



**“Neuland Laboratories Limited
Q4 FY24 Earnings Conference Call”
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MODERATOR: MR. RAVI UDESHI – ERNST & YOUNG

Moderator: Ladies and gentlemen, good day, and welcome to the Neuland Laboratories Limited Q4 and FY24 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ravi Udeshi from Ernst & Young. Thank you and over to you, sir.

Ravi Udeshi: Thank you, Muskan. Good morning, friends. We welcome you to the Q4 and FY24 Earnings Conference Call of Neuland Laboratories Limited. To take us through the results and to answer your questions, we have with us today the top management from Neuland Laboratories, represented by; Mr. Sucheth Davuluri, Vice Chairman and CEO; Mr. Saharsh Davuluri, Vice Chairman and Managing Director; Mr. Abhijit Majumdar, CFO; and Mr. Sajeem Emmanuel Medikonda, Head, Corporate Planning and Strategy.

We will start the call with a brief overview of the financials by Mr. Abhijit Majumdar and then Saharsh will give you broad highlights of the business trends and what is above in the market and post this, we will open up the call for the Q&A session. As usual, the standard safe harbor clause applies as we start the call.

With that said, I now hand over the floor to Abhijit. Over to you, Abhijit.

Abhijit Majumdar: Thank you very much, Ravi, and good morning and a warm welcome to you all for joining our Q4 and FY'24 earnings. I'll briefly about the financials now. The total income for FY24 was Rs. 1,571.1 crores as against of Rs. 1,200.9 crores in FY23 an increase of 30.8%. This has been driven by high growth in the CMS business and steady growth of the specialty GDS business. Both of these were in line with our plans and expectations.

Our EBITDA for FY24 stands at Rs. 474.5 crores with a margin of 13.2%, an increase of 6.8% over FY24. The total income of Q4FY24 was Rs. 390.4 crores as against Rs. 415.1 crores in Q4 FY23. Our EBITDA for Q4FY24 stands at Rs. 112.2 crores with a margin of 28.7%, a decrease of 2.02% over Q4FY23.

I'd like to say that the overall operating environment continues to be unpredictable. However, we have lately witnessed stability in terms of input costs. We also continue to be mindful of managing our operational costs, resulting in financial revenue. This also gives us the ability to grow without further cost addition.

Our steadfast dedication to operational efficiency and cost optimization remains unwavering, serving as a cornerstone for the continual advancement of our organization. As we have consistently said in our previous earnings calls, please measure our performance over a 3–4-year horizon as our revenues and EBITDA margins will fluctuate on a quarter-on-quarter basis or even on a year-on-year basis based on business needs, which is dependent on the order flow and the project execution.

Now, coming to the specifics, our gross margin was 58.8% of Q4FY24 as compared to 54.1% in

Q4 FY23 and 59.8% in Q3 FY24. This gross margin percentage as always includes direct costs pertaining to manufacturing and attributable to the product. The profit after tax was at Rs. 67.6 crores as compared to Rs. 84.5 crores in Q4FY23. This quarter's EPS would be Rs. 52.7 per share.

We have been strategically optimizing operations and resource allocation to boost internal cash flow and thereby enhancing business resilience in the face of potential fluctuations. We generated a peak cash flow for FY24 of Rs. 116.4 crores. We utilized part of this cash surplus to reduce our debt by Rs. 39.4 crores.

Consequently, our net debt position stands at negative Rs. 32.6 crores. We also reduced our working capital cycle to 122 days at the end of March'24 as compared to 141 days at the end of March'23. We continue to invest in upgrading our facilities and have invested Rs.143.7 crores in capex during FY24.

I'd like to remind you that we continue to be mindful of balancing growth with profitability by doing continuous work on optimizing costs and processes, which will also make us truly sustainable over the long term. We will continue to be on the lookout for opportunities that will generate healthy and visible cash flows. We expect that FY25 will be a year of normalized revenue and margin as we will be in the investing phase. We are cautiously optimistic that our businesses will once again be in momentum in the subsequent years based on the current visibility of our project and portfolio products.

With that, I would like to hand over the call to Mr. Saharsh for his remarks. Once again, thank you very much.

Management:

Thank you, Abhijit. Good morning, everyone. I will add a few comments on top of what Abhijit has said and then we open it up for Q&A. Given that we've completed another financial year, I'll share some of our thoughts on FY24. Coming on top of FY23 where we grew at 26%, we have been able to grow over 30% again this year. During the same two years, our EBITDA margins have also grown. They were actually 15% in FY22 they grew to 23% in FY23 and then further this year they've grown to 30%.

