Dishman Carbogen Amcis

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22nd August, 2024

To, **Department of Corporate Services** **BSE Ltd.** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001. **Ref.: Scrip Code No. : 540701 (Equity)** **: 974556 and 975834 (Debt)**	**To,** **The Manager,** **Listing Department,** **National Stock Exchange of India Ltd.** "Exchange Plaza", C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051. **Ref. : (i) Symbol – DCAL** **(ii) Series – EQ**

SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL - QUARTER ENDING 30TH JUNE, 2024

Dear Sir,

Pursuant to Regulations 30 and 51 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, pls. find enclosed herewith transcript of earnings conference call arranged by the Company with Investors on Wednesday, 14th August, 2024 to discuss the financial result and performance of the Company for the first quarter ended on 30th June, 2024.

The aforesaid transcript is also being hosted on the website of the Company, www.imdcal.com in accordance with the Regulation 46 and 62 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015.

Kindly take the same on your record.

Thanking You,

Yours faithfully,
For, Dishman Carbogen Amcis Limited
SHRIMA GAURANGBHAI DAVE
Digitally signed by SHRIMA GAURANGBHAI DAVE
Date: 2024.08.22 15:50:00 +05'30'
Shrima Dave
Company Secretary

Encl.: As above

Dishman Carbogen Amcis Limited

Earnings Conference Call Transcript

Event: Dishman Carbogen Amcis Limited – First Quarter Ending June 30, 2024 Earnings Call

Event Date/Time: August 14, 2024/ 1530 HRS

CORPORATE PARTICIPANTS

Harshil Dalal
Global CFO - Dishman Carbogen Amcis Limited

Pascal Villemagne
Chief Executive Officer - CARBOGEN AMCIS entities, Company's wholly owned subsidiaries

Mr. Paolo Armanino
Chief Operating Officer - Dishman Carbogen Amcis Limited

Moderator: Ladies and gentlemen, good day, and welcome to the Conference Call of Q1 FY '25 Earnings Conference of Dishman Carbogen Amcis Limited.

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 "*"and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pascal Villemagne – Chief Executive Officer. Thank you, and over to you, sir.

Pascal Villemagne: Thank you, Moderator. And good afternoon, dear shareholders. Hope you all well, fine before the big day tomorrow.

A quick update regarding the business activities for the 1st Quarter of this Year '24-'25. Globally, we can say that the follow-up of the last quarter of the fiscal year. So, we are facing a number of challenges at the very beginning of this quarter, which were the follow-up consequences on things that had happened the quarter before, which impacted the final results of the quarter. This is the reason why the global results of this particular quarter are not really as expected.

However, during this quarter, the good news is obviously that we finally tackle all the issues we are facing, and we have definitely turned the corner. And I am thinking especially of our new facility of drug product located in France, where we are facing a number of genuine challenges over the start-up activities and operational startups. Now since the middle of the quarter, we have been operating normally and everything is growing as now planned. From a market perspective, if we look at globally, of course, we know that all the macroeconomics, KPIs are not really great to raise. However, the pharma industry is globally well resisting and particularly our CDMO, CRAMS activities across the globe is still quite good out. We see some slow down a bit across Europe, we see findings on several customer place. But globally, U.S. and Japan, China are doing well. So, we were having a large number of purchase order in our global portfolio, in drug substance or product or product activities, which give us a very high confidence that although the third quarter was a bit disappointed, we were able to match our targets by the end of the fiscal year, being able to work in a proper way to get those numbers right by the end of the year.

As we mentioned two times, it's about non-pharma markets are getting also a bit better. I am thinking about the cosmetic market that we are addressing with both of our facilities located in Europe. The cosmetic market is getting much better than it was after COVID. We know that it was suffering a bit. So, now that market is also getting better. So, that's giving us some large opportunity to our U.K. and Netherlands facility to increase the volumes of production of certain items we do for our customers.

All in all, as mentioned in the quarter, was not showing nice numbers from a financial perspective. From an operation perspective, we have done a lot of efforts to tackle and finalize all the issues we are facing. And now we can tell that now, especially with the new facility we foresee, nice results coming in the next few months. And we have for that facility as well as out Swiss facility a large product portfolio of orders that we can process in the coming months. So, all in all, we are extremely positive and optimistic for the rest of the year results.

From a pure organization perspective, we have done reorganization of our business at Carbogen Amcis side, which is going to help us to have a more accurate and more fine-tuning strategies for recent type of business we are in. So, now we look at our global activities into 3 different activities, Drug Substance, as I mentioned, Drug Products and Specialty, which is our product business. Thanks to the 3 organizations, we will leverage more, as I said, accurate strategy for each business segment, and the winners to have better market penetrations and success. So, this new organization is now implemented since July 1, and it's going to give all the fruits through the new year. So, thanks to these organizations, we will be able to leverage our success and get the best of our capabilities in the Carbogen Amcis branch of the business.

Thank you, all. And then I now hand over to our Global CFO, Mr. Harshil Dalal.

