



June 01, 2023

BSE Limited

Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001
Scrip code: 532531

The National Stock Exchange of India Limit

Exchange Plaza, Bandra-Kurla Complex
Bandra (E) Mumbai - 400 051
Scrip code: STAR

Dear Madam/ Sirs,

Sub: Earnings Call transcript pertaining to Audited Financial Results for the quarter and year ended March 31, 2023.

Ref: Earning Call held on May 25, 2023 pertaining to Audited Financial Results for the quarter and year ended March 31, 2023.

With reference to the above, please find enclosed herewith transcript of the Earnings Call held on May 25, 2023.

The said transcript is also available on the website of the Company at:
<https://www.strides.com/investor-annualreport.html>

Request you to kindly take the above on record.

Thanks & Regards,

For Strides Pharma Science Limited,

Manjula R
Company Secretary
ICSI Membership No. A30515

Encl: a/a

Strides Pharma Science Limited

CIN: L24230MH1990PLC057062

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“Strides Pharma Science Limited
Q4 FY’23 Earnings Conference Call”

May 25, 2023

MANAGEMENT:

1. MR. ARUN KUMAR

– FOUNDER, EXECUTIVE CHAIRPERSON &
MANAGING DIRECTOR

2. MR. BADREE KOMANDUR

– EXECUTIVE DIRECTOR - FINANCE & GROUP CFO

ANALYST:

MR. ABHISHEK SINGHAL

Moderator: Ladies and gentlemen, good day, and welcome to the Strides Pharma Science Limited Q4 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and you will be able to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you, and over to you, sir.

Abhishek Singhal: Thank you, sir. Good evening, and thank you for joining us today for Strides Earnings Call for the fourth quarter (Q4FY23) and full year-ended 2023(FY23).

Today, we have with us on the call Arun, Founder, Executive Chairperson, and Managing Director; and Badree, Executive Director, Finance, and Group CFO, to share the highlights of the business and financials for the quarter. I hope you've gone through our results release and the quarterly investor presentation, which have been uploaded on our website and the stock exchange. The transcript of this call will be available in a week on the company's website.

Please note that today's discussion may be forward-looking in nature and must be viewed with the risk to our business. After the end of this call, if you have any further questions, please feel free to contact the Investor Relations team. I now hand over the call to Arun to make his opening comments.

Arun Kumar: Thank you, Abhishek. Good afternoon, everybody, and thanks for joining today's Earnings Call. I'm pleased to report a very strong performance from Strides, considering how we began this year with just INR 4.2 crores of EBITDA last year. Not only did we come back very strongly, but we've also achieved many firsts as we have now reported our highest annual sales. This is at INR 3,704 crores, about 20% over last year. At INR 990 crores, this is our highest quarter ever reported, up 14% sequentially and year on year.

We are delighted with the performance and calibrated reset we have achieved in the U.S. market. At \$232 million, our U.S. business in FY23 has increased from \$157 million in FY22 and has significantly surpassed pre-COVID period sales. Also pleased to announce, led by our U.K. operations, the other regulated markets have achieved their highest ever quarter sales of \$48 million, and at \$157 million, that again becomes the highest sale for the year since we got into this market.

While pulling revenues up quite significantly, our focus was to get to a historical gross margin. In Q4, our gross margins inched very close to our historical peaks of 60%. And I'm very happy that in Q4, we are just a few basis points(bps) below that net target. During the year, important outcomes included revenue growth of almost INR600 crores, an absolute increase in EBITDA of gross margins of nearly INR500 crores, and from INR 4.2 crores EBITDA throughout last year.

We have grown quarter-on-quarter focusing on costs for product launches and the discipline that this business requires to have increased our EBITDA to INR446 crores and with Q3 EBITDA

at INR160 crores. While the percentage out of that EBITDA is not yet to our targets or our historical targets, which is about 20% to 21%, I'm pleased that we are inching very close to that, and as we reset our business even further and complete all the works that we commenced in April of last year. I'm very confident that we will continue to build momentum from here on.

We have reduced our gross debt by about INR250 crores during the year. And that is a significant improvement in our debt-to-EBITDA ratio. In Q1FY23, we started at 8.3 times, coming from a dismal FY '22 to an annualized exit run rate of 3.4x.

