NEULAND
WHERE OPPORTUNITY BECOMES REALITY

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August 8, 2023

To
BSE Limited
Phiroze Jeejeebhoy Towers, 25th Floor,
Dalal Street, Mumbai – 400 001

Scrip Code: 524558

The National Stock Exchange of India Ltd
Exchange Plaza,
Bandra Kurla Complex
Bandra (E), Mumbai – 400 001

Scrip Code: NEULANDLAB; Series: EQ

Dear Sir/Madam,

Sub: Transcript of the Earnings call conducted on August 3, 2023

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings call for the quarter ended June 30, 2023, conducted on August 3, 2023. Also please note that this transcript of the call has been uploaded on our website.

The weblink to access it:
https://www.neulandlabs.com/investors/investor-updates/announcements/

This is for your information and records.

Thanking you,

Yours faithfully,
For **Neuland Laboratories Limited**
SARADA BHAMIDIPATI
Digitally signed by SARADA BHAMIDIPATI
Date: 2023.08.08 19:16:58 +05'30'
Sarada Bhamidipati
Company Secretary

Encl: As above

“Neuland Laboratories Limited

Q1 FY’24 Earnings Conference Call”

August 03, 2023

MANAGEMENT: **MR. SUCHETH DAVULURI – VICE CHAIRMAN AND CHIEF EXECUTIVE OFFICER – NEULAND LABORATORIES LIMITED**
MR. SAHARSH DAVULURI – VICE CHAIRMAN & MANAGING DIRECTOR – NEULAND LABORATORIES LIMITED
MR. ABHIJIT MAJUMDAR – CHIEF FINANCIAL OFFICER – NEULAND LABORATORIES LIMITED
MR. SAJEEV EMMANUEL MEDIKONDA – HEAD - CORPORATE PLANNING AND STRATEGY – NEULAND LABORATORIES LIMITED

MODERATOR: **MR. RAVI UDESHI – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day and welcome to Neuland Laboratories Limited Q1FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ravi Udeshi from EY. Thank you and over to you, sir.

Ravi Udeshi: Thank you, Carol. Good evening, friends. We welcome you to the Q1FY24 Earnings Conference call of Neuland Laboratories Limited. To take us through the results and to answer your questions, we have with us today the top management from Neuland Laboratories Limited, represented by Mr. Sucheth Davuluri, Vice Chairman and CEO, Mr. Saharsh Davuluri, Vice Chairman and Managing Director, Mr. Abhijit Majumdar, CFO, and Mr. Sajeev Emmanuel Medikonda, Head Corporate Planning and Strategy. We will start the call with a brief overview of the financials by Mr. Abhijit Majumdar and then Saharsh will give you broad highlights of the business trends and what he is observing in the market. And post this, we'll open the call for the Q&A session.

As usual the standard safe harbor clause applies as we start the call. With that said I now hand over the floor to Abhijit. Over to you Abhijit

Abhijit Majumdar: Thank you very much Ravi and a very good evening and warm welcome to each of you all for joining our Q1 FY24 call. My apologies for the delay. There were some challenges with technology, I think, so that's been sorted out. I'll briefly talk about the financials now. The total income for this quarter was INR365 crores, as against INR221.7 in the previous Q1FY23, an increase of 64.7%. This was largely driven by growth in the specialties and the CMS segment. In comparison, our revenues for Q4FY23 was INR415.1 crores. Our EBITDA for the quarter stands at INR99.3 crores with an EBITDA margin of 27.2%, an increase of 14,410 bps over Q1FY23.

The increase in EBITDA margins has been due to a better business mix, combined with an operating leverage as well as some easing in input prices. This is in comparison to an EBITDA of INR127.8 crores and an EBITDA margin of 30.8% in Q4FY23. I'd like to state that the overall operating environment continues to be uncertain. However, we have seen some favorable movement in terms of input cost over the last sequentially for the past three quarters. Our focus on execution excellence and managing costs has enabled us to manage our profitability.

And as we have consistently said in our previous earning calls, we would request you to measure our performance over a longer time horizon, as our revenues and EBITDA margins will fluctuate on a quarter-to-quarter basis based on mix, and which is obviously dependent

on order flow and project execution. Now coming to specifics, our gross margin was 55.2% in Q1FY24, compared to 53.6% in Q1FY23, and 54.1% in Q423. This gross margin, as always, includes the manufacturing and other costs directly attributable to the product. The profit after tax was INR62.2 crores as compared to INR9.8 crores in Q1FY23. This quarter's EPS is at INR48.5 per share. We generated a free cash flow for Q1FY24 of INR40.7 crores. We utilized part of this cash surplus to bring our working capital debt to zero and repay INR8.6 crores of our term loans.

Consequently, our net debt position stands at INR24.4 crores. We also reduced our working capital cycles to 118 days in FY24 as compared to 141 days in Q4FY23. We continue to invest in upgrading our facilities and have invested INR11.7 crores in capex during this period. I'd like to add that we continue to be mindful of balancing growth with profitability by having continuous focus on cost optimization and an efficient operation. At the same time, focus on cash.

