NEULAND
WHERE OPPORTUNITY BECOMES REALITY

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November 13, 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 November 7, 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 and half year ended September 30, 2023, conducted on November 7, 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: 2023.11.13 12:16:48 +05'30'
Sarada Bhamidipati
Company Secretary

Encl: As above

“Neuland Laboratories Limited Q2 FY24 Earnings Conference Call”

November 07, 2023

MANAGEMENT: **MR. SUCHETH DAVULURI – VICE CHAIRMAN & CEO, NEULAND LABORATORIES LIMITED**
MR. SAHARSH DAVULURI – VICE CHAIRMAN & MANAGING DIRECTOR, NEULAND LABORATORIES LIMITED
MR. ABHIJIT MAJUMDAR - CFO, NEULAND LABORATORIES LIMITED
MR. SAJEEV EMMANUEL MEDIKONDA - HEAD, CORPORATE PLANNING & STRATEGY, NEULAND LABORATORIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Neuland Laboratories Limited Q2 FY24 Earnings 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, 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. Ravi Udeshi from E&Y. Thank you and over to you, sir.

Ravi Udeshi: Thank you. Good evening, friends. We welcome you to the Q2 and H1 FY24 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 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 we open up 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 you all for joining our Q2 and H1 FY24 Earnings Call. I will briefly talk about the financials now. The total income for this quarter is Rs. 420.8 crores as against Rs. 293.9 in Q2, an increase of 43.2%. This was largely driven by growth in the CMS segment and reflects our efforts over the past several years. In comparison, our revenue in Q1 FY24 was Rs. 365.0 crores.

Our EBITDA for the quarter stood at Rs. 140.3 crores with an EBITDA margin of 33.4%, an increase of 980 bps over Q2 FY23. The EBITDA margin has improved due to both the shift towards high margin CMS business and a strong emphasis on cost optimization. This is in comparison to an EBITDA of Rs. 99.3 crores and EBITDA margin of 27.2% in Q1 FY24.

I would like to state that the overall operating environment still continues to be unpredictable. However, we have observed some stability in terms of input costs over the past 4 quarters. We have been able to effectively mitigate the unpredictability associated with input costs through diligent management of our operational cost. The strategic approach has strengthened our financial resilience and enabled us to navigate challenges more effectively. We remain committed to maintaining our dedication to operational efficiency and cost improvement programs to sustain our progress in this regard.

As we have consistently said in our previous earnings call, please measure our performance over a yearly and a larger time horizon as our revenues and EBITDA margins will fluctuate on quarter-on-quarter basis based on business mix which is dependent on the order inflow and project execution.

Now coming to specifics. Our gross margin was 59.8% in Q2 FY24 compared to 56.2% in Q2 FY23 and 55.2% in Q1 FY24. This gross margin as always includes manufacturing of other costs directly attributed to the product. The profit after tax was Rs. 89.1 crores as compared to Rs. 38.3 crores in Q2 FY23. This quarter's EPS is at Rs. 69.4 per share.

On cash, we continue to focus on internal cash generation to gear ourselves to support future capital spends. We generated a free cash flow for H1 FY24 Rs. 128.8 crores. We have utilized part of this cash surplus to bring down our working capital debt to zero and we paid Rs. 17.3 crores of term loans. Consequently, our net debt position stands at negative Rs. 39.4 crores, which means we are now more than a zero debt company. We also reduced our working capital cycle to 102 days in Q2 FY24 compared to 118 days in Q1 FY24. We continue to invest in upgrading our facilities and have invested Rs. 43 crores in CAPEX during this period.

We would like to add that we continue to be mindful of balancing growth with profitability by continuous focus on cost control and efficient operations in order to be able to capitalize on opportunities which will bring us greater scale over the long 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. Good evening, everyone. I will add a few comments on top of what Abhijit has said and then we can open up with Q&A. So, I think reflect on the

quarter and the first half of FY24, I realize that while financial metrics reflect an improved quality of business that we have been striving to build, the operations have been conducted like any other quarter. Having said that, this quarter validates the quality as well as the underlying strength of the Neuland business and I must add that it reflects our business development, R&D, quality culture and manufacturing and execution engine.