As I've mentioned in the past, this is in line with our long-term strategy and is illustrative of the kind of business and the company that we want to build. Over many years, we've been consistently positioning Neuland as a pure play API service provider with broad complex capabilities, partnering with both innovators, as well as generic pharmaceutical companies.

As we stand to assess FY24, there are a few things worth mentioning. Number one, we have seen the CMS business this year contribute close to 50% of our revenues, which already had grown 30% last year.

Our CMS business saw this robust growth in FY24 as some projects, as we mentioned before, are near launch while key commercial products continue to scale. Number two, we have added a number of projects across preclinical phase one and phase two. In light of the improving biotech environment in the US, we see the new business environment continuing to look favorable.

Number three, when it comes to the GDS business, we have seen some growth in speciality GDS business driven by paliperidone and a few other molecules, where there was a slight decline in price. This is actually in line with the composition of our product portfolio as different products go through different lifecycle events at various stages. Having said that, we are continuing to develop new products and seeing increasing traction for them, even as DMFs are yet to be filed.

The past year has seen a reiteration of our regulatory track record as both unit three and unit one was inspected by the FDA. Also, lastly, we are actively investing in long-term growth CapEx, which has been announced during the course of the year. We continue to remain conservative on identification of avenues for these investments.

In terms of the quarter itself, while it was lower than some of the previous quarters, it's actually in line with our expectations and in line with our plans for FY24. We have seen significant revenue from both commercial, as well as development projects, even as we continue to add new projects. Key molecules driving speciality GDS performance were paliperidone and dorzolamide, while mirtazapine and citalopram, were key contributors to the prime GDS business.

As stated earlier, the business has seen increasing growth and profitability due to a favorable product mix as well as scale up of new molecules. And we expect this momentum to sustain, bringing us heavy margins. Looking at the pipeline, we are excited on the long-term potential of the business. This will be led by commercialization of molecules as well as addition of new business.

We continue to invest in creation of additional capacities as well as capability for reaching scale in new as well as existing molecules. In the short run, however, we expect moderation in revenue growth. This will be led by commercialization of molecules as well as addition of new business. We continue to invest in creation of additional capacities as well as capabilities for reaching scale in new as well as existing molecules. In the short run, however, we expect moderation in revenue growth as well as normalization to some extent on margins due to the investments that we're making in the business and also input cost increases. We expect the business mix to remain steady and gradually improve.

As always, we maintain that variables such as individual product performance, forex fluctuations, raw material cost volatility and other business variables can have a bearing on our outlook. We remain vigilant of all such challenges and remain focused to capitalize on the new opportunities ensuring that there is sustained growth and profitability over the specified time frame.

Neuland's flexibility and agility will be the key in responding effectively to the evolving business environment. Also, I'd like to say that our growing reputation and the macro environment are ensuring that exciting opportunities come our way even as we work towards building a further differentiated customer experience.

We will continue to invest for the future by adding capacity and capabilities as I have already mentioned. By staying committed to our principles of customer centricity, agility and operational excellence, Neuland is well positioned to capitalize on opportunities and overcome challenges

and well on the path of achieving its long-term objectives. So having said that, maybe Ravi I will request you to open it up 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 Hussain Kagzi from Ambit Asset Management. Please go ahead.

Hussain Kagzi: My first question is on our product pipeline. So, as I see there's a great jump in the Phase II molecule pipeline this year. So, if you could share some color on that. And additionally now if I zoom out and look at our pipeline data since FY18, so the total number of projects or molecules have not grown much from FY20 to FY24 like the total number was 76 in FY20 and now it's 88 So compared to the rise that we saw in the preceding 2 years.

Now I'm asking this in the context that as far as my limited understanding goes, the larger pipeline is important in terms of diversifying from a select molecule and of course chance of having many such high-value products in the commercialization phase. So, if you could please throw some color on this?

Saharsh Davuluri: Yes. Thank you for the question. I think with regards to the pipeline itself, the near-term pipeline, the molecules which have been contributing significantly they have been continuing to do well. I think the emphasis on new projects is there. We are also seeing a steady inflow of new projects coming in now which is what I had highlighted in my comments.

Your observation is absolutely right. I think the kind of increase we had 2 years ago versus the increase we've had in FY '24 is not the same. But having said that, I think we also went through that full biotech funding crunch and there was a little bit of a slowdown in terms of new project inflows about a year ago.