Our focus on cash will position us to make capital investment should such opportunities arise over the short or medium term. With that, I would like to hand over the call to Saharsh for his remarks. Once again, thank you very much.

Saharsh Davuluri: Thank you, Abhijit. Hi, good evening, everyone. And again, my sincere apologies for the delay in starting the call. I will add a few comments on top of what Abhijit has said, and then we can open up for Q&A. We have stated in the past that Neuland is transitioning from a model that was predominantly composed of prime APIs into a model which has greater emphasis on speciality GDS business and CMS business. This quarter also represents that gradual shift that we have been envisioning for quite some time. Also, the growth and the evolving business mix has started to see a significant improvement in operating leverage.

And while there would be variability on a quarter-to-quarter basis, I would like to say that the progress we see is sustainable. The momentum of the CMS business continues to be strong as new molecules transitioning into commercialization have contributed well. As we have mentioned in the past, we have a healthy pipeline of new chemical entity APIs, which are showing promise. Two APIs have become commercial in the recent past, and we expect two more to commercialize in the next 12 to 18 months.

Each molecule has a different business characteristic to it. Therefore, we must continue to expect lumpiness on how this business evolves. Also, we are seeing significant number of requests from companies who would like to onboard Neuland as a partner in the drug development process. This is an indication of Neuland's reputation as an established CDMO.

At the same time, I would like you to note that at a macroeconomic level, there has been an impact on the funding of molecules early in the clinical pipeline, as well as programs where the data has been weak. While this doesn't impact our immediate business outlook, it could

have a bearing on our plans of creating a steady flow of new molecules to our CMS pipeline. On the GDS side, the specialty business segment saw good growth led by Palipridone, Apixaban, and Ezetimibe, which again point to an improvement in the business mix.

Prime also saw some growth arising from Mirtazapine and Labetalol. Again, the environment is uncertain from a generics perspective, and certain prime products like Levetiracetam continue to face competition from multiple suppliers and low prices. At the same time, the value of working with a pure play API company with our track record is being recognized by players across the industry, including Indian formulators, with focus on regulated markets.

In other updates, I would like to recall that during Q1FY24, we had a successful USFDA audit of Unit 3, as well as an audit of Unit 1 by EDQF. We are observing a shift towards high margin business, which has been our stated objective. However, we continue to be mindful of any future negative effects that the business mix, product mix, raw material prices, or forex could have on these margins. And we would like all of you to be cognizant of this.

In terms of overall business, we have a healthy pipeline in the medium to long term, and we are optimistic about our prospects. As always, I would like to reiterate that the business will remain uneven on a quarterly basis, and therefore it's better to look at our business over a longer frame of time. At Neuland, we always keep our customer at the forefront of what we do. In line with the same, we will continue to invest in our operations in terms of establishing new capacities as well as adding new capabilities.

This will be done to achieve our stated objective of furthering our leadership position in key molecules, as well as being the partner of choice for new molecules for both existing as well as potential customers. With that said, I would now request Ravi to open up the floor for Q&A.

Moderator: Thank you very much. The first question is from the line of Sajal Kapoor, an individual investor. Please go ahead.

Sajal Kapoor: Yes, thank you. To begin with, I must acknowledge the brilliant scale-up and execution in the CDMO segment as well as even better balance sheet and free cash generation. So overall, great achievement. First question I have is one of the things I have noted about Neuland is that you have embraced many failures along the way and that's normal in any business that's rapidly transforming and we know that innovators can pull the plug on their projects anytime.

And see, scale up always can throw unexpected negative surprises. So all those risks are very well documented. What I'm interested to know today is about your learning from those past failures. So that's my first question. And my second question is from our latest annual report, page 41, it says, and I quote, the nation's API capacity or nation's API supplier rather, is expected to treble over the next three years.

So how does Neuland capacity expansion plan fit into this bigger national picture, given the lean balance sheet that we have and the solid cash flows that we have now? Thank you.

Sucheth Davuluri: Thanks for that, Sajal. I think in terms of the lessons learned and an experience over the years, I think from time to time, we've shared that on these calls as well as our annual reports, from Chairman, from Harsh, from myself in the Q&A. So I think everything that we've talked about comprehensively captures all that, but notwithstanding that, I think a couple of things which are important from our investors' point of view is that I think from an overall capex point of view, we have some internal metrics and policies that really guide what kind of capex we approve, what should be the payback period, what's the minimum IRR for our capital expenditure, how we source our materials from, where do we source them from, and the minimum safety stocks that we need to maintain.

I think connected to your second point in terms of our capex and tripling our capacity, as you know, the core of our strategy has always been over the years, and I think Harsh alluded to this in his opening comments, is that our goal is to continue to focus on higher margin, higher profit specialty APIs without losing focus on our primary APIs as well as our CDMO business.

So that using the same asset while improving the quality of the infrastructure, we're able to constantly improve our margins without taking a significant amount of debt or risk. So therefore going forward, we will stick to that core strategy, and the focus on building our business. Obviously, the lessons learned are many, but we don't have as much time to elaborate on all of them, but appreciate your question.