Harshil Dalal: Thank you very much, Pascal. Very good afternoon to everybody. Regarding the financial performance of the quarter starting with the revenue, it was kind of a mixed quarter for the 1st Quarter ending June 30, 2024. As far as the positive aspect was concerned, the India revenue after the clearance from the EDQM, the certification that we received in February of this year. After that, we saw an uptick in the India CRAMS revenue, which increased substantially as compared to Q1 of last year. So, from Rs. 38 crores, it has increased to Rs. 82 crores, which is almost 114% increase. And there is also converted into a positive EBITDA for the India CRAMS business with it close to about 14% of EBITDA.

On the negative side, there was unfortunately about 9.8 million worth of orders, which according to the customers' requirements had to be deferred to the next quarters as compared to Q1. And this was maybe to Carbogen Amcis Switzerland because of which the development revenue as well as the commercial revenue took a hit in Q1. However, all of that revenue should be made up in the remainder part of the year. So, it was kind of reason as far as the revenues were concerned, something positive, especially because everybody was looking forward to the India revenue to increase, especially after the EDQM clearance and that was already reflected in Q1. And we expect that the India revenue should increase substantially over the last full financial year. And the remaining 3 quarters for the Swiss entity should be very good as the revenue loss in Q1 or the commercial and development work should be made up in the remaining 3 quarters.

As far as our Dutch entity was concerned, there was a dip in revenue by about 16% as compared to Q1 of last year. And that was largely on account of lower sales of the vitamin D analogues, which is obviously highly profitable for us as compared to the cholesterol business. Unfortunately, in Q1 this year, most of the revenue makeup in Netherlands was because of the cholesterol sales and especially the cholesterol access, which is a low-margin product for us.

And that is the reason the revenue in Netherlands is lower as compared to Q1 of last year, and that obviously had an impact on the margins as well.

The good thing is that as far as the key raw material, which is the wool grease is confirmed for our Dutch entity, we have been able to successfully renegotiate the supply agreement with the supplier, the larger suppliers that we use for that particular product. And we should see a decrease in the call for that particular business from Q3 of the current financial year. So, there has been a significant savings that can be expected because of the renegotiated contract with the supplier. So, that's the good news as far as the Dutch entity is concerned.

The employee expenses more or less stood at a similar level as it was in Q4. There was nothing exceptional in the other expenses. One of the changes that we have done starting from this particular quarter is in relation to the goodwill, which was in written off over a period of 15 years. We have reassessed or the Board has reassessed the useful life of the goodwill as it stands today. There has already been a significant appreciation, which has picked the P&L over the last 9 years amounting to almost about Rs. 750 crores. So, what has been decided is that the goodwill as it stands today would be kept on getting tested for impairment at the end of every year and the useful life since we have to define one has been defined now as 99 years. So, the amount of amortization of the goodwill hitting the P&L would reduce substantially to roughly about Rs. 6 crores per annum as compared to about Rs. 45 crores as was being charged to the P&L earlier. And hence, we would see the depreciation and amortization figure going down from this quarter onwards.

The finance cost was more or less in line with what we had last year, it's about Rs. 32 crores of finance costs. And we had an exceptional item of about Rs. 5 crores. This was on account of write-off of certain inventory, which was deemed to be non-usable for certain projects that we were anticipating in the past. So, overall, the current quarter in terms of, I mean if you consider the factors that have been defined especially on the revenue side and the impact that it had on the margins, since most of that would be made off in the remaining 3 quarters of the financial year. And as we have been saying that the right way to look at our business would be more on an annual basis rather than on a quarterly basis. We expect that the current year should be a much better year as compared to the last year. We should be on target to achieve close to about 10% of incremental revenue over the last year. And the operating profit should also be significantly higher than what we had reported last year.

So, with that, I would like to ask the moderator to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tarang Agarwal from Old Bridge Asset Managers. Please go ahead.

Tarang Agarwal: A couple of questions. So, Pascal, when you opened this floor, you said that Switzerland might impose some challenges because of the floods, right? And you have maintained that the CRAMS business of Carbogen Amcis will be able to make up for whatever was lost in Q1. So, do you believe that CHF200 million revenue number, which that business does, that's going to be achievable for FY '25, despite the adverse developments in Switzerland.

Pascal Villemagne: Yes, definitely because although the numbers, if we look at the Swiss number, the few of the number, we are not as high as we would have liked or expecting that they were not as low as to a point where it's critical so that if they something that we can work on. And we have specifically one element, which is using a dedicated facility, and there is just some technical issues that trust us to prolong a bit the project, but we fix those things and the fact that we are using dedicated facilities for this, means that we are going to make those revenues later in the year without competing on the over revenue. So, I am extremely confident that Switzerland is going to grow even beyond CHF200 million for the activity to take for sure.

Tarang Agarwal: Second, congrats, good to see the Bavla site coming back. How should we see the correction from this business now going forward? Historically, this business was able to deliver Rs. 100 crores, Rs. 120 crores of top line. So, any guidance commentary on this for the remaining part of FY '25.

