INNOVA CAPTAB LIMITED
1281/1, Hilltop Industrial Estate, Near
EPIP, Phase-I, Jharmajri, Baddi, Dist.
Solan (H.P.)-173205 India.
Phone: +91-1795-650820

February 20, 2024

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400001
BSE Symbol: INNOVACAP
BSE Scrip Code: 544067

To,
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, "G" Block
Bandra-Kurla Complex
Bandra (E), Mumbai – 400 051
NSE Symbol: INNOVACAP

Subject: Transcript of the Investor/Analyst Earnings Call held on Wednesday, February 14, 2024

Dear Sir/Madam,

This is in continuation to our letter dated February 14, 2024, wherein we had informed regarding the audio link of the earnings call with analysts/investors for the quarter and nine months ended December 31, 2023 (Q3 Results).

In this regard, please find enclosed herewith the transcript of the said call.

The transcript is also available on the Company's website i.e. https://www.innovacaptab.com/PDF/Conference%20Call%20Q3%20FY%2014-Feb-2024.pdf

You are requested to take this information on record.

Thanking you,

Yours faithfully,
For **Innova Captab Limited**

NEEHARIKA SHUKLA
Digitally signed by NEEHARIKA SHUKLA
Date: 2024.02.20 16:26:23 +05'30'

Neeharika Shukla
Company Secretary & Compliance Officer
Membership No.: A42724

Encl.: A/a

"Innova Captab Limited
Q3 FY '24 Results Conference Call"
February 14, 2024

Disclaimer: This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader

MANAGEMENT: **MR. VINAY LOHARIWALA – MANAGING DIRECTOR – INNOVA CAPTAB LIMITED**
MR. GAURAV SRIVASTAVA – CHIEF FINANCIAL OFFICER – INNOVA CAPTAB LIMITED
MR. LOKESH BHASIN – DEPUTY CHIEF FINANCIAL OFFICER – INNOVA CAPTAB LIMITED

MODERATOR: **MR. AMEY CHALKE - JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to the Innova Captab Limited Q3 FY24 Earnings Conference Call hosted by JM Financial. 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 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. Amey Chalke from JM Financial. Thank you and over to you sir.

Amey Chalke: Thank you. Good afternoon everyone and welcome to the first result conference call of Innova Captab Limited. Joining us today on the call are Mr. Vinay Lohariwala, Managing Director, Mr. Gaurav Srivastava, Chief Financial Officer, Mr. Lokesh Bhasin, Deputy Chief Financial Officer. I would like to now hand over the call to Mr. Vinay Lohariwala for his opening remarks. Thank you and over to you, sir.

Vinay Lohariwala: Thank you everyone. Good morning everyone and thank you for joining on our first ever earnings conference call to discuss the operational and financial performance for Q3 and nine-month FY24. On this call, we are joined by Mr. Gaurav Srivastava, CFO, Mr. Lokesh Bhasin, Deputy CFO and SGA, our Investor Relations Advisor.

I hope everyone has had an opportunity to go through the financial results and investor presentation which has been uploaded on the stock exchange and on our company's website. This quarter has been monumental for the company due to its listing on the stock exchange. We would like to thank all our shareholders and other market participants for their support.

As some of you may be hearing us for the first time today, let me give you a brief overview of our company and then Mr. Gaurav will take you through the operational and financial performance. About Innova Captab, Innova Captab is an integrated pharmaceutical company in India with a presence across the pharmaceutical value chain including R&D, manufacturing, drug distribution and marketing and export. Our journey started in 2006 with a plant in Baddi, Himachal Pradesh.

In 2010, we established a new scientific facility for cephalosporin products. Both our plants cater to domestic CDMO customers and with our quality products and efficient delivery, we keep on adding new CDMO customers. In 2013, with the receipt of our international GMP certificate, we ventured into export markets and in 2015, we also established Univentis Medicare Limited through which our own-brand marketing operations are undertaken.

This new business area helps us to diversify and cater the base for our future growth. Fueled by increased growth, we keep on expanding our manufacturing capability. We started a new general block in 2017 and further expanded it in 2021.

We are setting up a new manufacturing facility in Jammu. Our company caters to the top 14 out of 15 Indian pharmaceutical companies. We have license to manufacture products through four state-of-the-art manufacturing facilities in Baddi, Himachal Pradesh, Dehradun, Uttarakhand

and Taloja, Maharashtra, while maintaining WHO GMP, EU GMP, UK MHRA and other major registrations with these facilities.

With the support of our world-class manufacturing facility and a reliable supply value chain, we are continuously striving to maintain highly efficient operations. The foundation of our company is our in-house R&D which helps to focus on building complex product portfolios and retain the customers. Our company ranks third among the CDMO peers in terms of formulation manufacturing capacity in India.

The company operates in four major business areas. One, CDMO, Contact Development and Manufacturing. Our comprehensive CDMO formulation capability allows us to offer our customers multiple dosage of form including oral solids, oral liquids, dry syrups, ointments and injectables.

The increased use of outsourcing by pharmaceutical companies has created opportunities to build more strategic relationships with customers. As of 9 months FY24, we have more than 180 CDMO customers. Revenue contribution from this business is nearly 60%.

