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November 17, 2023

To
Listing / Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

BSE CODE: 543329

To
Listing / Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

NSE SYMBOL: WINDLAS

Dear Sir/ Madam,

Subject: Q2 FY24 Earnings Conference Call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Q2 FY24 Earnings Conference Call Transcript.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For Windlas Biotech Limited

ANANTA NARAYAN PANDA

Digitally signed by ANANTA NARAYAN PANDA
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"Windlas Biotech Limited

Q2 FY '24 Earnings Conference Call"

November 09, 2023

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MANAGEMENT: **MR. HITESH WINDLASS – MANAGING DIRECTOR**
MS. KOMAL GUPTA – CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to Windlas Biotech Limited Q2 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

Today we have with us on the call Mr. Hitesh Windlass, Managing Director and Ms. Komal Gupta, CEO and CFO. I now hand the conference over to Mr. Hitesh Windlass. Thank you and over to you, sir.

Hitesh Windlass: Good morning, everyone and thank you for joining us today for our financial results for quarter and half year ended 30, September 2023. We have uploaded the press release and investor presentation on our website as well as on the exchanges. I hope that everybody must have gotten an opportunity to go through it.

At the outset, let me take this opportunity to wish everyone a very Happy Diwali and a prosperous New Year from the Windlass family. Initially, I would like to discuss the outlook and way forward for Windlas Biotech followed by highlights for H1 and Q2 of the company which will be shared by our CEO and CFO Ms. Komal Gupta.

The second quarter of fiscal 2024 continued facing challenges in the Indian pharma market due to decline in volume. Given this backdrop, I am delighted to share that Windlas Biotech Limited demonstrated yet another quarter of impressive financial performance showcasing sustained growth trajectory across all business verticals. We are pleased to report half yearly Y-o-Y revenue growth of 18% along with quarterly Y-o-Y revenue growth of 15%.

The earnings per share for the first half of fiscal 2024 reached INR12.54, our highest value since the company's listing. This represents a growth of 24% Y-o-Y, when compared to the EPS of INR10.09 in the first half of fiscal 2023. The company successfully distributed dividends pertaining to the fiscal year 2023 to our shareholders, all the while meticulously maintaining a strong and secure liquidity position.

Generic Formulation CDMO Business has demonstrated a consistent trajectory of growth. Our strategy on increasing the customer base, increasing wallet share from existing customers and continued product focus on new launches has begun to show in our growth numbers. Trade Generics and Institutional Business Vertical also continues to exhibit progress on its long-term strategy to expand distribution networks to reach markets in India's hinterland while also enhancing the range of products sold through this channel. Although on a small base, export vertical also grew by 130% Y-o-Yin H1FY ‘24.

I am pleased to inform you that we have successfully finished the mechanical completion of our injectables facility by end of quarter and the project is currently in validation phase. The successful establishment of our injectables facility represents a significant milestone in our strategic growth plan as it introduces a new dosage form that allows for horizontal expansion. With the successful attainment of this milestone, we are well positioned to discover a fresh avenue for generating revenue commencing from next fiscal year.

We are highly excited by this consumption-led macroeconomic growth in India and uniquely equipped to participate in this way through our Generic Formulation CDMO and Trade Generics Institutional Verticals. As a building block supplier to this ecosystem, we have an essential role to play across the board in catering to customers that value quality, affordability, and accessibility. I will now request Ms. Komal Gupta, our CEO and CFO, to discuss the highlights. Over to you, Komal.

Komal Gupta: Thank you, Hitesh. Good morning, everyone. Over the past year, our company has remained sharply focused on advancing our growth and expansion strategies, all the while maintaining a steadfast commitment to embedding sustainability within our operations and laying the groundwork for future business growth.

Despite sluggish IPM volume growth, I am delighted to report that our company has shown remarkable momentum across a range of operational and financial metrics. The company crossed INR150 crores revenue milestone in Q2 FY '24, and hat-trick of record-breaking quarterly revenue, also achieved highest-ever revenue and EBITDA quarter.

