



“Neuland Laboratories Limited's Q4 FY'21 Earnings
Conference Call”

May 11, 2021



**MANAGEMENT: MR. SUCHETH DAVULURI - VICE CHAIRMAN & CEO,
NEULAND LABORATORIES LIMITED
MR. SAHARSH DAVULURI – VICE CHAIRMAN &
MANAGING DIRECTOR, NEULAND LABORATORIES
LIMITED
MR. DEEPAK GUPTA – CFO, NEULAND
LABORATORIES LIMITED
MR. SAJEEV EMMANUEL MEDIKONDA – HEAD,
CORPORATE PLANNING & STRATEGY, NEULAND
LABORATORIES LIMITED**



Neuland Laboratories Limited
May 11, 2021

Moderator: Ladies and gentlemen, good day and welcome to Neuland Laboratories Limited Q4 FY2021 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. Ravi Udeshi from Christensen IR. Thank you and over to you, sir.

Ravi Udeshi: Thank you, Steve. Good evening, friends and good morning to those who are joining us from the western part of the world. We welcome you to the Q4 and FY'21 Earnings Call of Neuland Laboratories Limited.

To take us through the results and answer your questions today, we have with us the top management from Neuland, represented by Mr. Sucheth Davuluri – Vice Chairman and CEO; Mr. Saharsh Davuluri – Vice Chairman and Managing Director; Mr. Deepak Gupta – CFO and Mr. Sajeev Emmanuel Medikonda, Head, Corporate Planning and Strategy.

We have sent out the press release as well as the detailed presentation and the same have been uploaded on the website as well as the exchanges. You could take a look at that or in case anyone of you wants it, we could e-mail the same to you.

Before we start, I would like to remind you that everything that is being said on this call which reflects any outlook for the future or which can be construed as a forward-looking statement must be viewed in conjunction to the risks and uncertainties that we face. These uncertainties and risks are included but not limited to what we have mentioned in the prospectus and in the subsequent annual reports which you will find on the website.

With that said, I will now hand over the floor to Mr. Saharsh Davuluri who will give the highlights of the quarter and the year gone past. Over to you, Mr. Saharsh.

Saharsh Davuluri: Thanks, Ravi. Good evening, friends. Thank you for joining the call. But before I start, I hope all of you are healthy and safe staying at home. I think in terms of my opening remarks, I would like to start off by saying that in line with the previous quarter, I will share a few comments about the overall financial results as well as the drivers of the business and then we will open up the floor for Q&A.

So, I trust that you have gone through the presentation that Ravi was referring to, it was posted earlier today on our website and I believe it's also been filed with the exchanges. As always, we would welcome any feedback on the material shared and we would try our best to incorporate them going forward.

Our operations this quarter were at near normal levels; however, raw material sourcing issues, logistical issues in the last couple of weeks of March on account of the lockdown, again being enforced in several states and the relative flight cancellations, etc.,

On the workplace, safety on employee health front, we have been taken the required preventive measures both at the office as well as in our facilities and that we are managing well given the current environment.

On the financial front, we recorded sales of Rs.259 crores which was a growth of more than a third compared to the corresponding quarter of the last year. The same was led by high growth in GDS and complemented by a stable growth in the CMS business. On a full year basis, the overall topline grew by almost a fourth to Rs.953 crores with traction witnessed in both CMS and GDS. Our GDS business continues to see increasing volumes; this was led by the key molecules of Levetiracetam, Mirtazapine and Labetalol. Specialty had a diversified base with some of the important molecules being Dorzolamide, Deferasirox, Entacapone and Donepezil. Going forward, we expect the GDS business to have increasing momentum both in the short-term as well as the long-term.

CMS business has seen growth both from the base line as well as the development projects which have performed in line with our expectations. In the immediate term, we are focusing on some key CMS projects which are approaching commercialization and in the long-term we continue to focus on CMS business origination across key geographies, mostly North America, Europe and Japan.

We would also like to highlight that the CMS business may look lumpy on a quarterly basis due to either seasonality or lumpiness in the orders that we received. But it is expected to deliver growth on a yearly basis. Unit-III operations have gradually been commercialized on a product wise basis and we expect it to show good growth over the next three years.

With that, I would now request Deepak to take us through the Financials. Deepak?