We did call out that our target will be closer to 3x, but as you would imagine, most of the growth has come from the U.S., which we all know is working capital intensive.

On Stelis, while we have had significant challenges with our Sputnik, we have reduced debt by about INR470 crores. Consequently, in the group, we have reduced debt by about INR720 crores in FY '23. And this will continue to be a focus for the company in the coming year.

In a challenging regulatory environment, I'm happy to confirm that we have now completed (received EIRs) for all our sites that were inspected during the financial year, namely Chestnut, Ridge, New York facility, our flagship Bengaluru facility, Singapore, and most importantly, the Puducherry facility, which was issued a warning letter in 2019. We completed remediations very quickly; however, considering COVID-19 travel restrictions and that the plant does not deliver any significant products in shortage, we had to wait for the new regulations, which allow companies to request inspection, and we are pleased that the inspection happened.

We have now received official confirmation from the FDA that they are satisfied with our completed remediation. This will lead to more product approvals on the side, but prod. However, the product has never been a concern for the company, considering that we still have 280-odd products filed and approved that we earlier had commercialized approximately 60 products in that region. And that is because we want the luxury of letting go of a product or revenue when challenged for price. And this way, we become not necessarily the primary supplier most times, but in the U.S., it allows us to keep the margin and the price discipline we want.

We started internally resetting the organization this year, recalibrating our growth strategies of priorities, capital allocation methodology, and a focus on governance. All of that is playing through. And I'm happy with the results, especially during this time. So I touched on the revenues on the quarterly performance. So I will lead for questions later and get very specific to each market.

Regulated markets continue to be leading the business. We currently classify our access market/institutional business and our emerging markets. And therefore, you will notice the lumpiness of that P&L, as it is very dependent on the contracts we win, and it's not necessarily a steady-state business. Consequently, you will notice in future slides how we propose to migrate our commentary from this year so that investors can better understand how we present the pace of emerging markets. Emerging markets are a key focus area for the group and continue to grow.

We grew in the core emerging markets and achieved significant growth. For the US, at \$232 million, we are somewhere middle of our \$220 million to \$240 million guidance, up from \$157

million. That has been a barrier because most of you know the Strides focus on niche therapies, which means that these revenues have now come back to historical levels.

It has been an exceptional growth from the other regulated markets(ORM) because we are very determined to ensure that ORM catches up with the U.S. market in terms of revenue to have a mirrored market opportunity. But interestingly, we see the number of players dropping in smaller therapies where we specialize. So we like the growth and believe we'll be able to continue that momentum.

It has also been a good year for the institutional business. We have been awarded a slightly higher share of the wallet, but the wallet keeps getting impacted in terms of pricing pressures and others in the anti-retroviral business; it's always a business we conduct for manufacturing recovery and overhead absorption rather than us building this into a large strategic business considering that they are not fully integrated unlike some of our peers. Importantly, our emerging marketplace, especially in Latin America and Asia, is going through the regulatory filing and partnering phase.

And towards that, we launched a new division within Strides called SynergICE, which is our B2B business that partners with companies worldwide, especially in markets where we don't intend to front end ourselves unless it's a frontier market of Africa where we are heavily focused on building a large pharmaceutical business considering that it is the market still unpenetrated. And we have a lot of success and experience in that market.

Because we have this extensive U.S. portfolio of approved products, we see quicker approvals due to mutual recognition. Of course, we have to do a little more work regarding different types of packaging formats sold in Latin America and Asia, but we see this as a pivot for us to grow even stronger. These are traditional markets that we shied away from earlier. But last year, we consciously invested in building out the emerging marketplace.

Coming to market specifics. In the U.S., at \$232 million, with 19 of our 60 commercial products, we are number 1 in market share. We specialize in defining very niche and small products and then take market leadership to avoid the price pressure that happens as chronic and large early products. This was the 2019 strategy for us, and we reset to what it was, and that's playing out well. We have 60-odd products, which are going through very aggressive improvements before we launch these products. So, we are very comfortable with the products we have identified that will be launched soon.

So most importantly, we like our market share, price discipline, and ability to keep three consecutive quarters of \$60 million plus. That's very important because, as you know, the U.S. working capital cycle time is about 200 and 200-plus. And we wanted 3 or 4 steady-state quarters before we stepped up the gas to expand the market and use the free cash generated from the U.S. business for its club.