Harshil Dalal: Sure. So, Tarang, what we're expecting is that in the current year, we should be closer to about Rs. 325 crores to Rs. 350 crores in terms of the revenue coming out of CRAMS that is what our target is. And the Q1 number is more or less on target with the clearance in February. And Q4 is historically the strongest quarter for India, so that trend should continue. So, overall, for the full year, yes, Rs. 325 crores, Rs. 350 crores is something that we are targeting, and we should be able to achieve that. What that should also translate into is as we had also mentioned in our previous call into an improved profitability for the group as a whole. We are working on several initiatives, including we are already seeing the traction in terms of the orders that we are receiving from the existing customers. New customer visits are happening, so we are anticipating additional orders coming from new customers.

And thirdly, we are also collaborating closely internally between the Swiss site and the Bavla site, trying to see what all projects can be transferred in the short to medium term to the Bavla site. So, we don't see any challenges in achieving that kind of number as of now. Obviously, the next year should be even better, it should be closer to the Rs. 100 crores of run rate that you mentioned, which would equate to close to about Rs. 400 crores of CRAMS revenue for the India business.

Tarang Agarwal: And the development in the Netherlands business has been particularly striking. While you have been guiding about compression margins for almost 8, 10 quarters, I was quite surprised with the numbers that have been reported in Q1. So, is there anything specific that went off, I mean, was there a kitchen sink of sorts where all the inventory was cleared out? And just to understand, you did allude to getting into a revised contract with your vendor. So, if you can just elaborate a bit in terms of how that can play out purely from a margin standpoint.

Harshil Dalal: Sure. So, in Netherlands, as you already are aware of, there are 2 broad segments in which the Netherlands business is divided into. One is the cholesterol business and second is the vitamin D analogues. Now if you break down the cholesterol business even further, there is cholesterol NF, there is cholesterol FS and then there are other derivatives as well. So, what we saw in Q1 was that there was a high number of sales of the cholesterol segment and specifically cholesterol FS, which is quite low in margin as compared to the other product segments in Netherlands. And that had an impact on the margins. As we have been saying, and as you correctly said, over the last 8 quarters or so that we are already seeing an increase in the prices of the wool grease which is the key raw material for manufacturing the cholesterol as well as the vitamin D analogues.

So, we internally took up the challenge to renegotiate the contract with our existing supplier with the possibility of also funding new suppliers for this particular raw material because we can't be dependent on this one supplier. So, what we have been able to successfully do in the immediate past was to renegotiate this contract with the existing suppliers wherein the prices have been renegotiated by almost 35% as compared to what the earlier contract was.

So, we would start seeing the impact of this improved prices from Q3 and onwards because we already have stock, which has already been purchased at the higher prices, which will first need to be cleared out, which we are expecting should get cleared out by Q2 of this year. So, that's the strategy on Netherlands, where we are trying to improve the prices, I mean the cost of our products. And that will help us in being more competitive as compared to other players because now in the vitamin D analogues segment, we are seeing a higher amount of competition. So, it was quite critical for us to reduce the cost by deploying various measures. So, renegotiating this contract was the first step, but we would still keep on looking out for additional suppliers for this particular wool grease. Pascal, do you want to add something more to this?

Pascal Villemagne: No, I think you have summarized the situation. It's an end of use effect on the product mix production during this 1st Quarter. The asset grade of cholesterol is a larger volume production, but it's also the lower margin. And when we produce a large amount of assets, it affects directly our profitability over the quarter. But if we look at that from an order perspective on the annual base, we should be back on track in the coming months, where we are going to manufacture more NF, HP grade of Cholesterol into the mix. So, I am not concerned about that. It’s really when we look at this 1st Quarter, yet we see that, obviously, there is an impact on profitability, but we know that it's a product mix effect. The good news, as you mentioned, is that now we are much more in control of our supply chain, and we have a much better control on our COGS over there, which I think to affect first on the high end cholesterol product, we have a better margin and on the lower end like I said, we also can be more competitive and then also increase the revenues by improving slightly the margin.

So, all in all, it has a positive effect. We are going to see those positive effects along the year because although we have negotiated that over the third quarter, we are still sitting on an amount of product that has been brought at a certain level, so we have to consume this. But as soon as we finish to consume the existing stock of the more expensive wool grease then we can go and reach the better margins later on. So, all in all, we can only see the positive side of it in the coming weeks with Netherlands.

Tarang Agarwal: Just last 2. What's the net debt as on 30th June 2024? And second, you had guided that the French operations would see an EBITDA burnout anywhere between CHF4 million to CHF5 million in FY '25. Do you stick to that guidance? Or do you think it might increase for this year?

Harshil Dalal: Sure. So, the net debt stood at about CHF164 million as of 30th of June. As far as the French entity is concerned, yes, I think, based upon the current forecast, the impact on the EBITDA should be about negative €5 million for the current financial year. We had a negative impact of about €2.5 million in Q1. And even the operations have begun from June of this year where the revenue was about €1.2 million for Q1. So, what we are expecting is that the revenues will progressively keep on increasing quarter-over-quarter. And while there would still be a loss in Q2, we would start seeing a turnaround from Q3 onward where we would see the losses coming down substantially. So, for the full year, €5 million of loss is what we are expecting.