Moderator: We have the next question from Meet Katrodiya from Niveshaay Investment Advisory. Meet your line is unmuted. Please go ahead with your question.

Meet Katrodiya: Good evening sir and congratulations team for the good set of numbers. My first question is, I asked this question in the AGM also but I need some more insight on that. So my question is that we have mentioned in our annual report about commercializing of two new molecules in coming years. So if you cannot provide the market size, then it will be helpful if you throw some light on its therapeutic segment, how much amount of quantity we are supplying right now, and when we can expect to get it commercialized?

Saharsh Davuluri: Yes, thanks for the question. I think the molecules that have been commercialized, the market size for these molecules, I think it's difficult for us to give a specific number. However, I think just to help you understand it better. I think what you could look at is that the growth that we have seen in our business, I think, you know, we were INR150 crores, INR200 crores kind of a CMS business. I think if you see the last couple of quarters, I think the trajectory has improved significantly.

And a big part of that growth is coming from these molecules. So I think it's safe to conclude

that these two molecules have a much higher market potential than the molecules we've had traditionally in our CMS pipeline. But how big they could be is something that we would not be able to quantify because these molecules are still in the early stage of launch. Maybe we may be able to answer this question, say two, three years from now. But having said that, I think with regards to the indications, we again, I think, you know, we continue to have these conversations with our CMS customers and we've been, you know, advised to keep the information very, very confidential.

And therefore, you know, we're not really even comfortable disclosing therapeutic area because, again, it could potentially lead to more follow-up questions about these molecules. So what is important is that these molecules are early in their phases of launch. They have an exciting 5, 7, 10-year kind of a runway in front of them under patent exclusivity. And we are still seeing very early stages of the growth. And that's reflected in our numbers. So this is probably what I would limit the response to. And perhaps you will be able to understand it more as the future quarters come by.

Meet Katrodiya: Okay, thanks. Next question is, Q1 was quite surprising on the margin side of Y-o-Y because it is a high share of CMS business, right? So will we be able to see this kind of revenue sharing upcoming three quarters?

Saharsh Davuluri: I think you should probably look at the business over a longer frame of time. And I think what, as I had mentioned in the opening remarks, I think the performance of the recent quarters is a sustainable performance. But at the same time, it's difficult to quantify whether it will be replicated in specific quarters or not. So I think if you look at, the last six quarters, you will clearly see how the CMS business is trending, how the GDS business is trending.

I think that's the visibility that we can give you, and we can tell you that that business or whatever trend you're seeing is a sustainable trend. But we would not be able to elaborate on how the specific quarters would pan out. I think that's something that, again, because of the uncertainty of the business, we would restrict our response.

Meet Katrodiya: Okay, sir. And the last question is also, sir, we have mentioned in that Indian API, in annual report, that Indian API companies are facing tough competition from the Europe companies so we may also face the same. My question is we have competitive capabilities in terms of gas prices, lower labor costs and more economic stability so how these European companies are able to give us tough competitions?

Sucheth Davuluri: No, I think it's a good question, Meet. The only response we would give is that a lot of the business that we get from our customers is based on the technical capabilities that we bring to the table, our understanding of the customer need and the experience that we've developed over the years, both in the generic API business, which includes prime specialty, as well as the CDMO business, and what those needs of those customers are.

We as an organization don't typically compete on cost or because of the physical or geographical location of Neuland as well as its facilities. Therefore, I think today most of the business that we're getting is repeat business from our existing customers as well as new customers who've heard about us from the market as well as our existing customer base and that will be the business model going forward.

Moderator: Thank you. The next question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.

Kunal Shah: Hi, thank you for the opportunity and congratulations for a good set of numbers. I have two questions. So one was you mentioned that we are receiving significant number of requests from companies across to partner with Neuland. So if you could help, one is obviously the capability that we as a company have been building up.

But other than that, it is because the scale that we have achieved or what exactly has led to or you know, they want to diversify from other countries and therefore, if you could help understand the nature and how meaningful it could be in the next two, three years for Neuland as a company when it comes to scaling up? That was the first question.

Saharsh Davuluri: Can you ask the second question as well?

Kunal Shah: Yes, the second question was more from, the kind of capacity utilization level that we have now, considering the business visibility we have, if you could help understand and the Capex plan that we have for this particular financial year?

Saharsh Davuluri: Okay, thanks. I think with regards to the first question, I think when we work with innovator companies for the CMS business, one of the things that we recognize is that we are able to help them take their drug through an NDA approval and help them launch a new drug. It's our ability to partner with them starting from say an IND stage, take them through Phase 1, Phase 2, Phase 3, and then help them launch the molecule and then stay with them as a commercial supplier. Crudely speaking, this is the capability that we bring in.

Now, how are we different from our competitors or what is the factor that drives customers to us? I think it's slowly emerging as our track record of how many NDAs we have filed over the last several years, how many situations are there where we have come in as a second source and embraced an existing process? How many situations where we've started at an I&D level and helped craft a scalable process of a complex NCE?

