

17th August, 2022

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| NSE Symbol: ORCHPHARMA | BSE Code: 524372 |

Sub: Transcript of Analysts/Investors Conference Call pertaining to the Financial Results for the Quarter ended June 30, 2022

Dear Sir/Madam

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligation and Disclosures Requirement) Regulations, 2015, Please find enclosed Transcript of Analysts/Investors Conference Call on the Un-Audited Standalone and Consolidated Financial Results of the Company for the quarter ended June 30, 2022 held on Wednesday, August 10, 2022.

Please take above information on your record.

Thanking you

Yours faithfully,

for **Orchid Pharma Limited**

**Manish Dhanuka
Managing Director
DIN:00238798**



“Orchid Pharma Limited
Q1 FY 23 Earnings Conference Call”

August 10, 2022



MANAGEMENT: **MR. MRIDUL DHANUKA - EXECUTIVE DIRECTOR,
ORCHID PHARMA LIMITED**
**MR. MANISH DHANUKA - MANAGING DIRECTOR,
ORCHID PHARMA LIMITED**
**MR. SUNIL GUPTA - CFO, ORCHID PHARMA
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Orchid Pharma Limited Q1 FY23 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Mridul Dhanuka, Executive Director at Orchid Pharma Limited. Thank you and over to you, sir!

Mridul Dhanuka: Good afternoon, everyone. I hope that all of you and your families are safe and healthy. On behalf of Orchid Pharma, I extend a very warm welcome to all participants on the Q1 FY23 financial results discussion call for Orchid Pharma.

Today, on this call I have with me Mr. Manish Dhanuka, Managing Director, Mr. Sunil Gupta, the CFO and Orient Capital, our Investor Relations partner. I hope everyone had an opportunity to see our results that we have uploaded on the exchanges and on the company website.

Before discussing the quarterly performance, it gives me immense pleasure to update all of you that the company's wholly owned subsidiary in India, Orchid BioPharma Limited, had made an application under the production linked incentive, PLI scheme of the government for promotion of domestic manufacturing in India.

The approval has been according to Orchid Biopharma Limited for manufacture of the product 7ACA for 1,000 metric tons per annum. This approval will help the company in backward integration, reducing dependency on sourcing from China and aid in improving overall margins for the business.

With this PLI approval team, we expect to start the plan in FY24 -'25, the current import price of this product is USD 65. We expect to generate an EBITDA of about 10% in this business. The government PLI benefits shall be 20% of the sales price for the first four years of the business, then 15% for one year and the last six years it would be 5% over and above the EBITDA of 10% that I have estimated.

Besides this, new product development and innovation are an important aspect of our business. Our R&D is continuously working to strengthen our product portfolio. We have multiple products at various stages of life cycle of development, and I would like to update you on the status of some of those same.

Ceftaroline development is on track. The commercial launch for this will be in December 22 and then subsequently, we'll be filing the DMF for the U.S. market. Enmetazobactam, the new chemical entity developed by Orchid Pharma. The development of this for the Indian market is on track. The CRO for the clinical trial has been finalized and the CDM -- site for formulation of this product manufacturing is also closed.

Cefovecin the third product we talked about launching commercially will be commercialized before March of 23 and Ceftazidime + Avibactam will be launched in India in January 2023. So, these four launches we are expecting in this financial year. And hopefully they will augur well for the prospects of the company going forward.

Other opportunities under development which we have not talked about earlier are Ceftolozane - Tazobactam and Cefiderocol, for both these products, patents expire in the next three to five years. The company is also working on several initiatives to support growth of future and we have our focus on the capacity utilization addition and backward integration.

Two update on this, 1- the capacity addition in Sterile Block in on track this should come online by Q1 FY24. And 2- the capacity addition in oral Block is at detailed engineering step and should come online by Q3 of FY24.

Now I will request Mr. Sunil Gupta, CFO to share the financial highlights of the quarter.

Sunil Gupta: Good afternoon, everyone. I will present the result of Q1 FY23. I would like to say that turnaround is progressing well and during the quarter Orchid Pharma maintained this growth

momentum on year-to-year basis. Our consolidated revenue for the Q1 of FY23 to get INR 133 crore versus INR 92.3 crore in Q1 FY22. Thus, registering a growth of 42% on year-to-year basis.

Gross profit for the quarter 1, FY23 to get INR 61 crore compared to INR 45 crore in the same quarter last year. Then EBITDA stood at INR 12 crore in Q1 FY23 versus loss INR 4 crore EBITDA in Q1 FY22.