Number two, Domestic Branded Generic. This business consists of development, manufacturing and distribution of Generic formulation products which are marketed and distributed in India under our own brand, named through online and offline channels. Our Domestic Branded Generic products are sold through our Pan India network of distributors,stockists and pharmacies. Revenue contributed for this business is nearly 18%.

International Branded Generic. Our International Branded Generic product business is focused on exports to emerging and semi-regulated international market while expanding our business to regulated markets like United Kingdom and Canada.

We had exported our branded Generic to more than 20 countries and we have 189 active registrations (out of which 16 are subject to renewal) with international opportunities and more than 200 fresh registration applications in process with international approaches. We have a strong pipeline of our 41 in process product dosiers for exports. Revenue contributed for this business is nearly 12%.

Sharon Bio-Medicine Limited. We acquired Sharon on 30th June 2023 through CIRP process. That entity has strong CDMO formulation manufacturing capabilities including API manufacturing and CRO.

With a specific focus on exports, it catered to both domestic as well as international markets including the mature markets like Canada, UK, Europe, Australia, Korea, Vietnam and America. Revenue contributed from this business is nearly 11%.

Future plans: We are setting up a greenfield plant in Jammu with a project cost of approximately INR350 crores. The new project is proposed to have cephalophorin, penicillin, penum and BFS blocks to manufacture tablet, capsule, dry powder, injectable, dry syrup and BFS and respiratory respules products. The facility is proposed to benefit from new central sector scheme for industrial development of J&K.

We expect to commence operation by H1FY25. We keep on aiming to expand our existing business by enhancing our product portfolio with new products and complex dosage, bringing new customers on board and expanding our wallet share with existing customers. With continued focus on R&D, we are establishing a new R&D center in Panchkula, Haryana also.

We are also looking to expand our business to regulate market like the UK, Canada by expanding our product range to meet their requirements. Also, the acquisition of Sharon, we aim to get a long-term capacity with additional product offerings while supplementing our business value chain. Our current capacity utilization for nine months FY'24 is in range of 45% to 50% and we will be operating at the optimum level in the coming years.

To propel sustainable growth, the company is stemming new growth prospects and heading forward for the value-added products. The Indian pharmaceutical companies are poised to grow significantly in mid to long term as domestic and global manufacturers are looking for a sustainable supplier like us. I now request Mr. Gaurav to take you through the operational and financial performance for the Q3 and nine months FY24. Over to you, Gaurav.

Gaurav Srivastava: Thank you. Good afternoon, everyone. Q3 and nine months FY24 has been a strong quarter for us. All of our key products meet healthy demand. In terms of Q3 FY24 highlights, the revenue from operations stood at Rs 302.5 crores with a growth of about 25% on a year-on-year basis. Business mix was as follows. CDMO contributed about 55% for this quarter. Domestic branded Generic contributed 17%. International branded Generic came in at 12%. And the balance, 16%, was contributed by Sharon.

Overall exports for the quarter stood at 24% as compared to 10% in the quarter 3 FY23. EBITDA came in at Rs 47 crores with a growth of 27% on a year-on-year basis. EBITDA margins stood at 15.5%. Profit after tax for the quarter came in at Rs 25 crores with a growth of 28% on a year-on-year basis. This includes an impact of Rs 1.6 crores of finance costs on account of accounting of CCPS, which was included in the quarter. On a nine-month FY24 basis, the revenue from operations came in at Rs 818.7 crores with a growth of 19.4% on a year-on-year basis. Business mix came in as follows. CDMO contributed 59% for the nine-month period.

Domestic branded Generic came in at 18%. International branded Generic contributed 12%. The balance, 11%, came in from Sharon.

Overall exports for the period stood at 21% as compared to 9% in Q3 FY23. EBITDA for the nine months came in at Rs 123.2 crores. As against Rs 93.4 crores in the same period last year. EBITDA margins for the nine-month FY24 came in at 15%.

PAT for the nine-month FY'24 came in at Rs 65.6 crores with a growth of 29.4% on a year-on-year basis. Out of the total net proceeds of our IPO of Rs 293.1 crores, we have successfully deployed Rs 231 crores, which is 100% of our FY'24 deployment target as of date.

With this, I would like to conclude the presentation and open the floor for any questions and answers that you may have.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jagvir Singh from Shade Capital. Please go ahead.

Jagvir Singh: Yes. Thanks for the opportunity. So my question is related to the CDMO business. In the CDMO business, revenues were down from Rs 687 crores to Rs 680 crores in FY'23. So what is this number in the nine-month of CDMO business in absolute terms?

Gaurav Srivastava: Sorry. Could you please repeat the question? We're not sure we followed the last bit of it.

Jagvir Singh: Yes. CDMO business was down compared to FY'22 to FY'23, Rs 687 crores to Rs 680 crores. So, what are the absolute numbers for nine months in the CDMO business?

Lokesh Bhasin : So, the CDMO revenue number for the nine months this financial year was Rs 484 crores.

Jagvir Singh: 400?

Vinay Lohariwala: Rs.484.2 crores.

Jagvir Singh: Okay. So, sir, why is this business going down in any particular reason?