Moderator: A reminder to our question is from the line of Venkata Padwalaa, an individual investor. Please go ahead.

Venkata Padwalaa: Yes. So, one question to the management. I could say there are 3 times changes in how company treats the goodwill on the books, okay. So, my question to the management is, why not you, I mean, remove the entire goodwill from the book, so that all the books will be clean and clear, right? Why we are keeping the goodwill on the books?

Harshil Dalal: Thank you for your question. Unfortunately, there is also an option that we had exposed. The only way the goodwill can be written-off would by providing for an impairment of that particular goodwill. Now what this goodwill consists of are the intangible assets within the company, which includes our brands, patents, technical know-how as well as the technology that we have in-house.

Now if you write off the whole goodwill, what that would mean is that the value of this intangible is now 0. And that too again have different implications from a tax perspective as well as a regulatory perspective. So, that was the reason. And the way the approval was taken when the merger happened under the court order was that there has to be a defined useful life under which is goodwill can be written off over a period of time.

What we have been doing is that every year, we have been testing this for impairment at the end of every financial year where the value of this goodwill is much higher than what the goodwill number stacks in the books. So, it is very difficult to certify that now this goodwill is of no use and hence we have to write-off this entire goodwill through the P&L. So, one of the options that we also try to see is whether it can be written-off against the reserves under the accounting standard, but that was also not a possibility. So, what we are saying now is that after write-off of almost Rs. 750 crores, now to Rs. 600 crores or Rs. 590 crores, which is outstanding on the book, we can keep that for a longer period of time and the write-off off or the hit to the P&L would be a very small amount, which will lead us to what the Ind AS is saying that you just keep on testing the goodwill for impairment rather than writing off in the P&L.

Venkata Padwalaa: Yes, I agree that it may increase the profit a little bit. But still that book value and return on equity and return on net assets, still it will impact this parameter and many of your market pundits will determine the quality of the stock by using this parameter.

Harshil Dalal: I am with you. But the right way to look at our return ratios would be after discounting the goodwill as well as the impact of the ForEx on the assets. Because most of our assets are located overseas and these assets get restated at the closing exchange rate at the end of every year. So, the right way to look at our return ratios would be after discounting these 2 parameters, and that would be the right way to determine our return ratios.

Venkata Padwalaa: So, one more question from the European entity. So, can you be able to quantify the percentage of the renewal revenue that we are getting on development and commercial from the Swiss entity?

Harshil Dalal: Yes. So, at the Swiss entity, if you take a ballpark roughly about 55% to 60% comes from development work, this has been the historical trend and about 45-odd percent is what comes from commercial. In Q1 of this year, we had development revenue, which was close to about 40% and 60% was contributed by the commercial part.

Venkata Padwalaa: Yes. But I see, sir, surprisingly, the material cost is very low, Rs. 60 crores only.

Harshil Dalal: Yes. So, the material cost was lower because some of the commercial projects that were sold in Q1, those who are highly profitable, more from a gross margin perspective. But since the development revenue was low. And if you see the biggest fixed cost that we have on the P&L is the employee cost. And most of that employee cost is for the development work that we do. So, if we talk about the EBITDA, which is after the employee cost, from an EBITDA perspective, that got adversely hit because some of the development projects were deferred to the later quarters. So, yes, on the commercial side, the margins were good, especially at the gross contribution level, but because of the high employment cost for the development for the overall EBITDA margin was subdued.

Moderator: The next question is from the line of Preet Nagarseth from Wealth Financial Advisors. Please go ahead.

Preet Nagarseth: Sir, could you repeat a change in depreciation, meaning what is the amount that will be replaced by how much? I did not catch the full thing.

Harshil Dalal: So, essentially now as of 31st of March '24, the goodwill on stand-alone books, which effectively goes also into the consolidated books, which is eligible for depreciation that stood at about Rs.

594 crores, which earlier we were writing off over a period of 15 years on a straight-line network basis. So, now the useful life has been changed effectively to perpetuity because we believe that this value of goodwill will not be bad in the foreseeable future, especially now that the India business is getting back on track. So, what we are now saying is that the goodwill will be written off over a period of 99 years, which would mean that the hit to the P&L would be close to about Rs. 6 crores per annum instead of the earlier Rs. 45 crores per annum.

Preet Nagarseth: This is effective from quarter 1?

Harshil Dalal: Yes, effective from 1st of April 2024.

Preet Nagarseth: So, the quarter 1 numbers already considered this?

Harshil Dalal: Yes, that's correct.

Preet Nagarseth: The second question I wanted to understand was regarding your guidance for both top line and your margins. So, you mentioned 15-odd percent for top line? Is that what you said?

Harshil Dalal: I said about 10% for the top line. The EBITDA growth would be much higher. So, last year, obviously, we had a lot of one-off, which we are expecting would not happen this year, except for the notional FX, which could be base but we're not considering that. But apart from that, we do expect that the EBITDA margin should be closer to about 18% for the current financial year.