There is also a consequence of the natural transition of our CMS business where we have seen a few molecules scale up into commercialization phase over the last 2 years and maybe a few more waiting in the pipeline. As I had stated in the past, we had been transitioning from a model that was predominantly composed of prime APIs into a CMS and specialty GDS focused business. We are seeing both the potential of our CMS business as well as the impact of specialty GDS products like Paliperidone in the current performance.

As we had mentioned in the recent past, the business does not have any significant one-offs even in this quarter. However, as always, I would like to emphasize and reiterate that the nature of the business is lumpy and the growing scale will not necessarily change the inherent qualities. In terms of the details, the growth of the business is coming both from commercial products as well as projects under development. The significant revenue from development is due to molecules that are very close to commercialization. We believe that the analytics that we have been sharing over the past few years give sufficient color and depth. Hence, given the sensitivity and confidential nature of the CMS business, I would not be able to talk or answer any specific questions on customers or molecules.

From a market perspective, you probably already heard this before. We have seen that there has been an impact of funding crunch on early-stage projects as well as projects with weak clinical data. However, we are seeing new customers come in with later stage assets that is Phase-2 and later continuing to look for reliable API partners. You will see this demonstrated in the increasing number of Phase-2 projects, which are part of the pipeline that we have shared in the investor presentation. We hope that this pipeline will give us continued success in commercializing more new chemical entities in the years to come. Our business development team stays focused and continues to pursue such high-quality projects to add to this pipeline, even as the internal R&D, manufacturing quality and project management teams work on delivery of the existing projects as well as building agility so as to respond promptly to changing customer needs.

On the GDS side, even as there has been a slight dip in specialty revenues this quarter, growth is on the expected lines on half yearly basis. The specialty segment in H1 was driven by revenues from Paliperidone, Apixaban and Donepezil. The Prime segment contribution was primarily arising from Mirtazapine and the growth of the Escitalopram business. In terms of the overall business, there is a positive outlook with a healthy pipeline in the medium to long term and optimism about future prospects. While there will be fluctuations at a quarterly or even at an annual level, the business itself looks very promising across the horizon. Neuland's commitment of putting the customer at the forefront of its operations remains unwavering. To align with this commitment, the company will continue to invest in its operations by establishing both new capacities as well as new capabilities. These investments are made with the goal of furthering Neuland's leadership position in key molecules and becoming the preferred partner for both existing and potential customers in the development and manufacturing of new molecules. This customer centric approach is a central part of Neuland's strategy for growth and success.

So, having said that, I will now request Ravi to open up the floor for Q&A.

Moderator: Thank you very much. The first question is from the line of Meet Katrodiya from Nivashaay. Please go ahead.

Meet Katrodiya: The question is what is the future CAPEX plans and if not CAPEX, so what is the thinking of the management for the next leg of business?

Abhijit Majumdar: As we have consistently said in the past earnings call, our focus on cash, right, as we kind of look at cash and optimize so that we have the cash for our growth opportunities. The second is what we have consistently said is as and when we start allocating capital for growth, right, we would come back to our investors on our plan from an execution perspective. So, you should see some action in the next 2 or 3, 4 quarters, but they need to be kind of placed to the board, they have to be discussed internally and I will just leave it at that.

Sucheth Davuluri: I think from an overall number, the regular CAPEX will be about Rs. 100 - Rs. 120 crores. If there is any additional opportunity, the additional business which has a certain level of certainty then this number could go up or down based on that.

Meet Katrodiya: And sir, second question is, very good percentage of contribution by CMS molecule in overall topline, so seeing this kind of jump from 45% to 55% for this quarter, what can

be the share of CMS molecules going forward for the full year considering the visibility you have?

Saharsh Davuluri: So, I think it goes without saying that the CMS business has outperformed our expectations as well, but frankly speaking, the CMS business is really a function of how the drug is doing and how our customers, how much API they are procuring, so I think it just happens that the CMS molecule's volumes have picked up and have gone beyond our expectations and I think that has resulted in the CMS actually contributing to more than the GDS, but I think for us it is very difficult to answer that question directly because both businesses are very independent of each other and both have their own potential. It is just that the GDS business was a little shy of what we expected to do, and the CMS business did a lot more than what we expected it to do and it is part of the business. So, I think how this would be extrapolated is very difficult, I think we will have to watch the next few quarters and I think we will have to more importantly see how specific molecules do, but I think approximately somewhere between 60-40, 40-60, I think beyond this, it is very difficult for us to pinpoint.