At the moment, as it stands, we're seeing a steady increase in flow of new opportunities, new RFPs are coming our way. So, in the next 12 months, there should be an increase in the total number of projects. And also, one thing to bear in mind is that it's also important for us to track the quality of the profits coming in.

So, it's also important to make sure that we're getting good opportunities which are high value and rather just focus on the number alone. So perhaps somewhere also the team is becoming more selective and careful in soliciting the kind of projects that we want.

S E Medikonda: Yes. I think one thing we need to keep in mind is the fact that we are looking at the number of active projects. So, this is not a cumulative number of projects. So even as we are adding projects, we find that there is attrition in projects in Phase I, Phase II preclinical to Phase I therefore the number is at 90. So, we keep an active track and try to assess the viability of clinical stage projects.

Hussain Kagzi: That's very helpful. And just in continuation to this. It's interesting that you mentioned that about biotech funding and all. So, you have said that FY25 will be a year in terms of normalized revenue, but if I see our exceptional performance in FY23 as well as FY24, this was in light of severe biotech funding pressure which of course forms a major part of our client cohort.

Now that is kind of picking up at least over the last 3 months from publicly available data. That plus the noise around the bio security bill so early-stage projects would be much easier to shift. And the third point is our one of our CSM product received a label extension. So don't you think all these increase from these would be able to kind of add to the revenue for FY25 and kind of shorted much further?

Saharsh Davuluri:

See, I think our estimates for FY25, and the kind of indication is given is based on what we are seeing as concrete in terms of order book, in terms of visibility, production plans, etc. What comes out in terms of new business we call it blue styles is something that we cannot really model or predict in to our revenues. There's always an estimate of how much new business will come each year.

If you see the growth that we have achieved in FY23 and FY24 was actually as a result of the new projects we added in FY19 and FY20. So therefore, we would appreciate that there's always going to be a lag between the performance of the year versus the effort of getting a new business. So, if we see a surge in new projects in the next 12 months because of this whole biotech funding, I think it will probably add more significantly to the business 2-3 years down the line given the kind of projects that Neuland pursues. It may not necessarily add significantly for FY25 itself.

So we kind of stand by what kind of indications we had given because those indications are based on the order book and the firmness of the more commercialized molecules we have.

Hussain Kagzi:

Got it. Thank you. That's very helpful and wish you the best.

Moderator:

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

Sudarshan Padmanabhan: My question is to understand the revenue segment. So, we have seen a very favorable movement with the high-margin business increasing and the low-margin business coming down. One is, as you have alluded the order book is getting stronger. So even from here, I mean, where do we see the mix between say a high-margin prime vis-a-vis somewhat a low margin prime vis-a-vis the high margin specialty.

The second is when I'm actually coming to the working capital. So, it was quite good to see the working capital also improving on a year-on-year basis. I mean, should we also continue to see the improvement in the working capital?

Saharsh Davuluri:

Yes, I think there has been a steady increase in the contribution of specialty vis-a-vis Prime. And I think that's something that we expect to happen. I think it's hard for us to put a finger on whether this will continue to increase further, or it will stabilize at the current level because it really also depends on how our Prime products will do.

For example, this year, I think mirtazapine did really well it grew a lot. And if some of the Prime products continue to grow that well hand in hand with the specialty products then maybe the proportions will remain the same. With regards to the working capital, Abhijit do you want to answer?

Abhijit Majumdar: So, at the end of March, we were at 122 days, and we do we calculate working capital days externally, and we give it out also as part of our debt.

Saharsh Davuluri: So, our target is 120 in terms of working capital and we are fairly confident that we can get there. I think there's been a little bit of a drop in this quarter. But that's also probably connected with the quarter itself.

Sudarshan P.: One final question before I joined the queue is just taking cue from the earlier participant. I mean when I'm looking at the CMS revenue, I mean, there has been a very sharp jump on the commercial and development side. We also know that some of the products, which have just hit commercial and typically is expected to gather momentum. So, in that aspect, are you being a little bit more cautious? Or do you think that with whatever the visibility that is in hand, probably, you still believe that there will be whatever that is being built for we'd see a more visible or a sharper jump to say 2 years down the line.

Sucheth Davuluri: No. I think, Sudarshan, whatever the commentary we are making, we don't necessarily look at it as being conservative or aggressive. I think we just kind of giving our outlook the way it is. I think maybe every management, or every company has a different degree of tolerance.

So, I think maybe I would just say if you want to understand what we are indicating, if you just look back at our last 2, 3 years commentary versus and then trying to take it with the performance, you will see that there is consistency whether it is conservative or not is something I leave it to you.