I think it's largely this track record of having worked with customers that has really created that vindication that I had referred to in the opening remarks. I think it's the number of projects that we have completed and also the innovator community, the CMC community is a finite community, whether they are mostly in the biotech space in the U.S. or big pharma or even in Europe. Good word spreads very quickly. So when you end up doing a project for a

particular company, then either the word spreads around and therefore that has also been very helpful.

I would say that the China Plus One has, seems like it will help us because there is a clear messaging from innovators that they don't want China and they want an Indian CDMO so maybe you know compared to earlier we are getting more requests because of the China Plus One but that is not still reflected in our current performance because I think that may reflect more in the future performance. But I think I go back to the points which it had mentioned earlier to the gentlemen. I think we are not necessarily competing with local players or specific companies in the CMS business.

I think it's a very large space. I'm told it's a hundred billion dollar plus space. Even the largest players may not be more than $1 billion or $2 billion in revenue when it comes to complex small molecules. So the space is really big. And we are essentially just trying to find the best fits for our capabilities, which is small to mid-volume kind of complex APIs. And I think one thing that we are very proud of in Neuland is that our focus.

We are not going after any other spaces. We want to stay focused on complex APIs, both for generics as well as CMS. We are not going after, let's say, animal health or crop sciences or other spaces, which in our view could become a distraction and not necessarily a good fit for the kind of infrastructure and capabilities that we have. So I think that's how I would look at it. I think with regards to the second question, the capex, Abhijit, do you want to answer that?

Abhijit Majumdar: Yes. So on capex, as we said today, we have three units, two units are at around 90 percent plus capacity utilization. The third, which is the new one, is at around 60 percent. We need to be mindful of the fact that our facilities are multifunctional. So that means they can make different APIs should some volumes drop off for a particular molecule. The second is that, we also have the ability to expand in our third unit should we have underlining contracts coming up. That's the second point.

The third point is as far as our capex is concerned, as we had alluded to in our previous calls, we are spending close to INR100 crores every year or we are budgeting for it and that's what we are doing to keep on upgrading our facility, making the necessary tweaks so that, we are able to meet the customer expectations.

So currently our visibility is that, as and when we see opportunities, would we look at a fourth plant, but currently or expanding our current facility unit three, but that's not on the anvil till we have something. We'll certainly come back to you, but right now we are optimized and we are able to meet the customer requirements at least as we see it for this year and for next year. Thank you.

Moderator: Thank you. The next question is from the line of Maulik from Anand Rathi. Please go ahead.

Maulik: Hi, sir. Good evening and thank you for the opportunity. I just wanted one understanding. So in terms of our segmental revenue break-up, for Q1FY23, the revenue from CMS was approximately 31%, and for Q1FY24, it is 44%. So, our CMS revenues have increased, but the gross margin has not increased. It is flat on a year-on-year comparison. So, just wanted to understand one thing. If the margins are similar to other segments or how is it? Can you throw some light on it, please?

Abhijit Majumdar: So, I'll kind of explain that. You're right in saying that the CMS, the revenue growth is significantly higher than GDS. We need to be mindful of one point, that as we commercialize, our margins, prices deplete, because that's the nature of the game. Up to validation stage, the prices could be USD100, and after that it would drop.

And so we would have a drop in margins, so they won't kind of get reflected in your, as you have alluded to, in your Q1FY24 numbers. Butat an overall mixed level, we have a blended margin, which is around that 54%, 55%.

Saharsh Davuluri: And maybe, if I can just add to what Abhijit said, one is because these molecules and the business itself is lumpy, comparing quarter-to-quarter, like a quarter one year ago, the mix may be completely different. That's also something to take into consideration, other than the fact that as the business scales up, it's also natural to expect that, because of economies of scale, etcetera, there will be, some reduction in prices, which could have an impact.

Maulik: Okay. Understood. So just to clarify, in the Q1FY23, so maybe these product mix would have been different as compared to the Q1FY24 and that is the reason why, there would have been a margin differentiation. Is my understanding correct?

Saharsh Davuluri: Yes, the mix could have been completely different. I don't have the exact numbers here with me, but the mix would have been different. And also the scale of the business as it's ramping up, logically at a broad level, the margin will have an impact because of that, lower prices.

Maulik: Okay, thank you so much, sir. I'll get back in the queue, thank you.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment. Please go ahead.

Anirudh Shetty: Hi. Thank you for the opportunity. I have a few questions. So you had mentioned that, our capacities are multifunctional. So just wanted to understand if, are they fungible across, our API and CDMO products?

Saharsh Davuluri: Yes, all our capacities that we are creating are multi-products. So they would be fungible not just within a segment, but across segments.

Anirudh Shetty: Got it. And we have a lot of opportunity in our CMS business and it tends to be non-linear.

So if we were to expand our unit three, how long would it take to get that expansion done?

Saharsh Davuluri: Expansions, you have to look at it in two scales, Anirudh. Within the existing facilities, particularly unit three, we can create capacity, which will be, maybe relatively shorter, 12 months to 15 months. You can create significant capacity, but that would be finite, right? And then, there's the higher level of capacity creation would be to, creating a unit four, which would be our fourth manufacturing site that would obviously have larger headroom, but that would obviously take a longer period.