The U.S. business otherwise is one -- it's almost \$1 of new sales, including -- depending on the working capital cycle time based on the working capital cycle time, it is a very capital-intensive business -- working capital-intensive business.

So we remain invested in SynergICE, our partner business. It's a larger part of our growth strategy even in the U.S. If we combine it with our very efficient front end, we are poised for even more success with that strategy, which is highly differentiated from our competitors, especially India-based competitors.

The other regulated market was mainly led by a reset in the U.K. We are delighted to the fact that in the rest of Europe, we have now partnered with marquee names, and almost 3 of the top 5 companies are our partners, which would never be the case when we were contending ourselves. The strategic alliances and partnerships and leading in several markets we don't intend to contain are key to our growth strategies in the future.

We are also investing most of our R&D spend in market rates in the U.S., considering that we have a significantly improved portfolio. But having said that, we announced a partnership with another player to develop a range of controlled substance nasal sprays from our Chestnut Ridge facility, which has the ability to produce very complex products in nasal sprays. And we are very excited about this partnership and look forward to product filings and approvals in the near term.

Our branded Africa business maintained its growth trajectory. It is upscale, but we think we have established a long-range plan to take that business to an important size. And we, at this time, are not in a position to exactly give more details about it because a lot is still work in progress, but we are very excited about the opportunity, the margins that the business provides us, and also the IMS leadership position that we have in many markets, specifically in French-Africa. We have now also embarked into English-speaking Africa, but only in selected markets, and we are also happy to progress that as we need.

Now reflecting our effect, we have decided going forward to restate our markets into regulated markets, Africa and emerging markets and access markets. And for the benefit of our investors and the analyst community follow us, we have recast the numbers for easy reference.

And going forward, we will be using this format so that you'll have more granularity on our strategy and our numbers flowing through.

We normally don't do guidance, but we are considering coming back from a very difficult period. A, we want to give all our investors the confidence that the leadership that I am very committed to building Strides to a very significant player, mostly focused on niche portfolio and margin expansions. So we want to give comfort to our investor community that -- and therefore, we have given framework guidance where we say the continuing business will grow quite significantly, but our emerging markets to grow faster as we get more and more products approved.

We are confident of increasing our EBITDA from INR446 crores to about INR750 crores in the upper range and INR700 crores at the bottom of the range.

We intend to reduce another INR500 crores of debt between Strides and Stelis. And we are now very confident that Strides' net debt-to-EBITDA will be under 3x. All of this will be achieved through emphasizing our network optimization, new product launches, market expansion, branded business increases in Africa, and improved cash flow generation, which will lead to a

stellar strong, if I may say FY '24. And we are all excited about our current order book and confidence level.

On a high level, I will also take you through the debt book, and then I will leave the house for questions.

As you can see, we have given a little bit more granularity around debt. Our long-term loans have been reduced by about INR250 crores. Our working capital has not increased despite an INR600 crore increase in revenues. Our gross debt consequently has come down. We have increased our US revolver slightly because Q1 for us in the U.S. is about \$45 million. But from Q2 onwards, we have been hitting \$60+ million.

Ideally, the revolver has got no recourse to India. This could be akin to a factoring facility, but we are considering our loan agreements; we just want to call out the revolver, which was renewed a couple of months ago for another five years. It has got no guarantees or recourse to India. And our focus would be to reduce long-term loans.

Our long-term loans have got a repayment of only around \$15 million to \$16 million a year. So even as our cash generation is much more than that, we'll now start dipping our working capital loans, considering some of these loans are at a good cost and where LIBOR is today, obviously, the cost of money has increased significantly.

So our high-cost debt is what we would reduce through a combination of strategies. So adjusted for forex on constant currency, there hasn't been any significant net debt increase, while the business has delivered incremental revenues and gross margins.

So overall, a very solid outcome, and we continue to be very bullish about the prospects of Strides and its continued focus on optimizing its business. I will also address Stelis as it's a material associate. During the year, at Stelis, we reduced peak debt from INR1,200 crores to now INR650 crores at the end of March. And this is despite a very significant impairment mainly out of Sputnik. And while we have commenced arbitration in London, given the geopolitical situation, we have no clue and idea when this will get done, but we keep the investor community updated on progress.

