11th November, 2022

BSE Limited
P.J. Towers, Dalal Street, Fort,
Mumbai- 400 001
BSE scrip code: 543635

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE symbol: PPLPHARMA

Sub: SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 ('Listing Regulations') - Transcript of Conference Call with Investors/Analysts

Dear Sir / Madam,

In continuation of our letter dated 02th November, 2022 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Conference Call held on 9th November, 2022 to discuss the Q2 FY2023 Results of the Company

The transcript of the said conference call is also hosted on the website of the Company at https://www.piramal.com/investor/piramal-pharma-limited/financial-reports/investor-calls/

Kindly take the above on record.

Thanking you,

Yours truly,
For **Piramal Pharma Limited**

VIVEK VALSARAJ
Digitally signed by VIVEK VALSARAJ
Date: 2022.11.11 12:08:49 +05'30'

Vivek Valsaraj
Whole-Time Director & CFO

“Piramal Pharma Limited's Q2 FY'23 Earnings Conference Call”

November 09, 2022

MANAGEMENT: **MS. NANDINI PIRAMAL – CHAIRPERSON, PIRAMAL PHARMA LIMITED**
MR. PETER DEYOUNG – GLOBAL CHIEF EXECUTIVE OFFICER, PIRAMAL GLOBAL PHARMA
MR. VIVEK VALSARAJ – CHIEF FINANCIAL OFFICER, PIRAMAL PHARMA LIMITED
MR. GAGAN BORANA – GENERAL MANAGER, INVESTOR RELATIONS & SUSTAINABILITY, PIRAMAL PHARMA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Piramal Pharma Limited Q2 FY'23 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. Gagan Borana – GM, Investor Relations & Sustainability, Piramal Pharma Limited. Thank you, and over to you, sir.

Gagan Borana: Thank you, Vivian. Good evening, everyone. I welcome you all to our First Earnings Conference Call Post-Demerger to discuss our Q2 & H1 FY'23 Results.

Our results material have been uploaded on our website and you may like to download and refer them during our discussion. The discussion may include some forward-looking statements and these must be viewed in conjunction with the risk that our business faces.

On the call today, we have with us Ms. Nandini Piramal – Chairperson, Piramal Pharma Limited; Mr. Peter DeYoung – CEO, Global Pharma; and Mr. Vivek Valsaraj -- CFO of our company.

With that, I would like to hand it over to Ms. Nandini Piramal to share her thoughts.

Nandini Piramal: Good day, everyone, and I thank you for joining us on our first results earning call as an independent and focused pharma company.

As you are aware, we have completed the demerger of Piramal Pharma Limited from Piramal Enterprises and are now a separate listed company on both the BSE and NSE. It is an important milestone for the company. The demerger simplifies the corporate structure, strengthens the governance architecture, with dedicated board and management team, optimizes the capital structure, and facilitates the businesses to independently pursue growth plans organically and inorganically. This should help unlock value for all our stakeholders.

I would like to let you know that the US FDA recently concluded Good Manufacturing Practices (GMP) inspection of Piramal Pharma's Riverview, Michigan facility, which was completed successfully last week with 483 observations.

I'm going to now move to talking about the performance of the company in Q2 & H1 FY'23. During the quarter, we registered a revenue growth of 9% delivering revenues of Rs.1,720 crores. Our growth for H1 was 11% with revenues of Rs.3,202 crores. Historically, H2 has always been much stronger than H1, with about 55% of total revenue, and 66% of the EBITDA being booked in H2. We expect a similar trend to follow this year as well.

Our CDMO business grew by 6% and 12% respectively during the Q2 & first half of the financial year, backed by growth at our Turbhe, Grangemouth and North America facilities.

Complex Hospital Generics grew by 12% during the quarter and 11% for the first half.

Inhalation and seizure sales reported a healthy growth during the quarter and first half of the financial year.

India Consumer Healthcare businesses registered a robust growth of 18% for the quarter and 12% for the first half of the financial year despite the high base of the last financial year, where our business grew close to 50% YoY.

Normalized EBITDA margin during the quarter and the first half of the year was 13% and 12%, respectively, nearly at the same levels as the previous year. We expect meaningful improvement in the EBITDA margins in H2 over H1 in line with improved traction in sales in H2. Over the years, we've consistently delivered profitable growth, which is reflected in the 13% revenue CAGR and 24% EBITDA CAGR between FY'12 to FY'22.

In the last two years, due to the pandemic and Ukraine-Russia conflict, we've seen a challenging business environment. We've been doing our best to address the short-term challenges, and we're optimistic that we will bounce back to our historical growth rates with an improvement in profitability. Even during these times, we have remained steadfast in our commitment to make growth-oriented investments across the sites and businesses in line with our plan.

Moving on to Business Specific Highlights: Starting with the CDMO business, over the last 10 years, our CDMO business delivered a healthy revenue growth of 13.5% CAGR, driven by differentiated capabilities, diversified manufacturing base which is aligned to customer needs and integrated service offerings, acquisitions as well as best-in-class track record in quality and regulatory.