Preet Nagarseth: And the other thing I wanted to understand is that we are hearing a lot about pharmaceutical changes in the global markets and how India could stand a beneficiary. A lot of them are about CDMO and stuff. But on the CRAM side, do you see any such large tailwind emerging out of those markets?

Harshil Dalal: Obviously, I'll ask Pascal also to elaborate on that, but what we are seeing is that because of the issues with China and US also thinking of passing an act, which might prohibit sourcing of the APIs from the Chinese company. We are seeing offshoots of certain projects moving through our European entities as well as we could see potentially certain projects moving to India as well. So, that could be something that we are already seeing certain effects, but I think it is still not passed in the legislation. I mean, if that happens then I mean India as well as our European subsidiary could be high beneficiaries of that particular act. But Pascal, maybe if you can elaborate a bit more on this question.

Pascal Villemagne: Yes, it is definitely. So, you're absolutely right by mentioning what happens in U.S. with that particular Act, it's not yet fully in force. So, we have a lot of customers that are swinging from one position to the other. What is true is we have more and more of and not only because of this new law, but also the post COVID situations where people think that it may be a good idea to move things closer to their point of consumption. So, there is a global movement to refocus

European project in European facilities. So, we get, and we see the benefit of that in our European operations.

On the other hand, with China, we see also a clear movement, we would like to emphasize what the entire group is able to provide with very high and knowledgeable R&D CRAMS in Europe and then lower potential cost across India, so we can leverage the life cycle of the products. So, we see clearly an attraction from some customers. We are also in an election year in U.S. And as you can imagine, there is a number of decisions that are pending, whether those kinds of constraints are going to come. So, once that conclude, we feel that at the end of the day, there will be a positive impact on our business in anyway. So, that's for sure.

Preet Nagarseth: So, going back to the earlier comments you made regarding the overall EBITDA margin profile of 18% for this financial year. Now for this quarter, I think clearly, it was far below that. So, which quarter do we anticipate as going back to that run rate?

Harshil Dalal: From Q2.

Preet Nagarseth: So, you see Q2, we should be back at that 18% run rate?

Harshil Dalal: Yes, I mean eventually, for the remaining 3 quarters, we need to be above that in order to achieve the annual target.

Preet Nagarseth: I mean, the reason I am asking is that given that only 1.5 months has already completed for this quarter, you would have a good indication whether quarter 2 onwards you are looking at that kind of run rate?

Harshil Dalal: Yes. So, based upon the numbers of first month of Q2, we are we're pretty confident of achieving that in this quarter.

Moderator: The next question is from the line of Pradeep Rawat from Yogya Bolt Capital. Please go ahead.

Pradeep Rawat: So, I am pretty new to the company, so I have some basic questions. So, over the years, our margins have declined from 25% to 26% range to currently less than 10%. So, I just wanted to understand what factors lead to the situation? And going forward, could we achieve those kind of margins again?

Harshil Dalal: Sure. Thank you for your question. So, yes, so if you take financial year 2020, we were at roughly around 25%, 26%, as you correctly mentioned. Obviously, in March of 2020, we had certain observations from the European health authority for one of our manufacturing sites in India. And India at that point in FY 2020 was contributing from a trends perspective, roughly about Rs. 400 crores to the revenue with healthy EBITDA margin. So, now because of these observations that have been received that impacted the revenues coming out of the Bavla site in India, and that obviously had a negative impact on the margins as well. Because of the India site because of the cost efficiencies that we are able to bring in make the highest margins for us globally.

I am not sure if you already were there in the previous calls, but we already had a reinspection from the EDQM in September of '23, and we received the final certification in February of this year, post which now we are seeing traction as far as the India business is concerned by the way of increasing in the orders from existing customers, new customers looking at the India site and also collaborating closely with the Swiss entity. So, with the combination of all of this, we do expect that the India business should be back on track. And the Q1 results were quite enlightening for us. And we do expect that the growth should be visible in the full financial year this year, and it should just keep on increasing going forward.

As far as the other entities are concerned, the Swiss entity has been delivering growth year-over-year, both on the development and the commercial side. And that is something that we expect would continue in the future as well. We obviously had issues in terms of the global inflation because of the Russia-Ukraine war where the prices of electricity has increased substantially across all of our European entities and that had a negative impact on the cost structure, plus because of the inflation, the people costs have also increased.

So, over the last, I would say, 2, 3 years, we had this inflationary impact on the cost. And also one of the key raw materials for our Netherlands site, the prices have increased substantially, which now we have been able to successfully, as I mentioned earlier, renegotiate the contract with our supplier, and we are looking at other sources of that raw material in order to reduce the cost at that side, so that we can go back to the earlier margins that we were making.