We have taken the hit and moved on to focus on building a world-class CDMO business, and we have several highs, including 2 U.S. FDA and 1 EU-GMP inspection. Our first product approval for PTH has been secured, and we have now partnered in over 19 countries, covering almost 80% of the market opportunity, and we will soon be closing out our partner in Europe and expect to launch the product within FY24.

We have added five new partners to our CDMO business, and I'm pleased to let you know that 3 of these five new partners are amongst the top 10 companies globally, and we now have a total of around 20 partners.

So most critical for Stelis is that we can confirm that we will be EBITDA positive. We will still have some challenges around the mismatch in cash flows. We are resolving many of those things.

And the Stelis Board has appointed strategic advisers for the reset. We will announce all of those outcomes with our Q1 results in a couple of months from now.

And also importantly, we've just completed installing additional 8,000 liters of Drug substance capacity, and our first multimillion contract for an MSA for biologics has been secured, while we also have other customers that we have signed up. Post our FDA approvals, our average size of RFQs has increased dramatically. But like I said, onboarding a customer takes anywhere from 18 months because it's not only GMP audits, but it's several other audits in terms of computer systems, ESG, EHS, and the whole works. But once they're onboarded, it's a very exciting business to be in.

We are heavily invested in this business, and we'll stay invested here as we believe that the upside opportunities for stakeholders are significant. So based on now -- and I'm also pleased to let you know that our first commercial sales will start in June as one of our partners has now received 2 product approvals from this site for the inspection.

Consequently, while our revenues will be lumpy because our revenue recognition is a function of work done, we should be able to have complete coverage of our operations. From an operational standpoint, we will not only be cash positive, but I mean slightly more than it needs, but we still will have to work on finding the last leg of the solutions related to Stelis, and we're working very hard to ensure we get there.

Bear with us until the last week of July or the first few days of August is when we believe that we should finally be able to present to shareholders what we think would be a very exciting outcome for the business, which is significantly valuable in the medium term.

So with that, I will -- we will take questions. I have with me colleagues, Badree, our CFO, and Vikesh, and we're more than happy to address your questions. As always, if you have follow-on questions, please do write to us in our e-mails, and we'll be more than happy to address them. Thank you all.

And most importantly, to many of our investors who stayed invested, believe in us, and believe in the story, we are delighted with our Q4 numbers. We look forward to pleasantly surprise you with more good news soon. Thank you.

Management: Can we take the questions, please?

Moderator: Thank you. The first question is from Mr. Dhruv Maheshwari, an Individual Investor. Please go ahead.

Dhruv Maheshwari: I have a couple of questions. The first one, it's good to see our U.S. business has maintained its quarterly run rate in line with the last quarter and on guidance. Could you give a growth outlook for the same over the next 2, 3 years? What would be the key growth drivers for the \$232 million base?

- Arun Kumar:** Yes. So we do -- we have a guidance. We have mentioned that we will grow the total business at around 15-odd percent, with emerging markets growing faster than regulated markets. So that is the benchmark guidance.
- Dhruv Maheshwari:** I got it. The second one is that the Endo facility achieved breakeven at an operating profit level during the quarter.
- Arun Kumar:** Yes, it does.
- Dhruv Maheshwari:** And last, from a portfolio build-out perspective, how should we look at the future R&D investments for the business?
- Arun Kumar:** Considering we have such a large basket of group products, we have redirected our R&D spend to emerging markets and Europe. Consequently, our R&D spend, which historically used to be about \$20 million to \$25 million, dropped to about \$12 million to \$13 million.
- Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from JM Financial. Please go ahead.
- Cyndrella Carvalho:** Can you help us understand the U.S. market from our product perspective today? What has allowed us to sustain the ongoing quarterly run rate? If I look at our gross margins, are we entirely supported only by
- Arun Kumar:** Cyndrella, You're not very audible. So I would appreciate it if you could speak up on the phone, especially with regard to the first question. I got your second question, though.
- Cyndrella Carvalho:** Yes. So I'm trying to understand the U.S. market from a product perspective, like from our product basket; how is the scenario today? What changes have helped us sustain the ongoing run rate and growth apart from the new launches? Is there any change? Are there any supply issues that are helping us to maintain our market share in the existing products? How should we see this? And overall, our strategy in the U.S. market has been to approach smaller-sized product but higher in number. So is that -- does that work for us? Or are you planning to change it?
- Arun Kumar:** We are not -- in fact, we returned to that strategy. And some of our challenges were the panic during COVID as an organization and the focus more on chronic where many players compete for market share. And considering that during COVID, acute globally dropped over 50% in volumes because acute was not happening, elective surgeries were not happening at that time.
- Considering COVID is behind us, and probably we are all struggling and doing all the things that we normally used to do. Acute has come back quite strongly. What has changed for us to be very specific to your question? is we see that the number of players has reduced in the smaller molecules because all companies rationalize their portfolio because it's expensive to produce small products.
- It requires great skill in setting up your manufacturing facility, change over time, and cleaning validation. These are all very expensive cost centres given the current expectations of the regulators globally, but we have specialized in producing these kinds of products. The most