Deepak Gupta:

Thanks, Saharsh. Good evening, friends and very warm welcome to everyone for our Q4 FY'21 Earnings Call. I will briefly update you on the financial, after which we will open the call for Q&A session. The total income for this quarter was Rs.259.3 crores, which is a growth of roughly around 34% on year-to-year basis and 5.6% on quarter-to-quarter basis. The EBITDA for this quarter has gone to Rs.40 crores, with EBITDA margins of 15.4%, which is a decrease of 100 bps over the previous year's quarter and 360 bps on a sequential quarter basis. This was due to impact of Rs.8 crores on account of (NGT) National Green Tribunal order for environmental restoration and one-time settlement charge that we have taken for the income tax department prior year excluded income tax liability for Rs.9.5 crores. Both the said liabilities are one-off in nature and they were earlier declared in our annual report as contingent liability and now they have been crystallized and we have taken a charge for this. Some portion of the

EBITDA was also impacted mainly due to the COVID induced logistic issues in the raw material sourcing. Profit after tax was at Rs.17.2 crores as compared to the loss arising in the previous year quarter and Rs.26.7 crores in the immediately preceding quarter due to the reasons as stated above. This quarter EPS is at Rs.13.43 and the cash and cash equivalents as on the date of the balance sheet stood at Rs.1.1 crore. For FY'2021, our total income was Rs.953 crores, which is up by 24% as compared to the previous year due to the increase in the commercial operations. The EBITDA for the year is Rs.162.5 crores which is higher by 54% which is mainly because of the improvement in the business mix that we have seen. EBITDA margin stood at 17.1% for FY'21, higher by 340 basis points for the same period for the reason stated above. The PAT came to Rs.80.3 crores. And our gross margin is at Rs.170 crores and our gearing ratio continues to decrease on a year-to-year basis. We have also undertaken CAPEX of around Rs.105 crores for FY'21.

With this I now request the moderator to please open the line for Q&A session. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sajal Kapoor from Unseen Risk. Please go ahead.

Sajal Kapoor: So just a couple of questions; first one is around our CNS molecules. Researchers here at the University of Liverpool and King's College, London are pointing towards certain long-term impacts induced by COVID-19 related to various CNS disorders. In the recent data published by IQVIA points towards a number of post-COVID side effects related to Parkinson's, Insomnia, Alzheimer's, Seizures, Depression, Anxiety and so on. I can see that in FY'21 many of our CNS molecules have done very well but given Neuland's long history of CNS filings and domain expertise, how do you assess the emerging problem opportunity landscape please?

Saharsh Davuluri: Thanks for the question, Sajal. Not sure if we are best qualified to answer that question, but I think just from a CMO's perspective, as you rightly said, there's a lot of interest in post-COVID medication, there's been a lot of research done in various areas in pulmonology, Acute Respiratory Distress Syndrome (ARDS) for example is one area where a lot of companies are looking at discovering new drugs for addressing an issue like ARDS which I think is a problem that patients would recover from COVID phase. Again, as a CMO, we work with a lot of biotech companies who are coming up with a lot of innovative drugs and as part of that effort we are also fortunate to work with a few biotech companies who are looking at these areas; however I must say with caution that we still don't know what the outcome of that research is and what the outcome from a business perspective for someone like Neuland would be. But yes, we do see a lot of activity in this area and there are a few opportunities that we are working on, fingers crossed, hopefully something might be big from that.

Sajal Kapoor: Secondly, we used to read in newspapers and media claims that China is ahead of India in APIs, but CEP filings across many molecules, that does not support those media hypotheses, for

example, Propofol has no CEP filing from China and despite the fact that there are very few players globally and the drug stays in short supply, the question is why molecules like Propofol are difficult to make and why do Propofol kind of molecules don't attract competition despite being in short supply?

Sucheth Davuluri: A couple of things, Sajal. One, even though China was in the news a lot, it never really established itself for Complex or Specialty API as a credible source to the pharmaceutical markets. where China was able to make the penetration was for high value antibiotics or semi-synthetic APIs, but that's what they got limited to. Now coming back to molecules, such as Propofol, I think you've partly answered the question that you asked is that they are complex, they're difficult to make and require a very high level of compliance to be able to make the product on consistent basis and I believe Indian manufacturers have established that with a lot more credibility than anybody else.

