are late entrant, I know, you have been saying about, you have batch size and a very optimized process. But I mean, how can, what gives you confidence that you will be able to win market share, and make good return on capital in this segment?

Vamsi Krishna Potluri: Again, I will tell you, it's the trust of our customer right. So, SMS is not a new company. SMS has been there since 35 years, purely API based and one important thing is, SMS has been supplying these commodity products to almost every customers that you are mentioning, in domestic market through Ranitidine in the past. All these customers are not new to SMS, all these customers are known customers, end of the day it's about quality and price. These are the two critical factors that's going to play a major role on this product.

See, again, it's a challenging job, I wouldn't say it's going to be an easy job or it's going to be a cakewalk to convert customers from their existing sources. It's definitely going to be a difficult job, but we have taken up the challenge based on our expertise and our confidence in the customers giving SMS a chance, because knowing our quality profile, our company status, so definitely we have some good relationships with some of the best customers. So, based on that, we are very confident that we will be able to get a good market share.

Ranvir Singh: What is the price now, last quarter, last interaction you said price was around \$8 to \$9? What is Ibuprofen price now?

Vamsi Krishna Potluri: I think it's around that range only, hovering around that range only, \$9 range.

Moderator: Thank you. Our next question is from the line of Aditya Sen from RoboCapital. Please go ahead.

Aditya Sen: Ultimate target, capacity expansion for Ibuprofen was 1000 tonnes right. So, will we start the expansion of this additional 500 capacity, by the end of this year, FY23?

Vamsi Krishna Potluri: Yes, most likely, again, if we occupy 70% to 80% of our existing capacities, definitely we would be taking up the further expansion. Again, we are working on different models, trying to see, and trying to increase the capacity with our existing equipment itself, trying to, from 500 we are planning to make it to 600 to 700 with our existing equipment itself, trying to optimize batches and trying to reverse engineer some of the stages where we could get some advantage on the time cycle. So, definitely capacity expansion will happen. But is it either through CAPEX or either through some very good work by our team that is yet to be decided, but capacity expansion will definitely happen by the end of this year.

Moderator: Thank you. Our next question is from line of Aarti Sharma from BKC Investments. Please go ahead.

Aarti Sharma: What is current product launch lineup with JV Chemo? And what was the revenue of this JV for FY22?

Vamsi Krishna Potluri: So, launch like we have already commercialized the products like Ranolazine, we have commercialized all the Gliptin, we have commercialized all the Flozins, we have

commercialized already Mirabegron, Perampanel some of these products that have been listed out already. So, I mean the few of the products have patents has already expired. So, we have already done it with respect to the sales of the product. I think it is clear. With respect to the sales of the product, I think it is off here, it is around 5% to 8% actually.

Aarti Sharma: My second question is, can you throw some light on how our associate company is performing in terms of revenue and order book?

Vamsi Krishna Potluri: So, again, so it's a formulation company our associate company, obviously, I think the gestation period of a formulation company is more higher than the API company because getting approvals, developing a product takes one to two years getting approval takes another couple of years. So, I think fortunately, I think we have received approval of four ANDAs last I mean, like last February 2022 actually. So, now we started that commercial operation and I think now commercial operations are launch quantities are being dispatched for most of the products. So, I think again that full scale revenue will be coming in 2024.

Aarti Sharma: And are we planning to add more products, such as Molnupiravir and Nirmatrelvir? Going forward which will add to our top-line for the short term?

Vamsi Krishna Potluri: Molnupiravir and Nirmatrelvir are COVID related opportunities so there is nothing that we can add about it. So, as of now we have not, when we are budgeting also we don't anticipate any revenue, I mean coming in, obviously whatever revenue comes in that, is definitely going to be a bonus, because that's all-opportunistic based revenue, because we don't know if the wave is going to come, but we have done our bit in securing these license from MPP to just give that additional line for SMS. If there is an opportunity coming then definitely, we have the licenses to operate on that front.

So, we are developing the products. So, Molnupiravir we already validated the product and even Nirmatrelvir we will be probably validating the product in a month or two. And so we are giving SMS all the opportunity to go all out. If there is another wave then definitely we will be ready with the stocks.

Moderator: Thank you. Our next question is from the line of Prachin Shan from SS Securities. Please go ahead.

Prachin Shah: Just a couple of questions, what is your current capacity utilization for Ibuprofen? And how much revenue are we expecting in FY23 specifically from this capacity?

Vamsi Krishna Potluri: So, Ibuprofen right now I think 20% utilization is currently happening. Again, when you look at revenue, it's going to be incremental so every month we are adding more like for example, two months back, we were at 10%, right now 15%, 20%. Now going forward, it will be 30%, 35%, 40% slowly, as, and when we get more approvals, we are adding on more customers and

more offtake is happening. By this year FY23 end, I think 80% to 85% capacity will be utilized by this year end. From thereon I think it will be more, I mean, that will be consistent going forward.