I think everything we are making in terms of commentary about FY25 and the year beyond, is we are being very realistic. We don't necessarily intend to downplay anything.

Moderator: The next question is from the line of Ankeet Pandya from Incred Asset Management.

Ankeet Pandya: Congratulation on a great set of number. Sir, one, two questions. So firstly, on the for the quarterly result, so debt expenses have increased by almost 21% on a year-on-year and even sequentially by 23%. So, is there any one-off over here? Or is it because of the investments that we are doing it's a result of that?

Abhijit Majumdar: Thank you. So actually, our operating expenses has gone as per our plans. But having said that, our operating expenses has gone up by around 18% because the rest of it is variable. And that is predominantly because of manpower costs and other expenses, which is on account of professional fees and some amount because of manufacturing expenses.

But I must tell you, Ankeet, that this is as per our plan. So it's not something that we were not aware of based on actuals.

Ankeet Pandya: Fair. And sir, another thing on the last quarter con-call, you had mentioned that we have purchased an additional land next to the Unit 1. So any update on that? How are we looking at or will we start investing for that right now? Or as and when we get more clarity on new projects coming in?

Sucheth Davuluri: So Ankeet the land was primarily procured to make way for the future expansion for the product that's been made in those facilities. So we have a 5-year plan in place and looking at the needs of the plan, we are adding to the capacity and integrating it in line with the protections and that's pretty much the objective.

Ankeet Pandya: Okay. And what would be the capex guidance for FY25 and FY26.

Abhijit Majumdar: So our capex guidance continues to be the same as we have guided earlier. The baseline would be always INR100-plus crores but we will be opportunistic. If we find something, which meets our growth plans. We would appropriately come back to you. And obviously, we have to inform the stock exchange.

Moderator: The next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just the first one is on the outlook as we look forward, right? You've talked about fiscal '25 being like a consolidation year. I remember in your earlier calls, you talked about like a medium-term growth CAGR of 20% and look at not a quarterly, but more at a more medium-term level. So I just want to get some of the key milestones that we need to keep in mind in fiscal '25 and '26. I'm just calling out a few things. I'm not sure whether I'm capturing everything like, for example, the corona molecules. Do we have to look at the PDUFA dates coming up for the bempedoic asset label expansion.

So if you could help us qualitative sense on some of the products that are in the public domain in terms of what are the things we need to look forward to? Take the point that there could be consolidation. But I just want to understand, what are some of the catalysts that we can see in the next 12, 18 months?

Saharsh Davuluri: Yes. Thanks for the question. I think try to answer that as best as possible. I think what we have always indicated is that over a 4-5-year period, we will be able to target a 20% kind of growth. And I think that's something that we are comfortable. And our plans are all kind of built around that.

Again, having said that, the growth is not going to be linear even on a year-on-year basis. So that is also something that we are seeing kind of play out. With regards to the milestones that one should look out for. I think we have to just kind of qualitatively visualize this for you. We talked about FY25 being more of a modest growth and a growth in FY26 and FY27 being far better.

And I think the reason why we have also kind of given this kind of outlook is just based on how we see the current pipeline of products and their projections as we layer them out. A lot of the 3-year outlook that we have talked about is based on all the molecules that are already in the bank, so to speak. So these are not based on any assumptions of some new molecules, some Phase III molecule getting commercialized, etc.

I think anything that happens at that level will perhaps enhance the business, but that is unlikely to happen in the next 1 year. It could happen beyond the 1-year time frame. Unfortunately, as we have mentioned in the past, we won't comment on specific molecules in the CMS portfolio because of the confidential nature of the business. But I think whatever molecules we are kind of

commercialized already, I think we're seeing a sustained growth for those molecules.

I think we're seeing a sustained growth for those molecules. I think the molecules which are perhaps a step away from commercialization in the launch phase, I think we're seeing good traction with that also. So, I think, yes, that's kind of what I would suggest.

Sucheth Davuluri: So Shyam, the only other point I would add is that irrespective of the news that we see in the market with respect to the specific molecules that they're talking about, it's very difficult to model those into any kind of projections because sometimes even the analysts on the other side of our customers are not aware of how a specific molecule might perform. Therefore, as Harsh rightly said, we try to be as realistic as possible to take that into the future.

Shyam Srinivasan: Just the second question is on the generics side of things, right? Was there any comments on either pricing or volume trends for the quarter? Again, we're not looking quarter-to-quarter, but just trying to understand because that's where, say, prime was like down 16% YoY. So just trying to understand, is this some form of pricing pressure? Or do you think this is just phasing of supplies? Any color there will be helpful. Thank you.