Sajal Kapoor: Another question regarding our CDMO, CMS pipeline. So, yes, there is a significant traction YoY, 42% sales growth is really commendable. When I look at the commercial APIs, you've got six in total. I know it's a very confidential business, with NDAs and we don't discuss who we are supplying, what those innovators are. But would it be possible to at least add some color in terms of the therapeutic areas where this six APIs are currently targeting? I'm not interested in your customer names, just the therapeutic areas for these six commercial APIs in the CDMO.

Saharsh Davuluri: I understand your question, Sajal. I think let us make a note of it and just think about if there's any way to provide more color. So maybe if you don't mind we'll get back to you on that.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari: Sir, my question is on Unit-III. Since long we being long-term shareholders we are waiting for really good commercial outcome from Unit-III. So if you can little give details broadly on how things are shaping up, what type of high value products are we going to produce and commercialize? Rightly you mentioned in your presentation also that by year end we are expecting a good pickup from that unit. A little bit more detail on that unit and the investment which we made in current year like say Rs.105 crores we invested. So in which area, what type of investment we made and further how we are proceeding on further CAPEX in current year?

Saharsh Davuluri: Thanks for the question about Unit-III. So, Sunil, as we had indicated in our last quarter's earnings, we have just operationalized or commercialized Unit-III and as of now we have two APIs that we have commercialized from that unit. And as we had also indicated in our previous commentary, Unit-III is the newest manufacturing site and that is where we intend to create more and more API capacity for the future business. Now, in terms of our intention for Unit-III, as we are scaling up new molecules both on the CMS side as well as the GDS side, we are looking at either creating capacity for them in our existing facilities which is Unit-I or Unit-II or in the case

it's not suitable for Unit-I or Unit-II we are creating capacity for those products in Unit-III. So, in many ways the way our investments are going on, Unit-I, Unit-II will only see a minimal increase of capacity for new products, there will be debottlenecking, there will be modernization related CAPEX, but unit-III will be where a large part of the investments will happen and that's where a lot of volume increase will happen and that's why we had indicated that by end of this financial year FY'22, we expect a reasonable level of commercialization for Unit-III. So the way we visualize it is that Unit-III is where a lot of additional production blocks and new APIs will get scaled up. Unit-I, Unit-II, we will continue to streamline, debottleneck, modernize. And in terms of business divisions, both CMS and GDS molecules will be going into both. And whatever CAPEX indications we had given previously also, that CAPEX also will go into these facilities based on the specific project requirements.

Sunil Kothari: Sir, Unit-III must be contributing very minimal currently and it can grow substantial part of our revenue over a period?

Saharsh Davuluri: Yes, yes.

Sunil Kothari: My second question is our near-term view on quarter-on-quarter number, manufacturing cost has gone up, our employee cost has gone up, I'm not talking about exceptional expenses which we take but employee cost, manufacturing cost, both have gone up and our top line is similar, so just broadly any of your thought process on cost structure, how it is changing or it should now stabilize at this level in terms of fixed cost?

Sucheth Davuluri: Sunil, I will just tie it up what Saharsh was saying earlier is that as we ramp up Unit-III as well, we're also recruiting a lot of employees in Unit-III so that we are making it ready for commercialization of multiple products. There will be an increase in employee cost as well as manufacturing cost and then we will start to incur the revenue. So there will be this period of a little bit of a mismatch but I think as far as we are concerned it is business as usual, we are not expecting any exceptional increase in overall cost and this trend should continue.

Moderator: Thank you. The next question is from the line of Sheersh Jain from Apex Capital. Please go ahead.

Sheersh Jain: I wanted to understand about the pricing power that you would have in some of the molecules where you dictate the market share. So I wanted to understand are you able to dictate the prices in such molecules and quickly pass on any rises or generally you are into long-term supply contracts in such molecules where you have the majority of the market share?

Saharsh Davuluri: Thanks for the question. So typically when it comes to the GDS business we don't have any long-term pricing contracts, it's usually on a year-to-year basis and even within the GDS business I think if you have to try to look at it segment wise, perhaps on the Prime side, the prices are more market-driven, although Neuland given our track record and our ability to provide high

quality API we tend to have a small premium in terms of what the market prices are. When it comes to the specialty products, there's not as much of a strong pricing reference as it is for Prime. So therefore there tends to be a little bit more variability in terms of pricing and a lot of this is also dependent on the other aspects; the geographies, what kind of competitors are there, what kind of specifications we are able to provide for the API, etc., Most of our products are in a non-commodity type of category and therefore we're not too much driven by spot prices and things like that. On the CMS business, our prices are largely covered by long-term pricing contracts which we have, but again they tend to be reasonable. So, if we have exceptionally high costs, if there are unforeseen expenses that need to be passed through, we typically have the leeway with the customer to renegotiate the prices as well. And also again ties up to the environment that the industry as a whole is facing. So if you look at the situation in the US for the generics two or three years ago, there was enormous pricing pressure. So perhaps at that time negotiating for a small price increase or passing through certain costs would have been a little bit more challenging, perhaps the situation plays a little different. So it's a slightly dynamic environment where GDS prices are a little bit more referenced to competition and CMS pricing is based on what we have for contracts.