The third important factor is the French facility, which we moderated last year, I would say we should have already started manufacturing from that side at a commercial stage as well as on the development side, right from January of this year. But unfortunately, there were certain technical issues with the manufacturing line, which were discovered only after the trial batches were undertaken and when the commercial batches were tried to be taken from the same line. That led to an increase in the cost that we had to incur in order to make sure that the manufacturing line is able to produce the product at a commercial scale and that process after the validation, the OQ as well as the PQ, all of that got completed in May of this year, and it was renewed from June 2024 that we were able to start producing from the fourth manufacturing line in France.

The second manufacturing line is also ready now, and we expect that it should start generating revenues for us from the next quarter. So, that was the third issue that we were facing. Now all said and done, we have already cleared the EDQM inspection. And post that even the U.S. FDA inspection, we have already taken the measures in order to reduce the COGS at that side, so the efforts are still ongoing. It will reduce it even further. And thirdly and the most important point was the French facility, which now is on track in order to deliver the revenues that we are targeting for the current financial year. So, this is a journey that we have to go through the pain that we had to take. But now with the kind of improvement that has been done, especially at the India side, both at Bavla and Naroda. And all of our overseas entities, we do expect that we would be able to reach the 25%, 26% margin in the next 2 to 3 years' time.

Pradeep Rawat: I hope turnaround at the earliest. My follow-up question with this regard that you said at our Dutch facility, our raw material prices abruptly increased. So, can you specify how much raw material prices increased? And like can we pass on these prices to our final customers? Or is it like a fixed contract type of things?

Harshil Dalal: Sure. So, if you see historically, the Dutch entity was doing close to about 25% to 30% kind of EBITDA margin for us, not taking into account in Q1, but if you take the full financial year, we are now at about 16% to 17%. So, there is an impact of, I would say, close to about 20% to 25% or maybe even higher, just on account of the increase in the wool grease prices. What we expect is that these prices should come down in the next quarter. But what the impact is our competitiveness as far as the vitamin D analogues business is concerned. As far as passing on the cost for the Dutch entity is concerned, it is not possible in all the products that we sell because then there are competitors, which have other sources, other raw material sources that they use in order to manufacture the product, the cholesterol as well as analogues.

So, it is only selectively that we are able to pass on the cost to our customers because if we try to pass on 100% of the cost, the business might no longer be there as far as that particular segment, or that particular customer is concerned. And we have been able to, and we are continuously in the process of trying to transfer the cost, but it won't be 100% 1:1.

Pradeep Rawat: And with regard to the same facility, so you said that you manufacture cholesterol and vitamin from these facilities. So, can you provide a brief breakup of those?

Harshil Dalal: Yes, sure. So, if we talk about this particular quarter, roughly around 60% was contributed by cholesterol and the rest was contributed by the vitamin D analogues. Historically, what we have seen is that the ratio is about 55% vitamin D analogues and about 45% cholesterol. So, that is the reason there is an impact on the margin. But going forward and in the remaining part of the year, we would see a higher sales of vitamin D analogues as compared to cholesterol.

Moderator: The next question is from the line of Ankur Agarwal from RC Wealth Solutions. Please go ahead.

Ankur Agarwal: Sir, our continuous loss in the last 4 years, is there a possibility to come in profit in that level in next 1-2 years?

Harshil Dalal: Yes. So, that's the whole. So, as I already explained in the answer to the previous question, the reasons why the performance was subdued over the last 4 years. So, now that all of those issues have been cleared, we don't see a reason why we should not be back in profit in the current year and also in the years going forward. And as I also explained earlier, as far as the French entity is concerned, it would still be in loss in the current financial year, but the losses would be lesser than what we had reported in the last financial year. So, that will also help us in improving the profitability as compared to the previous year. But yes, I mean, if you see historically prior to these observations that we have received for the India site, we were generating substantial amount of profit, and that is something that should be possible in a year or 2.

Ankur Agarwal: Because every con call, you feel you will be in profit, but every time there is one-off in every quarter, something sometimes, something sometimes, something, but you are not showing profit in the company.

Harshil Dalal: No, I agree. So, one of the reasons, as I also mentioned was this write-off of goodwill that was happening every year, which is obviously a noncash item. But there was a write-off of almost Rs. 45 crores to the P&L, which now from this quarter onwards, that impact reduces substantially. So, that should also help us in reporting positive profit after tax in the current financial year.

Moderator: The next question is from the line of Sai Krishna, individual investor. Please go ahead.

Sai Krishna: I have a question regarding the Carbogen Amcis business. Year-over-year, we had, I think, Rs. 220 crores loss of revenue. And even if you account for the development project, which is only about Rs. 100 crores, what would the remaining Rs. 100 crores be the result of?

Harshil Dalal: So, thank you for your question, Sai Krishna. So, are you comparing Q1 this year to Q1 last year?

Sai Krishna: Yes.

Harshil Dalal: Yes. So, basically, the Q1 of last year, it was more of an exceptional quarter where we had reported Rs. 723 crores of revenue. On an average, our revenue is somewhere around Rs. 600 crores, Rs. 650 crores if you look at the trend of the last quarter. But the biggest impact in Q1 of this year, one was roughly about Rs. 100 crores of development and commercial revenues that did not happen at Carbogen Amcis Swiss entity, which should happen in the beginning 3 quarters, so we will make up for that particular avenue.

