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August 20, 2024

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

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

BSE CODE: 543329

NSE SYMBOL: WINDLAS

Dear Sir/ Madam,

Subject: Q1 FY25 Earnings Conference Call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Q1 FY25 Earnings Conference Call Transcript.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For Windlas Biotech Limited

ANANTA NARAYAN PANDA

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2024.08.20 13:57:47
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Ananta Narayan Panda
Company Secretary & Compliance Officer

Encl: As above

"Windlas Biotech Limited
Q1 FY'25 Earnings Conference Call"
August 14, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th August 2024 will prevail.

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 the Windlas Biotech Limited Q1 FY '25 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 touchtone phone. Please note that this conference is being recorded.

Today on call we have Mr. Hitesh Windlass, Managing Director, 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: Thank you. Good morning everyone and thank you for joining us today for our financial results for quarter ended 30th June 2024. We have uploaded the press release and investor presentation on our website as well as on the exchanges. I hope that everyone must have gotten an opportunity to go through it. Initially, I would like to discuss the outlook and way forward for Windlas Biotech followed by financial highlights for Q1 FY '25 of the company which will be shared by our CEO and CFO, Ms. Komal Gupta.

While the Indian pharma market registered a Y-o-Y growth of 7% in Q1 of FY '25 with marginal volume growth of 0.4%, our company outpaced these figures achieving a revenue growth rate of 21% in the same period. This growth is driven by strong performance in the CDMO vertical. The EPS improved to INR6.47 in Q1 FY '25 as compared to EPS of INR5.79 in Q1 FY24 experiencing a growth of 12% Y-o-Y.

Expansion of business development team, broadening of customer base and launch of new products are yielding strong outcomes in the generic formulation CDMO vertical. Trade generics and institutional vertical is expected to continue its growth momentum for FY '25. We have expanded our sales force in core and adjacent territories for trade generics and have also improved penetration in several new institutional accounts.

Government policies continue to accelerate medical coverage to vast number of economically backward Indians through schemes like Ayushman Bharat and Jan Aushadhi and we are well positioned to serve these opportunities. We are very excited about being a partner of choice for our clients during the implementation of the new quality guideline Schedule-M by the regulator.

Our own trade generics brand leverage this manufacturing excellence and bring us ability to address the underserved large population of India. The same manufacturing excellence is our gateway to build a strong business in emerging markets. We are on track with respect to building additional capacities through several Brownfield initiatives that shall enable us to deliver aggressively towards our growth plans. I will now request Ms. Komal Gupta, our CEO and CFO to discuss the financial performance highlights. Over to you Komal.

Komal Gupta: Thank you Hitesh. Good morning everyone. We are pleased to deliver six times in a row the highest ever quarter revenue showcasing Y-o-Y growth across all business verticals. The company's revenue grew by 21% Y-o-Y to INR175 crores in Q1 FY '25 wherein Y-o-Y EBITDA growth is 22% at INR21 crores and Y-o-Y PBT growth is 12.1% at INR18 crores. Q1 FY '25 profitability margins have improved for existing business in comparison to Q1 FY24, Q4 FY24 as well as full financial year FY24.

As stated in prior updates, this quarter the additional operating costs and depreciation associated with our new business injectable have also kicked in without any revenue contribution in this quarter. Despite this and almost 25% increase in minimum wages for all plants, the company has delivered robust overall EBITDA of 12% and PBT of 10.5%. We expect revenue from injectable facility to clock in starting mid Q3 FY '25 as production batches are being made which finish their required stability testing. Upon initiation of revenue from Injectable, we expect positive impact on profitability margins.

Q1 FY '25 is also the largest ever revenue quarter for generic formulation CDMO vertical. This vertical generated revenue of INR135.9 crores with Y-o-Y growth rate of 23% in this quarter. Improving engagement momentum with customers through operational excellence and enhanced service level has been a sustained effort in generic formulation CDMO vertical. This combined with launch of new product and wallet share expansion continues to be the focus.

Our trade generic and institutional vertical generated revenue of INR35.1 crores with Y-o-Y growth rate of 14%. We have expanded our distribution network and added new members to the sales team to cover additional territory within our core geography. We have also added more institutions as well as more products to expand the outreach of this vertical. Our endeavour to provide Accessible, Affordable and Authentic medication to rural masses is finding strong resonance with the marketplace and we are gearing for a strong FY '25 for this vertical.