And again, depending on the way, we would go about it, Greenfield, Brownfield, etcetera, again, the timelines would depend on that. I think for us, it's a constantly reviewing process because what we're trying to balance is, the needs of our customers, both existing and new, over the next two-three years, how we can service them from our existing facilities, balancing that with the needs of the customers beyond a three-year, four-year time frame.

And then trying to figure out, what kind of capacity we have to create and then trying to optimize the decision-making based on what kind of you know investments it would require. So it's kind of an on-going process and right now, we feel comfortable that we have sufficient capacities for the next couple of years.

Anirudh Shetty: Correct. And you mentioned that, the intention is to stay focused and you don't do agro and animal health for that reason, but just one pushback, there is assuming that, you'll have a certain chemistry skillset that can be used to, for into these categories and why wouldn't you all want to consider if, then the opportunities come your way, what would, how do you all see this as a distraction or different from our existing, pharma CDMO business?

Saharsh Davuluri: See, I think one is, Neuland, if you look at our operations and the scales at which we operate. We make a lot of molecules, which are in the 5 metric tons, 10 metric tons per year kind of capacity. So, if you look at our plants, we don't have a lot of 20,000 litre, 15,000 litre reactors.

We end up having a lot of 5,000 litre reactors, with a lot of complex instrumentation to control reactions and things like that. So one, our setup is more suitable for human health, where the volume of the products are in the 10 metric ton to 50 metric ton range, we will have outliers as well.

Second of all, we definitely keep an open mind in terms of when it comes to chemistry, you're absolutely right, we are a chemistry-based organization at the end of it. But while we are open to it, we don't see a lot of great fits in that area. And pursuing opportunities in that area would most likely require us to significantly tweak our infrastructure. And this is something that, we have observed. We have looked at the market.

We have tried to understand certain chemistry areas that we are strong in, whether they're applications and agrochem, we've talked to companies in the past, Japanese companies who

have shown interest in these areas. But it all comes down to not having a ready fit of infrastructure.

And then there are elements which, the dynamics of which we are not very clear about, Anirudh. So for example, the kind of stickiness that those businesses would have. These are the strengths that, we bring, which is GMP, a lot of precision in our controls and process chemistry.

We are not seeing a clear evidence of these attributes actually mattering to those kind of customers and that translating into stickiness of business because at the end of the day, we don't want to get into businesses where, we could be very easily pitted against competitors getting into price situations and that's what creates a little bit of this thing. Sucheth, you want to add something?

Sucheth Davuluri: No, just to add to that, for our customers, we provide a lot more than just chemistry. As Saharsh was saying, we bring project management, our GMP track record, being able to scale up technology, because all these pharmaceutical goals for human consumption, and therefore requires an extremely focused and a consistent mindset, when it comes to quality as well as regulatory affairs.

And that is something that, we've developed over decades of experience. And therefore, coming back to your question, we see enough opportunity that Saharsh made a comment that, our market is expected to be in the vicinity of USD100 billion. So for us, it's a very simple equation is that, when the market is big enough and we've spent close to four decades building expertise, why would we look elsewhere unless we've become so big that the market is not sufficient for us anymore? That's the bottom line.

Moderator: Thank you. The next question is from the line of Nirali Shah from Ashika group. Please go ahead.

Nirali Shah: Yes. Congratulations on great set of numbers. So my first question is actually that, earlier you were talking about repeat businesses. So I wanted to know that in a CDMO business, we are currently molecule specific and even getting repeat businesses from existing companies. My question is that, going ahead in the future, do we intend on setting up a dedicated capex for our customers in a more SPV kind of business model or anything else that would actually reduce the lumpiness of the business?

Saharsh Davuluri: Two things. One is the need of the customer determines whether we will, what kind of dedication, we will have on the infrastructure side. Typically, our strategy has been to build multi-product facilities, and we would produce anywhere from three to five APIs in one facility. And that gives us the flexibility to, manage different molecules growing at unknown growth rates.

But having said that, when a specific molecule tends to do well and there is an increasing demand and it's very evident in terms of supply agreement and visibility from rolling plan forecasts and things like that, then what would naturally happen, and we are seeing that also happen, is that certain production areas get more and more dedicated towards one product. That's not a challenge for us, and we are opportunistic that way.

When we see a customer with a clear surge in demand, we are happy to allocate certain infrastructure to them. Other than that, for us, that's something that again we are open to, right? Because as Sucheth and I explained, our strategy is very clear.

We want to grow the complex APIs, both for GDS and CMS. And as we are engaging with more and more customers, both on the generic and innovative side, and we are seeing a critical mass of the business, there are varied level of engagement requests coming from customers. There are some customers, who might want a dedicated production block and they are willing to enter into certain agreements that might give us that kind of assurance, especially if we have to make those investments.

But for us, the broader point is, we want to create capacity ahead of time, but we want to create capacity when it is, when the customer is actually willing to partner with us and show us that demand. What we would not likely do is create capacity and then look for customers.

We might create small scale capacity like pilot plans or R&D infrastructure, but our business is evolving to a level, where we won't be creating huge production capacities and then look for customers for it. We will create capacity on the back of a customer demand. So that's something that will be the way forward.