And secondly was the dip in the revenue in Netherlands because of the lower sales of vitamin D analogues. So, these were the 2 major reasons why the revenue was lower in Q1 of this year versus Q1 of last year. But we do expect that all of this revenue should be made up in the remaining 3 quarters and that's the reason, as I mentioned earlier, we say that the right way to look at our business will be more from an annual basis rather than on a quarterly basis.

Sai Krishna: And a follow-up question. So, last year, we have done about I think Rs. 2,600 crores of revenue. And this year, you have guided for a 10% growth. So, that's about Rs. 260 crores. And I think of Rs. 260 crores about Rs. 130-odd so crores is coming from the Bavla site, the increase in revenue from the Bavla site. So, the rest of the business is basically, I think, showing only a mid-single-digit growth. So, do you expect any of your other business segments to register the degrowth? Or it's going to be a mid-single-digit growth across the other segments?

Harshil Dalal: So, for the rest of the businesses, right now, we have assumed a single-digit growth, but it could be higher depending upon how the Q2 and Q3 goes. So, there could be potentially upside over there. But on a conservative basis, we do expect that it would be a single-digit growth for the rest of the businesses.

Sai Krishna: And just last question. On the cholesterol and vitamin D analogues business. This quarter, we had, I think, mid-single-digit EBITDA. So, on a full year basis, are you expecting to maintain the EBITDA margin ahead of last year?

Harshil Dalal: Yes, it should be at least that much.

Moderator: The next question is from the line of Shubro, individual investor. Please go ahead.

Shubro: So, my question is relating to the dollar trend translation loss, which gets supported almost every quarter. This quarter, there has been gain because there was not much volatility, but starting July, for the last 2 months, there has been substantial changes. So, do you expect some translation losses this quarter as well?

Harshil Dalal: That's a good question. It depends upon how the exchange rate closes at the end of 30th of September. We have already hedged a part of our cash position. So, from a cash perspective, we don't we don't expect there should be any kind of a loss in the current quarter. As far as the notional FX thing is concerned, all depends upon how the closing exchange rate comes out to be because it won't be just the dollar, Swiss franc conversion, but then also the Swiss franc to the INR because our reporting currency is going to be in INR.

The good thing is that, like if you remember, Q3 of last year, we had a huge amount of dollar balance sitting on our account, which was closed for about $120 million. And because of which there was a huge impact in terms of the notional effect. What we have tried to do with many of our customers used to renegotiate our contracts in Swiss francs, which means that the balance sitting on the U.S. dollar account is not much at max, it might be $20 million, $30 million. So, even if there is an FX impact, it should not be as substantial what we have seen in the past.

Shubro: Just a follow-up to that. Most of our operating assets are sitting outside of India and Europe. And Donald Trump has been openly speaking about a weaker dollar policy. So, going forward, if that happens, would you think that your sales operations will become even more uncompetitive because the weaker dollar would mean that our expenses will be higher, but our revenues won't grow so much.

Harshil Dalal: Yes. So, Shubro that goes back to what I mentioned that in many of the customers, what we have done is that we have renegotiated our contracts in Swiss franc itself. Because most of our costs are in Swiss franc. So, to the extent that we can have a matching against the cost in terms of the revenue, we are trying to do that to the extent possible and then whatever exposure is open in terms of the revenue, that is something that we are hedging. So, that's a prudent hedging policy that we have that we would keep on hedging on a rolling basis as far as our revenue is concerned. But if on the bank account, if there is dollar balance, which we have the dollar payment to that extent, there could be a notional impact. But apart from that, we do not expect any substantial impact as far as the P&L is concerned.

Moderator: The next question is from the line of Pradeep Rawat from Yogya Capital. You may proceed, sir.

Pradeep Rawat: Thanks for the follow-up. So, I have a question with regards to our facilities. So, currently, we have seen around 7 sites, manufacturing site, so can you provide a breakup of how much revenue from each site do we generate?

Harshil Dalal: So, Pradeep, basically, the size will be multiple. So, like, for example, in India itself, we have 2 manufacturing sites, Bavla and Naroda. Similarly, in Switzerland, we have 4 manufacturing sites. Then we have 1 in France, 1 in U.K., 1 in Shanghai and 1 in Netherlands. So, we can again provide that our subsidiary value breakout of the revenue, so we are reporting the segment wise revenue in our presentation, which includes the CRAMS revenue coming out of Carbogen Amcis, which includes the Swiss site, the Manchester site, the Shanghai site, as well as right now, even the France site is part of it. So, the more substantial revenue roughly about 90% of what we see as CRAMS under Carbogen Amcis is contributed by the Swiss entity.

The Shanghai entity is an extended, so to say, a supply chain of with Swiss entity, where all of the manufacturing done at the Shanghai entity sees into the Swiss entity. Manchester, roughly about 40% is sold directly to the customer and the rest I mean goes to the Swiss entity, which then almost gets invoiced to the customer. And the French entity just started operations where the revenue was about €1.2 million.