Gaurav Srivastava: The reason for this is, if you understand the way our business operates, for us, we work with our customers on an open costing basis. And the cost of the API directly influence the revenue itself. So, with the declining API prices, our revenues also can take a downward trajectory. However, our margins remain protected. And this is why, if you see from a margins perspective, we continue to grow in spite of a decline on the revenue side.

Jagvir Singh: Okay. So, what is the expectation for this CDMO business in the next one or two years?

Vinay Lohariwala: So, I think you are looking at our graphic representation of CDMO business that is down from 74% to 59%. So, that is the reason for that also that the Sharon number is being added to our top line number.

So, more or less, let me have the number, exact number, last nine months and this nine months. So, as the reason was explained by Gaurav. So, last year to this year, the number in a CDMO is flat. The reason that is already explained by Gaurav. Now, if you look at our manufacturing facility, we have the three blocks in Baddi region.

So, one block is like a 2006 block. And then the other cephalosporin block, we have established in 2010. Then, we have the general block that we established in 2017 and expanded in 2021. So if we see from our capacity utilization, out of these three blocks, two blocks, that is the cephalosporin or 2006 original unit one block, is at a higher capacity utilization.

So, from the capacity point of view, we have a spare capacity in our general block, but we have a capacity constraint in cephalosporin. So that we are expanding in Jammu. So, most of our growth will come from Jammu.

The reason one reason is that we have no capacity headroom in cephalosporin. So once we establish the cephalosporin again in Jammu, then the revenue will start coming from there. And, there are more three blocks will be there, like Beta-Lactam, Penem, Respule & general facilities. So, number will also flow from there.

Jagvir Singh: Okay, sir. In the current excluding Jammu and Kashmir, so the current capacity utilization is 45% to 50%, as you told in the presentation. If we exclude the Jammu facilities, what kind of revenue we can do from this at the peak utilization?

Vinay Lohariwala: Yes, for any manufacturing facility like this, 45% to 50% is a blended capacity utilization. If you see in detail, then we have like a cephalosporin facility, like dry syrup or the dry powder injection capacity utilization at 70% to 75%. And, in general block, we have like a 40%. So, blended is 45% to 50%.

So, now we estimate that a level of 70%-75% is a good volume utilization looking at the seasonal variation, in like a peak season we can reach up to 90% 95%. And in the lean season, like it could be 60%,-50%. So, we have the headroom in our general block for 20%, 25% capacity still to be fulfilled.

Jagvir Singh: Okay. And in the Sharon Bio-Medicine, we did around Rs 192 crores in FY'23. So at the peak utilization, what kind of revenue we can do from the Sharon and what kind of margins we can achieve from the Sharon Bio-Medicine?

Vinay Lohariwala: So, if you look at the Sharon margin profile, it is like we have the 45%- 50% gross conversion margin. And then, being in IBC, they also make earlier before our acquisition, they make like a 14%, 15% of EBITDA only. But after acquisition, we have a lot of synergy and we see a margin improvement there also.

So, if you see like the Rs 192 crores, that is approximately capacity utilization of 50%. So we have the headroom there also for another Rs 100 crores. We can say like to reach at 70%, 75% level. And then we can say by improving or debottlenecking a few of the sections, the capacity can also be enhanced.

Jagvir Singh: Okay, sir. And then, so are we planning any capex also in the Sharon Bio-Medicine in the next two, three years?

Vinay Lohariwala: Not immediate future. But once we reach to 10%-15%, capacity utilization will increase. Then, we will definitely look into the debottlenecking and what could be like a few section-wise expansion, like changing one machine or two machines or improving the efficiency.

Jagvir Singh: And last question related to the debt. In the IPO, we raised some money for the debt payment. So what kind of interest rate savings we can see in FY'25?

Vinay Lohariwala: So Gaurav will explain to you.

Gaurav Srivastava: Sorry, could you repeat your question, please?

Jagvir Singh: We raised money in the IPO for the debt repayment. So after the debt repayment, what kind of interest savings we can see there?

Gaurav Srivastava: So, if you look at it, we are looking at currently, on a full year basis, should be about somewhere in the range of Rs 18 crores to Rs 20 crores is roughly what we should look at in terms of interest savings coming through for the next year basis.

If you look at currently, in terms of post the fund raise, all our debt has been repaid. The only debt we carry on our books, which is related to the Jammu project. That is Rs 235 crores debt which we have related to that project. And most of that is getting capitalized as of now.

And once the project commences, we will start getting the concession interest subsidy from the government. So, it is 8.5% coupon rate debt. But, we have a 6% interest subvention coming in. So, effectively, we have a cost of 2.5% for us. And that is the only debt that will continue on our books going forward.

Jagvir Singh: Okay. So, we will start the Jammu plant in FY'25. So, in FY'26, what will be the interest cost roughly, any idea in FY'26?

Gaurav Srivastava: I think FY'26 is a bit far out. We would prefer not to give too much of a guidance on that.

Jagvir Singh: Okay. Thank you very much, sir.