Saharsh Davuluri: I think Prime, although by nature has that kind of challenges, we've not really had any kind of issue.

Sucheth Davuluri: And also, Shyam, is that Prime products, because of the nature of how they are, there's a lot of market share volatility that happens as well, especially in light of the new nitrosamine regulations and other guidelines that we've seen. We've seen some of the Prime products being affected by based on how our customers are choosing to handle them. Therefore, we don't see any significant long-term impacts of that, but there are short to medium-term corrections. But the business segment, as Harsh was saying earlier, whether it's Prime specialty or the CMS, they continue to be healthy.

Saharsh Davuluri: And I think there's no particular challenges on pricing also in this regard.

Moderator: The next question is from the line of Sajal Kapoor, from Individual Investor.

Sajal Kapoor: Before I ask my question, I want to make a small comment on our balance sheet. Actually, I've been very lucky with Neuland Lab. From a debt-heavy balance sheet into 2010, to net cash on books with the Nanakramguda transaction is still pending. It has been an amazing journey of transformation and solid execution, so thank you for that.

And coming to my question, over the next four years, we will likely generate an additional Rs. 2,000 crores of cumulative operating cash. So can you scratch out the capital allocation and dividend payout policy for the next four years. Because we are hardly paying any dividend today, which means that we are conserving cash and we have some capacity strong capability plans? That's my first question.

And my second question is there was a recent news article in Financial Times that US FDA has been denied access to several Chinese sites in recent years, and a large number of auditors from Germany are refusing to visit China for the fear of arrest. And we can add Biosecure bill that has

been tabled in the U.S. Senate to this mix, and this becomes a very potent combo for an alternative supply chain. You would imagine, no?

Sucheth Davuluri:

So a couple of things, Sajal, on the capex side, as Abhijit was saying earlier. The baseline capex is going to be in the vicinity of Rs.100 crores. And on top of that, we have a program for specialty or growth capex. So based on specific projects and the need for those projects and opportunities, and the operating cash that we are generating, we allocate whatever capex is required.

So that we don't lose out on the opportunity without taking on too much risk. So that's the overall policy that we have on the capex. We also try to maintain an internal benchmark where we don't want to allocate more than 60% of our operating cash to capex, but we're willing to breach this benchmark based on the opportunities that come available to us as well.

Now, as far as the dividend policy is concerned, a couple of years ago, we had actually benchmarked against other growing companies in the market to see how much is a healthy dividend to be paid out for a growth-oriented company. And companies which have similar financial health as we do and growth plans as we do, apart from that, we've also taken input from advisors and consultants on what should be a healthy dividend policy.

Today, we use those guidelines and we debate in the board meeting every year based on the profitability and in line with that dividend policy to declare that dividend for a specific year. And this practice will continue. I think your last comment about the Biosecure Act and what we're seeing in China and the impact of that, I think we're taking things as we come because there's two things. One, there is this overall bill about the Biosecure Act, which hasn't been passed yet.

The second thing is about how that will actually get operationalized and the impact of that we will see for India and other countries. Therefore, right now, what we're doing is what we control, which is to be in touch with our existing customers, potential customers who are also doing business with China and other countries, matching our capabilities to their needs and seeing how we can put our best foot forward because that is what we can control as new and other things are beyond our control.

And I think how the future plays out is something that we will wait and see. Notwithstanding that, as you've noticed, we are taking aggressive bets on investing in technology, buying up land, adding to capacity so that we are ready to take care of the opportunities in the future. That's how as an organization we're thinking about it right now.

Moderator:

Thank you. The next question is from the line of Jasdeep Walia from Clockvine Capital. Please go ahead.

Jasdeep Walia:

So thanks for taking my question. So are there any dedicated plants that are part of your capex plan for FY25 with regard to the customs into the business?

Saharsh Davuluri:

I think the plants that are being designed or built are always identified with one, two, or three products. But by design, they're always made to be multi-product facilities. I think similarly, as we mentioned earlier, we tend to be a little conservative that way. So whatever plants we're

building right now are also identified with specific products, but it doesn't necessarily mean that they are dedicated.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Bandhan AMC. Please go ahead.

Harsh Bhatia: Yes, hi. Just one or two quick clarifications. A bit of micro and macro. At least at the peptide level, I think so. One or two quarters back, you made a comment that we expect to find one molecule in this year, calendar year. And then two molecules in CY26 at the GDS level. And then there are a couple of molecules at the CMS level as well. So if you could help us understand where are we at least for the CY24 filing.