So, I think if you have to calculate I think I would suggest probably FY24 will be the full financial year where you could really take Ibuprofen revenue into the picture, operating at almost 80% to 85%. Someone already asked this question; I think it's operating at 85% I think we are roughly expecting around Rs. 400 to Rs. 450 crores business on that.

Prachin Shah: Rs. 450 crores only from Ibuprofen?

Vamsi Krishna Potluri: Only from Ibuprofen and – for FY24, I mean that's full year operating at 85% of our capacity,

Prachin Shah: And how would be our demand supply scenario for this particular segment in India as well as in the global market? And how would be the pricing difference between both the markets?

Vamsi Krishna Potluri: Definitely obviously from export market see, for a product like this, there is not much difference between the pricing for export and domestic to be honest with you, maybe just a few \$1 or maybe \$1.5 here and there, but not major price advantage or major price difference compared to our other products. But again, with respect to the demand, definitely, this is an evergreen product, it's a very old product, definitely the demand will always be there. And it's been there and it will always be there.

So, I mean, due to COVID there was slight dip that we saw in ibuprofen, but I think the demand is slowly going back to their normal number. So, demand wise there should not be an issue. Again, it's about converting more customers to use your product that will be the key challenge for us going forward; it's not about the demand. So, it's more about convincing the customers to approve you as a supplier for those products be it with respect to price and quality, so that's the where we are currently focusing.

Prachin Shah: And this industry is growing at what rate single digit or high single digit what would be it?

Vamsi Krishna Potluri: See it's not a new product, it's been since almost 35 to 40 years, I think 30 years it's been generalized products. But definitely I think it will be less than 5% growth rate. I mean, at all, it will be in that range itself.

Prachin Shah: In India as well?

Vamsi Krishna Potluri: Yes I mean, it's an established market, right, it's not something that's new or anything. So, it's an established market already.

Prachin Shah: And apart from this Ibuprofen, can you just throw some colors on the CAPEX segment what CAPEX you are doing for next three years or five years perspective?

Vamsi Krishna Potluri: Currently, there will not be any more CAPEX apart from small, additional regular expenditure, regular CAPEX of few crores here and there just to add a couple of equipments or something like that. But there will not be a huge CAPEX like Ibuprofen expansion for now, we have not planned anything for the next two years. Our aim is to consolidate at this point of time because of this I mean, we are in situation you know, consolidate Ibuprofen consolidate a few other products that we have already, consolidate the ARV segment, consolidate Sitagliptin and couple of other coming products. So, coming the ones that consolidation happens then based on that we will take a call on future action but as of now there is no expansion.

Moderator: Thank you. Our next question is from the line of Dipti Kothari from Kothari Securities. Please go ahead.

Dipti Kothari: My first question was that apart from the fall in our ARV products, which other products witnessed fall in demand?

Vamsi Krishna Potluri: I think there has been a decline, see, the problem was, I think most of the customers also had enough stocks at their level, because of COVID most of the customers had actual good inventory at their scale. So, unfortunately, most of our products were not being pushed, that's the reason if you see we had a lot of stocks at our plant because in our regular flow we have been accumulating stocks, but unfortunately the product uptake from customers was not there because I mean, they had a lethargic movement in their market so it was not being moved quickly. So, I mean, apart from that, I think cash flow segment and CNS both the segments were a little dull for us apart from the ARV.

Dipti Kothari: Also how is the current demand scenario for our other key products such as anti-ulcer, anti-migraine, and anti-epileptic?

Vamsi Krishna Potluri: So, anti-ulcer is the gastro segment, right, so slowly now it's picking back up. And anti-migraine has been on a good trend, I think it's been stable, been little on a higher side again. Anti-epileptic also I think again that's also is one of the major customers are associate company on that product. Also I think our uptake on the front end is a little not very promising, but I think this year is going to hopefully get a little more better. So, yes again so it's all going to stabilize probably the next quarter or two. So, that's what we are aiming to go at this point in time.

Dipti Kothari: And my next question was on our gross margin. So, far, our gross margins for FY22 are at around 48%, despite the fall in demand for our ARV and other products. So, going forward, can we expect the gross margins to improve with improvement in revenue? Or is this the level of margin we can witness going forward as well?