Abhijit Majumdar: Yes, so very nicely said, Saharsh. Kind of just adding, that's what I kind of said, we need to be mindful of balancing growth with profitability, right? Because it doesn't make sense making capital investments and then, kind of figuring it out, figuring out how to fill it up as some of the Indian companies have chosen to do. We need to balance it. And that's why we are mindful on cash as well as return on capital employed, growth and profitability.

Moderator: Thank you. The next question is from the line of Sanjay from Ampersand. Please go ahead.

Sanjay: Hi, sir. Questions that I want to ask, one is that is there any kind of benefit that can come to you from this discussion of drug shortage in USA?

Sucheth Davuluri: Not really, Sanjay. the drug shortage in the US is specific to products. That means it happens either because of a quality issue or a regulatory action or someone's kind of stop manufacturing of that product. We've not seen happen to that for other products, but for our products that we already manufacture, we've seen the benefit where if one ANDA has been exited from the market, then we're able to quickly fill in that gap, gain that market share and maintain that market share. But currently, on the list of drug shortages, I think we have a

pretty good market share and the business is growing, so we don't see any specific opportunities as of now.

Sanjay: Understood. And the second question is that I see your part of the CMS business, the development part of the revenue has come down sharply on a quarter-on-quarter basis from some INR90 crores to INR55 crores. Is there any kind of read-through there? And at the same time, the commercial part of it is steadily growing. And is that where you talked about this pricing pressure that comes because it is getting commercialized?

Saharsh Davuluri: I think if you take the development revenues, Sanjay, and the commercial revenues, I think maybe it's better to chart it back, say, six quarters to eight quarters and see how the fluctuation is. Because a quarter-to-quarter may not really give us any kind of a tangible trend. But if you look at how the development revenue has tracked over the last six quarters to eight quarters, how the commercial revenue has tracked over the six quarters to eight quarters, then you'll get a better understanding.

Broadly what we can tell you is that development revenues will be very lumpy, it will be like some validation campaign or like a scale-up campaign and when that campaign is over it may contribute to some revenue. Commercial revenue tends to be a little relatively less lumpy but again, every quarter will be different. So, I think, you might have certain quarters where development revenues may be even close to zero, or may only be INR5 crores- INR10 crores, and then the next quarter, it might just spike up. I think we still have a pipeline of healthy molecules, which will go through development, so there's no concern.

Sanjay: If I can just ask there was a massive surge in your development revenue in Q4FY23, as well as compared to the standard average run rate, this quarter has been pretty strong. So, is there some kind of a time lag one can think of in terms of translating to it in the commercial part of it kind of going up?

Saharsh Davuluri: Yes, I think that's a very important question. And I think, one of the comments I made in my opening remarks of the call is that every molecule has a very different characteristic. There are certain molecules which will take maybe two years or three years pause between development and commercialization. We have also seen molecules which have translated from development to commercial within one quarter. It really depends on the characteristic of the molecule.

It depends on things like are we the first source, are we the second source, is the drug already commercial by the time Neuland is getting into the project, or is the drug still in phase 2? So I think it's really difficult to put some sort of a guiding principle over here, and I think that's why it's difficult for us to be able to analyze it for you.

Moderator: Thank you. The next question is from the line of MK Reddy from MR Investment, please go ahead.

MK Reddy: Yes, thanks for the opportunity. My first question is regarding the business model, sir. We have been participating from preclinical phase to commercial scale manufacturing. When I compare with our competitors like Divis labs, they don't participate in preclinical phases. So, my question is regarding the attractiveness of participating in preclinical phases in the view of few reasons. First one is it consumes a lot of working capital. Second point is there is a lot of contingency whether these preclinical molecules will translate into clinical phase or not. Just want to know what is attractiveness so forth For Neuland to participate in this preclinical analysis.

S E Medikonda: If we were to answer this question, means your question. If I were to rephrase it, is that the business model when it comes to participating or when looking at the preclinical projects and if we were to look at our model overall, we are most of our success and most of the projects that we have been focusing on from a business development point of view historically has been projects in phase 2 and phase 3 and later and even but we also have been with on the chemistry side worked with companies where we have been part of the ANDA filing too.

So even though, we have certain pre-clinical molecules showing as part of the table, most of the work there is not medicinal chemistry, but rather it is work towards the ANDA filing. So, I think that is more in line with our capability. So therefore, ours is not a very FTE-based model, but rather it is more around the being able to take the product, say, from the ANDA filing on the way to commercialization, and that is the reason why our customers come to us, and that's the way that our business is built. I hope that answers your question.

Moderator: The next question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: Hi, sir, when peptides such as Semaglutide and Liraglutide start flowing into our GDS portfolio, where the innovator molecule is RDNA-based which is further chemically modified and in comparison, we have a completely synthetic approach. So from cost point of view, are we fairly confident we will be competitive at scale?