And I think so you also made a passing comment that the potential for the GDS molecules could be much higher than the CMS ones. I understand that there could be some volume-based growth from the peptide space. But if you could just refresh our memory for that, please.

Saharsh Davuluri: Yes, sure. Thanks for that question. We had two active projects in GDS which we are working on right now. The first one which we expect to file DMF later this year is Difelikefalin which is something that is still on track and that is something that we are excited about. There's another one which is a GLP1 which we are working on for which the DMF will be filed perhaps maybe in 2026. And that's obviously a very big opportunity more for the generic side than the CDMO side.

And I think both the projects among a few other GDS projects are progressing. We actually continue to even see increased interest from the generic customers. And our facilities and our infrastructure is also kind of gearing up for these molecules. But as I had indicated previously also, it's premature to factor in financial impact or benefit from these projects till we actually see some indications of commercialization. So I think that's something that is not really reflected in our short to medium-term revenue outlook.

Harsh Bhatia: Sure. Just to clarify, CY26 is the GLP1 asset. CY24 is also a GLP1 asset?

Saharsh Davuluri: No, it's Difelikefalin, it's not a GLP. And I think the name is out there in the public domain. You can just look it up.

Harsh Bhatia: And lastly, more of a macro view in terms of this entire GLP-1 space, since you are a lot more closer to the customers whether generic or innovators at both spaces. Since there are many moving parts to this, if you could help us understand maybe the top two or three points that are material for us to keep in mind may be at the patent level scenario, geography, how the innovators are thinking about it, because they are obviously consolidating it a lot more than what was anticipated, particularly for this space. So maybe just two or three points, something that we should keep in mind for the next two, three year period.

Saharsh Davuluri: Sure. I think again, just, you know, our own opinions may not be true. I think one GLP-1, CDMO opportunity is very limited because all these companies who are the innovators are securing their own API supply chains by building, making them in-house.

Number two, the generic opportunity for GLP-1 is huge. And the beauty of this GLP-1 is that we don't necessarily have to focus on the quote unquote regulated markets. The market is global. I think there can be a demand in India, there could be a demand in any other place because these are difficult to make peptides. So, developing at GLP-1 generic is not necessarily for the regulated market. It could be for the local markets as well.

Number three, these are relatively higher volume peptide. So, you will have to make tens of kilos of API if you are really successful, which means that infrastructure could be a challenge. You'll have to kind of foresee the need, the capacities and build accordingly because just having the process and the DMF may not be enough. We have to be able to confirm the volumes also.

Yes. And also, yes, so in terms of the launch, there is some unpredictability. We don't know exactly how the IP landscape will be, and innovators are constantly looking out for their own interest. So, I think these are some of the high-level insights and I think but we are very excited about this space.

Maybe the last point I'll also make is the see I think GLP-1s, they're going to be more GLP-1. It's not just going to be the 2, 3 we have already seen commercial success with. Maybe there's also a CDMO opportunity for fragments and building blocks for some of these GLP-1s, and that's maybe another input we can share at this point.

Moderator: The next question is from the line of Dheeresh from WhiteOak Capital. Please go ahead.

Dheeresh: Hi. Thank you for the opportunity. I hope I'm audible. So, I just want to understand that if you reflect on the last 2 years where you had significant scale up in the CMS revenue versus what you thought that you will achieve at the beginning of the year and then what you ended up achieving. How much deviation was there? I just want to get a sense of how much visibility and how much dispersion you have from the visibility from the beginning of the year versus what you achieved at the end of the year?

Saharsh Davuluri: –Thanks for the question, Dheeresh. I think if we look back at FY '24, we've seen that we had achieved what we had pursued at the beginning of the financial year. I think even in terms of our budgets, internal numbers, etcetera, I think we've been kind of more or less on point. There are obviously some things, which go better than expected and something which may not go as well as expected. And I think mostly, it kind of evens out. But bottom line I think we're pleased. And I think now our teams have also kind of gotten more scientific and really on top of the whole planning process.

So now we feel that while there is volatility, lumpiness in the nature of our business, the growing size of the business and the better visibility we get from our customers and the improvement in our own planning process is at least helping us to visualize our business and end the year more or less as planned.

Moderator: The next question is from the line of Suraaj from East Lane Capital.

Suraaj: I just have a question on just to get an understanding on how the margins would be going directionally over the next 2-3 years, if you can guide on that?