We also achieved our historically highest EPS at INR12.54 for H1 and INR6.75 for Q2. This performance is also reflected in our strong operating cash flow of INR54 crores generated during H1 and a liquidity position of INR167 crores at quarter end.

The company's steadfast commitment to attaining its diverse generic formulation CDMO strategic goal remains evident. Our efforts to gain new customers and introduction of new products over the last two years has started bearing fruit in terms of growth that we are currently witnessing in our generic formulation CDMO business. During H1 FY '24, generic formulation CDMO vertical generated revenue of INR228.1 crores, reflecting a Y-o-Y growth rate of 12% and for Q2 FY '24, revenue reached INR117.8 crores, growth rate of 10% Y-o-Y, indicating a positive trajectory for the vertical.

Within the domain of domestic trade generics and institutional vertical, the company has been consistently delivering accessible, affordable and authentic medications to the underserved regions of India. The generic sector in India is poised for robust growth driven by implementation of government policies that seeks to foster the acceptance and dependence on generic medications.

During H1 FY '24, trade generics and institutional vertical recorded a revenue of INR59.1 crores, achieving Y-o-Y growth of 33% and Q2 FY '24, we generated a revenue of INR28.3 crores, exhibiting a growth rate of 23% Y-o-Y. The company's export vertical growth approach comprises its broadening into semi-regulated markets.

During H1 FY '24, export vertical generated revenue of INR10.3 crores, reflecting Y-o-Y growth rate of 130% and Q2 FY '24 revenue reached INR6.4 crores, growth rate of 157% Y-o-Y.

In the context of financial performance of the company, the revenue generated during H1 FY '24 reached INR297 crores, a Y-o-Y gain of 18% and for Q2 FY '24, amounted to INR153 crores, growth of 15% Y-o-Y. The EBITDA metric indicated growth during first half of fiscal year 2024 reached INR36 crores, growth of 20% Y-o-Y and for Q2 FY '24, reaching a total of INR19 crores, uptick of 17% Y-o-Y. Company's PAT for H1 stood at INR26 crores, Y-o-Y rise of 19% and Q2 amounted to INR14 crores, reflecting a Y-o-Y increase of 15%.

In light of the festive occasion, I extend my wishes for a joyous Diwali and a prosperous New Year to all of you. That's all from our side, we can now begin the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Naman Bhansali from Perpetuity Ventures. Please go ahead.

Naman Bhansali: A couple of questions and thank you for the opportunity. First is on the CDMO side. Our CDMO business has grown at low teens in the first half of this year, which is quite healthy compared to the mid-single-digit growth during the last two financial years. Are we on track to maintain this low teen growth during the rest of the year? And is it fair to assume that our CDMO vertical can continue to grow at low to mid-teens over the next couple of years, considering that the new injectable factory is also coming up? That's my first question.

Komal Gupta: As we have mentioned that while we are not giving any future guidance, I think that we have been consistently working on all the right things, like addition of new customers, new product launches, maintaining the quality and mining the customers which have been added, adding the product portfolio to existing product portfolio, pitching it to the new customers and having the facilities maintained in that fashion. So, all these things are going to help us to continue to deliver good growth. We are not giving a number, but we are very positive looking at the momentum that we have been delivering in the last three quarters. We hope to continue the momentum.

Naman Bhansali: Okay. And the same thing, so how much did the new product introductions and how much did the new customers are contributing to the growth in the first half?

Komal Gupta: We don't provide that information, the break-up.

Naman Bhansali: On a broad basis, if you could?

Hitesh Windlass: So, this is a little bit of a competitively sensitive information, so that's why we are not providing these break-ups.

Naman Bhansali: Okay. Got it. Secondly, on the trade generic business, so it is down on a Q-o-Q basis this quarter. So, what led to the de-growth sequentially and how are we seeing the base going forward?