Our EBITDA margin for Q1 FY23 was 9.5% as compared to minus 0.5%. same quarter last year. The company successfully managed to reduce the losses. Our PAT stood at INR (14) crore as compared with INR (28) crore in Q1 FY22. That was the broad financial figures.

Yes, now over to Moderator.

Moderator: Our first question comes from the line of Nishant Sabnis with Sabnis Financial.

Nishant Sabnis: Sir, the first question I had was in the previous quarter, you had reported lower loss and this quarter our losses have increased substantially. So even though our inventories have dropped, could you please highlight on what would be the reason for the same?

Mridul Dhanuka: You are talking about March ending quarter?

Nishant Sabnis: Yes, quarter ending March.

Mridul Dhanuka: So, I think some misunderstanding, the inventories have increased from March, they have not dropped and yes you are correct the profit is dropped because the sale is significantly lower. So, Orchid needs to be looked at as a slightly seasonal business, our H1 is significantly lighter than H2. So, H1 number, would always be more subdued than H2 numbers. So, the right comparison would be looking at the last quarter of last financial year.

Nishant Sabnis: So, going forward do you think in the second quarter we can expect the same revenue to come in and at the same level of margin or would be a little better?

Mridul Dhanuka: Yes, so, obviously we are a global business, selling to more than 60 countries, so it is subject to the vagaries of the export market. But our long-term guidance remains at 20%, 25% CAGR and margin should definitely improve.

Nishant Sabnis: Okay. Sir, the 7ACA which you have announced for 1,000 metric tonne so, just wanted to understand what is the timeline which we are looking at to deliver this entire 1,000 metric tonnes, would it be in FY24 or when would you think, when we can achieve full capacity for this?

Mridul Dhanuka: Right. So, we expect to start in FY24, '25 and in the first year of preparation we are expecting you know roughly half the capacity level and within two years' time of starting we would be at 100% capacity utilization.

Nishant Sabnis: Okay. This would get us how much approximately what would be the revenue or the turnover we are expecting from this?

Mridul Dhanuka: Yes. So, I shared a price of roughly \$65 which you calculate based on that price only because it's again a world market and competitive. So, we are expecting roughly INR 400 crore to INR 500 crore per annum kind of revenue with the EBITDA of 10% plus 20% PLI benefit.

Moderator: Our next question comes from line of Nikil with SIMPL.

Nikhil: First of all, congratulations on the improving trajectory which the company is seeing the last four, five quarters. Two, three questions. One is on this 7ACA product, how much of it would be our internal consumption and would the PLI benefit come for the internal consumption as or only for external sales?

- Mridul Dhanuka:** Yes, roughly 30% of that should be our internal consumption. And because it is how the PLI is housed in a wholly owned subsidiary, and the transaction has to be at arm's length, our understanding is that it would come on the entire quantity.
- Nikhil:** Okay. And secondly on the price of \$65, is it like-- what was the price like pre-COVID because we've seen the prices of API is an intermediary moving up post COVID so, like this 10% when you are building, is it current prices or has the prices remained same over the last four, five years?
- Mridul Dhanuka:** No, I would say the prices have increased significantly during the COVID almost more than 30%. So, we expect the prices to moderate but it depends on the competition which is currently the exclusive supplier for this product is China. And now we will also start manufacturing, so it would depend on market competitive pricing but I expect that because the raw materials would have also increased for China also the costs are rising only after COVID, they are not moderated but they are not increasing anymore, that's for sure.
- Nikhil:** Okay. Two more questions. One is like Cephalosporin whole of the market was down because of COVID induced lock downs and everything. Are you seeing demand improving for the market as a whole? If you can just help us understand how is the global demand and company specific demand improving, anything which you can share?
- Manish Dhanuka:** Okay. I'll answer this question. I'm Manish Dhanuka. What we've seen during the last financial year definitely there was an improvement over 2021. However, you know, during this financial year, I would say that first, it's slightly difficult to predict. Because what we have seen in last three years, the first quarter is probably the weakest and first half is weaker than the second half. So, obviously we've done much better than the first quarter of last two years. So, we are seeing positive trend. And if the same trend continues, then we could say that the demand is growing in antibiotics.
- Nikhil:** Okay. And last question, in the previous two calls and meetings, we had mentioned about customer addition in Europe and one of the customer addition in U.S., who was applying for site transfer and also where are we, how are we progressing with customers additions? Any more incremental news or information which you can share?
- Manish Dhanuka:** Yes, the customer, we are adding lot of samples have been submitted. I think in one of the calls we announced that not only to Europe, we've actually started selling to China, one very significant customer in China got approval for one of our products **0:14:29.9 (inaudible)** and we have made around INR 10 crore worth of, almost INR 10 crore worth of export to them, at the same time, the U.S. market which had virtually closed for us due to shut down of our old customers, that we are expecting to open very soon. Some ANDA Filings for USFDA completed based on our raw materials and we are hoping to get more order for U.S. market as well.
- Nikhil:** And lastly, sir, I have last one, inspection was in 2018 or 19 anything you are hearing in terms of inspection?
- Manish Dhanuka:** Last inspection was in 2019. Generally, they come after two to three years so we're preparing ourselves for inspection during this financial year. But as we all know due to COVID there is a very big backlog with most of the agencies. However, we are inviting European agency on our own to get our inspection done. But USFDA generally does it based on their own priorities. Si, it is difficult to say when you accept they will come.
- Moderator:** Our next question comes from the line Amit Gala with JP Capital.
- Amit Gala:** My first question is based on capacity utilization in the quarter 1 for sterile and oral overall?
- Manish Dhanuka:** Yes, Amit, what I would like to say is that as I said, in the answer to earlier question also we have seen the trend in first quarter the sales are rather, the demand is less but as the quarter goes, I mean as we move to second and third quarter the demand improves. So based on our experience, this experience we are now running the plant at about 80% capacity based on our plant, because it is long manufacturing cycle and we are trying to build stuff so, that we can increase sales and the demand comes out in third and fourth quarter. And the oral would be