Saharsh Davuluri:

Yes. I think, Suraaj, that we've had mentioned a couple of things, right. One is that the margins have improved significantly over the last 3 years from 15%-23%-30%. Also mentioned that the margins will normalize in some sense. And I think the other thing I will just bring back into context is that we see that the business mix continuing to evolve or improve. So, I think if you look at all these factors into consideration, one thing you would appreciate is that there are some unknowns that we have to deal with, whether it is the exchange rate, whether it is input prices or it is the individual product mix.

And considering these things, we think that normalization would be kind of in some ways, we would think that FY24 margins were very good. They were better than expected. And therefore, we say that FY25, we expect some sort of normalization. But we have decided not to quantify anything further, but we think that because the business mix is continuing to evolve and improve, we see no reason for the fundamental potential of the business to actually reduce. But these individual parameters like solvent prices, exchange rates, etcetra, would have an effect on the overall margins.

So that's kind of what I would say just to answer. And I think even going forward, we continue to see the trend of the business mix change the way it is and the margins continue to be healthy. But we will not be able to give guidance on whether it will be at 20%, how much will it come down, et cetera. But yes, so that's what I would say.

Moderator:

Thank you. The next question is from the line of Divy Agrawal from Ficom Office.

Divy Agrawal:

Congratulations on the great set of numbers. So, I had a couple of questions. First is on the biosecure law. So can you give us the current status of the biosecure law. And the second question is on the continuation. What will be the impact if and when the biosecure comes in? What will be the impact on the company?

Saharsh Davuluri:

Repeat your question and if you could just speak a little slowly.

Divy Agrawal:

Okay. Sure, sir. So, I just had a couple of questions. So, first is on the current status on the biosecure law. And second is on the as and when the biosecure law comes into the place, what would be the impact on our company of the law coming in?

Saharsh Davuluri:

Yes. I think Sucheth already answered the question. For us, we have to wait and watch what will happen. I think, obviously, the narrative is very favorable. I think a lot of American companies are talking to Neuland and other CDMOs about opportunity, about projects and perhaps these conversations would have been fewer if this whole Biosecure act was not being discussed. So that way, I think it's a positive thing. We have to see whether it will translate to actual business. So that is something that we are going to wait and watch.

Moderator:

Thank you. The next question is from the line of Sanjay Kohli from Goldstone Capital. Please go ahead.

Sanjay Kohli:

So a couple of the previous speakers have again got up the biosecure Act. And in this backdrop, you is it safe to assume that there are a lot of visits now taking place from innovator companies and other companies who are now looking towards alternative sources? Are you seeing this

happen? Did you see this happen?

Saharsh Davuluri: We could see a lot of requests. A lot of requests for information request of proposals. There are definitely a lot of conversations. I think this something that I think post pandemic have become more precious. People don't this kind of come and visit facilities unless there is a quality audit or a EHS audit, product or something like that. So, I would not say that we have seen a surge in business. But definitely, we are seeing surge in RFI, RFP kind of activity.

Sanjay Kohli: Right. Okay. And just to understand the company better. I want to draw your attention to your Slide number 12 of the presentation. And in terms of the commercial CMS projects, which are total in number 18, 8 plus 10. So, I just wanted to understand that the 18, how many of these involve biologics?

Saharsh Davuluri: None of them. We are essentially a synthetic organic chemistry company, so we do not make any biologics. They're all small molecules or peptides or peptides related fragments.

Moderator: I'm sorry to interrupt, please follow back the queue. The next question is from the line of Atirek Roy, an Individual Investor.

Atirek Roy: So my first question is considering 3 points, we have not lost any customer in the past. Our custom manufacturing customers patent will not expire till 2030. It is difficult to switch the supplier after the molecule gets commercialized. Will it be fair to assume that our commercialized API and intermediate count will increase quarter-on-quarter for at least 2 years?

Saharsh Davuluri: I think the first 3 points, I think is just kind of reiterating what we have mentioned.

Sucheth Davuluri: And yes, the thing we want to clarify is that as you know, we grow projects in 1 Phase one phase two and phase three clinical trial and in when we're doing projects in these phases the nutrition of these molecules can be very high. That means molecule that we involved in phase one of phase two may not progress to the next stage. Therefore, meeting the customer at a project is not necessarily a bad thing. It's just the nature of the business that we are in.

And Harsh saying earlier, I think it's hard to predict what will happen at a molecule level in terms of the market share as well as the growth. So, we always look at the consolidated picture, and we pay a capacity in such a way that if the molecule will grow, we have the capacity to expand in some fall, then we have the molecules that can take the place of the other and that's plan it.