important thing for us is we -- I can now proudly say when I tell you that in 19 products, we are number 1 by a very large margin. So we are talking like 40%, 50% market share. And we also cherish the fact that more than 70% of our number 1 portfolio has got no Indian competition for several, several years.

So that is a key advantage where you can set price discipline. I'm not suggesting -- it just makes life a lot easier when price discipline is there. You focus on supply chain. You ensure that customer advocacy is great. We just brought all of that thing, and it's not to blame anybody, but COVID ensured that logistics got very out of whack and costly and we've got all that organized and a failure to supplier have dramatically started coming down. We never used to have one for almost 3 or 4 years pre-COVID, we had less than 0.5%, but COVID changed that for us and for a lot of companies. And supply chain is back, the normalcy is set right, no more exuberant, all of this in place.

As far as gross margins, clearly, for a combined gross margin of 60%. The U.S. is the gross margin leader historically for us. So if the business grew in the U.S. back from this higher than its pre-COVID level, then is just a logical reset of a business that we did well for several decades. We're just doing the same things. I think there would be always competition in specific products, but we are not shy in giving away market share also when we think it's irrational.

- Cyndrella Carvalho:** It's helpful. On injectable filings
- Arun Kumar:** Strides doesn't work injectable business at all.
- Cyndrella Carvalho:** You were planning to come back, right? That's the reason?
- Arun Kumar:** Well, we have plan. As I said, just hang on till we complete our conversations around Stelis and its resets and then maybe that will be more in appropriate time to have this discussion.
- Cyndrella Carvalho:** And with overall price erosion right now, how much per our portfolio we see for the overall industry, where we are present from a U.S. perspective.
- Arun Kumar:** If I say 0, you won't believe me, but that's where I'm going to put my neck out.
- Cyndrella Carvalho:** For our portfolio, right?
- Arun Kumar:** Yes.
- Cyndrella Carvalho:** That's good. And in terms of overall thought process over '25 and beyond, how do you think or you think we should wait for one or two more quarters to ask you this question?
- Arun Kumar:** Yes, good idea.
- Moderator:** Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.
- Tarang Agarwal:** Mine's bookkeeping question, I'm unable to reconcile the changes in working capital that's been provided in the cash flow with the numbers on the balance sheet. For instance, increase in trade

and other receivables is about negative INR3,473 million. For financial year '23. But when I go to the balance sheet, the receivables have not grown by that amount. It's grown by maybe only less than \$100 million.

Similarly, when I go down and I look at decrease in trade payables are about INR1,022 million, I'm unable to reconcile. So can you just help me figure out what I'm missing here.

Arun Kumar: I am going to let Vikesh, my colleague, to probably address this, please.

Management: Yes. So the major difference that is coming is on 2 accounts. One is we had deconsolidated UCL in Q2 -- end of Q2. So that is reflected in opening financials, but it's not there in the closing financials. So that is having one impact. But in the cash flow, it is part of the INR300 crores impact that you see on receivables.

And also corresponding on inventories and payables, plus there are certain assets that have been identified as held for sale and those assets held for sale is also forming part of the cash flow grid. So those are the 2 major items that are causing the -- that are impacting the difference between the balance sheet and cash flow. The entire transactions pertaining to these 2 items will be presented in the notes in a much more detailed manner.

Tarang Agarwal: Okay. I'll have a look and I'll probably drop in an email.