Hitesh Windlass: So, if you see on the H1 basis, the growth is around 33%. I think we have to look at it in a longer-term basis rather than quarter because some variations can be there from one quarter to the next.

But we are very optimistic, and we expect annual growth percent to be strong in this vertical as well.

Naman Bhansali: Okay. Got it. And lastly, on the gross profit margin side, so we have seen some sequential ramp-up over the last six quarters, seven quarters continuously in our business. So, do you think the current gross margins are sustainable and how would they move as a percentage in terms of when the mix changes in our business for trade generics and exports?

Komal Gupta: We don't see any reason why we should not be able to sustain the percent that we have been delivering. Of course, in case of any unforeseen, we can't predict that. But we are very positive in terms of being able to sustain these margins and this is as you mentioned, it is the result of improvement in the existing verticals as well as product mix changes. And as that keeps on happening, growth is also possible.

Naman Bhansali: Got it. Understood. That's it from my side. I'll turn back in the queue.

Komal Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Sudarshan Padmanabhan from JM Financial. Please go ahead.

Sudarshan Padmanabhan: Yes, thank you for taking my question. So, my question is to understand in our business in the last few quarters, three quarters to four quarters, we have been fairly very steady on the CDMO side which is reflecting both in the gross margins as well as the growth. We have seen the chronic segment inching up and you also talked about India percolating into the hinterland.

So, on that context, one is from this 57%, so we have crossed the majority of chronic at this point of time. Do we see the business moving more towards chronic and which is where the variance of the sales volatility which probably would have been there in early days would start coming down quite drastically?

And second is if you can also talk the complex, because we also talk about complexity. So, I would understand that injectables, once the capacity comes in and we start manufacturing, there would be higher entry barriers. I mean, that would basically make our business a lot more steady in terms of that. So, from this context, if you can give some colours, where do we see the complexity, where do we see the growth coming in from the chronic side and the stability of the business?

Hitesh Windlass: Yes. So, thank you for the question. First of all, I think that I can share some commentary on the overall industry pattern. So, if you look at the lifestyle diseases, cardiovascular, diabetes, and other chronic diseases, neuro and gastro, all of these are on the rise in the Indian population. And more-and-more patients, even in the non-metro or smaller-and-smaller towns are getting diagnosed and getting treatment. So, this is an overall trend that on the chronic side, we believe the industry is looking at more detection and more-better treatment of those undiagnosed people who are suffering with these diseases, but not currently on medication.

So, my sense is that in the long run, this will definitely have a positive impact. More demand will be there. And for us, as a business, we will also reap the benefit of that. So, complexity of chronic will continue to rise, is my view. Second is that the kind of diseases, diabetes, metabolic syndrome, cardiovascular, all of these in India are being treated mostly through multi-drug therapy. So, we will see from our personal experiences also, hardly few people are there who will get prescribed a single molecule if they are getting treatment for diabetes.

So, and as the disease progresses, you get resistance to the single molecule and then doctor prescribes additional support therapy. So, my sense is that multi-drug therapy will be the mainstay therapy in chronic diseases. And that is where, when multi-drug therapy comes in, then the product becomes complex with more than one API as part of the single formulation.

So, this way, chronic will rise and I believe complexity will also rise. So, therefore, at least from that perspective over the long run, we will see most likely this kind of two trends, overall for the market and also probably definitely in Windlas performance also.

I think your second question was on the injectable side. Our injectable portfolio is going to be a mix again. So, there will be products that are sort of more high volume, low complexity, and there will be products which are more complex, but lower volume. So, the kind of portfolio that we are discussing with our customers and planning to bring will have both these elements in it.