Our exports vertical demonstrated revenue of INR4.1 crores in Q1 FY '25 with Y-o-Y growth rate of 10%. We have entered into an agreement to acquire a basket of market authorizations in Europe to expand our product portfolio and geographic reach. We are excited about the vast growth opportunities and our strong momentum in all business verticals.

That's all from our side. We can now begin the Q&A session. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. First question is from the line of Sudarshan Padmanabhan from JM Financial PMS. Please go ahead.

Sudarshan Padmanabhan: Thank you for taking my question. Sir my question is to understand a little bit more deeper on the employee cost. When I'm looking at the employee cost both year-on-year and Q-o-Q the number seems to be quite sharply up. Partly, you did mention that there has been some hires and wage hike.

One is as we move forward, I mean, the first quarter is usually a relatively lower quarter as far as volumes are concerned and as we pick up the momentum there will be an operating leverage. How do we see this cost getting absorbed as the capacity comes in? Because, I mean, I would have probably expected the margins to be slightly higher, which was impacted because of the employee cost.

The second is on the depreciation side. I mean typically the INR3.5 crores run rate has gone to INR6 crores that is an increase of about INR2.5 crores, whether you take it a year-on-year or a quarter-on- quarter basis. It looks like too high for a plant which is INR70 crores. So annualize it comes to like a INR10 crores impact for a INR70 crores plant. So, a little more color on this?

Komal Gupta: So, in personnel expenses, there are several factors that have contributed to the growth both versus Q1 as well as Q4. One, as we, as I just mentioned there has been an increase in minimum wages of about 25% in Uttarakhand. So that has - nobody could expect that, but that has now come and remains as the base going forward.

Second, injectables related manpower cost is also part of this personnel cost and as against which revenues are yet to start. So as revenues start clocking in, in all the opex areas against that obviously you get a positive inflow and that is why we expect the margins to get better once injectables revenues start clocking in.

Third, in a personnel cost, there is also ESOP 2023 scheme that we started last year. Last year, there was in Q1 the scheme to impact was not there which is there in Q1 FY '25. So, in Y-o-Y, that is also one of the factors. Other than that, of course, for higher production and annual increments that take place in first quarter. So all these factors have impacted our personnel cost and still, so we are not saying that this stays like this.

Once you have the revenues coming in, if you see Y-o-Y, we have still been able to manage or 0.1% higher deliver EBITDA margin. So up to EBITDA this is what we are seeing as against opex of injectable. Once that revenue starts coming in, this should get better. Then coming to the depreciation piece, depreciation the company follows WDV, written down value method, which means that in the initial period the depreciation is always higher in our case.

So, as you see the rest of the gross block of the company being INR260 crores, INR270 crores, the overall depreciation amount annual is in the range of about INR12 crores. So, for injectables the initial depreciation amount anyway were expected for us to remain higher, number one.

Number two, bigger portion in our injectable state-of-the-art facility is of plant and machinery and plant and machinery is a high depreciation rate factor. So about 18% I think is the depreciation rate that applies on bigger portion of INR74 crores - INR75 crores. So that is the explanation for depreciation, but I would say that depreciation in that sense is a non-cash expenditure, but in profitability this becomes the new norm, initial period.

And as we see couple of years pass and the WDV on which calculation of depreciation happens keeps becoming lower, then depreciation should keep reducing.

Hitesh Windlass: And also there is no major any extra capex or no major out-of-the-norm capex that has been done. So, whatever is depreciation is there is pertaining to more or less the factors that Komal explained.

Sudarshan Padmanabhan: And sir excluding the injectable plant, what would be the utilizations in the CDMO?

Komal Gupta: The utilization should be around 65%.

Sudarshan Padmanabhan: Sure ma'am. Ma'am the next question before I join the queue is when I'm looking at levers for margins, one is as you mentioned 65% is the utilization. So, the existing plant itself as the volume goes up or the utilization goes up, there is operating leverage. Second is as we get the injectables and the volumes from the second quarter, I mean, you did mention that the GX part of the business will improve with rehiring and also the injectable coming in.

So just wanted to understand I mean now that all the costs are seen there is no additional surprise there. As we move towards the FY '25 end and towards FY26, with the mix and operating leverage should we start expecting a consistent improvement in margins? And if you can give some color of what are we looking at in terms of what can be the additional margins? Because I understand injectables come to higher margins at 18% or something. So, from that perspective, we would like to get a little bit more color?