Meet Katrodiya: Next question is in the revenue from development as there is a big almost double kind of jump in the revenue for this quarter, so are there any one or two specific molecules contributing such big jump and if yes, then as you mentioned in initial remarks that these molecules will get commercialized in upcoming quarters, so basically, I want to understand the potential of these molecules, how much times of revenue they can generate in commercial sales like 2, 5, 10, what kinds of revenue they can generate?

Saharsh Davuluri: I think I will just be brief in the interest of time. The molecules, their upside potential is something that we don't believe is valuable to disclose because it is hard for innovator molecules for us to cap or to be able to estimate that how much they will do. I think there is definitely potential for growth. There are more molecules as well, but yes, I think the salience we have disclosed in the table clearly tells you how many are in commercial versus how many are in development. So, I will just keep the response please.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Nuvama Wealth. Please go ahead.

Ranvir Singh: My question was related to the development of the CMS revenue part, so you said that one molecule which actually had offtake for mere commercialization, so that has your offtake, so just I wanted to understand that whether we have catered to full order price

of that particular molecule, or this is a part of a bigger order we have in hand for that particular molecule in development phase?

Saharsh Davuluri: So, I think with regards to the commercialized CMS molecules, the orders would come across the year and typically I think because these are molecules that are still under patent, I think there is a visibility that we get from the customer in terms of how much API they need over the years and as we get closer to the period which is on a rolling quarter basis, we get confirmed orders. So, at this point in time, it is safe to assume that every year we will have orders. It may not happen in equal proportion every quarter and then again depends on a molecule-to-molecule basis, but as I had indicated in the opening remarks, there are no onetime orders. So, I think we can also feel reasonably confident that all this business that we are seeing is having a degree of recurrence and it may not be identical every quarter, but it will have a set pattern of recurrence, especially the commercial ones.

Ranvir Singh: My question was related to that particular molecule because we have other molecules also and hence, I can understand that we will keep on getting orders for different molecules, anyway, so the second question was related to that Unit 3, what kind of utilization currently we are standing at?

Saharsh Davuluri: So, I think just to top up that first question you asked, I think we have disclosed that we have several commercial molecules right now, I think about 5 or 6 of them contribute actively to our commercial business on CMS. So, we have multiple molecules, which is the short answer, but not every molecule contributes equally, therefore the surge in the business or the growth in the business is also clearly indicating that new molecules are contributing more. With regards to your second question, I think we are at about 60%-65% utilization in Unit 3, but I would also like to add to that Unit 3 has further headroom for more capacity because the site itself has is a large enough campus where we can create more facilities, but in terms of the current installed capacity, we are at about 60%-65% utilization.

Ranvir Singh: And that unit 3, when we can expect peak revenue including that expandable capacity there?

Saharsh Davuluri: I think it really depends on how the molecules scale up. So, I think we are constantly reviewing our capacity situation and I think the benefit we have is because we already have an operational Unit 3, we will be able to create capacity within say 12 months

from decision making, but I think we will disclose as we create more capacity, but at the moment there is nothing much I can indicate as when we will be creating.

Moderator: Thank you. The next question is from the line of Ishmohit Arora from SOIC LLP. Please go ahead.

Ishmohit Arora: Sir, just a question, in next 6 to 12 months, are we expecting any more molecules to go commercial like in last concall, I think we mentioned two more molecules might go commercial in next 6 to 12 months?

Saharsh Davuluri: I think again, it is going to be difficult for us to be very specific for the time period you ask. I think if you go back to the investor con-calls that we have had even 2-3 years ago, we have maintained that we had a pipeline of 5-6 molecules which were one step away from commercialization. I think in the last two years, 2 molecules have become commercial. I think in the next 2 years, maybe two or three more could get commercial, but I would not dwell into further detail with regards to 6 months or 12 months, but yes, you can definitely expect some more commercialization in the next couple of years, but the timelines would be very difficult for us to indicate.