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

Nitin Agarwal: Congratulations on the turnaround. I'll start with a couple of housekeeping questions. One is, a; there's been a pretty sharp Q-o-Q increase in our other expenses. Any specific drivers for that?

Badree Komandur: Yes. So Nitin, just to answer this question. The overall, the operating cost has remained the same. We had some exchanges, there has been an increase in sales in Q4, responding there has been increase in expenses, plus there is also an exchange impact, which is sitting here.

Nitin Agarwal: And Badree, how much would the exchange impact be?

Badree Komandur: For Q4, it is INR15 crores.

Nitin Agarwal: But given at where the business today is assuming at this run rate of about INR1,000 crores of revenues, this INR250 crores thereabouts is SG&A expense number to go with? Or there is a scope for rationalization over here?

Badree Komandur: Yes. So overall, we have said that it will be in the region of \$208 million last time you said and it will be in that range, \$200 million.

Arun Kumar: \$200 million.

Nitin Agarwal: This is across staff costs and other expenses?

Badree Komandur: That is correct

Nitin Agarwal: And Arun, on the other regulated markets, there's been a very sharp delta in this Q4. So is there some seasonality in this business or this is a base on vision business growth going forward?

Arun Kumar: No, there is a positive impact from our Australian business, which is mainly the -- post-COVID, the Australian government mandated a certain level of stock keeping by the leading players in return for better PVS pricing. So we are seeing a significant uptick in Australia. We are not sure if this is -- this will be a yearly function, but will it kind of the big Q4 event every year, we are not so sure. But we are very confident to grow from the numbers that we have achieved in the other regulated market at \$157 million.

But, Australia did play a very significant role. But the exit run rate is \$200 million on \$157 million business, which effectively means that the average last 3 quarters is about 35%. It is really hard to beat this quarter, but we are doing -- we have a very strong pipeline. Over the year, we will still achieve the company guided growth even in this platform.

Nitin Agarwal: And on the U.S., you talked about the fact that the U.S. business, currently, the price erosion seems to be almost negligible on the current portfolio. So 2 things. One is, A, is there, again, an element of seasonality in our U.S. business...

Arun Kumar: Nitin, I'm not suggesting that there is no price erosion. We don't accept price erosion. We have the luxury of portfolio and size on what we want to achieve. So if you get challenged for a \$10 million product or a \$5 million product or a \$20 million product, which is where the challenge is happening mostly, we're happy to let go because we have 14, 15 products being launched every year. If we keep -- if we say that we have not lost business on our base business in the last year, that is not fair. We have, because we have given away business.

But we've also added business because we are now very focused on going back to our historical numbers, which is U.S. business delivers closer to 65% to 67% gross margin. This also addresses the previous question. But to get there, sometimes in your challenge, you have to let go business. So I'm not suggesting the price erosion. Price erosion is when you want to keep your market share. I'm saying we have the luxury of letting go when challenged.

Nitin Agarwal: Got it. That's understandable. And secondly, in terms of the pipeline, which is not launched here versus we already have in the market, in your assessment, is there a qualitative difference in the quality of the products that you potentially launch versus what we already have in the market. In terms of qualitative, I mean revenue per product potential.

Arun Kumar: Yes. So I mean the key element here is that the end of out of the 280-odd products, almost 100 high-quality products came from the Endo portfolio. The challenge we had in the first 2 quarters of the transition was that Endo is still marketing the products for us, and we didn't have control on products and portfolio and pricing because that's how the deal is structured.

Now that they have, we obviously have brought the same level of hygiene and discipline that we are generally known for in the U.S. market, and that's also led to an update because we were bleeding money in Chestnut Ridge, and if I was addressing a previous question that if you make money in Q4 in Chestnut Ridge and the answer is yes it means that we have now solved for a lot of things.

Most importantly, Nitin, we've reduced our Chestnut Ridge cost by almost \$15 million during the year. And that complete flow-through will only happen from April -- has happened only from April end.

So that's almost about INR8 crores to INR10 crores a quarter, almost \$1 million to \$1.2 million per quarter, I mean, as the residual costs that we are bearing in Q1. So that also will give you an indication of what Chestnut Ridge could do. Yes. So we -- if you look at IMS today, you will see us in market leadership on several products. In many products, we are the sole supplier, but we are disciplined in pricing. We don't want to do anything irrational, but we have several products where we are the sole player in the market. But they're small products.