Sudarshan Padmanabhan: So, one final question before I join back the queue is, clearly we are in a stronger wicket in terms of growing both wider and deeper in India. So, volume definitely is something that we are seeing and that's also visible in the last few quarters. Now, typically when your utilization goes up and the volume comes in, you see operating leverage coming in. So, from the current level, I mean, if I'm talking about injectable coming through, say, in the next couple of years, along with traction happening, as you discussed earlier, where do we see the margin profiles and the return ratios of the company?

Komal Gupta: Injectables definitely is a higher margin business for us. Then once we reach the peak level, we expect EBITDA margins like 17%, 18% in our injectable business. It should add to the overall company EBITDA. Further, trade generics and exports have better margins, material margins. So, again, as the product portfolio keeps on changing, the percentage of trade generics and exports goes up and we are also able to bring in operational efficiencies. The overall EBITDA percentage should go up.

Sudarshan Padmanabhan: So, is it right to assume that we should see at least 50 bps to 100 bps margin expansion annually for the next two years to three years?

Komal Gupta: We are not giving any future guidance. Although, we are very confident of good performances, but no guidance.

Sudarshan Padmanabhan: Sure. Thanks a lot.

Komal Gupta: Thank you.

Moderator: Thank you. The next question is on the line of Aditya Khemka from InCred PMS. Please go ahead.

Aditya Khemka: Yes. Hi. Thanks for the opportunity. So, just, can you help me with your capex plans? I think last year we did capex of roughly, INR70 crores. Can you talk about what kind of capex you are targeting in FY '24 and FY '25?

Komal Gupta: So, we, in addition to the maintenance capex that is there in the range of around INR12 crores to INR13 crores every year, that is the maintenance capex that we assume. Other than that, we are going to need, so from the current facilities, we should be able to deliver. So, we have worked on a lot of internal efficiencies and being able to increase the overall deliverability from our current OSD facility.

So, we can deliver a turnover of about INR650 crores from our existing facility. We are working meanwhile on adding some incremental capacity. However, we are going to need a new facility for the long-term perspective of delivering about INR1,000 crores, for which we will need a capex of about INR40 crores, although we will not spend all of that in the first go. The original plan, at least, that we envisage is of spending about INR20 crores in the beginning. And as the need increases, we can do expansion of spending further INR10 crores-INR10 crores.

Aditya Khemka: Understood. So, can you help me with your current capacity utilization? Because I see your revenue, last four-quarter revenue, around INR560 crores. And you are saying incremental capex of only INR40 crores required to reach a turnover of INR1,000 crores. Does that imply that our current capacity utilization is fairly low at 50%, 60%, is that right?

Komal Gupta: Our current capacity utilization is in the range of around 55%. And a INR40 crores capex for INR1,000 crores. In between, there might be a small capex for incremental capacities, as I was mentioning.

Aditya Khemka: Yes, that's right. Thanks for that. Secondly, on the Indian government sort of guideline for WHO, GMP being a necessity for all products available in India, I'm slightly unclear as to whether it's a guideline or is it a law or is it being implemented. So, can you talk a little bit about, have you seen any change in the environment, demand environment, and your competitors who are non-WHO, not organized competitors, have you seen any change in the environment since the government guidelines sort of came out? Or is it, first of all, is it a guideline or is it a law? I'm not clear on that.

Hitesh Windlass: So, Ashish, I'll take that question. It is definitely Schedule M, which is the GMP guideline, is part of the Drug and Cosmetics Act. So, it is a law. But the way the law is written is that every company needs to -- since everybody's land will be different, their capex will be different, their sizes will be different, the GMP guideline is to be adapted to every plant. And you have to then assure the outcome of quality. So, in fact, the regulator has been tightening very stringently the quality norms.

And there are many plants in Bhatti area, in Roorkee area that have been shut down. So, after the inspection, the regulator has come and actually told them to close up. So, definitely this pressure of quality is being put. And over the long run, India has committed to raise the domestic manufacturing standards to that of PIC/S level. So, sometime in the future, the harmonization between PIC/S and Indian standard of Schedule M will also happen.