Navigating the current inflationary raw material and energy prices is an important challenge for us. And we're trying to offset that through judicious price increases and working on several cost optimization and operational excellence measures. We're focused on addressing these challenges and are positive about our growth prospects going forward.

In terms of structural trend wins, we're seeing an increase in customer audits which were affected during the pandemic due to travel restrictions, and I think continued traction in form of Request for Proposal (RFP). However, slower decision-making by customers owing to the macro economic environment is leading to some lag in the order book.

In terms of customer profile, we have a diversified mix of big pharma companies, emerging biotech companies and generic companies. While we're ensuring low revenue concentration, at the same time, we're looking to grow deeper with our key clients. Our revenue from our top 10-clients' accounts for about 40% of CDMO revenue.

Our differentiated offerings such as both in sterile, injectable, high potent APIs, antibody drug conjugates, peptides and collagen, etc., continue to attract customers.

Quality and Compliance is also an important aspect in our business. During the first six months of the financial year, we successfully created about 20 regulatory inspections and more than 100 customer audits, thereby maintaining our best-in-class quality and compliance track record.

Through customer-led Brownfield expansions, we're expanding capacities at our major sites including Aurora, Pithampur, Riverview, Grangemouth and Mahad. In all, we've committed about $157 million of growth-oriented CAPEX investments across the various sites, which is expected to be completed over the next 18 to 24 months. Integration of our acquired businesses as well as the capacity expansions, which are at our site to earlier delayed due to the pandemic are back on track. We expect to navigate through these challenging times and emerge a stronger company going forward.

Moving to our Complex Hospital Generics: Our CHG business grew by 11% to 12% during the quarter and half year of FY'23. Inhalation Anesthesia portfolio continued strong performance in the US market. In the non-US market, we're seeing a healthy demand for our products, and now we are accordingly increasing our capacities in this overseas market. In the inhalation anesthesia portfolio, we're one of the few players in the world that has the capabilities to manufacture all four generations of inhalation anesthesia products. We've also vertically integrated with in-house manufacturing to make starting materials at our specialty fluorochemicals facility in Dahej. Our Intrathecal portfolio in the US continues to command a leading market share.

In the Injectable Pain Management segment, we've seen good performance in markets like Japan, South Africa and UK. However, that was offset by supply constraints in other markets. We're working towards improving the supply of these products and are seeing improvements. We continue on our focus to build a pipeline of injectable products that will augment our portfolio of offerings in this space. We have 37 SKUs currently in the pipeline. We launched two products during the quarter including a prefilled syringe in Germany, and are expected to launch h eight SKU in various target markets in the second half.

Moving on to our India Consumer Healthcare business. Despite a higher base, we delivered a healthy mid-teen growth in the Q2 & first half of the year. Robust growth in our power brands have been a key contributor to this performance with the growth of 40% in the first half of FY'23. Our power brands contributed 42% to consumer healthcare sales during the first half. In line with our stated strategy, we're reinvesting our profits in the consumer business to grow our power brands.

We spent about 15% of our revenues on media and trade promotion, which are yielding good results, as reflected in the performance of our power brands.

We also launched 10 new products and 11 new SKUs during Q2 FY'23. New products launched since April '20 contribute about 15% of the consumer business sales.

We have a good reach in the general trade with access to over 200,000 or two lakh outlets. We are strengthening our presence and alternate channels of distribution including e-commerce,

modern trade and our own website, Wellify.in. E-commerce contributes to about 15% of total consumer business sales and has been growing well.

To summarize, I'd like to say, all of our key businesses have a key compelling plan for their growth and are executing on their respective strategic priorities. We expect about 15% revenue growth in the next three to five years. We also expect to improve our operating margins through scale advantages, and therefore improve our return on capital employed. Today, we serve as a strategic partner of choice to big pharma, emerging biopharma and generics companies globally, and our team comprises of over 6,000-plus multicultural employees, 15 manufacturing facilities across the globe and a global distribution network in over 100 countries. We take pride in our outstanding quality record, and our focus on patient customer and consumer centricity. Our conscious endeavor is to perform ESG aspects of environmental, social and governance are a part of our DNA as a responsible organization.

I'd like to hand over the call to Vivek – our CFO, to Provide an Explanation of our Financial Statements.

Vivek Valsaraj: Thank you, Nandini. Good day, ladies and gentlemen. I'll provide a brief explanation on our financial statements. The Hon'ble NCLT on the 12th of August approved the Composite Scheme of Demerger of the Pharma business from Piramal Enterprises into Piramal Pharma and Amalgamation of PPS, a wholly-owned subsidiary, Hemmo Pharmaceuticals & Convergence Chemicals into itself, with an appointed date of 1st of April 2022.

Accordingly, the financial statements of Piramal Pharma have been prepared giving effect to the scheme from the 1st of April 2022. Financial statements for Convergence Chemicals and Hemmo, wholly-owned subsidiaries of PPL have been combined, as if this amalgamation had occurred on the 1st of April 2021 or from the date on which the company acquired control of these subsidiaries, whichever is later.