Nitin Agarwal: And 2 last questions. One is when will the nasal spray portfolio that we partnered recently coming to the market?

Arun Kumar: Well, it's got to take a release about 3 years because it's a very complex controlled substance on a very special device. So it's a lot of work, including potentially some clinical to supply.

Nitin Agarwal: And lastly, Badree, the increase cost seems to be very high for the quarter. Any specific drivers for that?

Badree Komandur: Yes. So the interest cost is there are some loans which has been taken in the later part of the Q3, the full impact has come in the current quarter. And second thing is, while we close the transaction on Arrow in December last week just because of the procedural matters of the repayment to the banks in time. So that's the reason the interest cost is slightly higher. But overall, it will be in the INR65 crores range is what we expect going forward.

Nitin Agarwal: INR65 crores quarterly range is what you should work with?

Arun Kumar: It's also to do with LIBOR, right, because our Wells Fargo line is linked to LIBOR, so it's LIBOR going up. There is a 3%, 4% increase on that line cost, too.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Congratulations team on a good set of numbers on the pharma side. Sir, first question on Stelis, I just wanted some more clarity. I think you have written that we are expecting some outcome to come from the strategic options. So are we in the next -- by the next quarter or so, are we concluding a transaction or planning to conclude a transaction? Or are we just going to be deciding what is the way forward on what to be there and what needs to be done for a stake that we have?

Arun Kumar: It's more definitive way forward and how to ensure that we become a very important CDMO company of size and scale and the strategic options include that, amongst other things that you mentioned. So bear with us, it's only 2 months away.

Sarvesh Gupta: Okay. Because in the last quarter commentary, it appeared as if we wanted to conclude a strategic sale or something like that, wherein we sort of get out of our shareholder...

- Arun Kumar:** You reading between the lines, but I can't blame you for that. When we -- when the Board appoints advisers for strategic options, it effectively means it could be anything. What I'm trying to tell you is that anything for us in this case is how do we build Stelis to become one of India's leading CDMO companies. And what does it take us to do that.
- Sarvesh Gupta:** Understood. So that is what we are expecting, maybe by the time we have the results for the next quarter, right? Okay. And secondly, what is the current level of corporate guarantees that Strides has given to Stelis?
- Arun Kumar:** The outstanding debt in Stelis is about INR600-odd crores after cash and cash equivalent. I think the outstanding liabilities related to Stelis is in the range of around INR500 crores because you don't need to give guarantees on all the COVID loans. So yes, it is in that ballpark. Although if among the strategic options or refinancing is what we want to do, then we have shareholder approval to issue guarantees up to INR700 crores.
- Sarvesh Gupta:** Understood. And now coming to the rationalization of the cost part. So we can see that our other expenses has come down. But at the same time, some normative expenses would have gone up. So what is the extent to which we have gained in terms of permanent removal of the other expenses from our cost structure?
- Arun Kumar:** Yes. So you have to assume Q4 as the base and like we said, \$200 million run rate in for the whole year, so \$50 million. We are very close to those levels. There would be a little more opportunity for us to reduce, but it won't increase from that.
- Sarvesh Gupta:** Understood. Because I think related -- there were some higher expenses related to our U.S. facility also which you were carrying until end of April '23.
- Arun Kumar:** Yes. So that was when we issued a WARN notice where we rightsized more than 50 people. There are certain regulations that leads to a fair significant amount of severance. All of that has been taken into account, and that ended as of end of April. So that's all done with now.
- Moderator:** Thank you. The next question is from the line of Zaki Nasser from Nasser Investment. Please go ahead.
- Zaki Nasser:** Congratulations on a fantastic set of numbers. The company looks at the cost of turnaround in '24, as you rightly mentioned in your presentation, sir. My 2 questions, sir, is like we did around INR1,000 crores on the top line this quarter. Going forward, do you think we could -- I mean, this will become like a normalized quarterly run rate for Strides?
- Arun Kumar:** Thank you for your commentary on our numbers. We appreciate that. We did have a good bump up on our institutional business, but we called that out in our deck where there is lumpiness in that business. And that's why we have agreed on a restatement on how we -- I mean how we would present numbers going forward. So I think that the institutional business is lumpy in nature for the whole industry, for those of us who are in this business.
- But if you take that off and we have guided numbers, then on that number, you could safely add 20%. So this is a good kind of guardrail number, if you wish, but you would -- I would be

cautiously optimistic on the institutional business, because it's not a business in our hands. It depends on donor funding, on the ability for you to deliver at short notice and stuff like that.