Saharsh Davuluri: Yes Keshan I think it's the fact is that know, the recombinant process of the innovator is difficult to replicate. And I think most of the generics are looking at a synthetic process, which is what we are looking at as well. I think, our process is fairly competitive. I think we use a hybrid technology. I believe we also may be having some IP around it. I think it's still a little difficult and early to talk about the economics, the commercials of it, because I think when you start off the development of a complex generic like this, your costs will be high, and it will be very difficult to figure out how viable it will be.

If it's a more simpler small molecule, then I think those discussions will be there. I think for us, the focus is not so much on liraglutide. I think we are working on semaglutide, but we're also working on a couple of other peptides. Difelikefalin is another one, and Tirzepatide, which is also the Lilly metabolic drug. So, all these are complex peptides, and I think the

approach would be to first develop a robust, scalable process.

I think the economics don't tend to be a nattering factor early on in the development, but I think we will have to cross that point. And at this moment, we still don't know. So we'll have to wait and watch. But there's a lot of active discussions with generic companies for these products as well. But it's still a little too early to comment on the economics.

Moderator: Thank you. The next question is from the line of Rohit Ahuja, an individual investor. Please go ahead.

Rohit Ahuja: So, my question is on the GDS segment. In our annual report, we have mentioned that we are going to file around six year DMF in the GDS segment for the next few years. So, can you brief us about that, like what proportionate or percentage of that are going into the specialty segment? Because Neuland is now positioning itself from a commodity to complex API and intermediate play. So can you touch upon that?

And my second question, you have already answered. I want to know about the peptides, like when you are filing for a DMF in the like semaglutide, and we are building this molecule from last many years. So brief us about the peptides, what's on the development? Are we getting any traction in this? So these are my two questions.

S E Medikonda: So thanks for your questions, Rohit. I think when it comes to the portfolio that we have for our GDS business, as we have been saying in the past, it is focused almost totally on speciality. And we also are looking not just at speciality, but also looking to differentiate our pipeline on the basis of technology. So even if there is a molecule which probably would not be perceived as say a speciality molecule, but if there is value that the customer would be getting in terms of technology or in terms of supply reliability by Neuland having that molecule in our portfolio. Those are the kind of molecules that we would choose for our portfolio. And those are the kind of products that are there in the pipeline, which our customers can look at, and which is there both at trade shows, and it's also available on our website.

Now, coming to the question of peptides. I think, as Saharsh has answered, we are working closely with the customers who are interested in filing ANDAs for peptides and also looking at other markets too. But I think this is not just an investment from our side, but also from the perspective of the customer too. So those are conversations which are ongoing and we'll probably be able to comment on them at a later date. I mean, I hope that answers your question.

Moderator: Thank you. The next question is from the line of Pranav Gupta from Pranav LLP. Please go ahead.

Pranav Gupta: So, I can see that there's a drop of two commercial molecules as compared to the data which

was shared in the quarter 4 results. So could you please elaborate on that?

Saharsh Davuluri: Yes, the so basically what we do as a hygiene process is we keep looking at the molecules that we have in our pipeline and if they're molecules that have not been contributing, then we also kind of reduce them. So there's been a reduction of two because there's one API and intermediate that we were supplying up until a couple of years ago to a European innovator. This was one of our first CMS molecules. It had contributed significantly for the first several years, but hasn't been in the last two years, so we've actually dropped that molecule and its corresponding intermediate from the pipeline. So, therefore, there has been a reduction of two.

Moderator: Thank you. The next question is from the line of Abhishek Rao from Trianz. Please go ahead.

Abhishek Rao: I have a different hypothetical scenario. Say, suppose your capacities are maxed out and given your capacities are fungible, right? And say that you have orders above what you can serve, basically. So how would you tackle such a scenario? I just wanted to know, would it be basis, sheer margins of margin opportunity, or would you also see a planned relationship and then you're given that, say, it's a critical client, but it's a low margin product. So just wanted to know how would you tackle such a situation?

Sucheth Davuluri: So typically, the way we do our planning, Abhishek, is that we'll project all our products into the future, both on the GDS side and the CDMO side. We also have allocated capacity for products that will get scaled up from R&D. So when we project our volumes, we already have our cost, we have our input cost, we have our operating cost, and that gives us a pretty good idea of what the margins will look like, what do the costs look like, and we see that there are any yellow flags, then we do have programs internally to continuously work on the lifecycle management of some of these products, or to take steps to reduce the cost to make sure that the product is profitable.

So, this is a continuous process, and coming back specifically to your question, our strategy is to make sure that we never actually run out of capacity. So, when we're able to project capacity into the future, we also make sure that we initiate adding of capacity well in time so that when the volumes grow, we have adequate capacity. That's the same reason that we bought Unit 3 and integrated it into the organization to make sure we have capacity on time.

Moderator: Thank you. The next question is from the line of Ajay Kumar, an Individual Investor. Please go ahead.

Ajay Kumar: Thanks for the opportunity. Actually, looking at last three quarters numbers, it seems that one or two molecules of CMS pipeline has started contributing significantly. Is that interpretation right?

Saharsh Davuluri: Yes.

Ajay Kumar: Okay then what about the about the lumpiness of the subject molecules, provided that some of the molecules stay lumpy for over a period of three years?