Viany Lohariwala: Thank You

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

Dheeresh: So, congratulations, Vinayji, Gaurav, for a good listing, successful listing. My question is on Slide number 6, where you are showing the 9-month revenue EBITDA and segment wise mix. So, in CDMO, like it is being, because of the pass through of the cost, the revenue is showing a decline of [inaudible] about 9 months. But from an EBITDA point of view or let's say from a volume activity point of view, what would have been the growth in that business?

Vinay Lohariwala: So you are asking about the volume growth?

Dheeresh: No, sir. We are saying that 5% to earlier question, you explained that 5% will grow in CDMO because cost passed through, right? Now that is because of cost passed through. But volume growth, gross profit growth, EBITDA growth would have come in that business. So, what is that growth?

Vinay Lohariwala: Okay.

Moderator: Dheeresh, I request you to speak a little closer to the mic. We can't hear you very clearly.

Dheeresh: Okay. Vinayji, did you get the question or do you want me to repeat?

Vinay Lohariwala: Can you repeat again, please?

Dheeresh: So, Vinayji, if you see the CDMO business, like we are explaining 9 months, it is down by 5% in revenue. It is mainly to do with the cost passed through, right? Because area taxes and other taxes are coming down, right? But our, let's say, contribution profit in that business or volume growth in that business, if you can give some measure of volume activity in that business? A gross profit or EBITDA, whatever measure you have directly with you, you can give. I will take it otherwise later if you don't have it right now.

Vinay Lohariwala: So, that data is basically not available to me in hand.

Dheeresh: I will take it later.

Vinay Lohariwala: Yes, I will give you the data offline.

Dheeresh: Sure. We will take it from Gaurav. And Gaurav, excluding Sharon, EBITDA growth is like 17%-18%, right? For 9 months.

Gaurav Srivastava: So, I think, just to your previous question, if you want to look, you know, a good proxy for that is also if you look at the standalone numbers, right? There you would find, look at it, that we have got about 7.5% growth, which is on an EBITDA level from a 9-month basis. So, in standalone business, obviously, as the CDMO business, being the client chair of that business, that's a good proxy for the previous question that you were looking at. And similarly, on the EBITDA also, it will give you a similar view.

Dheeresh: Okay, understood. And this Jammu plant, if you can just explain, where are we in the construction phase? When do you expect it to commercialize and revenue? Which quarter's revenue to show?

Vinay Lohariwala: So, in Jammu, like we have the four blocks, that includes Cephalosporin, Beta-Lactam, Penem, and General Block. So, our two blocks that is Cephalosporin and General Block, civil is almost completed. Machines are being installed, and we are in a finishing phase.

So, we expect that by the March end, we will be ready for validation to start with for these two blocks. So, and the next two, that Beta-Lactam and Penem block, is just two months behind that. Like in Q1, May or June, that physical completion will be there. So, we expect to start in H1 or late in the Q1 for the commercial production.

Dheeresh: Okay. So, in the September quarter, will be the first full quarter after the full facility is ready, right? Is that fair to say?

Vinay Lohariwala: Yes. So, the full facility will be commercialized in the September quarter.

Dheeresh: September quarter, okay. And how do you expect the ramp-up, sir?

Gaurav Srivastava: So, just to clarify before Vinay Ji answers that question, in terms of the P&L, you will see the full quarter revenues coming in only from October, November, December, OND quarter.

Vinay Lohariwala : So, the ramp-up will start from the Q3.

Dheeresh: Q3, okay. But do you expect, like, how do you expect the ramp-up? Like, in the first six months, do you expect to go to what revenue run rate on what utilization level?

Vinay Lohariwala: Yes. So, the benefit is, like we have earlier also said that the GST benefit. So, we have, like, 12% GST incentive on approximately, say, sale of Rs 650 crores. So, we anticipate a good ramp-up, early ramp-up due to this fiscal benefit. As we pass through the percent point margin to our customer as well. So, we anticipate that in Q3, we will have a good ramp-up or early start of the revenue.

Dheeresh: Okay. Understood. Thank you, sir.

Moderator: The next question is from the line of Shubh Jain from Emerge Capital. Please go ahead. Shubh Jain from Emerge Capital, please go ahead with the question.

Shubh Jain: Thank you for the opportunity. So, I just wanted to understand what would be the peak revenue potential for the Jammu Facility?

Vinay Lohariwala: So, conventionally, if you see that we used to make 5times to 6times of our invested gross block. So, gross block ratio, asset turnover ratio is approximately 5times to 6times . So, here we have invested Rs 350 crores. So, the top revenue potential, if we calculate from that data point, so it becomes like Rs 1,800 crores top revenue from that angle.

Shubh Jain: Okay. Okay. And so, what is the capex for 9 months ending December?

Vinay Lohariwala: Nine months ending. We will give you this number.

Gaurav Srivastava: The number is not readily available with us. We will have to check it out.

Vinay Loahriwala: So, this is you asking about the Jammu?

Shubh Jain: Sir, the capex number?

Vinay Lohariwala: Capex number for Jammu, right?

Shubh Jain: Yes. No, not Jammu. Yes, for the whole company as a whole.

Vinay Lohariwala: So, it would be like approximately say Rs 250 crores. The exact number we can provide you, but approximately I think it should be like Rs 250 crores.