At this time, we are building businesses which are more in our destiny, in our strategy. And while the donor business is extremely important from a manufacturing recovery standpoint, it's not a business that is predictable or guidable like the rest of the business.

Zaki Nasser: Okay. But sir, I mean like you -- the word you rarely use like guardrail number. So could we safely assume 6%, 7% from here on the lower end in terms of if you subtract the part of the institutional business also?

Arun Kumar: If you subtract the institutional business, you can safely count 15% to 20%. If you add the institutional business, 6%, 7% is also very comfortable.

Zaki Nasser: Okay. And sir, in terms of Stelis, the debt number is INR600-odd crores. And what would be in Strides. And what would your comfort level or going forward by the end of '24 and '25, what would you want these 2 numbers to look like, sir?

Arun Kumar: Not over 3.5 times EBITDA.

Zaki Nasser: Okay, sir. And 1 last question, sir. In Stelis, have we taken the total write-down from the problems on the Sputnik? Or we still have some carry forward things from that?

Arun Kumar: None.

Zaki Nasser: Is there any possibility of something coming back on the books?

Arun Kumar: No.

Zaki Nasser: No. I mean in some kind of insight from the authorities or things like that?

Arun Kumar: No.

Moderator: Next question is from the line of Siddhanth Choudhary, Individual Investor.

Siddhanth Choudhary: I just have a single question. As you have given guidance for FY '24 is around 15% revenue growth with our target EBITDA of around INR750 crores. So could you highlight the key drivers for this top line growth and margin expansion for this fiscal year?

Arun Kumar: So one is cost, obviously. Second, continued success in the U.S. that is key and synergize our B2B business, converting to -- I mean, customers that were converted moving to revenue recognition. Those are some of the key drivers.

Moderator: Next question is from the line of Omkar, Individual Investor.

Omkar: Congratulations to Strides for good gross margin improvement and focus on margin improvement. My first question is price has delivered \$63 million revenue in a year. As far as Q-o-Q performance is concerned, there is no improvement in U.S. revenue. Any specific reason

for it? And how many products we are introducing this financial year from Endo. In Q3, end products got launched from Endo in U.S.

Arun Kumar: So it's not launched, it's actually relaunched. So like I said, if we get challenged on pricing, we are happy to let go. So it's not how much we want to grow in the U.S., it's about margin expansion. And with that discipline, we have got to 60% of margin expansion -- almost 59.9%, and we want to focus on that. And this year is all about improving our gross margins and EBITDA and further reducing our debt to a comfortable level, which is what our focus is. So we are not so much concerned if sequentially, we didn't grow 10% or 15% Q-on-Q. We grew 58% Y-on-Y. So if we end up the year 15% growth on \$232 million, that's what we need to look at. And are we improving our gross margin beyond 59%. That will be a good indicator.

Moderator: The next question is from the line of Chetan from Pragma Equities Private Limited.

Moderator: Your voice is low, we are not able to hear you. Please keep your headset closer to your...

Chetan: Can you give us what percentage of promoter stake is pledged? Or is there any guidance for reduction reduce it?

Arun Kumar: Yes. So see, we did guide that our idea is to reduce our prices quite significantly. But considering -- we had a choice last year to keep the lights on in Stelis. So promoters have invested over INR500 crores, which to ensure that nothing is called from the guarantees that Strides is delivered, and that was key to our strategy. And absolute loan book on the pledges have not increased, but pledges is a function of the share price. We believe that we will be able to reduce the pledge levels by about 33% to 40% during this financial year.

Moderator: Ladies and gentlemen, this was the last question. I would now like to hand over the conference over to the management for the closing comments.

Arun Kumar: Thank you. Thank you all for joining today's call. And like I earlier alluded, thanks for your confidence in Strides, and thank you for your support.

Moderator: On behalf of Strides Pharma Science Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