Atirek Roy: Yes, I was talking about commercialized API, not about registration and phase one phase two API's so will our commercialized API are counting to this quarter-on-quarter.

S E Medikonda: So Atirek, I just want to what to clarify one thing, is that even though we have 18 molecules or 18 projects which are there as a, this is a result of the business that we have built up over the years, but what we have mentioned in the past is that the key molecules which constitute a substantial portion of our commercial revenues are around 4 to 5. And we, even as this progresses, we will keep talking about, or rather we'll be mentioning key additions. And I think that is what you need to keep in mind when it comes to the commercial projects.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Advisors Private Limited. Please go ahead.

Anirudh Shetty: Hi, thanks for the opportunity. I had two questions. So, you, skip out the China plus one opportunity for a lot of questions. I just wondered some of your thoughts on, there would be manufacturing of API of, the CSM in the West as well in Europe. So, with all the cost challenges that are happening there, or, some of them might have abated but are you also seeing a lot of opportunity come your way because of an unwillingness to invest further, so more of a, West plus one, Europe plus one. So just wanted your thoughts around that.

Saharsh Davuluri: Yes, I think we come across a lot of customers who have different strategies. There are customers who are looking at India as an alternative to China now, and therefore, that whole China plus one concept became very evident. There are also some companies who would rather get their API cases manufactured in Europe.

And, if China is not working out, they would rather keep it in Europe. And I think there are cases of that as well. We do see time and again in our CDMO business, and even in our generic business, that most of our competitors outside India are actually in Europe. We actually see less competition for us in China.

And in that sense, the European CDMOs, European API makers are always a credible threat. And there is also capacity creation in these regions. So, we see, some of the largest CDMOs actively create capacities, maybe not necessarily for KSMs, but for APIs for sure. And that is something that we have to be mindful of.

Costs are something that obviously, I think they work to our advantage but again, depending on the customer, if they have the willingness to pay the premium for getting the drug substance manufactured in Europe, then they would not necessarily compare our pricing with the European CDMOs pricing.

They would just choose whatever is a strategically, good fit for them. Perhaps when it comes to China versus India, it's more a pricing comparison. But when it comes to Europe versus India or Neuland in particular, it's maybe more of a strategic decision rather than just a pricing comparison. Not sure if it answers your question, but.

Anirudh Shetty: No, it answers my question. Just one follow-up here. Are you, basis your track record of good quality. Are you seeing customers looking at your differently? Because now the respect for capabilities has gone up. So, the willingness to start comparing your products with a player in Europe is now something that they're considering more seriously today than, what say they would have in the past. Are you seeing that change in customer? Are you seeing that customers might be looking at your differently today?

Saharsh Davuluri: Yes, Anirudh. I think what speaks for our credibility is two things. One is, 25-year, 30 year track record of, with the FDA, a very strong quality culture. I think which becomes prerequisite, for a lot of our CDMO clients. Second is, we've also in the last 15 years been a part of a lot of INDs, clinical trial manufacturing and also a lot of NDAs. We've been part of a lot of PAI inspections.

So that richness that comes out of, having taken NCEs through the clinic into the commercial helps these innovators, kind of rely on a company like Neuland and that has helped us obviously, differentiate ourselves. We used to be also limited by our infrastructure, the size of our plants and maybe even the modern, the lack of maybe modernization of our plants four years, five years ago. But those are things that we've addressed recently as well.

So, I think all these factors are definitely favoring Neuland. The decision of working in India versus keeping a molecule in the West is more of a, I've seen that it's more of a board decision of the innovator company. It's got less to do with whether the outsourcing managers or the CMC groups have faith in Neuland or not.

It becomes more of a strategic prerogative for the board and that's why we see sometimes, although we may be a better fit than a European CDMO for a particular project, they decide to keep the molecule in Europe because they feel that, from a geodiversity point of view, that's what they prefer.

And those are situations which unfortunately we cannot combat, but we still try to do our best to get those kinds of projects. So that's kind of what I would say to the follow-up question.

Anirudh Shetty: Thank you so much. It was very helpful.

Moderator: Thank you. If that was the last question for the day, I now hand the conference over to the management for closing comments.

S E Medikonda: Yes. I'd like to thank everyone for joining the call and for the questions. As always, there have been thoughts about me and your inputs for us as we run the business. We appreciate your interest in Neuland and I apologize as we may not have been able to accommodate everyone's questions on the call. Please do reach out to Ravi Udeshi in case you have further questions. Have a good day, everyone.

Moderator: Thank you. On behalf of Neuland Laboratories, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

(This document has been edited to improve readability)