Sheersh Jain:

How different would be the margins in the Specialty API segment and CMS segment given the challenges that both of these segments have, so I'm not looking for a specific number. I'm just happy to learn about the industry standard, so given the complexity of both the processes, how different would be the margins in both the Specialty API and the CMS?

Saharsh Davuluri:

I think they would largely be comparable I would say, Sheersh. Again, in CMS we have molecules where we are second source and there the margins tend to be slightly on the lower side, some of the newer molecules that we are working on the other primary source, the margins tend to be slightly higher, similarly for Specialty as well. In fact if we have to put them next to each other, I would say the margins are quite comparable and obviously these are better than the Prime molecules.

Moderator:

Thank you. The next question is from the line of Jai Shah from Navrang Enterprises. Please go ahead.

Jai Shah:

I just wanted to ask the management how is the peptide allocation when it comes to the Unit-III facility and with the Rs.105 crores CAPEX and further planned CAPEX, is the management would throw some light on allocation to peptide molecule and some clarity on what are the kind of projects that we are doing that are in the pipeline for the peptide division?

Saharsh Davuluri:

Thank you for the question. So I think when it comes to peptides, we've indicated in the past most of our peptide molecules are part of our CMS portfolio and today I think we have almost a dozen or so out of the 78 CMS projects that we have today. These projects are all in various stages of scale up and whenever we do scale up peptides, actually it does not happen in Unit-III, it actually happens in our Unit-I because that's where we have our peptide facility and that's

where we intend to further augment peptide manufacturing capacity in the next year or so. So today we have maybe about two peptides in CMS which are reasonably close to commercialization but they are not yet in commercialization and also we have two peptides which we are developing for generics which is part of the GDS new product portfolio. And as and when these molecules get scaled up, we will scale them up in Unit-I. And to answer your question as the scale of the peptides goes beyond the capacities we have in Unit-I we will possibly create more capacity for them in Unit III, but that's not in the immediate future.

Jai Shah:

Last quarter you mentioned that slowly, gradually we've reduced our dependence on the import of starting materials from China and now it is less than 20%. But however, due to the sporadic rise in the cost of APIs that the whole industry as a whole is facing, that is really like a short-term or a medium-term outlook on how we will be able to tackle our input cost on yearly basis that since we have been procuring more and more starting materials from domestically or from other partners, is there any light that you can throw on how the cost effectiveness would be achieved?

Sucheth Davuluri:

Just to clarify, even in the last call, our overall objective for procurement or supply chain management is to shorten the supply chain and also build multiple options. Our goal was not in the foreseeable future to completely stop sourcing from China. All we want to make sure is that we have alternate equally viable options so that we're not completely dependent on a specific geography for our supply chain. We're already seeing some cost escalations, given the situation, we are collaborating with our customers to see how we share the implications of these increased costs, but you can be rest assured that our goal is to deepen the supply chain and it is not only because of cost.

Moderator:

Thank you. The next question is from the line of Sahil Sharma, an individual investor. Please go ahead.

Sahil Sharma:

Good to see the CMS pipeline evolve the way it has especially the fact that molecules in the development stage have gone up from 12 to 14 now. Any guidance on when we can expect the next commercialization of the CMS molecules timeline?

Saharsh Davuluri:

I think we can't be able to really provide any guidance on the commercialization and when it will happen, but I think what we can say is that these are fairly late stage molecules, we have many of them which are actually in phase-III, some of them completed in phase-III and actually are commercial and we are kind of in the midst of validation, etc., but given the fact that these are for highly regulated markets and there's that new application process, I think it would be better to look at a slightly medium term horizon, maybe two to three years' time for a lot of these molecules to get commercialized. Also, keeping in mind that there is a portfolio effect as well, right, because we may have several molecules but we are also mindful that not every molecule may be commercially successful. So I think two to three year timeframe is a good timeframe to look at the CMS pipeline that we currently have getting reasonably well commercialized.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Sir, my first question is on recent disclosure to the exchange regarding downward revision of some land agreement, area that we were supposed to receive, so if you can just throw some light, you have sold some 120,000 square feet this quarter which we mentioned in the disclosure, some complete picture on what is happening there?