Ishmohit Arora: The second question was, are there any key risks that we are seeing to the sustainability that we are seeing in the CDMO growth over next 2-3 years like in terms of basically the funding trying up for Biotech instead of US?

Saharsh Davuluri: The funding situation for the molecules that are getting commercialization, although we work with Biotech and we keep saying that the Biotech which have commercial molecules have adequate funding. So, we don't see any challenges in commercial supplies getting any kind of restrictions due to biotech funding. I think early stage, yes, there is definitely funding challenge, but I think our business model is such that it is not really impacting us that much.

Moderator: Thank you. The next question is from the line of Sajal Kapoor as an Individual Investor. Please go ahead.

Sajal Kapoor: Neuland's current form is akin to that of Indian cricket team, which keeps surprising on the upside, especially the seam bowling and coming to my questions and some of the major participants in the European API market have lately acknowledged that new competitors are coming from India, Euro API and others have also issued a warning regarding their profitability projection, I know you have had 200 pre-arranged

meetings and over 50 walk-ins in the recently concluded Barcelona CPHI, so what is the take on the ongoing supply chain rebalancing, please?

Saharsh Davuluri: Hopefully our performance of the Indian cricket team will continue till they win the World Cup and not stop at the league stage, but that aside, I think there is definitely a lot of buzz of Indian CDMOs in the global marketplace and I think yes, we have seen in the press Euroapi and some of these guys mentioning skepticism, but I think our take on it is that this is a very vast space, $60-$70 billion space where no player is more than $2-$3 billion in terms of size. So, for us, we feel like we are swimming in an ocean, and we hardly see any competition. Even in the CDMO space today, in fact Sucheth and I were just talking to one of our board members, if we take our top 10 molecules, none of the 10 have overlapping competitors. If I take the pipeline of the new projects which we are doing, projects which we have received in the CMS business, no two projects have the same competitors in the bidding process. There are so many different players, there are Indian players, there are European players, so for us, it is very difficult to gauge, at the end of the day we have a healthy pipeline and that pipeline is enabling growth for us and we have control on what actions to take in order to keep sustaining that growth.

Sucheth Davuluri: I think European API companies are various Indian companies and vice versa as well. So, I think it is a healthy competition, but as Harsh rightly said the CDMO business in terms of the market is so huge that there is a lot of opportunity out there. Now, the key for Neuland and since we have a lot of interested stakeholders on the call as well is to make sure that Neuland doesn't get confused with other CDMOs in terms of what we do as an organization. I think for us going forward, the key is to be very clear about what is it that we can do and what we cannot do and make sure that we carve out that brand and image with our customers, so that we have those long-term relationships and that is what Neuland has all been about and we keep saying and you are referring to CPHI. Sajal, one of the things we always talk to our stakeholders is that we have hardly lost a customer in the last two decades, so I think customer is the center of our focus, but I think point is valid is we have to look out for our European competition as well.

Sajal Kapoor: And second question is press release on peptide building blocks was issued in January 2009, so could you please provide the performance evaluation of this optionality after 14 years in terms of learning and measurable outcomes?

Saharsh Davuluri: I think the peptides press release you are referring to. I think it indicates our entry into the peptide business, which was a very organic entry. We started off making these

fragments because those were technically closer to what we did as a company. The idea was to climb up the value chain, getting to making more complex fragments, make building blocks, so to speak and supply them to peptide CMOs who actually make the final peptide APIs and the idea was to further climb up the value chain, getting to making NCE peptide APIs and also in parallel start making generic peptide APIs. I think in a nutshell that was the plan. I think in terms of where the journey has led us across the 15 years, I think the straight answer is that we have actually made that progression. We started off making building blocks, we then got into making peptide fragments, working with European peptide CDMOs, supplying them the fragments, then we started working with innovators, making peptide API's, NCE's, and then we also started developing peptide generic APIs as well. But I think what you are probably hinting at which is the report card, I think it is fair to also admit that the business itself has not contributed significantly to us. I would probably attribute that to two things. One is could we have put in a greater emphasis in terms of development capabilities and maybe develop more molecules, the answer to that is definitely yes, but more so in terms of if you look at the cable of molecules that we consistently published out of the 80 odd projects that we have, we have at least about 14 or 15 peptides, but none of them have actually made it into commercial and become successful commercially for us. Had that happened, perhaps it would have been a different story altogether, but having said that, we don't want to sound like we have given up on peptides as well, because we are working on some exciting peptides both in the NCE space as well as DMF for generics, but I think the music will be heard when actually you start seeing the business come in. Until that time, it will be kind of like lot of lead indicators that we will be giving to you in the form of commentary, but I think Neuland is a serious player in peptides, but unfortunately only time will tell how good our efforts have been.