So, there is a push, at every symposium which is done, industry symposium, the regulators who come to speak have very clearly spoken and said that those companies who are not implementing Schedule M, in letter and spirit, will be weeded out. And also, even from the perspective of some above a certain annual revenue, WHO GMP certification is also demanded, and all our four facilities are having this WHO GMP certificate.

So, this is also based on an audit which looks at all the Schedule M and additional parameters to finally give the certification. So, these norms are tightening, and I believe that it will have a benefit, the larger players in the industry who are more organized, who have professional talent, who have the vision to implement quality systems. And we expect to be a beneficiary of that.

Aditya Khemka: So, that slightly confuses me also, to be honest. Because if that is the case, then I would have imagined that a lot of your peers who are shutting shops because they are non-WHO, their customers would have already come to you seeking manufacturing and WHO GMP-compliant facilities. But your growth rates in revenue do not necessarily reflect that in terms of a higher demand book or a higher order book.

So, is it that some of your other peers are gaining more market share over you when it comes to WHO-compliant manufacturing, or is it that the customers are still in a wait-and-watch mode to see if the law is implemented in spirit or in letter, and they will move later? I mean, which of these two seem to be the case?

Hitesh Windlass: So, very difficult to say, Mr. Ashish, because, you see, the data is not there, the industry data is not there in terms of CDMO output for everyone. But one indicator that you can use as a reference is that if you see the Indian pharma market volume growth, that is still, whatever, I think, as you see the data says, minus 4%. And our growth for this quarter was, what, 11%, 12%. So, where, I'm sorry, Aditya, so, compared to minus 4% industry growth, we are growing at plus 12%.

That is, I think, quite substantial, and I believe that the quality push and the customer's preference to work with manufacturers who are having strong quality systems is a structural change. How it will -- how fast it will get implemented and how fast further acceleration can happen is anybody's guess. But this structural change is definitely there.

Aditya Khemka: Understood. Just one last question on the injectable side. So, you mentioned installing an injectable line. Can you talk a little bit more about as to how much is the capex that you have done there? And what is the current utilization of that line? And what can be the peak revenue from the full utilization of that line?

Hitesh Windlass: Sure. Actually, we have done the mechanical completion. That means that the plant, all machinery, everything has been installed, and now the quality validations are ongoing. This called performance qualification.. So, we expect that first batch should come end of Q4 for this financial year. So, currently the utilization, obviously, since it is still in qualification phase, is not there. Commercial activity starts end of Q4.

We have spent close to about INR70 crores, give or take a little bit. Our initial estimate was lower, but we went with brand new machinery with higher throughput, and we have built a plant at European GMP specifications because we want to target some of the ROW and export markets which can bring in more lucrative business over the long run.

In terms of what kind of peak revenue is possible, typically on an average 1.2, 1.25 kind of asset turn is expected from injectable facility. But, of course, EBITDA is higher as compared to OFB. EBITDA can be in the range of 18% to 22%. So, that's where, once the full utilization of the plant happens, we also expect to be somewhere in there.

Aditya Khemka: Understood. Thanks a lot for answering my questions and all the best. And happy Diwali to everyone in the team.

Hitesh Windlass: Thank you.

Moderator: Thank you. The next question is on the line of Pawan Kumar from RatnaTraya Capital. Please go ahead.

Pawan Kumar: Sir, I understand our export segment is pretty small right now, but how are we selling, I was interested in, how are we selling these particular drugs? Is it on our own brand in export market or is it through generics? I just wanted to get a color on that.? And how big can this opportunity be for us?

Hitesh Windlass: Sure. So, we have different models in different export geographies. So, we don't have any salespeople in any of our markets. We are selling either to companies who are branding using their own brand name. So, like, for example, in Myanmar and in Vietnam, some products are like that. And some other products where we are manufacturing in the distributor's brand name. And the distributor is then selling in the market. The regulatory permission is owned by us. The entire IP is ours and the brand name belongs to the distributor. And the third model is also there where the brand name as well as regulatory permission is ours but is being sold by the distributor in that market. So, a mix of these three models is there. But one thing is there in all such combinations that we do not have any feet on the ground in any of these markets.