Shubh Jain: Okay.

Vinay Lohariwala: So, it will be like Rs 220 crores.

Shubh Jain: Yes. Okay. Rs 250 crores, right?

Vinay Lohariwala: Rs 250 crores. So, my number is exact.

Shubh Jain: And so, what all dosages do we have in the Jammu facility?

Vinay Lohariwala: Pardon me. Come again.

Shubh Jain: What all dosages types we have in the Jammu facility?

Vinay Lohariwala: **Yes,** So, in dosage form, if you see like we have the four blocks or we can say like it's a four factory. So, in cephalosporin, we will have like tablet, dry syrup, dry powder injection. InBeta-Lectum, we will have capsule, tablet, dry syrup and dry powder injection.

In penem, we will have dry syrup, tablet and dry powder injection. So, it's a complete solution for all these three categories. Then in general category, we will have like four Rommelag machines.

So, that will produce water for injection and red foods product and large volume parenteral like 100 ml IVs or ofloxacin, metronidazole, ciprofloxacin. Then we have the dry powder injectable facility in general block also. So, these are the dosage form that will enhance our existing capability and capacity also.

Shubh Jain: Okay. Okay. And so, one last question. Have we started reaching out to potential customers for the Jammu facilities?

Vinay Lohariwala: Yes, we have already discussed this in discussion with our existing customers. And we are getting a very good response from most of the customers that as soon as we start, we can have the business with them.

Shubh Jain: Okay, sir. Thank you, sir.

Vinay Lohariwala: Thank you.

Moderator: Thank you. The next question is from Ankit Shah from Canara Robeco. Please go ahead.

Ankit Shah: Yes. Hi, sir. Thanks for the opportunity. So, firstly, on the J&K facility, can you give some sense on what kind of fixed cost would come as and when this facility is commercialized? And if any EBITDA level, would we make any kind of losses? And what will be the impact in some sense on that?

Vinay Lohariwala: So, like earlier, as I commented on the white oak question, that the revenue will be ramped up in Q3. And Q2 will be the quarter where the expense will be there, but the revenue could not be on that level. So, we estimate that approximately, including the depreciation also, our soft running cost will be approximately, say, Rs 2 crores. And then depreciation will be there. So, we will try that we get a minimum hit in our P&L. But in Q3, we will be in positive operating margin.

Ankit Shah: Do you think for Q2, for the full quarter, there will be around Rs 2 crores kind of cost?

Vinay Lohariwala: Per month. Per month. Like Rs 6 crores. Yes.

Ankit Shah: Okay. Got it. And the second part is that this 5x to 6x peak asset turn, by when can you reach this kind of asset turn? When will peak revenues be reached from the plant?

Vinay Lohariwala: So, generally, that takes 5 years to reach to that level. So, it's like we have observed from 2006 that the numbers start building with the two reasons. Reason one is that we keep on adding the customer and different markets. Like in export market, we keep on adding the countries and the registration. And in domestic point of view, we keep adding the customer and then we keep adding the product. So, now the story is like we already have most of the major customers with us.

So, that is not the issue. The issue is that we need to add the product from the Jammu facility with our existing customers. So, once we keep adding the product, that has the geometrical effect on our revenue.

So, like say in first year, we add the 50 products and in year 2, we add the 100 products. So, the existing product will be there and added product keep on growing and then the revenue ramp up.

Ankit Shah: Got it, sir. And my second question is related to your CDMO performance. So, you mentioned that revenue growth is a bit limited because of the cost pass-through. So, is the cost pass-through now done and if I look at the standalone numbers, the gross margin is improving but revenue growth has been muted. So, would the cost pass-through be stabilized at these levels or that cost pass-through element is still yet to play out completely?

Gaurav Srivastava: So, this is a mixed impact and we expect that gross margins will continue to remain and this could move by a percentage point on the downward trend also. The cost pass-through is mostly being done but again depending on how pricing keeps moving going forward, that will continue to impact our revenues going forward as well. Does that make sense?

Ankit Shah: Right. So, basically, you are saying now that improvement that has happened, that should stabilize now and depending on the pricing, it will either move up or down.

Gaurav Srivastava: Yes. So, I mean, if you look at my last year numbers, in terms of the gross margins and then the current year numbers, within that range only the plus minus a percentage point, that will be an impact of product mix that impacts our margins. From a cost perspective, nothing significantly has changed. A pass-through perspective, nothing significantly has changed.

Ankit Shah: Right. Got it, sir. Those were my questions, sir. Thank you so much.

Moderator: Thank you. The next question is from Rusmik Oza from 9 Rays EquiResearch. Please go ahead.

Rusmik Oza: Thanks for the opportunity, sir. Pardon me if the question is repetitive because I joined the call a little later. As of existing plants which you have, not including Jammu, last year they were operating at 45%-50% utilization. What is the current utilization for this year, sir?

Gaurav Srivastava: So, if you look at slide 16 of the investor presentation, you will see the utilizations have been given for the 9-month period. They remain in similar ranges across most of the facilities. But in terms of ointments and dry powder injection, you will see we are coming close to the peak.