S E Medikonda: I think Saharsh did mention something on the lines of the fact that we have innovators coming to us for their peptide APIs itself is a marker of our capabilities on that front. When that actually translates into commercial revenues and impacts us significantly, that is more how the market, how the products move through the pipeline. I think that is not in our control and also from the generic side too, we have made significant progress on the number of molecules that we commercialized, and we are ready at a large stage, but the commercialization, it depends on the molecules and the customers that we are partnering.

Saharsh Davuluri: Another qualitative addition, Sajal to the question is if you take Big Pharma as a category, most of our investors are aware that we are not very strong on Big Pharma, we work more with Biotech, but you will find it interesting that for peptides actually

we work with Big Pharma because their typical suppliers don't work on peptides as much. So, we actually have two European Big Pharma working with us only on peptide projects. So, that is also perhaps an indicator that we are a serious player in peptides, but yes, I think I would also admit that in terms of our revenues, they are not still a dominant contributor for us.

Moderator: Thank you. The next question is from the line as Sachin Jain as an Individual Investor. Please go ahead.

Sachin Jain: My question is since last 10-12 years, you have built now almost Rs. 500 crores CMS business and along with the journey, you have built reference ability, project management capability and scientific capabilities and now I believe all building blocks are in place and probably the world knows you for your capability, now can you help us how you as a management see next 5 years some qualitatively? How you see CMS business unfolding from here, maybe some aspirations, how you see it? Can you give some color?

Saharsh Davuluri: I think we can definitely give you a sort of a vision of what we have for the CMS business, maybe not in our quantitative way. The kind of track record we have built for ourselves and more importantly the credibility we have built for ourselves, as you had acknowledged in terms of building strong, R&D project management, execution skills in the plant level, quality culture, those have helped us coupled with a strong working relationship with the Biotech, these have been factors that have really built this healthy pipeline. Now, when you look at the innovation landscape today, I think still 70% of the new drugs which are small molecules are being developed by Biotech companies. So, I would definitely say, continuing this path is front and center a priority for us, we would want to work with more and more Biotech companies. We would want to be a part of as many phase 3 to commercial launches as possible, but at the same time, we recognize that for us to be able to expand the basket of customers, you would also have to create the right kind of capabilities, create the right kind of capacities for that. So, I think we are actively exploring what we can do. I think the gentleman earlier was asking about peptides, so for example, having peptides as a capability helps us work on more CMS projects. So, that is a very good example, having deuterated molecules as a capability helps us work with more innovative companies. I think as we speak, we are also evaluating what are the other adjacent areas that we should be looking at or should we look at different kinds of maybe carbohydrate chemistry, should we look at maybe high potency. So, I think these are questions that we are trying to answer, but I think it would be safe to assume that we

want to be focused on this human healthcare, biotech space, but as we create larger facilities, I think obviously we would also want to align better with Big Pharma and try to create more value for them as well. I think the next 5-7 year plan is more focused on that and then I think beyond that we will have to look at what else we can do. So, I think that is kind of what we think. In terms of numbers, I think it is really difficult because we are definitely doing better than what we expected. I think quantifying it from an investor perspective really doesn't make any sense because it is like the world is your oyster, so it could become as big as you could want to.

Sachin Jain: And my second question is Saharsh, now, almost, if I see 2012-13 balance sheet and now I see a balance sheet which probably a business which is flowing cash an upward of Rs. 200 crore annually, would that mean you will become more aggressive in terms of capability acquisition or CAPEX, some color and one of the answers in earlier participant, you said probably next 3-4 quarters, you will take a call, but some qualitative indicator of how you are thinking about your CAPEX plan, acquisition plans and looking at the balance sheet where it is today?