Saharsh Davuluri: The background of this is that Neuland has a piece of land in Hyderabad which we had determined that we would not build our own facility over there and we had decided to enter into a joint development agreement with a real estate company. As a result of that partnership, the real estate company actually created a large piece of commercial real estate in which Neuland was entitled to some square footage of the building. As per the agreement that we had with the builder that square footage was in the form of what is defined in the real estate world as a cold shell. Now that cold shell meant that the building would still need to incur certain investments from us to convert it into a warm shell which would be for work involving false ceiling, ducting, piping, etc., And as part of our agreement we had to pay or reimburse the builder certain amount for these cold shell to warm shell expenses which the Board felt was better by actually selling a part of the square footage of that building and giving the proceeds of that sale to the builder so that you would not have to pull funds out of Neuland's core business and that decision had resulted in us having to reduce our square footage from the original building and by reduction what we did is that reduced amount of square footage was actually sold back to the builder at the current market price and the consideration that we received for that was what we reimbursed the builder for converting the cold cell into the warm shell. So, I think as a result of this process, which was disclosed on the stock exchanges, now whatever remaining square footage is there about 1,70,000 sq.ft. or so, is warm shell that is ready to be occupied and is going in position for the company for either a long-term lease or any other kind of **occupation** and the expectation of the board and the management is to use the proceeds from such long-term lease or anything for again investing into our core operations. So, that's the background very broadly. I hope it answers your question.

Pratik Kothari: Absolutely does, thank you for that. And my second final question is on the CAPEX and R&D side. In the presentation itself, if you can mention what kind of R&D spend that we do during the year or quarter, what kind of filings that we have done, that is just a suggestion but until then if you can just throw some light on what kind of spend do we do on the R&D side, how many molecules do we file, what kind of areas do we focus on and also the Rs.100 crores of CAPEX that we have done is clearly, they have not increased capacity for that, so what was this regarding?

Deepak Gupta: There are two kind of expenditure in terms of R&D; one is the capital expenditure that we use to build R&D capabilities and secondly, the expenses that we incur in terms of operating expenses. So typically in our business, we do allocate roughly around 5% to 7% of our total

CAPEX spends for R&D so that we can upgrade our R&D facilities in terms of new molecules that come into the picture. In terms of operating expenses for the CMS business, So what we do is we recover it from the customer, so we bill it to the customer and recognize that as a revenue for our business so that is not a charge to the CMS business and for our own development for the GDS molecules, that is the inbuilt cost, that is basically absorbed in our product processing and we eventually charge it to the customers. So I can say that overall the R&D CAPEX is roughly in the 5% to 7% range and operating expenses are more or less recovered by way of revenue from the customers.

Pratik Kothari: And on the CAPEX side, Rs.100 crores that we spent this year?

Deepak Gupta: This year we have roughly invested in CAPEX of around Rs.105 crores and this has gone majorly for capacity enhancement as well as for the facility upgradation. So these are the two areas where we have invested in CAPEX for roughly around Rs.75 crores in this current year.

Pratik Kothari: But our capacity is same, right, year-on-year last year versus this year?

Deepak Gupta: So capacities we are building mostly in Unit-III, so that's where the new business is coming in, so our Unit-I and Unit-II is optimally utilized as of now.

Pratik Kothari: So we are further expanding our capacity from 200?

Sucheth Davuluri: Just to add to what Deepak said, capacity is not the same, in fact, we're enhancing our capacity quarter-on-quarter. So as he clarified majority of the CAPEX is gone for capacity expansion for the present as well as future as well as overall upgradation of the facilities including R&D.

Moderator: Thank you. The next question is from the line of Samir Desai from PH Capital Limited. Please go ahead.

Samir Desai: A couple of questions; first is what is the currently percentage sales in CDMO and CMO and three years going forward, any guidance on that? As we know, CMO margins are high and CDMO margins are thin. Secondly, what is the total investment done in Unit-III and what is still to be spent on that? And then last question is EBITDA margin we see quarter-to-quarter has been reduced. Because of some raw material prices has gone up or finished goods pricing has come down?