Liquid orals have already peaked out significantly. Sharon, the plants are obviously new additions to us. There is an improvement over last year's numbers. And we continue to work on improving these numbers as we are working on getting in more of business, which was previously not available to them while they were in IBC.

Rusmik Oza: Okay. Thanks for that, sir. And referring to slide 17 also in the same presentation, you highlighted some potential at optimum utilization. So, these two existing plants, Baddi there's that optimum utilization or still utilization, what kind of potential revenue can we generate and by when can we get this?

Vinay Lohariwala: So, as earlier also explained but let me repeat that. So, that we have the three facilities in Baddi. One is of 2006 and one is of 2010. And then we have the general block of 2017. And we expanded that facility in 2021. So, the earlier facility of 2010, there we have the utilization at a higher level. If you see like dry powder injectable in our table and even the dry syrup.

So, Cephalosporin dry syrup and dry powder injection at a peak. But whereas in the general block dry syrup or tablet capsule, we have an ample spare capacity that recently expanded in 2021. So, if you see that the number can ramp up from say 45%-50% overall utilization to 70%-75% as a peak utilization.

So, that we have shown in the slide number 17. So, if you see like revenue number from Baddi that comes around Rs 1,000 crores. So, we have still the room of Rs 300-Rs 400 crores revenue ramp up in Baddi facility.

Rusmik Oza: Okay. I was just going to the last quarter. Two quarters the run rate is around Rs 290-Rs 300 crores. Which gives the annualized figure of Rs 1,200 crores. And from Rs 1,200 crores if you go to optimum full utilization, can we go to a revenue of around Rs 1,600 - Rs 1,700 crores from these two plants Baddi and Dehradun?

Vinay Lohariwala: Yes, you can say. That at a peak level we can easily reach to that level. At a utilization of 65%-70% we can get that number.

Rusmik Oza: And the next question, sir, you said it will take 5x-6x asset turn. You can go to Rs 1,700-Rs 1,800 crores of revenue in Jammu over a period of five years. But first year will be second half of FY25. So, I just want to understand the FY26 will be the full first year running operation. What kind of revenue you are expecting in the Jammu plant in FY26?

Vinay Lohariwala: So, like as I said that 5times asset turn makes the Rs 1,800 crores approximately value. So, initial we can say like 15%-20% utilization. So, that number could be easily achieved in FY26.

Rusmik Oza: Okay. That is helpful, sir. And the last question, sir, is we were at operating margins of around 12% in FY22-23. Now, this year we have moved to around 14%-15%. Will this be the steady state or do we see Jammu contributing more or less? Or how do you see the operating margins in FY25-FY26 going forward? Because your utilization levels will also go up in the existing plants?

Gaurav Srivastava: Sure. So, if you see our margin evolution, there are two things at play. One is we've had Sharon which is coming into the business. And Sharon is a higher gross margin business. And therefore that is improving our margin profile because it is focused more on the regulated markets. So, that is one lever which is helping us grow our margins.

Similarly, Jammu will also help us grow our margins because Jammu we have a GST benefit which is coming through to us. We have 12% GST reimbursement coming in there. Which means even if 50% of it is retained on to our P&L, that will increase the margin profile for both businesses.

And as the mix of Jammu keeps increasing, the margin will continue to evolve positively.

Rusmik Oza: Okay. So, the blended margins in FY25-FY26 when you see operating Jammu and better utilization in the two existing plants, will you be above 15% at the current operating profit margin or how do you see that?

Gaurav Srivastava: We would love , that would be the target we would want to go with.

Rusmik Oza: Okay. That is helpful. That's it from my side. Thank you so much. Thank you.

Vinay Lohariwala: Thank you.

Moderator: Thank you. The next question is from the line of Aditya Sen from Robo Capital. Please go ahead. Aditya Sen from Robo Capital, you may go ahead with your question.

Aditya Sen: So, in your initial comment, you mentioned that the Jammu facility is going to get some benefit from the government. So, what exactly is this benefit? The 12% GST that we just talked about?

Gaurav Srivastava: So, there are two benefits that are available to us in Jammu. One is essentially the way the notification is of the government. Of our total investment in Jammu, we are doing about roughly Rs 350 crores project out of which there's a qualified plant and machinery definition which roughly amounts to about Rs 250 crores.

Five times of that is the total GST benefit that is available to us. Sorry, three times of that. So, that is Rs 750 crores which is available to us over a period of 10 years. So, Rs 75 crores each year. Now, in order to achieve Rs 75 crores, I have to do Rs 75 crores divided by 12%. So, about Rs 625 crores of domestic turnover which I get in the form of reimbursement from the government.

Within the first three years, carry forward is allowed. Thereafter, it is not allowed. So, our target is to achieve that threshold of revenue within three years of starting operations in Jammu. And that reimbursement is the benefit we were talking about and when we said that is, 50% of that we feel confident to be able to retain on to our payable. Some of it, we may need to pass, want to pass to our customers to help with the initial ramp up and attracting new business.

The other benefit that I mentioned previously was we have a 6% interest cost subvention available over there. So, we have a Rs 235 crores loan which is being used to fund the Jammu project. The coupon rate on that loan is about 8.5%. We get 6% interest subvention. So, 2.5% is the effective cost for us on that loan.