Komal Gupta: So, see the existing business already has -- we have in this quarter as well improved margins. And they are continuing as is. So, 65% as we have mentioned earlier 65% to 70% is the highest peak capacity utilization for us. So we are parallelly as we had mentioned in the earlier call, also working on expansion of Plant 2. And that is in full swing. We expect that to by end of Q2 or beginning of Q3 that portion to be also available. So, revenue growth-wise, we should not face much of an issue. And that is just an extension, not a whole new facility.

So, in opex we do not expect too much of increase other than, of course, the basic manpower costs will be there, but all common head-level costs stay the same. So, looking at that, we expect even existing business to do better. Injectables as we had mentioned earlier, good EBITDA margins should be in place once we have in near peak capacity utilization levels.

Sudarshan Padmanabhan: Sure, ma'am. Directionally, our margins should improve I mean over the next one to two years even in August?

Komal Gupta: Yes, they should get better as injectables revenue starts putting. The overall company-level revenue, margin, you should see better.

Sudarshan Padmanabhan: Sure. And one final question before I join the queue is, when I'm looking at the client addition between FY23 and probably the last annual report, I mean the last two, three years the number of client addition has kind of doubled and we are also seeing the kind of jump in the volumes. So is it a fair understanding that as we expand the capacity there is enough firepower in the pipeline as far as demand is concerned that the growth shouldn't be a concern for not at least the next few years even after. Should that be a right way to think about the business plan?

Komal Gupta: So, if I understand your question correctly, you are saying capacity-wise are we building enough?

Sudarshan Padmanabhan: What I'm trying to understand is the number of clientele has doubled over two, three years. And as we mine more wallet shares from the clients, I mean, we are still small as far as the big bond is concerned. So I am trying to understand the scalability business over the next three to four years, whether the 20% growth is something which can be envisioned given our size and the opportunity?

Komal Gupta: Percentage growth-wise we have -- we do not give any guidance, but we stay optimistic on all three verticals Sudarshan..

Hitesh Windlass: Yes. And also, Sudarshanji in terms of whether there is a potential or not and is there a ceiling in terms of wallet share increase then, at least from that perspective that is not there. I mean our size itself is very small compared to the overall market opportunity and the amount of outsourcing business. So, there is no fundamental limit that we are approaching there.

Sudarshan Padmanabhan: Sure. Thanks a lot.

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

Vilina Jain: Hi. Could you highlight some key drivers for the CDMO business growth? And do we expect the current momentum to continue for the year and two, three years going forward?

Komal Gupta: As we have mentioned earlier, we don't want any vertical to be looked at on a quarter-to-quarter level because quarter-to-quarter variations will always remain because of various internal as well as external factors, but we are very excited, we are looking positive momentum there and it is not specific to this quarter. Now it is kind of becoming a habit for us and our investors to see. So, we continue to stay positive.

And what kind of perce3ntage we would be able to maintain quarter-wise, it is difficult to say, but very optimistic. And the reasons also stay the same. We have been consistently working on adding new customers, new product launches trying to get more wallet share, building strong relationships, building internally strong business development and customer service teams. So, all those factors we continue to work on.

Vilina Jain: Understood. Secondly, you have mentioned regarding an acquisition of a basket of market authorizations in Europe to expand your portfolio and geographic reach. Could you highlight the cost of acquisition for the same and what are the plans?

Hitesh Windlass: So, we are not providing that level of detail. But our goal over here was to get access to already approved general sized products and then expand the markets to our core markets in exports. And having a European MA allows you a quicker advantage both in price as well as registration in many other countries in ROW markets.

So that is our first to use these MAs to strengthen our core markets. And secondly, then as we are able to execute technology transfer and bring these products into our plant, which will take some time, we want to also explore opportunities in those markets where our plants are approved. So, we have approval in Europe as well as we have now approval in South Africa. So, we want to extend our export business.

This has been something that it takes a long time to build and incubate, but we were also very selective in trying to look at which products to acquire and so on and so forth. So, this move is now something that should help in the long run for our exports to grow.

Vilina Jain: Okay. And the finance cost has increased for the quarter. Could you highlight a reason for the same and also help me with the net cash number for June?