The cholesterol and vitamin D analogues that specifically are Netherlands entity. So, that is the revenue done by the Netherlands entity. The DCAL India and NCE API is an intermediate that's essentially nothing but our Bavla site in India and the cost generates in DCAL India is basically the Naroda site. So, this is the breakup of the revenue.

Pradeep Rawat: So, you have provided the margins also for that. So, what is the revenue potential from all the facilities? So, can you provide an overall perspective of how much revenue can we generate from our current asset base?

Harshil Dalal: So, right now, if you see across the group, underutilized capacity is in India because in India, we have done significant improvements over the last 4 years, while we were under the cloud of the EDQM. So, now because the changes that have been made between the Bavla and the Naroda site, including the operational excellence that has been brought in both sites put together can do a revenue on the existing asset base of close to about Rs. 1,000 crores. So, that is the potential as far as the India sites are concerned.

As far as the Swiss entity is concerned, currently, it is running at roughly about 85% in terms of the capacity. So, it can go a bit higher to maybe around 90% to 95%. The Dutch entity operates at roughly about 65% to 70%. So, we could potentially increase the revenue over there. Shanghai is operating at roughly about 70% and the Manchester entity is roughly about 80%. So, this is more or less the capacity utilization at different entities.

Pradeep Rawat: What I can understand is we are operating at close to 80% or 70% of utilization. And with respect to our asset turnover, it is quite low, less than half right now. So, what explains the kind of lower asset turn?

Harshil Dalal: So, essentially, the lower asset turn that you see is largely on account of the India site. So, if you see the India site, like, for example, last year, with a total revenue of say about Rs. 250 crores on the CRAMS side versus based upon the current asset base, it can be roughly about Rs. 800 crores. The total asset base is about Rs. 800 crores for the CRAMS business. So, now since we have already received the clearances from the regulatory authorities, we do expect a significant ramp-up in the revenues coming out of the India site and that should help us in improving the asset turn, especially out of India.

As far as our overseas locations are concerned, I think the ideal or the maximum asset turn that we can achieve will be close to about 0.8 even if it is high, maybe 0.9 because of the higher cost base of the assets over there and most of the work that is being done, especially out of the Swiss entities on the development site and the development infrastructure is also quite costly. And if you compare with any of the larger European players who are into the CDMO space, you will find a similar kind of asset turn. Plus, the other factor to be considered is our French facility, where the asset has just been created worth about €50 million, and the revenue has just started from June of this year.

So, that's a completely unutilized asset that we have right now, where we can aim for an asset turn of close to about 1:1. So, there are a lot of capacities that we have across the group where there is a potential to increase the revenue. And hence, from a CAPEX perspective, we don't expect any significant growth CAPEX to be invested, majorly it could be on the maintenance side as well as on the compliance side that we have to make sure that we are always GMP compliant in terms of the assets that we have. And essentially our any spend on the CAPEX on the maintenance side is roughly about 17 million to 18 million, and that is something that we will have to keep incurring going into the future.

Pradeep Rawat: So, you are saying that like our kind of business generally generates 0.8 to 0.9 kind of asset turn and our current asset base is close to Rs. 7,000 crores. So, is it fair to assume that we can generate at our current asset base, close to 5,000 kinds of turnover?

Harshil Dalal: No, I think the Rs. 7,000 crores that we are mentioning also includes the value of the goodwill, which is obviously mean, not a tangible asset. So, as far as our tangible assets are concerned, that would be close to about Rs. 2,000, Rs. 2,400 crores, I mean, on a max basis, after depreciation. So, on a gross basis, there would be close to about Rs. 3,500 crores.

Pradeep Rawat: You have close to Rs. 4,000 crores of intangibles. So, what does it contain? You mentioned that we have around Rs. 750 crores of intangibles or Rs. 550 crores of intangibles, so I wanted to understand that.

Harshil Dalal: So, basically, the intangibles are broken down into 2 parts. One is the intangibles that we have on the India balance sheet, which is the outstanding amount of which is roughly about Rs. 594 crores. The second is the goodwill or the intangible asset as visible on a consolidated basis. So, this goodwill that you see on a consolidated basis, this is just on account of consolidation of all of our subsidiaries and the parent for the reporting purposes at a group level. So, since we have investments, I mean as in from the parent perspective there are investments in the subsidiary, which got revalued in 2017, whatever is the incremental value of the investment in the subsidiaries, that is what all as part of the goodwill on consolidation. So, that is all intangible because it's all assets not to be used for manufacturing purposes. So, the core assets for manufacturing purposes are to the tune of about Rs. 3,000, Rs. 3,400 crores.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Pascal Villemagne for closing comments. Mr. Pascal, we are unable to hear you.

Pascal Villemagne: Thank you, Moderator. Yes, shareholders, thank you very much for your time taken to our call today. I hope that you have got all the answer to your questions, and we are looking for meeting with you over the next quarter. Thank you very much.

Harshil Dalal: Thank you very much, everybody.

Moderator: Thank you. On behalf of Dishman Carbogen Amcis Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.