Saharsh Davuluri: I presume it's CDMO versus CMO, you're referring to GDS versus CMS? CMS versus GDS I think this year the mix is about 65:35 in terms of revenues. Going forward we've not been able to give any kind of a guidance. It's hard for us to estimate because it really depends on how the CMS business scales up and how the GDS molecules do as well, but we expect that it should be either at current levels or should improve, but it's difficult for us to say we've not intentionally given any guidance on that. The question with regards to the variability in the EBITDA margin.

I think as our CFO, Deepak had indicated in his opening remarks, there were these one-time expenses which had an impact on our margins this quarter, but notwithstanding that we believe there has been a steady improvement in EBITDA margin especially if you look at things over eight to ten quarters perspective, you would see a steady improvement in EBITDA margins and what we have maintained in the past is also that we expect the EBITDA margins to continue to improve. One of the things that we've also seen happening in FY'21 throughout the year is that the operating leverage of the business has also increased. So as we've grown from a 700-odd crores company to a 950-odd crores company, we've seen better operating leverage and an overall improvement in EBITDA margins and we expect that trajectory to continue.

Samir Desai: And what about the total CAPEX in our Unit-III investments?

Saharsh Davuluri: I think as Deepak has earlier indicated, we have CAPEX plan for about Rs.100 crores or so and had indicated a lot of these investments would be going into Unit-III, besides going into Unit-III, there would also be some going into Unit-I, Unit-II for modernization debottlenecking and of course for R&D, but for Unit-III itself standalone we don't have a number right away.

Moderator: Thank you. The next question is from the line of Darshan Mehta from DM Stocks. Please go ahead.

Darshan Mehta: One thing is if we look at quarter-on-quarter basis the revenues are pretty much flat, I'm not including the other income which was Rs.15 crores. You had said that raw material sourcing was one of the key reasons which impacted sales and on the EBITDA front there were two one-off that came in. How much of an impact did this cancellation of orders or raw material issue have, if this was not there, how much probably would the sales have been for this quarter?

Deepak Gupta: So there are one-off items as we talked. If we exclude the one-off items including the gains that we realized on sale of property, so our current EBITDA margin has been in the range of roughly around 17% which is as of now 15.4%, so there is 1.5%, 1.6% increase increment opportunities in EBITDA margin which could help in there if this one-off item is excluded for the time-being.

Darshan Mehta: No, You did not answer about the revenue from operations? You said that raw material sourcing also impacted the sales. So if you can tell me how much lower the sales because of this raw material sourcing? Secondly, if you can say because EBITDA margin still is lower from the past few quarters because we've been clocking margins up to the tune of 19% in the last quarter. So for the next three, four quarters where do you see margins? If you can just answer on how much lower the revenues were because of order cancellation and raw material issues?

Sucheth Davuluri: I will clarify the initial part. We did not have any order cancellations in Q4 that we did not have any significant impact on the overall sales because of raw material cost, however as Deepak and Saharsh were clarifying, earlier we had certain one-time expenses which came up in Q4 which

impacted the overall cost and therefore the margins but because of raw materials specifically we did not have any significant impact in Q4.

Darshan Mehta: You didn't answer the part, how do you see the next year in terms of margins and revenues?

Saharsh Davuluri: We never give guidance in terms of how the business grows but I think if you look at the trajectory of the past two years and we see the steady improvement in the margins we believe that the momentum continues to be strong because both for the CMS molecules and the GDS molecules, the prospects look fairly good. We probably would not be able to quantify what kind of margins of growth or what kind of target EBITDA margin we are going to have, but we expect that the trajectory will be fairly steady and you should see consistent performance from us going into FY'22 as well.

Sucheth Davuluri: And as a general comment to our investors and shareholders, I think what Saharsh said is absolutely right, I think we expect the business to continue, we haven't seen any indications from our customers in terms of their expected offtake but at the same time we all know that the current situation with COVID has brought in a lot of uncertainty and nobody knows how the situation is going to pan out. So we're keeping a close watch. We're managing it on a day-to-day basis, but only time will tell us to how the current situation will impact us.

Moderator: Thank you. The next question is from the line of Yogesh Bhatia from Sequent Investments. Please go ahead.

