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February 16, 2024

To
Listing / Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

To
Listing / Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

BSE CODE: 543329

NSE SYMBOL: WINDLAS

Dear Sir/ Madam,

Subject: Q3 FY24 Earnings Conference Call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Q3 FY24 Earnings Conference Call Transcript.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For Windlas Biotech Limited

ANANTA NARAYAN PANDA

Digitally signed by ANANTA NARAYAN PANDA
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Ananta Narayan Panda
Company Secretary & Compliance Officer

Encl: As above

"Windlas Biotech Limited

Q3 FY'24 Earnings Conference Call"

February 09, 2024

MANAGEMENT: **MR. HITESH WINDLASS – MANAGING DIRECTOR**
MS. KOMAL GUPTA – CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Windlas Biotech Limited Q3 FY24 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and may involve risks and uncertainties that are difficult to predict.

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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

Today on the call we have with us Mr. Hitesh Windlass, Managing Director and Ms. Komal Gupta, CEO and CFO. I now hand the conference over to Mr. Hitesh Windlass. Thank you and over to you, sir.

Hitesh Windlass: Good morning, everyone. And thank you for joining us today for our financial results for quarter and nine months ended 31st December 2023. We have uploaded the press release and investor presentation on our website, as well as on the exchanges. I hope everyone must have gotten an opportunity to go through it.

Initially, I would like to discuss the outlook and way forward for Windlas Biotech, followed by financial highlights for Q3 and 9-month FY24 of the company which will be shared by our CEO and CFO Ms. Komal Gupta.

I am pleased to declare that the company has delivered YoY revenue growth of 36% quarterly and 23% in 9 months FY24. The Indian Pharma market grew by 8% in 9 months FY24 with increase in sales prices by 4% and volume growth of 1%. This indicates the price increase has been a major growth driver for IPM. We are pleased to have registered an increase of 23% in topline in 9 months FY24 as compared to the same period last year.

The persistent growth has been reported so far in 9 months FY24 can be attributed to all 3 business verticals. The company continues to focus on increasing its customer base and expanding its product range in Generic Formulation CDMO, business verticals. It also aims to increase wallet shares from existing customers.

According to industry experts, Domestic Trade Generics constitutes about 15% of IPM size. The government is targeting to increase the Jan Aushadhi store count by 2.5x to almost 25,000 by end of FY26. This will provide added impetus to our trade generics and institutional business.

Besides, growth in domestic trade generics and institutional vertical also remains steadfast, driven by strategic initiatives to enrich product portfolio and extend distribution network. The EPS in 9 months FY24 is INR19.79, has surpassed 12 months financial '23, annual EPS of INR19.7. We have generated robust operating cash flows, paid dividends to our valued shareholders and maintained a strong liquidity position.

As previously mentioned, we have achieved mechanical completions of our injectable facility at the end of Q2 of this fiscal year and are on-track for readiness of the facility for commercial production by end of FY24.

The company continues to focus on overall process improvements and improving internal efficiencies. We are currently observing several positive indicators across all our business verticals. Based on the company's distinctive value proposition and substantial customer engagement, the company is strategically positioned to effectively pursue its long-term objectives in a sustainable manner.

I will now request Ms. Komal Gupta, our CEO and CFO to discuss the financial performance highlights. Over to you, Komal.

Komal Gupta: Thank you Hitesh. Good morning everyone. We are delighted to announce INR 162 crores revenue and INR 20 crores EBITDA in Q3 of FY24, consecutive fourth quarter of highest ever revenue and EBITDA. The IPM growth of 8% in 9 months FY24 was mainly driven by price realization growth, while volume growth, which is relevant for the company, grew by just 1%.

The company has been able to register 23% revenue growth in 9 months FY24. The strategic efforts made in preceding years, such as expanding our customer base and launching innovative products, are showing promising outcomes. Generic Formulation CDMO vertical generated a revenue of INR 125.5 crores in Q3 FY24, reflecting YoY growth rate of 44% and in 9-month FY24, the revenue increased to INR 353.6 crores, witnessing a YoY growth rate of 21%.

In the realm of Domestic Trade Generics and Institutional vertical, our company has consistently provided accessible, affordable and authentic medication to the rural hinterland markets of India. During Q3 FY24, we generated revenue of INR 28.5 crores, exhibiting a YoY growth rate of 19% and for 9-month FY24, this vertical registered a revenue of INR 87.7 crores, achieving YoY growth rate of 28%, when compared with corresponding period in the previous year.

During 9-month FY24, our company's revenue from exports reached at INR 18.5 crores, achieving YoY growth of 44%. In the context of financial performance, the revenue generated during Q3 FY24 amounted to INR 162 crores, growth of 36% YoY and for 9-month FY24 reached INR 460 crores, a YoY gain of 23%.