Saharsh Davuluri: Yes, I will just kind of share the management intent over there. I think Sucheth and I had explained this in the previous investor call as well, I think what we have achieved now, not just in terms of numbers or business mix is we have established a certain level of credibility with our customers in terms of what Neuland can do. This is not just for the CMS business, but even if you look at the Specialty API business, I think the customers we work with really value the work we do and one of the main advantages of this platform that we have created is that future investments will be made based on certain shared visibility that we get from our clients. This is a very important concept or a theme that we want to leave into our future planning and what that really means is we may not necessarily go into creating a lot of capacities or even capabilities without having that support or guidance or assurance from our customers. I think that is the position we have earned ourselves into, I would say, and therefore I would probably say yes, we will have to allocate capital for growth. We will have to create capacities, but they will be done in conjunction with our customer needs and therefore you will not see a situation where we will create maybe 1000 liter facility and then wait for 4 years to fill it up with products, we may start creating production blocks based on certain visibility we are getting from the customers we are working with and that kind of capital allocation is what we feel will help us keep that ROCE high and it will help us keep making those necessary investments. So, I think that is broadly the theme of how we are looking at growing the business. So, there is a little bit of conservativeness

in it, but we also think it is not necessary to go and create huge capacities without any visibility from the business side.

Moderator: Thank you. We have the next question from the line of Rohit Ahuja as an Individual Investor. Please go ahead.

Rohit Ahuja: I have two questions, one is for the CMS segment and one is for the GDS segment, so in the CMS segment, I want to know that one of our client, Esperion which I think is having a dedicated production block in one of our manufacturing units, so I want to know that if this kind of capacity that we create in our plant that is also fungible across products and recently we have had the CPHI Barcelona, how is the thing where that, as I have seen, we have the various team meeting there, so how is the thing going that or the brand Neuland is now commanding compared to the various previous years, so this is my question one? And so again my question is on the GDS segment, is that true that now you can only file US DMFs if you have a valid customer on the customer request because we have a healthy pipeline of the molecules which have the US DMF files are going off patent in next 3-4 years and also as per our annual report, we are going to file 6 US DMF every year for the next few years, so that assumption is correct that can you explain about that?

S E Medikonda: Rohit, I think in consistent with what we have said in the past, I don't think I want to answer like product specific questions or project specific questions when it comes to our CMS business, I think we have already shared a lot of color on that and when it comes to the GDS business, I think a lot of our work that we do is the products that we select and the products that we own is on the basis of our understanding of the products of the market which we have developed over a period of time and we consistently see that we are customers who are in those therapy areas in the US market come to us for those products, I hope that answered your question.

Sucheth Davuluri: We always have a customer for the DMF that we are filing and the capacity that we create is always fungible.

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

Sanjaya: Sir, my question is that, is there any kind of a seasonality to your number and of course given some number relating to the stage 2 which has doubled, so how will that kind of feed into your numbers in the future if you can just help us understand that?

Sucheth Davuluri: There is no seasonality as such, Sanjay. As we have mentioned in the past, we do expect quarter to quarter volatility just given the nature of the business and what our customers requires in terms of deliveries of the material from us. Apart from that, we have also mentioned in the past that not only just a quarter to quarter, but some of our sales cycle and manufacturing campaigns are so long that some of that volatility can even spill into the next year as well. So, it is just a question of the nature of the business rather than seasonality.

Sanjaya: How about this Phase-2, which is doubling, does that kind of give us some indication of how things will evolve going forward?

Saharsh Davuluri: See, I think the doubling of the revenue is an indication that new molecules that are getting commercialized are contributing significantly to the business. I think if you couple that with the other statement that we have made that this business is not one time, it is not one off, also couple it with the lumpiness comment, I think it is fair to reduce that the growth is there and it will continue. The percentage growth or how much will it grow to is where we cannot give you any indication, but yes, I think definitely with these molecules commercializing there is a growth in the CMS business which will continue, but I think with regards to the quantum of the growth, I think you will have to see how things pan out. We won't be able to guide you much on that.