Prior to the demerger, Piramal Pharma had entered into an agreement with Piramal Enterprises for continued onward sale by Piramal Enterprises of products under the government tenders that were obtained in the name of Piramal Enterprises till obligations under these tenders were fully met. The agreement also included sale of Piramal Pharma's consumer products, through Piramal Enterprises CFA network till all requisite licenses, registrations and permits were fully transferred in the name of Piramal Pharma. In accordance with scheme of demerger of the pharma undertaking has been considered as a non-common control transaction, and accounted as a business combination under IND AS 103 in the financial statements of Piramal Pharma w.e.f. 1st of April 2022. Accordingly, the financial results for the quarter and six months ended September '22 are not comparable with corresponding previous periods. The comparable financials are available on slide #32 of the Investor Presentation which is available on our website.

All the closing inventory as on 31st March 22, at Piramal Enterprises in respect of such transactions included the margin element which was charged by Piramal Enterprises on an arm's length basis.

Since the demerger is effective 1st April, the opening inventory transferred to Piramal Pharma at a fair value as per IND AS included the margin element, and the same has been charged to the P&L in the first quarter of Piramal Pharma's financial statements on sale of such products by the company. The one-time non-recurring impact of EBITDA of this inventory margin in Q1 financials is Rs.68 crores.

With this, I now leave the floor open for questions.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankush Agrawal from Surge Capital. Please go ahead.

Ankush Agrawal: My first question is around the CDMO business, specifically the generic part of it, which I believe is a significant part of the overall CDMO business. So, could you help me understand some dynamic of this business like are we doing APIs in this business or it's like finished goods and like what kind of clientele we have, Is it largely big Pharma or specific players or what is the nature of long-term contract, is it stable in margins or are these like niche products, if you can highlight something around this specific generic CDMO business?

Vivek Valsaraj: If I understood your question correctly, I will try to respond to that. There are two kinds of generics if I broadly categorize that. The first part is the generic that we do for our customers under CDMO arrangement. This includes both APIs and formulations which are done from our various facilities in India and overseas. And the second part is our generic API. So, we have our own DMF which we supply to multiple customers. So, that's made to stock.

Ankush Agrawal: So, the CDMO business includes some spot API business as well is what you are saying?

Vivek Valsaraj: Yes, it includes both APIs and formulations.

Ankush Agrawal: So, would you be able to quantify a little more like how much of the business spot API business, you are saying it's spot business you are doing and how much is CDMO business you are doing in that long term contracts?

Vivek Valsaraj: See, broadly, our categorization is 60% of our business into APIs, about 40% is formulations.

Ankush Agrawal: But this includes developments in pipeline as well, right?

Vivek Valsaraj: Yes, it does.

Ankush Agrawal: So, in the medium to long-term, what kind of traction is there from this kind of generic business, do you expect the CDMO business to move more and more towards the niche development

pipeline or do you continue to believe that you want to grow on the generic space as well in the longer run?

Peter DeYoung: On the API side, we would expect to continue to see growth there, because we are obviously going to be filing. So, new DMFs are looking to get further sales with existing DMFs that are not fully access to all the customer potential. Like, second you mentioned on growth, that will probably be higher in the generics API. We have recent acquisition and integration of the Hemmo Pharmaceuticals which makes generic peptide APIs. We think there is a very compelling of DMFs in the pipeline for that business as well. That being said, we would also expect to see good growth in our API services business as we continue to support our customers as their pipelines progress in the clinic and later hopefully succeed commercially after being approved and launched. So, we would see multi-dimensional growth across our API business both in the generics area and in the services area for the reasons described.

Ankush Agrawal: Would you be able to give a qualitative sense of the margin between different business segment of ours, which could be the highest margin business across the three segments that we operate in, something on that front?

Nandini Piramal: As I said, on the consumer healthcare business we are taking it as breakeven, so the other two are as such.

Moderator: The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My first question is on CDMO business. So last quarter, it was mentioned that the segment got impacted due to some project delays and some cost pressures, etc., So can you update on that, what has been the progress? And ma'am mentioned there will be significant improvement in margins in the second half. So how do you see margin trajectory moving over the next few quarters, and what is your goal in terms of reaching your CDMO business ultimately?

Vivek Valsaraj: Firstly, the challenges that we had spoken about in the earlier quarter, want to state that mitigation measures have been taken against each of them, which we are continuously monitoring. We spoke about people and attrition, and several measures have been taken to ensure that our vacancies are filled in across multiple sites. Also, with respect to whatever the execution challenges that we faced at some of our facilities, there is an action plan and most of the measures which had to be taken, they're all being implemented and monitored on a consistent basis. In terms of the overall operating margins for H2, which is October to March period, we expect a meaningful improvement, and this will largely come in from a higher top line. So, we expect top line to have mid-teens growth in H2 and that will also lead to improvement in the overall operating margins due to fixed cost leverage. Going forward, our aim is to consistently improve upon this margin. And we stand by our earlier guidance of aspiring to move towards the mid-25%, 26% range over the next few years across all businesses.