EBITDA for Q3 FY24 stood at INR 20 crores, an uptick of 46% YoY and for 9-month FY24, INR 56 crores, recording a growth of 28% YoY. The company's PAT for Q3 FY24 amounted to INR 15 crores, reflecting YoY increase of 64% and for 9-month FY24 stood at INR 41 crores YoY rise 32%. EPS stood at INR 7.26 of and INR 19.79 per share in Q3 and 9-month FY24, depicting a YoY growth of 71% and 38% respectively. That's all from our side. We can now begin with Q&A session. Thank you.

Moderator: The first question is from the line of Naman Bhansali from Perpetuary Ventures. Please go ahead.

Naman Bhansali: Hi sir, congratulations on a decent set of numbers. One question is on the CDMO business that we have seen the momentum improving very significantly in the 9 months. We have grown by

23% versus just the volume growth of 1%. How do we see the business going forward and what factors are driving this growth versus the IPM growth of just 1% volume?

And secondly on this only, that under PPT when we show that the 14% growth is for the industry of CDMO, do we expect to grow at the industry base or outperform the industry base going forward over the next 2-3 years?

Hitesh Windlass: Yes, Naman, so as you know, we are not giving sort of forward-looking guidance 4tr what I see is a very strong and optimistic view on, how the prospects for Windlas Biotech are in all three verticals. So you asked about CDMO, even in the past where volume growth has been low, our numbers have been much lower 4tr I think this quarter and in fact last 3-4 quarters if you look, we have consistently performed above the volume growth, numbers of the market. and that is our endeavour.

So aligning our internal factors more in terms of the business development teams, the product portfolio, providing on-time delivery services to customers, reducing the overall turnover time in terms of how quickly we can supply and focusing on those factors has been our way of working across these last 4 quarters. So we want to continue, obviously.

Naman Bhansali: Got it. And secondly on working capital that we have seen a significant improvement in the first half of the year, so do we see any change in working capital days or working capital mix once the injectable facility kicks in?

Komal Gupta: Injectable facility, as you are aware will kick in next year. This financial year on working capital, we see good working capital days. In fact, further improvement in working capital days you would see in H2 of the year. From injectables, we don't, it's difficult to as of now mention how injectables would pan out in terms of working capital. But we do not see much effect on the good positive working on working capital that we have developed because of injectables. It is that's what we have.

Naman Bhansali: Got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Total Capital. Please go ahead.

Dhwanil Desai: Hi team, Congratulations for a very good set of numbers. So, my first question is that you guys have always been talking about a very large opportunity on the 4tradeG generic side and we are at around INR100 odd crores on an annual basis run rate. So from here to go to INR 400 crores, INR 500 crores, INR 1000 crores kind of a number, what are the things that you need to do differently? I mean, whatever it took you to take it to this INR 100 crores number, do you need to do anything differently? Or have you set up a kind of a model in place, which is which does you need to replicate to take it to the next level, if you can talk a bit about that?

Hitesh Windlass: Sure, sure, Mr. Dhwanil. See, I want to just reiterate that we are very optimistic and very encouraged by the opportunity in trade generic and institutional vertical. It is it has all the global factors aligned. You know, more and more healthcare consumption in the hinterland of India, the branded generic model essentially not being able to deliver to this space because, you know, physicians are not there and the chemist is the dispenser.

So the trade generic vertical is very good for those manufacturers who are providing quality products and want to build in, for instance, us, we want to build an umbrella brand of Windlas products, high quality products being sold even in the hinterland at reasonable prices. So our perspective is that there is a this is like a blue ocean. There's a lot of opportunity. We have to pick, you know, the right products. We have to pick the right team members and build the right distribution network. We have built a very strong model.

If you see in this space, we do not have large distributors. We are working directly with stockists and that model is a strong model, efficient model and is showing results to us already in the short period of time. So we want to continue this and I believe that we can grow significantly and immensely by following these same strategies that we have come up with.

Dhwanil Desai: So just to kind of a follow-up on that. So you mean to say that you will you have kind of, you know, worked out the economics and the logistics part and the operational part and the same model you need to replicate at more places and with more product, a larger product basket. That will take you to maybe 3x, 4x, 5x from here. Is that the right way to look at it?

Hitesh Windlass: Yes, that is absolutely right. Obviously, we need to add good sales team people to support and execute in the company strategy. Keeping our receivables strong, keeping our relationships strong and providing the same level of service as the network grows to our stockists and our eventual patients. So, yes, we have built a strong model. It has been tested by performance over the last four years and we want to continue doing that.