running around 60 to 70 capacity depending on current capacity. So, you could say, -- I mean current capacity overall utilization would be around 70 to 80.

Amit Gala: Okay. And the next question would be like could you give us an explanation of about how you will plan the CapEx, do we utilize under the PLI?

Manish Dhanuka: PLI is as Mridul said, the government has made provision for two years to set up the plant and we expect to set up our plant in that two-year period. And then we would like to run it at full capacity, as per our estimates, the current demand in the countries around 2,000 tonnes and selling this 1,000 tonnes within India should not be a challenge. And the CapEx is expected to be between INR 300 crore to INR 500 crore.

Amit Gala: And lastly, if you could provide me some revenue break up on basis of geography, like which are your most contributing geographies and also break up on the basis of like regulated, oral and emerging oral, and emerging sterile?

Mridul Dhanuka: Yes, Amit, actually, the geography wise breakup we don't provide, but our long-term guidance remain similar, two-third come from that split between oral and sterile, so two-third is oral, one-third is sterile. And between regulated and emerging markets, the split is roughly now it is 60% emerging markets and 40% regulated market.

Moderator: Our next question comes from line of Viraj Parekh with Carnelian Asset Advisors.

Viraj Parekh: Congratulations, Sunil, Mridul. I just have a couple of questions. So, this since you are going to be capitally convenient the 7ACA for Orchid, you said and 2% to 30%. Have you worked out what kind of improvement in margin it would give for the holding company?

Mridul Dhanuka: Actually, because of the transfer pricing rules, it has to be in terms of arm's length basis. So, whatever will be the market price or Orchid, let's say I benchmark it against the Chinese right, it has to be the same price to Orchid as to any of the customer. So, Orchid may not a direct benefit, but any of that margin will up flow from the -- on the consol basis.

Manish Dhanuka: But the supplier, I would just like to add that the supplier uncertainty and the inventory management would definitely become easier.

Viraj Parekh: Correct. The two other questions. Probably one which you've been answering for the last financial year. One was about the Enmetazobactam, do we see any royalty in the quarter 1, do we see any royalty coming in in FY23 for Enmetazobactam? And secondly, how's our debt reduction plan looking? I mean, where are we in that on the timeline, basis on that?

Mridul Dhanuka: With respect to Enmetazobactam first view should come from China by the end of this year, that was what we had said earlier till our expectations, and also hopefully within this financial year we should see the US filing also, I would say my estimate based on the activities which are going on. But no certainty I have around that information.

And the second question you asked was?

Viraj Parekh: The debt reduction?

Mridul Dhanuka: Yes, the debt reduction plan, our term debt was down to INR 140 crore. So, by end of this year it should be down by another INR 50 crore to INR 80 crore.

Viraj Parekh: All right. I'll just squeeze in a last question before I get in line. So, how is the demand scenario in European because you were facing some kind of short-term headwinds in Europe, So, how is it demand scenario there? And in your opening remarks you mentioned a few commercial launches in India, such that Enmetazobactam and one other drug which I'm probably not getting the name right now, but apart from that, do you have any commercial launches in U.S. and Europe as well in the current financial year?