Yogesh Bhatia: I would actually want to know that what is the total CAPEX until done for Unit-III? Rs.100 crores has been done.

Deepak Gupta: So if I talk right from the beginning like we acquired this Unit-III, this is a Brownfield plant, so there was initial acquisition cost, after that we spent some CAPEX for building the facility. So roughly till date I can say that we have invested overall in this Unit-III roughly in the range of Rs.220 crores of CAPEX investment.

Yogesh Bhatia: Our usual asset turnover is 2.5x. So do you expect something similar from Unit-III over the period of next one, two years till we reach optimal utilization?

Deepak Gupta: Unit-III is ramping up. So we started commercial production in Unit-III. We are also looking to export from Unit-III to Europe as well as to US subject to approval from the US authorities. So currently Unit-III is in the development stage. We won't be able to comment whether initially we will be able to get 2.4, 2.5 times from Unit-III but gradually it will pick up.

Yogesh Bhatia: That should be over a period of next two years?

Deepak Gupta: Maybe two- three years down the line, yes.

- Moderator:** Thank you. The next question is from the line of Jatin K from Alpha Capital. Please go ahead.
- Jatin K:** My first question will be on the pricing side of the API. Are we seeing any price jumps or things like that in Q4 as well in the current quarter?
- Saharsh Davuluri:** Nothing in a short-term basis, Jatin. Prices have been reasonably stable. We negotiate prices on an annual basis.
- Jatin K:** In the presentation you have talked about this raw material sourcing issue. And you are saying that this has not affected the Q4. So, is it affecting right now or do you expect it to affect in the coming months because you have mentioned in the PPT but you are saying it has not affected much in Q4 numbers?
- Saharsh Davuluri:** Where it has affected us, Jatin, is inward logistics, outward logistics, delays, in production planning, those are the impacts that we've had on that. I think as a result we've had to reorient our operations, our production planning, etc., to try to cope up with the situation. The impact materially on Q4 was minimal and that's what Sucheth has clarified. We are still not at the end of Q1 but we are hoping that our planning will mitigate any of the uncertainties that we are facing with regards to these raw material issues. But I think just to be very transparent, we wanted to let investors know that logistics on raw materials and outward logistics are a constant source of tension for us in managing our operations.
- Deepak Gupta:** It is hard to foresee predictability especially when the situation is so uncertain. But as Saharsh said we're doing everything we can to ensure that there is continuity including replanning constantly to make sure that we're dealing with a situation.
- Jatin K:** On the CMS side, while molecules have been pretty much stable QoQ, revenues have gone down. So is there some deferment out there in CMS side?
- Saharsh Davuluri:** In particular, Jatin, when you look at this CMS business, I would not look at it on a quarter-to-quarter basis because there would be certain products for which we would not have orders in some quarters and therefore there could be certain volatility. I think if you look at Q4 in particular our commercial orders were low and that's because we didn't have orders in that quarter, we perhaps delivered in Q3 or we will deliver them in the upcoming quarters, but I think in terms of our development revenues I think we had a fairly good quarter. So I think on CMS I would look at things on an annualized basis and they look very promising. I think what you have seen in Q4 is not necessarily predictive for what's going to happen, I think when you look at the overall last three to four quarters, I think that's a good reflection of what we're in.
- Jatin K:** So current growth rates do you expect to continue in coming years?

Saharsh Davuluri: CMS revenue was Rs. 189 crores in 2020 which grew to Rs.280-odd crores in 2021 and we expect that growth has happened because not just the commercial products have done well but we've been also able to add new products. And as I was mentioning in the earlier comments, as new molecules get scaled up and commercialized, we expect this growth to go further. How much it will grow, what kind of guidance is something that we are stopping short of giving.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala: I have two simple questions. Typically you did explain very well that one should not look at what has happened in Q4 because of one-time expenses, etc., but look at on an annual basis. So would it be fair to see the cost structure as it stands in Q4 as a basis for us to make our financial modeling into what is likely to happen like you said that 17% margin, we have about 16.7% without considering any other income and also removing that 9.55 crores which you have included in the other expenses, so eliminating that I think the margin is 16.7%, so can we measure any increase that will happen in future because of better product mix and things like that on that 16.7%, 17% range?