Pawan Kumar: Okay. How big do we think this export opportunity can grow to? Because currently it is a very small proportion of our overall entire revenues. And is there any particular kind of therapy focus in these exports as such?

Hitesh Windlass: No. So, the products that are registered are across various therapies, but mostly still chronic. We are not present in acute therapies in exports. We are looking -- see, this is a business which has a higher incubation period because you develop the product and then file the dossier. There are queries by the authorities, and then you get the permission to market. So, while we are building on our own filings and we are growing, basis adding products in those markets through our filings, we are also looking to grow in ways where inorganically if we can bring in some growth. So, that is something that we have been looking at. And as and when something interesting and good comes in, we will definitely try to make a play for that.

Pawan Kumar: Sir, when we are talking about inorganic, are we talking about acquiring a brand or the distribution network? What are we talking about?

Hitesh Windlass: So, we are talking about acquiring market authorizations in various geographies, which are already approved products, and then also looking at entities which have these market authorizations as assets. Some of these entities, depending on the market, will usually have a distribution presence also, a warehouse and distribution network. So, it depends on different opportunities, but all of those are interesting for us.

Pawan Kumar: Okay. And dossier filing and everything is our responsibility, which takes around six months to 12 months for each product, am I right?

Hitesh Windlass: Yes, six months to 12 months to develop and file, and then another 18 months to 24 months for approval, and thereafter commercialization.

Pawan Kumar: Okay, fine, sir. And the last question, can you just give us names of countries which might be contributing the major portion of revenues from exports as of now?

Hitesh Windlass: No. Again, competitively sensitive topic, so we are not providing the country-wise break-up.

Pawan Kumar: Fine, sir. Thank you.

Moderator: Thank you. The next question is from the line of Dheeraj Sachdeva from Roha Asset Managers. Please go ahead.

Dheeraj Sachdeva: Hi, Hitesh and Komal. Just on the new norms on prescription for generic drugs for the doctors, whether it's implemented or not, but that's the intention of the National Medical Commission. How will it impact our trade generics business?

Hitesh Windlass: So, thank you for asking that question. I think the way we think about it is that a lot of multi-component drugs can actually not have a prescription given, which is purely in generic name. So, for example, if a drug has three different molecules or four, then the doctor cannot write all those names, and he will need a brand name to write.

And so, it really depends on how this whole thing is going to be implemented, because from a regulator's perspective also, there is little clarity here. But eventually, I think that it should not change the consumption or the need for patients to consume medicines. So, whether people who are buying from us and selling it as a branded generic or , buying it from us and selling it as a trade generic or our own trade generic, I think eventually all three, we are going to be sort of catering to all those opportunities.

So, as a manufacturer, we have a role to play regardless of whether there is a brand put on it or not. And we expect that whenever NMT does bring it out, it will still benefit those manufacturers who are having strong reputation of quality and history with customers. And this is something that we are also consciously building within our trade generic vertical also on umbrella branding of Windlas as a quality manufacturer.

Dheeraj Sachdeva: Yes, I agree that you are catering to all the opportunities, but in terms of acceleration by imposing somewhat regulatory in nature, will it accelerate the demand for trade generics in a better way versus branded ones?

Hitesh Windlass: Yes, for sure.

Dheeraj Sachdeva: Okay. And there's not going to be any conflict of interest with your clients in that sense?

Hitesh Windlass: No, currently also for same clients, we are manufacturing both trade generic brands and also their branded generic brands. So, these are different channels where people are selling. So, we don't expect conflict like that.

Dheeraj Sachdeva: But obviously it opens the door for further acceleration on your trade generics business, right?