Aditya Sen: Okay, 2.5% is the effective cost. All right. All right, sir. Thank you. That was my question.

Gaurav Srivastava: Thank you.

Moderator: Thank you. The next question is from Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: Hi. Thank you for taking my question. I want to understand the thought process behind the Jammu plant in a bit more detail. So, as I understand there are four blocks, right? One block is common, cephalosporin, and there are three new blocks. So, two questions here. Number one, is your cephalosporin utilization in the existing Baddi plant already reaching at saturation levels?

And is that the reason you are putting up a new block there? Second, for these three new blocks, do we have visibility on sales in terms of defined customers, contracts, etcetera? Because these are entirely new kinds of chemistries, new areas for us?

Vinay Lohariwala: Yes. So, you rightly identified that only we are repeating the cephalosporin block from our existing capability. The 3 new block is identified where we currently do not have any capability and capacity to manufacture all these products. So, yes, cephalosporin, if you see, we are at a peak utilization other than capsules.

So, we are not putting the cephalosporin capsule facility there in the Jammu. We are extending only the three dosage form, that is tablet, dry powder injection, and dry syrup. So, there our utilization is at 75%-80% more than that, even in few like 90%. So, that's the reason that we are repeating the cephalosporin block.

And then three new blocks. So, if you see the three new blocks, there are the similar products, and we are entering into the BFS category of the products as well. So, we already covered 14 out of top 15 pharmaceutical companies of India. We have the established relationship with the customer. And we have the track record also.

If you see like our historical number, in 2017 when we put our general facility, that originally we put in the facility in 2006. Then when we come out with the general block with the added dosage form of liquid oral, we get easily ramp up the sale in the two years' time. In 2019, we come out with a Rs 200 crores sale.

Approximately Rs 200 crores sale from this new general block. So, that is -- that we have already experienced that once we put the new facility, new dosage form, with the existing established relationship with our customer, we get a good response because of our good infrastructure, up to mark, up to date infrastructure, quality compliant infrastructure. We ramp up the production.

Nitesh Dutt: Got it. And sir, have you sent any trial quantity or are you planning to send once two blocks are active in March? And how much time will customer approvals and other stuff take? So, all kinds of approvals before commercial production.

Vinay Lohariwala: Yes. So, like as we have already have the DSIR approved R&D center. So, Cephalosporin section is like we already have the established formulation product in our Cephalosporin block. So, that can be exhibited through the tech transfer route and we can easily ramp up the commercial production for Cephalosporin.

In the other dosage form, we have already established the R&D stability and the product development. So, that is already over. We have developed approximately 25-30 product in that category like Beta-Lactam, Penem etc. So, we have already developed that product and established our stability.

So, once the block is ready, we will start immediately the commercial production in that category also.

Nitesh Dutt: Understood…

Vinay Lohariwala: Next part is the customer approval. So, that takes like two to three months' time. Once we start the commercial production, they audit our facility. And once the audit is being done, they share the report and then the business can be started.

Nitesh Dutt: Got it. Also, for these three new facilities – as these are new facilities, new chemistries and new products. Can the asset terms and margin profile be different from the existing 5 lakhs to 6 lakhs and 12%-15% margin range?

Vinay Lohariwala: So, that we estimated that the blended will be like the same and the GST will be the add-on.

Nitesh Dutt: Got it. Last question on competition. So, I want to understand when these pharma companies decide to do more outsourcing and they have multiple options to choose. How exactly does Innova differentiate from other competitors? That's the question.

Vinay Lohariwala: So, if you see like the pharmaceutical contact manufacturing conventionally was a fragmented landscape. So, there are many small players. We have also started our journey early 2006 in the same category. But with the burden of quality, compliance and the increase in the cost of plant and operations, there are good players or you can say more organized or the revenue is like Rs 500 crores plus revenue players emerged in the market.

So, there are like five-six players who have emerged from all these small scale players. And there is a big push from the government as well. Like recently the government has revised the

Schedule M, that is our good manufacturing practice regulation. So, now it is at par with the international standard.

And one side like three years back, the government comes with the regulation that the marketing company will be equally responsible for the product quality. So, these are the key factors for consolidating the market from the well fragmented industry to the large players. So, all the large players will be benefit from these issues.

Nitesh Dutt: But sir within the large players themselves, right? So, other players in your league, when a company decides to outsource, how does it decide between Innova or let's say Akums or any other players?

Vinay Lohariwala: So, say like if somebody would like to outsource one product, they come out to all, their CDMO players. So, one is the availability of product, then the availability of the dossier, the technical data. And then of course the price, based on that, they take the action to whom they would like to go.

Nitesh Dutt: All right. Thanks. I'll come back in the queue.

Moderator: Thank you. The next question is from the line of Jainil Shah from JM Financial. Please go ahead.

Jainil Shah: Yes, hi. Thank you for the opportunity. My first question is on Cephalosporin. So, how much does Cephalosporin contribute to our portfolio? And how much incremental peak revenues can Jammu offer over here?