Damayanti Kerai: My second question is again on CDMO piece. So very broadly at sector level, can you discuss a bit about the demand scenario? So in your press release mentioned that you are seeing a lot of

requests for proposals, but finalization of projects, etc., are getting delayed. So, should we assume that due to difficult macro environment, customer queries are coming in, but they are not getting signed at this point of time, but eventually they should be open for business in the coming period?

Peter DeYoung: So I would comment on this. This is primarily in the on-patent segment within the services business in the CDMO. And on that, we're seeing consistent RFP flow in this year versus prior years by value. And so, we are seeing the RFPs coming in. And we are spending time with our potential customers, some of which are current customers. When they do conclude, our win rates are the same as in prior years. And so we are winning what we would say consistent percentages of the proposals that do come in when the clients make decisions. And we'd say that the potential clients that we're working with are appropriately finance to make decisions and progress their pipelines as the decisions are needed to be made. I think what we would say, we are seeing is that perhaps in the prior funding environment, our clients or potential clients would be making decisions before clinical results would happen in a given phase. So they can be positioned for success, assuming a positive result from that trial that would be underway, whereas now it seems as they're looking more prudently at their cash flows and their allocation of capital, that they're making decisions on those same programs after the clinical results would happen. And so, we would see a more protracted time, from let's say, RFP intake to RFP decision this year than prior years.

Damayanti Kerai: Just to clarify, it's just the timing, which is getting shifted as you mentioned, but the win rate or the kind of projects which we are getting is similar to what you achieved in the past period?

Peter DeYoung: Only one minor difference would be that we maybe are seeing a bit more of a late stage proposals coming in than perhaps earlier years. So, the actual mix of proposals is also slightly higher weighted towards let's say a Phase-III and whereas in prior years we'd see, let's say a modestly higher number of Phase-I and IIs. From our perspective, we think that those potential clients would be better funded, and also the ultimate values and volumes when successful would be higher. But also we find that typically a Phase-III decision would take longer than a phase-one or a Phase-II decision.

Moderator: The next question is from the line of Sumit Gupta from Motilal Oswal. Please proceed.

Sumit Gupta: Sir, I have two questions. First is considering the muted first quarter of this fiscal year, does the ratio of the EBITDA for first half to second half still stands at 32 to 68 or can it be expected to be more lopsided in second half?

Vivek Valsaraj: So, as I alluded to, we do have a significant skew towards the second half historically as you've seen and that trend will continue. And likewise, you will see a very similar trend in terms of margin as well, that will be significantly skewed towards the second half as you have seen in the past.

Sumit Gupta: Second question is can you give us a breakdown for the growth prospects in the complex hospital generics into demand revival for existing products versus the newly launched products?

Vivek Valsaraj: We're not giving demand forecast separately by business segments and sub-segments of the business, Sumit.

Sumit Gupta: Last question is if you can provide an outlook on the net debt levels and the interest cost?

Vivek Valsaraj: So, as we've guided, Sumit, earlier that our debt levels that we're looking at about is four to four and a half times EBITDA, and that's the level that we should be comfortable standing by.

Sumit Gupta: So this is for FY'23 and '24 or '24 will be less?

Vivek Valsaraj: For FY'24 as well. As we've already guided that we'll be having some growth investments that we are going to do, so it would be on similar lines, the criteria would apply for FY'24 as well.

Moderator: The next question is from the line of Surya from PhillipCapital. Kindly proceed.

Surya: First question is on the overall business structure. Since Piramal Pharma becoming the kind of independent company, so can you reiterate your segmental growth plans for next two to three years or next five years, because you have talked about the capacity additions, you have given margin indications over two to three years and all that, but in terms of growth, what are the key drivers that you're witnessing for the three business segments?

Peter DeYoung: I'd say the segment wise. The first segment would be the CDMO segment, and we would look at essentially a combination of capacity investments, coupled with client pipeline progressions. And so, if you look at it, we have a number of late stage clinical programs that are at our facilities already doing work on them. And we would expect with a reasonable attrition rate of those programs in the clinic, and their subsequent progression of those that succeed, combined with capacity investments to support our being able to serve those clients as they progress is why we think that our growth in that overall segment should be much higher in the future than it was in the past. And that's driven by the fact that we have nearly 30, 34, 35 Phase-III programs and about I think nearly 20, on the market recently we launched commercial programs. And so that bolus of late stage clinical work and early commercial work is a lot of what's going to drive future growth at a higher rate than in the past. And that's on top of all the ordinary course of work and business we're doing, that's going to continue. And that's why it's going to be on top. So, that's the CDMO answer. In the complex hospital generics market, we are still far from fully realizing our potential in the inhalation anesthetics segment. We have a limited number of competitors and we've been steadily growing market share there and we believe that we are well positioned to support continued growth in that segment and we're investing in further backend capacities and capabilities to support that growth. And so, we think it continues to be a meaningful grower as it has in the past and we still think there's meaningful market opportunities there. And then I think the second leg of growth will be as we now are gaining more control over the supply chain through the transition of the CDMO for our acquired injectable pain products,