Saharsh Davuluri: I'll give a brief response and then I will request Deepak to add his perspective as well. So I think in terms of modeling, obviously I would not be able to comment but yes Q4 is perhaps not the best quarter to model expenses because of these one-time expenses. I think going forward we expect two things to happen; we expect the business mix which has already improved significantly over the last three years to continue improving and that should in better margins. How much? What? Something depends on the success we achieve with the individual molecules. I think at a cost level as Sucheth and I had indicated that we expect to capitalize Unit-III further, we expect to add more manpower, we expect to invest more in R&D and we expect to keep investing. So there would be certain expenses that we expect to incur going forward as well. I think it requires us to understand better the level to be able to model it. On the big picture the three manufacturing sites and the R&D facility that we have, one year ago we did Rs.700 crores, this year we did about Rs.950 crores. We expect operating leverage to play a role in the business going forward as well and that should also along with the better business mix help us have good margins. The quantification of it is something that we leave to you. I will still ask Deepak to add his comments and see if there's anything else that he can provide any inputs.

Deepak Gupta: I think Saharsh gave a very good perspective. Apparently we should look at the full year performance and the full year is actually not a true reflection of what is going to happen in future because future is also dependent on how Unit-III revenues will be generated, what will be the kind of product mix and all. So it's very difficult to say that whether EBITDA margin is a true reflection of the picture as of now for the full year basis, but I see that once the Unit-III becomes ramped up, then probably we can have a better visibility about the future margins, but as of now it is too early to say since Unit-III still under ramping up phase. So maybe we will have to wait for a couple of quarters to see how these pictures turn out to be.

- Hasmukh Gala:** Annual CAPEX requirement will be around 100 crores per annum or will it grow?
- Deepak Gupta:** So we are projecting similar kind of CAPEX investment for the next year, that is also dependent on the projects which will come up, we will be evaluating those projects and after that evaluation only we will see whether we are getting a good ROIs on those projects, accordingly we will take a call. So currently we are suggesting based on the current year similar kind of investments going forward subject to the evaluation on the projects.
- Hasmukh Gala:** What will be the effective income tax rate we should consider?
- Deepak Gupta:** We have basically opted for a 25% interest rate. So I don't see any changes this is going to happen in the tax rate, but however it is subject to the next year's budget.
- Moderator:** Thank you. Ladies and gentlemen, we take the last question from the line of Keval Ashar, an individual investor. Please go ahead.
- Keval Ashar:** Over the past few years, we have successfully scaled up our CMS segment and at present it is 28% of our total revenues. Now as our strategy is to focus on late-stage molecules from the clients as well, how much percentage of total revenues do we expect from CMS segment over the medium to long term as we cannot say it on quarterly basis?
- Saharsh Davuluri:** Thanks for the question, Keval. I think the CMS business has been steadily increasing as a percentage of overall business. Going forward I think how much of the total business it would be really determined on what kind of scale-ups will happen in the CMS new molecules business as we know that the baseline business is steady and predictable, it's probably growing at 8%, 10% per year, what makes it difficult to model for us is the new molecules which we have in the CMS pipeline, we don't know how many of them are going to be successful and to what extent and somewhere that determines the proportion of the CMS business in the context of the overall business, at the same time we also have a lot of volume increase in our GDS molecules as well. So somewhere it's a very dynamic situation where we have a bunch of CMS molecules scaling up and getting commercialized which we are not able to predict, second, we also have a lot of GDS molecules which are doing well as well. In this kind of an environment, we do have our internal estimates, etc., but we are not in a position to give any sort of a guidance on what will be the proportion going forward. I think the current ratio of the business which is approximately 30% is a good base to look at and I think going forward since the CMS business is a smaller business and is growing at a higher rate, we can expect it to have a higher contribution, but to what extent and how much time, is something that we would not be able to provide any inputs for.
- Sucheth Davuluri:** Once again, thanks everyone for all our question and interest in Neuland. I think your questions about Unit-III, the overall CAPEX, margins, what the expectations are, why there was a fluctuation, the current situation with COVID, the supply situation from China as well as raw



Neuland Laboratories Limited
May 11, 2021

materials, I think very pertinent questions, I think as much as we enjoy answering them, it also ensures we think about all these issues in reflection to your question. So thanks for your interest in Neuland. Thanks again for your questions. If you have further questions, please feel free to write to either Sajeev or Diwakar and we'll be more than happy to schedule time so that we can get all your questions answered. Once again, thanks for being here and we will see you next time.

Moderator: Thank you. Ladies and gentlemen, on behalf of Neuland Laboratories Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.