Komal Gupta: There is no huge jump as such in the finance cost. The finance -- there are a periodical CC utilization. There is also capex going on, but this is in the normal range we would say.

Hitesh Windlass: There is no special change here.

Komal Gupta: Ad hoc one timers.

Vilina Jain: And net cash number for June?

Hitesh Windlass: I'm sorry, we could not hear that again. Can you repeat?

Moderator: Sorry to interrupt, Mrs. Jain. Could you come a bit closer to your handset and ask your question?

Komal Gupta: You're not clearly audible.

Hitesh Windlass: Yes, we can't hear anything.

Moderator: Mrs. Jain, I request you to rejoin the queue for further questions. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: Okay. So, firstly congratulations on some good set of numbers. My first question is on the injectable facility. So now that it is commissioned, are all the expenses related to it in the base now in the Q1 FY25 numbers or are we expecting any incremental expenses from here?

Hitesh Windlass: So, in terms of opex the primary two heads are the utility costs for energy costs, basically and second is the manpower costs. We are working in stages in terms of the early as we ramp up capacity and the plant starts to run more and more shifts, there will be some changes. However, in injectables also when you try to maintain humidity especially in during the seasonal rainy months, there could be some changes.

So that's why what we have always said, Neelam, is that let us look at injectables at the end of the year, so that we have had a period of actual performance over there in terms of being able to see where we stand on costs, but as such we are not expecting a lot of drastic changes.

Neelam Punjabi: Okay, understood. And on the same so you mentioned that the revenues would start from mid of Q3. So could you indicate approximately how long will it take you to reach the initial phase asset turn of 1.2 times that you had alluded earlier?

Hitesh Windlass: See, asset turn of 1.2 times means peak utilization, right? So obviously, that is something that everybody wants as soon as possible as management we wanted, it's hard to predict, but what I can tell you is that whoever customer we are showing our injectable facility, there has been very very good response. We've got very good traction also, because customers are appreciating the kind of facility that we have put, the kind of products that we are offering.

So that's why I'm saying that let's look at it after one year of actual performance rather than giving you some projected number and then coming back and talking about it.

Neelam Punjabi: Okay. That's understandable. And I wanted to know what is our working capital days as on June and what is our net cash number as on June?

Komal Gupta: Neelam, balance sheet related numbers because balance sheet also has not been published and limited review also happens of the P&L, we would give those numbers by end of Q2, September.

Neelam Punjabi: Okay. And on the tax rate, so it was marginally higher for the quarter, what's the effective tax rate that we should assume for the full year?

Komal Gupta: Tax there was a little bit of the budget impact, mutual funds or liquid investments that you had, there was change in capital gains. Accordingly, we have made changes in the deferred tax in investments. So that has already now been factored in for our existing investments. So more or less the similar tax rate you can consider.

Neelam Punjabi: Okay. And lastly, on the trade generics business, so the growth this quarter was a bit slower at 14%. So, is there some slowdown in this business or is this just a quarterly lumpiness phenomena and we are confident of continuing our historical growth momentum?

Hitesh Windlass: So, on trade generics, again, if you look at the last eight quarters we have had quite a bit of quarterly variability. We have had a quarter of almost 19%, 18% kind of growth and we've had quarters where we've got 73% growth. So that's why again in my opening remarks also, in Komal's remarks also, it's very important to look at the trade generics vertical from a longer time span perspective.

And we are very confident the kind of momentum that we have, we are very excited and very, very confident. So, without giving you a number, I want to tell you that there is a…

Komal Gupta: No, you change it in how we look at each vertical on that.

Neelam Punjabi: Understood. This is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Nirvana Laha from Badrinath Holdings. Please go ahead.

Nirvana Laha: Hi. Thank you so much for the opportunity. So first question is regarding this injectables facility. So, if I look at peak revenue and the EBITDA margin sort of that you've indicated before INR90 crores, I'd say around 18% - 20% EBITDA. If I compare it with your base business, the ROCE seems much less attracted like the numbers that I'm getting is sub-15% or around 15%.

Whereas your base business if I remove the cash and investments that you're holding, it's much higher, so 25% plus. So, this is sort of counter-intuitive to me because injectables one would have thought that it would be at least as ROCE accretive as the base business. So, can you tell us something about why this is the case?