S E Medikonda: And Sanjaya, if your question was with regard to the number of Phase-2 molecules doubling, I think that is more testament to the what you say the traction of the brand that we have been able to build and that would feed in over a period of time, but what we also need to keep in mind is the **conversion from** Phase-2 to commercialization is 25%; which may be somewhere only around one in four molecules will reach commercilaizatione. So, this is more an indicator of how attractive our CDMO capabilities are rather than just an indicator of future potential.

Moderator: Thank you. The next question is from the line of Rahul as an Individual Investor. Please go ahead.

Rahul: I wanted to have a perspective from the management on how do they see the journey 5 years, 10 years ahead, if they can share what the North Star for the company and if they can talk us through the progression of Neuland moving from a small cap company, let us say to mid-cap company and maybe at some point a large cap company, just market caps and more interested in the journey that they foresee and if the ambition is

to kind of transition towards making the company at that scale and how that will unfold over the next 5 to 10 years, how has the management excited on that perspective?

Sucheth Davuluri: So, Rahul, there is no simple way to answer this question, but typically the process that we follow as management as an organization is that we typically forecast our numbers of future over a 5 to 7-year kind of a period because that for us is a realistic window without it getting too hypothetical or theoretical. Once we do that, we look at what the numbers look like, what the margins look like, what do the growth percentages look like and whether that is a reflective of healthy and opportunistic growth as well. If it is not, then we spend our time or energy identifying opportunities which are more reflective of how Neuland should grow and what the aspirations of the management are. Once we have those numbers, obviously we bring it back and look at the assumptions on what is our CAPEX, what should be the capacity, what should be the people strategy, our financial strategy, all of that. So that, that we are very clear on what the potential obstacles, what the potential risks could be, what is our ESG strategy going to be and we spend a significant amount of time doing that. I think with respect to your specific question about what the future could look like in terms of the market cap, small, medium to large cap, as a principle, we don't share any outlook in terms of numbers and we continue to hold to that principle, but I think internally we do take a very long view of the business and make sure that it is in line with how we would like to see the business overall. So, I mentioned I think, between me and Harsh in the previous call that we do have a clear set of 6 strategic priorities, which tell us what we want to do and more importantly, give us clarity on the areas that we don't want to focus on, in terms of specialty APIs or CDMO business, the kind of markets we want to go after, the kind of customers that we want to go after, the quality of infrastructure, the capabilities, each of those strategic priorities tell us where we should be putting all our energies and more importantly not putting our energies as well.

Moderator: Thank you. The next question is from the line of Hussain Kagzi from Ambit Asset Management. Please go ahead.

Hussain Kagzi: I just had one question and I like to come back to the comments you made about CAPEX and putting additional capacities only when you have some visibility of such and this is quite different from what conventional wisdom would kind of indicate and so I wanted to know that is this a strategy which the company has followed over the years or is it an outcome of the extremely lumpy and difficult years that we have seen say over 2018, 2019 or even H1 of last year and now we are quite conscious of the balance sheet or the financial stress that we would want to take?

Sucheth Davuluri: Before Harsh adds his perspective, Hussain, let me clarify that given the nature of the business, what Harsh was saying is that the business has evolved to a point where there are certain molecules where we can actually invest in a CAPEX where we have a significant amount of visibility. Now, that doesn't mean that every CAPEX we do will have that kind of visibility. It is just not possible because as you know, our focus is to grow our CMS as well as our GDS business and on the GDS side, given a strategy of being a multiproduct facility, there will be CAPEX that will get invested based on our best estimate of future projections of volumes for which we will not have a signed contract or a certainty in revenue, so Harsh's point was that there is a part of the business that evolved to the point which gives us the ability to invest in CAPEX where we have that assurance, but they will always be part of that CAPEX or business which will not have that assurance.