Vinay Lohariwala: Currently, we can say like 22% approximately is the revenue for the Cephalosporin. And like say, we have the one dry powder injectable line and we are putting two more lines in Jammu. And our facilities like we have the approval from all ROW countries like Tanzania, Ethiopia.

And we are not able to even offer our product for domestic product. So, by putting all these two lines, we expect a good ramp up there in Cephalosporin. So, our fair estimation is like the Rs 300 or Rs 400 crores revenue will be achieved in Cephalosporin in a time span of say 3 to 4 years.

Jainil Shah: Got it. Got it. And how is our current order book looking like and what kind of benefits do we have in our domestic CDMO segment?

Vinay Lohariwala: So, pardon me. Come again.

Jainil Shah: How is the order book looking like? What kind of benefits do we have for the domestic CDMO segment?

Vinay Lohariwala: So, generally, we have the order book for say one and a half month or two months max. And we have the yearly visibility that the companies generally share yearly plans with us.

And based on that plan, they negotiate based on the current API price, they close the order. And generally, our order book is like approximately Rs 140 - Rs 150 crores. One and a half month.

Jainil Shah: So, we are trending at about Rs 300 crores revenue in even and fourth year.

Vinay Lohariwala: So, this order book I am telling ex Sharon. So, say in ICL , we do like Rs 90 crores. So, our order book tend at Rs 150 crores, approximately.

Jainil Shah: Okay. And on Sharon, how is our integration going? And have we started exploring any synergistic benefits on the API side?

Vinay Lohariwala: So, Yes. So, if you see like in formulation and API box are getting improvement after our integration. Like we have the common customer as well in formulation.

And in API also, majorly the API business is based on the export. And there also we have the improvement.

Jainil Shah: Okay. And just one on capital allocation. We have done Sharon acquisition. We are expanding in Jammu. And so, how are we managing management bandwidth and what is our capital allocation strategy for the next 2-3 years?

Gaurav Srivastava: So, let's take the easy one first in terms of capital allocation. See, as of now, for the next 2-3 years, we don't have a plan for any major capex or expansion.

Apart from general, we have maintained that Sharon and Jammu remain a priority for us. We want to kind of double down on this in terms of getting them scaled up and running on autopilot over the next 18 months. And that's how we are looking at it.

Thereafter, you know, we will look at further other growth strategies, whether it is through acquisition route or through new plans. In terms of management bandwidth, I think we are anyway looking to strengthen our management structure. But we don't see any large gap.

We have small middle management hires that we are looking at doing. And which is part of the normal course. We also have a very strong team through Sharon, which is always running as an independent entity.

And the existing business in UML has been run separately by a management team. So, there also we are pretty much on track. The key driver for us right now is to look at how we can bring together synergies across the group.

And bring some operating synergies at the corporate level to kind of optimize for growth and scale.

Jainil Shah: And just one last bookkeeping question. Can you call out the one-off expenses probably related to acquisition and IPO that will be there in this particular case?

Gaurav Srivastava: So, in terms of specific one-off, I can tell you just the amount related to the CCPS. So, like I mentioned, there is about Rs 1.6 crores in this quarter. And about Rs 8.5 crores on a 9-month basis. That is related to the CCPS. That is at a Rs 1.6 crores within finance cost. And in terms of Rs 8.5 crores, the split is I think Rs 6 crores is sitting in finance cost. The rest is in other expenses.

And there shouldn't be anything, nothing, I mean, going forward none of this will be there. Obviously, because the CCPS has been subverted within the following quarter.

Jainil Shah: Okay. Thank you so much.

Vinay Lohariwala: Thank you.

Moderator: Thank you. The next question is from Shubh Jain from Emerge Capital. Please go ahead.

Shubh Jain: So, what will be our product mix over the next three years split between CDMO, Domestic, International and Sharon?

Vinay Lohariwala: So, more or less we see the healthy growth in all of our four verticals. At the same pace. So, because we will start export business from Jammu as well.

So, we feel like the mix will be the same. There could be 2%-3%-4% change in like 60% CDMO could come down to 57% or 62%. But more or less the range should remain the same.

Shubh Jain: Okay.

Vinay Lohariwala: And every business is growing on pace and the growth rate may also expect the same.

Gaurav Srivastava: Jammu, of course, will be on top of it.

Shubh Jain: And so, what will be our strategy for Domestic and International branded generic business?

Gaurav Srivastava: Domestic? Sorry, could you just repeat that question please?

Shubh Jain: Sir, what will be our strategy for the branded generic business?

Vinay Lohariwala: So, Univentis business. So, that is our domestic branded generic business you are asking about.

Shubh Jain: Yes.

Vinay Lohariwala: So, this year we will have this business approximately say Rs 200 crores. And we expect the same growth rate in the future also.

Shubh Jain: Okay. Thank you, sir.

Moderator: Thank you very much. Due to time constraints, we will have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Vinay Lohariwala: Thank you everyone for joining us in the earning call. We appreciate your time and showing interest in our company. Thank you JM Financial Team for hosting the earning call.

In case of any queries, you can get in touch with us or SGA, our investor relation advisor. We look forward to meeting all of you over the next call. Thank you. Thank you once again.

Moderator: Thank you very much. On behalf of JM Financial, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.