Hitesh Windlass: Yes sure. See when we look at injectables when we talk about 1.2 kind of an asset turn, that is typically with the kind of mix of CDMO, trade generics and exports that we currently have in our existing business, but as we have also mentioned before our goal eventually is to use more of this plant and capacity for export business wherein the margin profile changes quite significantly and improves much better.

So, the idea is to use the initial years to register more and more dossiers in our export markets and then in the later years as those registrations get approval, we'll be able to do a much higher profitability business through exports. So, while there always will be a mix, export, trade generics and CDMO. Initially CDMO will be the driver of utilization and in the next three, four years, the exports becomes the driver wherein the profitability and ROCE will change very much to the better number.

Nirvana Laha: Okay, so you hope that the facility over time will catch up to your base business ROCE?

Hitesh Windlass: Yes. And injectables should actually if you look at the other companies where purely on an injectable basis, the ROCEs will be higher than OSD (Oral Solid Dosage)

Nirvana Laha: Sure. And in the last quarter you had mentioned that you were looking at a small acquisition of a facility to help you in reaching the 1000 crores number. So, any further updates you can give on that?

Komal Gupta: We have identified, shortlisted a facility. However, we haven't reached that the documentation completion stage, so don't want to say anything beyond that.

Nirvana Laha: Sure. Not asking for a guidance, just in terms of understanding, if everything goes smoothly, what is the earliest timeline for commercialization? This is just to understand what timelines it takes typically?

Komal Gupta: We continue to so as we had mentioned earlier we want to by end of this year, FY '25 we want to be ready with the additional facility for being able to deliver the growth if that's possible. So, we continue to try to do that.

Hitesh Windlass: We will be able to update you better by end of next quarter.

Nirvana Laha: Yes. Okay. Got it. And last question from my side in your trade generics and institutional business, can you give us an indication of what percentage is institutional and can you tell us a little bit more about the institutional part of that business like in terms of margin how much is it lower than your distribution business or how lumpy is it and how you're seeing government traction in that segment after the budget

Hitesh Windlass: Yes sure. See one is the breakup we are not providing just from a competitive information perspective, but what we are seeing is that programs like Jan Aushadhi and programs like Ayushman Bharat which provide insurance coverage to very large number of below poverty line people. They're also covering the medicines which are going to be consumed by those patients who are covered by insurance.

And this is where government is ramping up the procurement through various institutions, because if they try to -- if the patients try to buy at full price MRP then again, it becomes out of reach for them. So, this what we are seeing is that you can see even in government announcements where they have said that 8,000 Jan Aushadhi Kendras are going to be somewhere like 26,000 in the next 1.5 years.

So, there is a very big push. We see that in the overall, just as Jan Aushadhi being one representative of one institution in the government, right? We see that in overall numbers of Jan Aushadhi itself which are publicly available. So, we believe that this space of trying to address the large unserved population in Tier 3 rural areas almost 5.5 lakh, 6 lakh villages is fundamentally only addressed through two means.

One is through the government space, institutional where they buy and dispense the medicines themselves. And second is through trade generics where there are no medical reps trying to visit doctors because fundamentally it's not possible. How can you have a sales force that covers 6.5 lakh villages. So, these two verticals are there, and they are mutually reinforcing to some extent.

Whatever we sell in trade generics, we are able to bid for those kind of products in Jan Aushadhi and other government tenders or institutions. So they are mutually reinforcing in that sense. And in both cases we end up as a producer increasing our reach and getting our products out. So, this is why there is a great interest in this space, not just from our side, but also other industry participants and we continue to be bullish about it.

Nirvana Laha: Sure. Any comment on the margin from the institutional side versus your distribution or versus your base OSD business margin?

Komal Gupta: See, the margins actually vary in case of institutional, vary too much product-to-product. What we endeavor to however is as a basket we want to maintain at least the material margin level between trade generics as a vertical and CDMO. So that is how we strive to, and we have been maintaining it like that.

Nirvana Laha: Sure. Thanks all the best and I'll come back in the queue.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Yes. Hi. So, my first question is on the dosage forms, I think we kind of started injectable as a new dosage form, but as a company in the next three, four years, how do you look at expanding to dosage form for us both organically and then inorganically?

Hitesh Windlass: So actually, we are very keen to look at expansion in dosage forms because for the simple reason that it serves all three of our verticals. We will be able to improve our breadth of portfolio for CDMO, trade generics as well as institutional. So, this is something that is a very important growth aspect for us and strategy for us.