we think that we're going to be able to exploit some modest opportunities for growth in that segment. And the third one is that we're continuing to progress our pipeline of other pharmaceutical products that we sell to the same channel that we sell our inhalation products. And we would expect that as those projects come to the market that we should be able to have growth from those new additions, and we are seeing growth in them in the current period and we'd expect to see growth in the subsequent periods as well. So I think those are the three legs of, I guess, sources of top line growth in the complex hospital generics.

Nandini Piramal: On the consumer products into health, I think we should see growth through our power brands. We're investing about 15% of top line currently in media and trade promotions, and I think as you get scale, we will see increased profitability from that business as well. And the way we would see increased growth is both by finding new consumers for existing products, but also launching new products and new formats across the board.

Surya: To better understand the profitability of this segment and the overall consolidated operation of Piramal Pharma, so, we have seen a kind of very strong margin performance trend over 2019, 2020, 2021 like that, then 2022 was a kind of a depressed one, and running year is looking even more further depressed. So it is really difficult to understand what is the core margin trend of these businesses? And also CDMO, if we see that, okay, it is a long established steady performing and consistently growing business that we have seen as a track record, but the margin profile has not moved on to the kind of the peers level, it is subdued meaningfully. So, could you give some sense, let's say, last year, FY'22, if we say that it was 18% and now, for the first half, if you're saying, it is a 14% kind of margin trend, so how far are we from the kind of a normalized margin trend for the consolidated business and particularly for the CDMO, if you can give some clarity that would be useful?

Vivek Valsaraj: Let me first articulate as to why the margins actually dropped during the interim period. As you're aware, there were a couple of factors that happened. First was our conscious decision that as far as the consumer products business is concerned, we would be reinvesting the profits back into the business. So, consciously, we're keeping this at EBITDA-neutral and we are spending more on sales promotion so that we can grow top line faster. The second is, during the course of the pandemic, sales more specifically at our overseas facilities, were at a scale lower than what it should have been. As you can imagine, the overall fixed cost is comparatively higher, and therefore this had an impact on the overall margins. Coupled with this was the larger macroeconomic factors where inflation and general increase in all the cost of inputs also led to margin pressure. Having said that, actions are being taken. As we have spoken before, price increases wherever possible, we've been taking those, whatever cost optimization, operational excellence initiatives had to be done, we have introduced those as well. And as far as CDMO business is concerned it's largely a fixed cost leverage gain, the more we sell, the more the margin can increase. And the intent right now is whatever the capacity is that we're building across our various overseas facilities as well as creating capacities wherever there is demand, idea is to grow those sales faster, so that we can see a margin expansion. And yes, we remain committed to our guidance of increasing the overall margins to the levels that I alluded to before, we will be moving in that direction to be able to expand the margins.

Surya: Can you give some more clarity about the CAPEX plan earlier we alluded? Already it's about $157 million. In which areas you are putting that? What is your current global market share for the inhalation anesthesia?

Peter DeYoung: This was list some of the larger ones and if you look at our investor presentation, we do actually itemize some of the other ones, but we have an ongoing expansion at our Riverview, Michigan API facility which is focused on, I guess, potent and high potent API services. The second one is in our Grangemouth, UK facility which is focused on conjugation of our ADCs or Antibody Drug Conjugates, and that's a Brownfield expansion at that location. Those are the two largest expansions in terms of consumers of capital committed projects, but we do have a number of other projects ongoing at our Sellersville facility and our Lexington facility, at our Turbhe peptide facility and some of our other locations. And you can see that list in our investor presentation.

Surya: On inhalation market safeties?

Peter DeYoung: You can probably get your own IQVIA data to your own interest, but I'd say, we'd be in the low-to-mid-teens. So, we have a lot of headroom.

Moderator: The next question is from the line of Praveen Shreenivas from Samsung Asset Management. Kindly proceed.

Praveen Shreenivas: So, wanted to understand firstly, what is the nature of the other income that is in the financial statement, Rs.278 crores in FY'22 over the Rs.118 crores in H1?

Vivek Valsaraj: So, this includes the FOREX gains, it includes the government grants, which we get on our capital investments, especially overseas we get subsidies, it includes a bit of fair value, bit of past provisions, which are no longer required. So, it's a mix of many things actually.

Praveen Shreenivas: Which will be the dominant aspect amongst all you have listed?

Vivek Valsaraj: Currently, predominant portion is FOREX gains.

Praveen Shreenivas: Can you give some sense of how much of the other income of the FOREX?

Vivek Valsaraj: We're not discussing sub-GL level numbers right now.