Mridul Dhanuka: Yes. What will happen Vijay, is this, with these launches Ceftaroline was a product I talked about first. So, when we launch in India basically that is a product produced for validation for U.S. and Europe market, varying based on both batches we'll be filing the DMF. So, these were

earlier products under development in by a large presentation. So, now we have visibility on when we average the raw materials and we are planning the commercial launches. So, launches will start from rest of the world or emerging markets. And for regulated markets based on that manufacturing will be filing validation back in the DMF is going to take six months from roughly commercial.

- Viraj Parekh:** All right. And in terms of the demand scenario in Europe and U.S.?
- Manish Dhanuka:** Yes, so like I said the first quarter is gone better than the first quarter of last year. So, we are expecting that overall demand for exports should be higher only. However, I think all of you are aware the first quarter in India was quite bad, I mean all pharma companies, suffered, the antibiotic demand was relatively less in India. We expected from this quarter onwards that will also improve. But in exports we faced reasonable demand and that's the reason of these results in first quarter.
- Moderator:** Our next question comes from line of Nishant Sabnis with Sabnis Financial.
- Nishant Sabnis:** One more question. So, how have we seen over the last two, three quarters you know the raw material pricing, has it softened or by how much has it dropped to increase in the last few quarters?
- Mridul Dhanuka:** Yes, roughly, if you compare, the gross margins. So, I would say roughly about 5% we've lost when compared to last year. But if you see, from March quarter, the gross margins have improved slightly, that largely due to the fact that being a B2B supplier, there is a slight lag in terms of when the actual price rise we are able to pass on to the customer. So, I would say overall impact on our margins is about 5%, out of which roughly 2% we have been able to pass on to the customers or claw back from let's say the customer.
- Nishant Sabnis:** So, it's safe to say that we're not holding any inventory at higher prices from any previous quarters?
- Manish Dhanuka:** We, I would say that we produce about 60% of the production is done on actual order basis. And only 40% of inventory we maintain, but some of the contracts are long term. So, I don't expect to have any loss on account of inventory. The only possibility of loss that happens is in the ROW market and there we do not maintain margin rates. So, we don't expect that to happen.
- Nishant Sabnis:** Okay. So, this 40% inventory that we are holding is, what is the timeframe that we look at like in terms of time like is it like one month?
- Mridul Dhanuka:** Nishanth, that depends on product to product. For example, I've already shared in the past year the widest range, some of the products we produce only one campaign a year. Some of the specialized products, maybe two campaigns a year so, it depends on product, some of the fast-moving products, I don't have any stock, so it depends on product to product.
- Manish Dhanuka:** Generally, like we explained last time also we have a campaign of 2 tonnes, we manufacture 2 tonnes, if we get an order of say 600 kg, 700 kg, and our forecast is 2 tonnes for the year. So, we manufacture 2 tonnes and 600, 700 kg gets liquidated immediately. And then, the balance will probably fall over the year, over the whole year. So, because of the campaign strategy we have to keep that inventory. But last two years experiences it gets liquidated within the financial year, mostly.
- Nishant Sabnis:** And coming to our forex and volatility in prices which are happening, what is our strategy for that?
- Manish Dhanuka:** So, we are naturally hedged there, because our exports are more, much more than our imports. So, we don't see much of feedback this side.
- Moderator:** Our next question comes from the line of Amit Gala with JB Capital.
- Amit Gala:** So, what I wanted to ask was that as a company, what is our ambition to reach the EBITDA target for the next three years?

- Sunil Gupta:** Amit, our stated guidance is that 20%, 25% CAGR and high teens EBITDA. And but when I said that earlier since the last call, we didn't have the PLI so, I've shared some broad guidance on the PLI number. You know as things progress and investments are happening, maybe we'll have more details on that.
- Amit Gala:** So, what is the target of debt reduction for this fiscal?
- Sunil Gupta:** Yes, so our term debt from INR 140 crore odd would go down to less than INR 100 crore.
- Amit Gala:** Okay. And do we foresee any requirement for capital like for Capex or anything else in the coming fiscal year?
- Sunil Gupta:** Yes, though, there is a announced Capex of INR 50 odd crore for the expansion of one of the jobs which we've announced earlier, so that work is going on. And the other one for the again for the PLI team, we've already given you a very broad number right now of INR 300 plus crore so as things progress, we will come back on how that is going to be funded and things like that.
- Moderator:** No further questions in the queue. I will now like to hand the conference back over to Mr. Mridul Dhanuka for closing remarks.
- Mridul Dhanuka:** I would like to thank everyone for joining us and the insightful questions. I hope I've been able to answer all your queries. In case, you have any further questions or require any further details, you may please contact our Orient Capital, our investor relation partner. Thank you so much for joining this call.
- Moderator:** Thank you. On behalf of Orchid Pharma Ltd., that concludes today's conference. Thank you for joining us, and you may now disconnect your lines.