Now, injectables we decided to do on our own primarily because the facilities available for sale in injectables were very old and GMP considerations, quality considerations did not sort of make it a prudent approach to buy something and then retrofit it and try to do it like that. So, we built this one. And in terms of other dosage forms there is a great opportunity we believe in other dosage forms like ointments, soft gels, hormones, steroids, eye drops. There are so many other protein powders.

There are so many other dosage forms where we can do this play again and again and we are looking, we are looking at options both in terms of we haven't opened this thing. So, our goal is to see wherever we don't need to do something on our own and a good asset is available that is profitable and is meeting our criteria then we would go ahead for that. So, this is something that we want to do it. We are looking. There's no something, nothing from my side to give you a concrete update as such.

Dhwanil Desai: The reason I'm asking this is that some of the dosage forms are more difficult to enter into and kind of scale up like steroids or hormones. So those kind of dosage forms whatever that you want to acquire will come at a generally these kind of things are not available cheap, you have to pay high. And so, kind of do you weigh in vis-à-vis how difficult it is to create those capabilities?

And if it is very difficult or time taking you would be willing to pay a reasonable price and acquire for some of those difficult dosage forms. I mean, how are you guys thinking about it?

Hitesh Windlass: Yes, absolutely. See we are very conscious of making sure that the -- if we acquire something it has to be absolutely in line in terms of our ROC expectation, our ability to grow what we acquire, what is the spare capacity there and so on and so forth. So, the make versus buy balance will always be there.

Our criteria is that we want to, if we do find something, we have to do it in such a way that what we are paying for is justified by the opportunity it gives us in terms of expansion within and growth within what we acquire. So, there's a -- it's a self-justified way to look at something. So that's how we are thinking about it.

Komal Gupta: Yes, we are not against paying any premium for, we understand that oral solids versus oral solids there in a hormone facility would have a different premium. If there is an additional business addition also we are getting, there will be some more premium. So, we are not against paying premium for a facility if it makes sense.

Having said that, also if how we look at it is we want injectables now that new facility we have built in. If we start we reach a particular level where then that we start calling it our existing strong business. It becomes part of that. We are at that level and by that time we do not get anything outside then we can consider building something internally. If there is nothing available it's not that we won't do anything for five years. It's not like that.

Dhwanil Desai: Okay, got it. Very useful. Second question is on the export side. I think even in earlier interactions we have always mentioned that growth on the export side will be back-ended because of the registration requirement and the scale-up time that it takes. Now, if I understand correctly we have been after this export thing for a couple of years or more. So, I'm sure that the registration in various markets that we are interested in should be in place.

So, given that do we expect much better growth from this or next year onwards the hockey stick scale-up that we all were expecting on the export side? Are we nearer to that and if so, any timeline that you can give?

Komal Gupta: See last year if you see we have delivered about 30% growth from although it's a small wave, but that is the kind of number that we delivered in FY24. We continue to work on it, but in export segment it is very easy after you reach a particular base number to expand from there. To reach there, there are several factors. I can assure you that we are working on all those factors.

In past, however, what has happened is our expected timelines didn't hit or something or the other kept on coming. So, I don't want to anyway, we are not giving a particular guidance against any segment, but we are working on all those things. We are at different stages for those different, different things. So, we would expect in a medium term, good numbers in export.

Dhwanil Desai: Yes. Okay. And any monetization? Sure, I will come back in the queue.

Moderator: Please come back in the queue. The next question is from the line of Pavan Kumar from RatnaTraya Capital. Please go ahead.

Pavan Kumar: Yes. So, my primary questions were like in the core CDMO business we have seen in the past that the growth rates have been somewhere around 10% - 12%, but is there any reason for us now to believe that those particular growth rates can go up to around, let's say, 15% - 20%? Is that possible? Yes, that would be my first question.

And my second question would be on the injectable side. Since our fixed asset turns we are talking about is only 1.2 times, my understanding would be like until we don't double this capacity, we won't be able to make a proper ROCE out of it. So, what would be the timelines in which we can actually scale the current capacity and also think about actually doubling the capacity?