Praveen Shreenivas: In the CDMO business, can you tell me currently How many products are commercial manufacturing? And also, I think you had given the pre-commercial product number in the slide for FY'22. Is there any update on that number for Q2?

Peter DeYoung: I don't think we update those numbers on quarterly basis. When we next refresh them, let you know. So I think what's in this slide is the most recent

Praveen Shreenivas: And in terms of commercialized products, how many are there?

Peter DeYoung: I think we disclosed the number of on-patent commercial products in the materials, but we are disclosing the number of total off-patent.

Praveen Shreenivas: How many are in patent -- eight, I think, if I am not wrong?

Vivek Valsaraj: 19.

Praveen Shreenivas: And finally, could you tell me the CAPEX guidance for both FY'23 and FY'24?

Nandini Piramal: It would be about $157 million over the period.

Moderator: The next question is from the line of Ranvir Singh from Edelweiss Wealth. Kindly proceed.

Ranvir Singh: In press release, you mentioned that during the demerger, part of the tender-based business in India remain with Piramal Enterprises and part of the OTC products also, because the licenses for OTC where the transfer is pending. So that I wanted to understand what's the portion of revenue that is just aligned with Piramal Enterprises?

Vivek Valsaraj: So, let me just clarify that that firstly, the arrangement is Piramal Pharma actually sells this to Piramal Enterprises, so that Piramal Enterprises can do the onward sale. This is basically because those tenders were won in the name of Piramal Enterprises. So, all of the revenue actually goes through Piramal Pharma to Piramal Enterprises. The difference between the two is to the extent of the unsold inventory that was remaining with Piramal Enterprises. All those inventories have now been taken back. So, it's not as though there is some sale which is recorded by Piramal Enterprises which is not part of Piramal Pharma. All revenues are routed through Piramal Pharma to Piramal Enterprises. And this will continue only till the point these tenders or obligations are completed, post which Piramal Pharma will directly service obligations against such tenders.

Ranvir Singh: So, when Piramal Enterprises would completely out of the channel?

Vivek Valsaraj: I'm sorry, if you could please repeat your question.

Ranvir Singh: So from Piramal Pharma whatever inventory is currently routed through Piramal Enterprises, so one, we can expect that directly we will be selling it, I mean, what is the light of that particular tender where we needed to send inventory to Piramal Enterprises?

Vivek Valsaraj: We expect all these obligations to be completed by the end of this fiscal. Whatever are the new tenders, Piramal Pharma is by directly applying in its own name.

Ranvir Singh: And just I think you alluded to earlier participants also on margin side. Again, if we look at FY'18, '19 period or before that, our CDMO business used to generate 20%-plus kind of margin. So, what actually went wrong, because one factor you said that in consumer healthcare we have started investing, you also mentioned that consumer healthcare is breaking even now. So even at this breakeven level, and if you explore this business also, it still seems that CDMO business

has somehow significantly lost their margin. So, what was the reason -- is it that some competition has come in there in particular because projects from my understanding is not correct here?

Vivek Valsaraj: Firstly, I don't think we've spoken about CDMO margins, specifically whatever we have reported for the company as a whole. And secondly, as I earlier mentioned, during the pandemic, we did see sales actually getting impacted in the CDMO space. And as you're aware that we acquired some of the facilities overseas in CDMO, the revenues were not up to the mark in terms of what was actually expected during the pandemic, and the CAPEX investments during the pandemic were delayed. That's the reason there was a margin compression. Having said that, in future, the margin expansion would largely be coming from higher top line. So, as I alluded earlier, it's a fixed cost business, as you sell more, your margins start improving… so it's about fixed cost leverage. And that will be the primary driver for margins in the CDMO space.

Nandini Piramal: I think the other one is, we expect some of the Phase-III molecules to actually get to commercial. And as they get to commercial, we should see volumes and orders increase. So, that will also basically fill up the capacity.

Ranvir Singh: So, it's more of operating leverage, that's what you're saying. Like we are not expecting any high value products or something coming in pipeline, which could drive the margin here in CDMO?

Nandini Piramal: Right now, let's aim for the ones and twos. If you get a four and six, that will be upside.

Ranvir Singh: This CAPEX of 157 million, is the 18 months the implementation time or 18 months -?

Nandini Piramal: Within the next 18-24-months. So, it's a series of projects, some of them will come on line sooner rather than later. So, kind of over the next 18-24-months.

Ranvir Singh: What level of debt we can expect by the end of FY'23?

Vivek Valsaraj: So, as I said earlier, the max debt that we're looking for is in the range of four to four and a half times of EBITDA. That's where we see ourselves.

Ranvir Singh: In absolute term, currently Rs.4,300 crores debt that we have, so what's your debt repayment obligation in next six months?

Vivek Valsaraj: It's like this, our debt repayment obligations are fairly well diversified, if that's where your question is heading towards and it takes into consideration whatever our investment requirements as well, and our debt levels would be about four to four and a half times EBITDA that's where will be.

Moderator: The next question is from the line of Kunal from Nuvama Wealth. Kindly proceed.