Sucheth Davuluri: Yes, one, we cannot reveal the names of those specific CMS molecules unless they are already in the public domain. From your observations that they've contributed significantly to our current performance and therefore how will the performance be in the future. I think we expect a consistent performance. However, exactly what will happen, we are not in a position to comment. But given where we are today, we expect that performance to continue.

Moderator: Thank you. The next question is from the line of Nirali Shah from Ashika Group. Please go ahead.

Nirali Shah: Yes, so I need to add that the emerging biopharma funding landscape hasn't fully recovered yet. So, even though there have been decent numbers of FDA approvals, what are your experiences like on the ground and to mitigate this, will we be able to break ground into any Big Pharma yet?

Saharsh Davuluri: I think the funding itself has been slow for the past several months. I think even starting from that JP Morgan healthcare conferences, there's been a certain dark cloud over biotech funding. And that's something that we have seen typically in the past also happen, where there'll be a period of maybe 9 months to a year where biotechs will struggle to raise funds. So, this will not necessarily be a long-term concern. But while the concern, while there is this kind of a drought period, what typically happens is that projects which we expect to start do not start.

And the management of these biotech companies kind of go into a little bit of a short hibernation. We don't see it as a long-term issue. I think it's something that could, possibly change in the next 6 months to 9 months, but we'll have to wait and see and that's the caution that was added in the remarks. I think with regards to the Big Pharma business, I think for us, we definitely would like to increase our portfolio of projects with Big Pharma. Right now, we do work for Big Pharma, but it's more in specialized chemistry areas like peptides, etcetera, where they don't have other preferred suppliers who bring in that capabilities.

But what we also see is that there is towards building the Big Pharma business as well, because we work with a lot of biotech companies and we are seeing a lot of either licensing deals, acquisition deals happening between Big Pharma and biotech. And as a result, now we are quite familiar working with Big Pharma and that's also helped us build relationships with Big Pharma, which perhaps we were not able to do 5 years or 10 years ago. So, yes, I think we will continue to focus on that. And while we continue to build business with biotech, I think we will also actively pursue relationships with Big pharma.

Moderator: Thank you. The next question is from the line of Rikin Shah from Omkara Capital. Please go ahead.

Rikin Shah: Hi, so it would really help if you could explain the opportunity in Apixaban given the demand for anticoagulants has shot up post-COVID and this molecule has been going becoming genericize in many geographies. So, how do we look at this?

S E Medikonda: So I think, Rikin, when it comes to Apixaban, I think it is a molecule which is continuing to grow and is getting genericized in certain markets in Europe and also in other rest of the world markets. But the timeline for it becoming generic say in the North America in the U.S as well as say in Japan is still say a few years away. So, I think what we are seeing currently is customers who are looking to file in Europe or who are launching in Europe or in certain cases have already started doing business in Europe.

And if you look at the product, it is already a product which is likely to be in multiples of tens of tons kind of thing. But considering the dosage and all those parameters, it's going to be a very large volume product and once the product goes generic, we may see even the value of it going down. But currently the product is contributing significantly and we have got the right set of customers for it to contribute to our specialty business for some time now.

Moderator: Thank you, the next question is from the line of Mk Reddy from MR Investment. Please go ahead.

Mk Reddy: Yes, thanks for the opportunity. My question is regarding this working cap intensity. So for FY23 our working capital as a percentage of sales is around 38% and we are receiving a lot of advances also. If I adjust the advances it was at 27%. just a comment on this advances because these are huge amount. For FY23 we have advances around INR 130 crores and for FY22 previous year it is around INR600 crores. So, are customers funding our working capital?

Abhijit Majumdar: So, on working capital, we have placed that around 110 days of revenue. I believe that moving forward, we would try to kind of keep to those levels. That's point number one.

Sucheth Davuluri: So, I think in addition to what Abhijit is saying, I think the advances and all that we receive from our customers is part of our business. Therefore, we expect that to continue. So, I mean, we do expect the working capital to grow as the business grows, but we don't expect any major shifts.

Moderator: Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: Hi sir, the employer benefit expenses have seen a 20% quarter-on-quarter uptick. So, could you help rationalize the reason for that?

Abhijit Majumdar: Yes, thank you. So, if you look at your right, that it's gone up on a Q1FY24 versus Q1FY23 the increase is 24%. That's because of two reasons. One is, we had the increment cycle and

our headcount also moved up. We had a headcount of 1,600 odd and that's gone up closer to 1,700. And so that's kind of driven the increase in the employee expenses.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Thank you and over to you all.

S E Medikonda: Thank you. I want to thank you all once again for joining the call and for your interest. I once again apologize for the delay due to the technical hiccups at the beginning. We had some very good questions which help us think and I hope our answers have given significant insight into our business. Even as we have like to have answered every question on time, our time on the call is limited. However, we'd welcome your questions offline. Please reach out to Ravi and we would like to answer them to the extent possible. Once again, we thank you for your time and look forward to our next interaction.

Moderator: Thank you very much. On behalf of Neuland Laboratories, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.

(This document has been edited to improve readability)