Hitesh Windlass: So let me answer your second question first. As we updated, when we constructed the injectable facility we have a spare floor over here which allows us to add capacity very quickly. So, all the surrounding infrastructure for that is already there. But of course, any new initiative that you have, you have to give it the required time for customer audits, approvals, stability data and all of that to come through and then add capacity. Otherwise, essentially you are just putting it with extra cost. So, no immediate benefit. So, we are very watchful of this.

And we will be the first people to add capacity before its capacity becomes a concern. So, we will not let it go in that manner. There is an inbuilt facility that has the right design to cater and give us the best outcomes. In terms of your first question, which is around what is the prognosis?

Pavan Kumar: In the structural growth rate.

Hitesh Windlass: Sorry.

Pavan Kumar: No, structural growth rates in CDMO?

Hitesh Windlass: Yes. As I mentioned in my opening remarks, if you see the volume growth in Indian pharma market is very small 0.7% year, Y-o-Y. And so, it's what is then driving the improvement in our numbers or let us say the CDMO segment's numbers. I believe there are combination of internal as well as external factors. So, we have, of course, fine-tuned our own internal business development teams and focused on executing to get better wallet share as well as get new business from the customers that were added.

So there is an execution element and which is the most critical one, by the way and then there is a second element which we have always talked about even when we got listed, we talked about this, that the new Schedule M is putting focus on the quality of manufacturer who is making the product for the marketer, because now marketer is equally responsible for defects in the product.

They can no longer say that I did not manufacture it. They are equally responsible, and I believe that it is leading to a change in thought process in a lot of companies who are saying that in order to comply why not go to a better manufacturer who has got a professional set up, available capacity and strong track record of delivering.

So, I believe that the growth is a combination of both of these things and hard to predict, but what gives me a lot of comfort is that we have shown a similar pattern over the last six quarters, not just for one or two. So, of course, we want to try to keep this up.

Pavan Kumar: Okay. And I just missed the initial part of the call. When is the commercialization of the new injectable facility expected to happen? Can we see something in Q2, Q3 or would it be later?

Hitesh Windlass: So, the injectable manufacturing requires that when you take commercial batches, which are the first batches of any product, you have to incubate them for stability testing for three or six months depending on what the technology is and so forth. So, all our batches which are being manufactured right now are all commercial and they are against orders, and they are all being incubated for stability.

Our first - we expect mid Q3 and really actually Q4 for revenue to come from sale of those batches which are already manufactured and of course, subsequent batches don't have that wait period anymore.

Pavan Kumar: Okay. But does that mean Hitesh basically we are going to keep manufacturing and at that point of time when the stability whole period is over, we can sell whatever we have manufactured for the first six months in a bulk or something of that nature or is that the wrong understanding?

Moderator: Sorry to interrupt Mr. Kumar. Please return the queue for more questions.

Hitesh Windlass: Yes, I will just answer that. Yes, whatever after the first six batches, first three batches data is completed anything that we manufacture on the same product, we don't sell, but as soon as the first sale happens for that product, all batches that have been manufactured can be sold in lump.

Pavan Kumar: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Rishi Kothari from Pi Square Investments. Please go ahead.

Rishi Kothari: Hello. Thank you so much for the opportunity and congratulation on good set of numbers and also giving on the updates on the injectable business was really helpful. My question is regarding one of the comments that you made for the future, we are looking more towards the Brownfield expansion. So, apart from the plant acquisition that we are recently looking by the end of the year, FY '25, any other Brownfield expansion that we are looking at in terms of any diversification from the current product that we have?

Komal Gupta: No. So other than the facility that you also mentioned that we are going to acquire and the plant expansion that is going on within the plant, we do not see any major capex coming in unless there is some M&A that comes up, that comes across we don't see any major capex. Maintenance capex of INR10 crores to INR12 crores every year that we maintain. We don't also see any spike in there.

Rishi Kothari: Okay. And the plant that you will acquire by end of the year, FY '25, that would be mainly for which product that we are targeting?

Komal Gupta: That would be for the similar oral, solids capacity expansion we are building that, for the same dosage form.

Rishi Kothari: Okay sure. Thank you. I will join back the queue.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thanks for the opportunity. Given the capex that we are doing for some debottlenecking in our…

Moderator: Sorry to interrupt Mr. Ankit. Could you come a bit closer to the handset.