Kunal: My first question is on complex hospital generics business. Now, one of your US competitors generic player has said that they're going to launch Sevoflurane by the end of this year. So I

understand this is a business that supplies are restricted. So, just want to understand, when a new competitor comes in the market, how does the market dynamic change?

Peter DeYoung: I think we've seen the introduction of new competitors in the US market over time, and we believe that this particular product category is more resistant to entrants, and that's due to the combination of limited people who can manufacture the active ingredient, and bottling requirements to actually package it into the final packaging, and then the actual product has been used in a hospital setting, or an institutional setting where the bottle is actually placed into a vaporizer, which is attached to the anesthesia machine and the vaporizers in many, but in not all the company is providing the drug. And further many of these are contracted through GPOs IDNs or hospital contracts. So at least when we saw the last set of entrant come in after us, we saw that they kind of nibble on the edges, but didn't really get meaningful share, and they've been in the market for a number of years because it's a slightly more complex sale than just a straight catalog sale in a retail market where you would see different dynamics. And that's part of why we like this segment, because we do find that while people may get approvals, and they may enter, we do find that in due course, it's difficult for them to gain share, because it requires specific capabilities and a particular channel strategy.

Kunal: Second is on consumer business. I understand you have fairly ambitious plans of doubling revenue in the next three to four years. But I assume to do that, you'll have to put in a lot of investments, especially, there'll be a lot of OPEX also, a lot of digital advertisement, so on and so forth. So does it mean the profitability in this business will also remain subdued for the next three years?

Nandini Piramal: So I think what we see is as we get to about a milestone of about Rs.1,000 crores, we think sufficient scale to cover a lot of the fixed and variable costs, and we should then see a steady increasing profitability from there. Will we jump to the steady state profitability immediately? No, but we should see steady increases in profitability.

Kunal: In three years' time, would it be fair to assume that you would be somewhere in teens margin in this business or would it be lower?

Nandini Piramal: We'll be on the pathway,

Kunal: So, while you want to double your CDMO revenues in the next five years, I assume that mix in the business should also change. If the mix doesn't change, then it becomes difficult to increase the profitability also, right. For example, you have around 70%, from commercial manufacturing today. So would that become lower or higher with developed, markets contribute a lot more? Just want to understand if you can drill down a bit more on how we should see this as three or four years down the line?

Peter DeYoung: So we don't give sub-segment level guidance, but we can give you some directional trends. We would say that right now, about 60% of the revenue in the CDMO would be from API or drug substance, and we would probably expect that should probably grow at a faster rate than the

overall. And I think the second maybe guidance I can give from a qualitative level would be is that, we would expect our on-patent development and on-patent commercial to grow at a faster rate than the overall. So I think those two together, and not all on-patent development or commercial drug substance and not all drug substances on-patent. But I'd say that those two sections should grow a bit faster. And I think maybe the only outlier I would draw is that we would expect our fill finish capabilities which are drug product or probably go to a faster rate than our overall maybe drug product capabilities.

Moderator: The next question is from the line of Hitesh Agarwal from Fair Value Capital. Kindly proceed.

Hitesh Agarwal: If we look at the net debt-to-EBITDA ratio, it is around 4.5 times as mentioned, and you have guided a CAPEX of around Rs.1,200 crores in the next 18 to 24 months. So, I wanted to know like, if you could throw more color, how we'll be able to fund this CAPEX? And second question, could you elaborate more on the CAPEX spending across different segments?

Vivek Valsaraj: I think in a way responded to the query earlier. As I said, our overall debt schedule which we have today is fairly well diversified. It does take into consideration of whatever our investment needs, and also over a period of time internal accruals should be able to be sufficient for repayment of debt as and when they fall due for repayment. So all of this has been taken into consideration. My only request is, if you look at the net debt-to-EBITDA ratio as it stands today… I understand where you're coming from, but you need to understand that here obviously has seen some impact. Going forward, we obviously expect these ratios to improve. And accordingly, the ability to service debt go through a mix of internal accruals as well as being able to raise debt for the ones that we've already retired. That should help take care of the overall requirements of CAPEX.

Hitesh Agarwal: My next question is like, we have seen good revenue contribution from the developed market, I believe kind of due to the inflationary headwinds in energy costs there. Are we seeing more order enquiries by the innovators from those markets as such?