Saharsh Davuluri: So, I think Sucheth answered it, but I want to have the satisfaction of clarifying myself. I was just clarifying that the decision to make CAPEX investments based on visibility that we get from customers is actually a position of privilege that we have put ourselves over the years of building this business. So, I think that is something that I would like to reiterate. It is not necessarily something that comes out of the past pain or the past difficulties of going through CAPEX programs and also as Sucheth said there is GDS business, there is also basic R&D, there is a lot new capabilities which don't necessarily require customer sponsorship. So, when you look at capital investments in a business like ours, one area where you need the customer visibility is the capacity creation, but if you are looking at creating more R&D labs, you are looking at creating a pilot plant, you are looking at creating scale up facilities or even a GDS facility, then those are investments that the company would have to make on its own. So, I think the point that was being made earlier is that Neuland, we will not probably undergo huge CAPEX spends with no business visibility. We will be prudent in terms of what investments we make, but having said that, I think as management we alone can visualize how what infrastructure is needed and we will not necessarily wait for a customer to come and sponsor CAPEX for us. So, I think between what Sucheth has said and I said, I hope that clarifies and that helps you understand how Neuland looks at CAPEX it is not necessarily coming out of any past strain or concerns.

Moderator: Thank you. The next question is from the line of Yasser Lakdawala from M3 Investments. Please go ahead.

Yasser Lakdawala: Question on your CMS business, if you could probably highlight some qualitatively, so what are the nature of the projects and molecules you are working on, are they sort

of large volume, small volume in sort of production style or are they more chronic, acute sort of, are they in like niche oncology or rare disease area, if you just highlight something qualitatively, so we get a feel of customers that we are sort of working with and the long term sort of trend that is happening in the NCE space will be really helpful?

Saharsh Davuluri: Maybe, just give some high-level facts about the CMS business. If you look at say the 7 or 8 of our near commercial APIs with the CMS business, one thing is that they are all with Biotech companies. The other thing I would say is that they are a mix of chronic and acute therapies. I would also say again we have a mix. In terms of range, if you look at some of smaller volume products, batch sizes maybe 10-20 kilos with annual requirements being in 10s of kilos or 100s of kilos. The larger products in this list would have batch sizes of anywhere from 500, 600, 700 kilos with an annual requirement of 100 tons. So, I think our CMS business is fairly diverse in that sense, but yes, I think the basic commonality is that it is Biotech. I think incidentally, many of the molecules are also in the CNS therapeutic area, but it is not like we are CNS specialists and therefore we have those CNS molecules, and it just so happens to be that way. I think in terms of how we intend to, if you look at this portfolio itself, we don't necessarily see success coming out of acute therapies or chronic therapies or CNS diseases or anything like that, but what does matter is if a molecule is having multiple steps of synthesis, if it has some cost of goods challenges, if there is the basic supply chain is originating from India, I think these are three or four factors that drive an innovator to Neuland. We have seen even like, just to give you examples of molecules that don't fit our pipeline and we have not been successful, you take very high value therapeutic areas where the innovator needs only 2 kilos of API a year and it is a multibillion-dollar drug. So, the API sells for 10s of thousands of dollars a gram. In those kind of cases maybe the innovator is kind of comfortable with the European or in-house manufacturing. So, other than that, wherever there is a cost of goods challenge, wherever there is a challenge of complex chemistry in multiple steps and life cycle management is important, I think that is important, I think the one other common thing about our CMS pipeline qualitatively is and we had mentioned this earlier is the patent life, I think we did have one or two molecules, those patents have expired and they don't contribute anymore, but now the pipeline that we have, the patent expiries only start after 2030. So, the other comfort that we draw from our CMS pipeline is that next 7 years or so we should continue to see the exclusivity benefit us. So, I think these would be some of the highlights qualitatively that I can share without

getting into any specifics and they are all given healthcare, that is one thing I didn't mention.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, that will be our last question for today. I now hand the conference back to the management for their closing remarks. Thank you and over to you.

S E Medikonda: We would like to thank you for taking the time to attend the call and asking questions which draw greater insight about the business and the future, while we would have liked to have answered everyone in the queue. We hope you understand the constraints of on time. Having said that, please reach out to Ravi if you have any specific questions, we would be happy to answer them to the extent possible. Once again, thank you for your time. Look forward to meeting you again and have a good evening.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Neuland Laboratories, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.

(This document has been edited to improve readability)