Ankit Gupta: Yes. So, given the capex that we are doing which is expected to be completed in Q2 on the OSD side, how important does the acquisition of the inorganic opportunity that we are seeking become in an overall growth plan for FY26 and 27? If you can highlight about that and secondly on the acquisition, if you can throw more light on what are your criteria? What size are you looking to acquire? And if you can share some details on your criteria and how important is the acquisition for overall growth in FY26 and 27?

Komal Gupta: See the goal is to be ready to serve INR1000 CR revenue by end of this year from capacity perspective. So, both the things that we are doing, plan to expansion and the new facility that we want to acquire and make it ready for us is in that line only. So, we want to be able to reach INR1000 CR revenue without any capacity constraint.

Ankit Gupta: Sure. So given the run rate that we have currently of around, let's say, INR175 crores per quarter plus some additional revenues which will come from the expansion that we are doing. So, the new capacity or the new acquisition which comes in should have at least a revenue potential of around INR200 crores to INR250 crores is what we are seeking for?

Hitesh Windlass: Yes, from a capacity perspective, surely. And if more we can do, we will definitely do that. I would also like to address your other question in terms of what kind of M&A assets we are looking. We are not targeting a size. For us, the idea is to add to the breadth of our business, which can serve all three verticals. So, the quality of the asset is the most important thing and how much can we grow if we acquire that asset.

So that is in terms of the business that can be increased in that asset. So those two are the most important criteria. We have not given any size limitation to our bankers in terms of show us only below this or show us only above this.

Ankit Gupta: So, it will not be, let's say, an asset which is going through a tough time because of the new regulations which have come in. We want a quality asset where they have established customers and established quality standards which are at par with our standards. This is what we are looking at?

Hitesh Windlass: Yes, very true, Ankit because it takes a tremendous amount of management bandwidth to turn something around. So, unless it's a complete slam dunk that's not what we are looking for. So, we want to go with a quality asset that can be built on top.

Moderator: Sorry to interrupt Mr. Gupta, please rejoin the queue.

Ankit Gupta: Sure, I'll do that.

Moderator: Thank you. The next question is from the line of Rohan Vora from Envision Capital. Please go ahead.

Rohan Vora: Hello. So, thank you for the opportunity. So, sir I have two questions. One was on the API price environment and the outlook, have the price is stabilized and what are your views on that? The second question was as I remember we had introduced some of the injectable products in our channel even before we could start production to just be ready as our facilities become operational. So how has the response been from those products was the second question?

Hitesh Windlass: Yes. In terms of your first question what I can say in general as a sort of without any sort of numbers or this, but the general impression is that API prices are stable and in fact to some extent in some molecules, the common molecules, they are coming down. Our CDMO is a cost plus business. So, obviously it is that is there. In terms of our own channel introduction of injectable products in our TGx division, yes, we have done this.

And the initial procurement was from outside and in some products we are finding some good, this thing. We are building the distribution network around this. So while I cannot give you numbers, but this is something that we are finding good momentum and good response. And we want to continue to build it in the long run also. Even after the goal of this critical care division within our TGx is to find the distribution, build the distribution network to bring those products into the market whether they are manufactured by us or from outside.

Rohan Vora: Got it. So, sir just a question linked to the first answer that you gave. So, if the API prices are still coming down and we have reported 23% growth in our CDMO and 14% growth in our generic business. So, does that mean that we've garnered a higher market share or what has been the reason? Because ours is a cost-plus model, so just wanted to understand what has contributed to the growth in falling API environment?

Hitesh Windlass: No, see the cost of API is incident. If you see, when API prices went up drastically then also we delivered growth. So, I don't think that we can directly link changes in input material costs to being it as a driver of growth or not.

Rohan Vora: No, in this case I was referring to as a driver of degrowth, given that prices are going down and still we've reported good numbers. So, I just wanted to understand where the growth has come from?

Hitesh Windlass: Yes, I mean, see you're asking whether unit realization is lesser for us and despite that we have delivered good growth.

Rohan Vora: Yes.

Hitesh Windlass: Marginally, maybe.

Komal Gupta: Yes, unit realization is a little bit down, but that's for us not huge.

Rohan Vora: Okay understood. Thank you sir.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: My questions have been answered.

Moderator: Thank you. Thank you very much, ladies and gentlemen. That was the last question for today. On behalf of Windlas Biotech Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

Komal Gupta: Thank you.

Hitesh Windlass: Thank you. Thank you very much.