Peter DeYoung: Maybe this is a bit of a macro question and I presume you're talking about the CDMO business. And in that we're seeing three trends that are playing out somewhat in parallel and we are yet to see how they're going to fully conclude. And that's also why we think our business model choice is favorable, because we have capabilities in both the west and the east. So, the first one is there is we're hearing a number of enquiries from companies looking for a China Plus One strategy. And what this means is that at least from the board perspective of the client, or the decision-making governance there, maybe currently sourcing something from China and they're saying, can we get one other source in an emerging market where we could have reasonable value, but something other than China. So, we're seeing increasing number of enquiries in particular at the recent CPHI Conference in that direction. I think the second trend is that if you look at the end market, pricing for pharmaceuticals, and the buyers of those pharmaceuticals, we expect them to be under some amount of pricing pressure, because of fiscal deficits and the money being spent in other areas and inflation reduction act and some of the other equivalents in other countries. We would expect in due course there to be pressure on value, and we would expect

that one source of value would be looking east. So, those would be two things tugging orders in east. On the other hand, there is a very strong tug in west, particularly for innovative clients, where they experience over the last two years certain amount of supply chain disruptions. And from a governance perspective, a number of them particularly for lower volume, less chronic and small patient occasions or non-recurring treatments, an example would be a rare disease or an oncology treatment, that's pre-approval, they would probably be looking more for that we are placed in the US or North America or depending on their perspective, onshore in the western market, where their customers may be or they may be, because of the lower supply disruptions. So, we are seeing some amount of reshoring preference for on-patent products under development because of the perceived difference in risk and accessibility, you can drive there instead of a long haul flight, combined with the China Plus One and the fiscal pressure point, which may push certain categories in east. So we will be able to see how it's going to fully play out. And we think that's why us being in a multi-geography context, best positions us to actually support both trends in parallel, depending on the client and their project needs.

Hitesh Agarwal: In the hospital generics business, in the presentation, it was mentioned that nearly 13 products are in the development phase yet to be commercialized. Can you help us give a little bit more color on the market size of these molecules, and the growth traction we envisage in this complex hospital generics business?

Peter DeYoung: We describe in stage in the pipeline in supporting terms of whether it's approved in launch or under development, we give that and then we give an aggregate market addressable market number for that portfolio of projects. And you can see that is being 7 billion in terms of the addressable market for those 37 SKUs. And we aren't giving SKU-by-SKU level breakup, but I think the point is that they're reasonably worth approaching and even a modest share and those would be meaningful for this.

Hitesh Agarwal: Growth rate action we have seen in this hospital generics expenses?

Peter DeYoung: So we aren't giving forward guidance on the hospital generics revenue outlook, but we did give the backward-looking revenue numbers in our comments in the slides.

Moderator: The next question is from the line of Prakash Agarwal from Axis Capital. Kindly proceed.

Prakash Agarwal: My question is related to the kind of debt we have today. But, is there a plan to raise further private equity fund or something like that?

Nandini Piramal: I think right now we're quite happy that we feel our internal accruals will pay off the debt that we have and we don't need to raise additional funds at the moment.

Prakash Agarwal: I understand in your presentation, you talked about 2H is obviously higher as seen in the last three years. But, what is the margin guidance? I understand it's more of an operating leverage as CDMO comes in, but especially for CDMO and a company as a whole, is there a color on the margin piece?

Nandini Piramal: I think we'll see sequential Q-on-Q improvement.

Prakash Agarwal: Yes, but in the range of 15% to 20% or it could be lower than that?

Vivek Valsaraj: It will be meaningfully higher than what you saw in H1.

Prakash Agarwal: On normalcy, we were in the range of 25%. Is it possible to reach 25% in '24, '25 given higher costs, especially all our sites are overseas. So the cost advantage is not there, right, So -?

Nandini Piramal: Look, in the next two, three to five years, we should get there and in the next three years, you will see sequentially.

Prakash Agarwal: What I understand is sequential improvement is there, but would the sequential improvement also visible in Q1, Q2 of next year, because Q3, Q4 is given that you will have because the orders are obviously in second half this thing. But I was trying to understand the normalized –

Nandini Piramal: I think I can't comment on FY'24 at the moment.

Prakash Agarwal: Lastly, on a), you talked about attrition things are past and the ex-Lonza guy had come and he's trying to fix up things. But what about inflationary pressures? So, given that those are there, and the revenue visibility is there, so I'm just trying to understand not EBITDA margin, but how should we model in the gross margin?

Nandini Piramal: Look, inflation pressure is going to continue to be there. And we are looking at as a combination of things to try and address at. It's price increases, where we can in operational excellence as well as cost optimization, and procurement cost optimization as well. So I think that's where we are looking at a mix of things.

Prakash Agarwal: Is there a plan to increase the share of manufacturing and services from India versus current share?

Nandini Piramal: The way we look at it is that we go where our customers want and we help out them and their patients better. So if they're saying, I only want US, that's what we're going to do.

Moderator: The last question is from the line of Tushar Manudhane from Motilal Oswal. Kindly proceed.

Tushar Manudhane: Again, on the EBITDA front, given the first half FY'23 has shaped up and given that we had business headwinds in FY'22, excluding other income, and considering second half FY'23 to be much stronger than first half, would we be able to cross FY'22 EBITDA or that seems remote at this for instance?

Nandini Piramal: I think we're not giving such guidance at the moment.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Gagan Borana for closing comments.

Gagan Borana: Thank you very much. We hope that we have answered most of your questions. In case you have any follow-up questions, you may feel free to reach out to me. Thank you and have a good day.

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