Hitesh Windlass: As well as our CDMO business, because in some trade generic business where our own brand, our own trade generics are there, we'll definitely find. But as more-and-more branded generic people also jump into trade generics, they will also need contract manufacturers having high quality production. So, we expect that there should be a positive impact on CDMO also.

Dheeraj Sachdeva: Great. Sure. Thanks, and all the best.

Hitesh Windlass: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Hitesh, on the business composition, do you have a sense of what proportion of our business on the CMO side, do we cater to the trade generic?

Hitesh Windlass: No. Nitin, we don't really have a good sort of a accurate number. But if I was to say that the overall market split of, let's say, maybe 20% trade generic, 80% branded, probably should be reflecting in our listing also. I'm not sure. I mean, so this is very, just the market thing is known, but eventually sometimes we also don't know how the customer who's buying from us is selling in his channel. Is it like a trade generic channel that he's pushing that product into or is he using medical reps for that specific product or not?

Komal Gupta: For us, actually, honestly, it doesn't matter much.

Hitesh Windlass: We charge the same cost. It's the same business model. We do not compromise on, or there is no different price and different quality system, anywhere. So for us, it becomes the same.

Nitin Agarwal: And as long as you push that, so I can understand that for companies that are doing more direct trade branded as well as trade generics, it's probably difficult for you to differentiate. But have you seen instances of only trade generic, only focused businesses coming to you as a business and has that component of the business increased for you over the years?

Hitesh Windlass: Yes.

Nitin Agarwal: Okay. And secondly, on the CDMO side, any colour on, if you track in terms of what has been the contribution of say, products that you've launched over the last two years in your business? And how do you see the new product introductions driving growth or impacting growth going forward?

Komal Gupta: As we mentioned, Nitin, we have that information, but for confidentiality purposes, we have chosen not to share those details.

Nitin Agarwal: Fair enough. And qualitatively common, if you can provide some color on how is the new product pipeline looking versus the way it's been probably in the last couple of years?

Hitesh Windlass: So a lot of new product introductions planned, DCGI permissions in various different areas. Although, again, that's not something due to competitive reasons we have provided as updates. But in general, a significant number of all-in chronic therapies, fixed dose combinations and new products are being planned. And that is something that remains as a key engagement between us and our larger customers for sure.

Nitin Agarwal: Last one, in the last three quarters, there has been some pickup, which has happened really in our growth trajectory for our CDMO business versus some quarters preceding that. So in your assessment, it has anything, what could have really driven this uplift in the growth trajectory for the CDMO business?

Komal Gupta: Actually, Nitin, as I was saying, we have been actually for long working on the right thing, and we were waiting for them to start delivering, start getting that converted in the numbers. We are happy that last three quarters, that has now started being visible in the numbers. Like although, we had added customers, but initially there is maybe one product that the customer starts with. Slowly you add customers there.

Similarly, products that are already there, when you keep on pitching them to the existing customers, the impact takes time to be able to grab that business and things like that. So we have been continuously working on all those things, and now we have started seeing the results.

Hitesh Windlass: Yes, there's no change in strategy or there's no change in externality. I think these are all sort of long-term relationships with long commitments and customer supply lines. The efforts of past have helped producing the results.

Komal Gupta: And yes, one additional thing I think is we have now a strong leadership team in place, which seems to be starting to deliver the results. That is one thing that we have been continuously building on, and we are at a good position now.

Nitin Agarwal: And last one, only last year, in Q3, we had a pretty meaningful drop which happened in our CDMO business. Was that seasonality or this was like a one-off, which happened last year, and there's no real seasonality that we can look forward to in Q3 and Q4 for our business going forward?

Komal Gupta: Yes. So, Nitin, if you see, we had Q1 and Q3 as the low quarters last year and Q2 and Q4 as strong quarters. So, it's not really, one quarter that was very low. Q1 and Q3 almost at the similar level. Q4 was the highest quarter. There's no seasonality, as such, but sometimes it becomes a market-driven thing where all the orders are in hand, customer asks you to hold it and to deliver or manufacture in the next month, which becomes a quarter end month. And stuff like that happens, which results in a shift from one quarter to another.