- Vamsi Krishna Potluri:** I think it will be stable, I wouldn't say it would be too high, because again, most of the product profit making products are our own thrust products. I mean, the other products are CMO and profit margins not too much, because those are all volume-based products, right. So, most of their impact will probably be on the topline rather than on the margin. So, the margins what we have given probably will be gross margins will be continuing because I think FY21, I think our gross margin was around 40% and FY22 our gross margin is around 48%. So, I think we will probably be maintaining that range 45 to 40 range only will be our gross margins going forward.
- Moderator:** Thank you. Next question is from line of Ranvir Singh from Sunidhi Securities. Please go ahead.
- Ranvir Singh:** My question was related to that agreement we have through MPP. So, that I wanted to understand how the whole process works. So, currently, like some 27 generic players had agreement with MPP to supply Molnupiravir. So, whether we need to maintain a certain level of inventory or it is against the order. So, how actually it works?
- Vamsi Krishna Potluri:** See no such obligations have been indicated from MPP that certain inventory has to be maintained, it's just that based on our profile based on our history, the licenses have been granted to us. And we have been also very quickly with respect to some of the products we also been quickly out of blocks and had some decent inventory at our end. But to answer your question, there is no such requirements from MPP to maintain any certain level of inventory.
- Ranvir Singh:** And even if certain level of inventory is created in anticipation of any demand, if that demand doesn't come then whether they are obliged to help you in financing inventory or something?
- Vamsi Krishna Potluri:** No such obligations are taken by MPP. It is totally on our own risks that we have to take. So, no such immunity has been given by MPP. So, it is completely on each manufacturer's sole risk that they have to keep the stock.
- Ranvir Singh:** And secondly on our ARV business so, I think for FY22 more than Rs. 200 crore kind of revenue was related to ARV and I believe mostly would have been from Tenofovir. So, in last quarter, it's a complete washout. So, against Rs. 200 crore in nine months and then last quarter was hardly Rs. 6 Crore, 10% of --. So, this kind of or frequency of this level of like we achieved in nine month of FY22 initial three quarter so whether this level of revenue again, we can expect to come back or?
- Vamsi Krishna Potluri:** Yes, we are expecting to see that revenue come back. Again, it totally depends on the bits that our customers get and unfortunately, we don't have any say in the bits that they get, but definitely I think we are expecting that level of this thing, by first half of 23. So, it's not too far also. So, we are expecting that level to come back very shortly.

- Ranvir Singh:** And what gives you this confidence because bidding process is again reinitiating there?
- Vamsi Krishna Potluri:** Yes, so we have already got some bids actually awarded for us so that's the reason we are able to --
- Ranvir Singh:** And if we see the market share in Tenofovir for FY22, what was our market share in terms of volume or value, if you could?
- Vamsi Krishna Potluri:** See that is a CMO project for us. So, we don't keep a track on market share that we have on those CMO projects, actually. So, it's our I mean it's a CMO project for our partner. So, we are not aware of the numbers that they have.
- Ranvir Singh:** And Tenofovir is the only product which we sell through CMO or we other products also in CMO?
- Vamsi Krishna Potluri:** There are 2 to 3 other small products, but I think this is the major significant product. There are two to three other smaller products that we do CMOs for a couple of other customers. But yes, this is a major product.
- Ranvir Singh:** If 40% was ARV, so I believe the remaining 60% would be directly sold by you Yes?
- Vamsi Krishna Potluri:** Yes.
- Ranvir Singh:** So, would you like to give any guidance for FY23, what kind of revenue we can expect considering Ibuprofen contribution then Tenofovir coming back?
- Vamsi Krishna Potluri:** Again 23, definitely will be good. And we are expecting at least 25% growth rate from our current existing revenue, that's a minimum of 25% growth rate to what we are currently, what we have achieved in '22. So, definitely, it's a positive trend. And definitely it could be a little higher, or maybe 1% to 2% lower. But yes, I think our benchmark is 25% increase in the revenues that we are targeting.
- Ranvir Singh:** And that would be driven mainly by Ibuprofen.
- Vamsi Krishna Potluri:** Ibuprofen, Sitagliptin then there are a few other products that are going off patent and you know, ARV is that going to come in definitely I think those are some of the major factors.
- Ranvir Singh:** And operating margin side, can we expect similar levels?
- Vamsi Krishna Potluri:** We will be able to maintain gross margin in the range of 40% actually.
- Ranvir Singh:** That would be lower than last year, right?

Vamsi Krishna Potluri: Around that range 45%, again when you turnover increases at the end of the day your PAT will also increase, 40% also, it's on a higher number right on the gross. Because the problem is once your ARVs kick in and once your Ibuprofen comes in, the profit margin slightly takes a hit apart from our regular products that are happening. So, when they contribute, it will be around 40% to 45%. But our EBITDA target is definitely will be above 22%.

Ranvir Singh: And I think can API side, most of the players have been struggling to get more than 20% after this COVID era has subsided. So, in that scenario, that 22% means one or two products would have contribute higher than 30% to 32%, that's my understanding, right?

Vamsi Krishna Potluri: That's right, correct.

Ranvir Singh: And so that higher margin product could be from that ARV side?

Vamsi Krishna Potluri: Non-ARV actually.

Ranvir Singh: And debt side, what kind of debt level we can see by the end of FY23?

Vamsi Krishna Potluri: Debt we are not anticipated to increase of the debt because since we don't have any plan now, currently expansion side whatever the normal expenditure will met from the internal accruals only. So, there is no plan of major expansion in the next one, two years actually. So, we want to consolidate these revenues almost at 85% of our capacity then we will look at further expansions.

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

Vamsi Krishna Potluri: Again thank you everyone for joining us on this call. Please reach out to our IR consultant Strategic Growth Advisors directly should you have any further queries.

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.