Nitin Agarwal: But, per se, there's no Q3 seasonality in general, in the CDMO business?

Hitesh Windlass: There is, I think, so very little in Q1. We could say that there is some seasonality because of cough syrup and the winter season and such, some, but not, we have not seen that impact us so significantly because we are not in the antibiotics business and that is where the large seasonality for other players comes in, where antibiotics pick up during monsoon and then fall down again.

For us, most of the chronic segment is continuous, but some movement of orders between the end of the quarter month and the next month, those kinds of things do have a play.

Komal Gupta: In fact, that is the whole reason within that we ask not to look at quarter-on-quarter growth. We actually, that's why we say that it's better to look at the annual number in that sense because one quarter, so like if you see, verses, Q1 and Q2, although Q1 is a stronger quarter in comparison to Q1 that we delivered this year, the percentage growth is looking like a lower number, although, we have actually done a better job. In terms of percentage, what should be looked at is H1 and at the end of the year, the annual growth is what everyone should focus on.

Nitin Agarwal: Okay. Thank you, guys.

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

Naman Bhansali: Thanks for the follow-up, sir. So one question on the working capital side. So we have seen some significant improvement on the working capital on a trailing 12-month number basis. So can you just help us explain that what has changed in this particular time period and what was the time period over the FY '22-FY '23 period when we saw the working capital cycle increase significantly?

Komal Gupta: Yes. So as the leadership team that we were talking about, we have been working on a lot of process improvements and internal efficiency. One of those areas that we were driving is also working capital improvement and to have better cash from operations and have a better liquidity position from getting from strong to strong.

So in terms of working capital, we are at about 33 days at the end of the quarter, 33 days, and the cash from operations that we were able to deliver is more than INR50 crores, which is almost very close to what we were able to deliver last year, and working capital improvement is one of the reasons.

So we will continue to work on maintaining good operating working capital level. That continues to stay our strong focus area, and there can be some shifts periodical. However, we don't expect that we would go back to high operating working capital levels that were there, post-IPO portion of which was also used from IPO money.

Hitesh Windlass: Some parts of the supply chain volatility have also subsided. So, for us in response, we have also making sure that the volatility is not there. We should not hold too much stock, and inventory days have also been reduced, like that. So this is the result of operational improvement, and we expect to continue this way.

Naman Bhansali: Got it. So, sustainably, if I see, your working capital days ranged around 30 days pre-IPO, and then it has shot up to around 70 days, 80 days, north of that number. So sustainably, when you target in your business, what is the working capital days which you would like to aim at? Somewhere near the pre-IPO level that 30 days, 40 days or else somewhere between the 30 days to 80 days number?

Komal Gupta: Pre-IPO level is the general level. So 30 days, 40 days is a good number that we gun for.

Naman Bhansali: And were there any specific business structural shift or the supply chain issues over the last two years, when the working capital days shot up?

Hitesh Windlass: No, so we had explained also in a previous earnings call that, due to the supply chain volatility, what we were facing was a need where we had to have stock on hand and in order to make sure that our customers' brands were being supplied on time, and there were not any stock outs of those brands. Especially when you are in chronic segment, this becomes very important. So mostly the working capital increase was due to higher inventory, and this is something that, has been improved, and I think it should be reflective of overall market also, in terms of supply chain and inventory levels across the board.

Naman Bhansali: Got it. Thanks a lot, and all the best.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for the closing remarks. Thank you, and over to you.

Hitesh Windlass: Thank you very much again, everyone, and for giving us an opportunity to share our results and answer your questions. We wish all of you a very, very happy Diwali, healthy, and auspicious festival times, and a very, very happy New Year. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Windlas Biotech Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.