Dhwanil Desai: Second question is on the dosage forms. I think we have been talking about this after our OSD, now we went into injectables. But don't you think given the runway and given the external environment being very supportive, we need to expand faster into more dosage forms? And how do we create that bandwidth within organization to do that? Or maybe inorganic route, but isn't it better to have more number of dosage forms sooner than later? And if so, what are33 we doing to address that part?

Hitesh Windlass: Sure. See, we believe that there is a lot of room even within OSD, right? And this is an area that is, well understood. And we are delivering that growth over here. In terms of dosage form expansion, our first area was injectables. Because we saw an opportunity that a lot of injectable facilities in the country have become very old.

And are not even complying to the sterility standards demanded by GMP or Schedule M or the New Drugs and Cosmetic Act quality section called Schedule M. And so there is an opportunity to provide, with a new facility built to the standards of future.

The high quality products in all three verticals. CDMO, export, as well as our trade generics. So that's why we went for a greenfield project over there. Because we know that the quality of the facility will be a very big strategic advantage going forward in the future in injectables. In case of other dosage forms, as we have said in the past also, we have intention to grow and we are looking for, opportunities.

And, our criteria is that whatever we get into should have, give us a platform. But also at the same time, we should be able to grow that what we acquire as well. So we have been somewhat selective and we want to continue being that. But, of course, inorganic options are definitely on the table and we will be looking at more and more of them as we go forward.

Komal Gupta: And we don't want to be extra aggressive and start building from scratch another plant. We would rather first work on injectables, make it profitable. But meanwhile, keep looking for inorganic opportunities where we get business ready in other dosage forms. That's how we are going about it. So balance is the key for us.

Dhwanil Desai: And you guys are currently already at INR160 crores of quarterly run rate. And I think you had mentioned that up to INR650 crores, INR700 crores, our existing facility should be good enough. So if you can give some update on the expansion, both the debottlenecking and greenfield, where are we on that? And some update on that.

Komal Gupta: Yes. So we have been working on continuous capacity improvement. And as you rightly mentioned, we are all set to be able to deliver a number of INR650 crores to INR700 crores from the existing setup that we have. We have done some background work. There is some work going on. And we are pretty confident that we have that in place.

In terms of other capacity, the bigger capacity building or acquisition, that work is also in full swing. We can't, while we can't give update right now, but we can assure you that capacity-wise, there is going to be no constraint to deliver the growth.

Dhwanil Desai: Okay. Got it. And last question on the export market. Again, we are very small in export market. And as per our last interaction, we have filed in many countries for many registrations. So do you see growth picking up significantly from FY25 onwards?

Because we always mentioned that growth will be back-ended. That was two years back. So I assume that the kind of platform for take-off is already in place. And next year onwards, shall we see a very significant growth on the export side?

Hitesh Windlass: So on the export side, we have been somewhat, at a stagnant level. While products have been added, some new markets have also opened. The momentum has to still build. And as we have said that there will be a fag-ended approach because as the registrations come through, it takes almost one, one and a half year, and then plant inspections. So, another, close to, two and a half years period of incubation period.

So I do expect growth to come to export vertical. And, exactly how, we have to yet find out. We are doing all the possible work to unlock this growth, however. We are adding products to our existing markets. We are working with, our existing distributors and trying to spread into those neighbouring markets also. So one by one.

And we are also opening new markets. So, and I believe that there's a lot of excitement in our customer base of exports for our injectable facility also, and products that can go from there to those markets and other markets. So, we have a lot of room to grow. We want to build this vertical, but it is a longer incubation, activity.

Dhwanil Desai: Okay. Can I ask one more question?

Komal Gupta: Please.

Dhwanil Desai: So last thing, update on injectable. So our understanding is that from, H2 FY25, we should be able to supply commercial quantity. Is that a right understanding? And the scale up will happen in FY26.

Hitesh Windlass: No, we should be. We are looking to, as you mentioned in today's speech, we are looking to commercialize at the end of this financial year only. But yes, scale up and, utilization and returns from that facility.

I think we really need to, take maybe two, three quarters before we can together evaluate, where that is headed. We see very positive response from customers who have already come and seen the facility. We are discussing with customers, potential products to bring in.

So there's a lot of positivity. But I feel that we have to look at this maybe two, three quarters into the next financial year to really take a stock of things there.

Dhwanil Desai: Okay. Got it. Thank you. And all the best. Thank you.

Moderator: Thank you. Next question is from the line of Devansh from ICICI Prudential. Please go ahead.

Devansh: Hi. Good morning. Thanks for taking my question. Congratulations on a good set of numbers. I don't know if you've already answered this question, but my call got disconnected. So what has primarily led to the 44% YoY growth in CDMO?

Was it a new client added, new products, or increasing wallet share from existing? Or was there some one-off?

Komal Gupta: Yes. So, Devansh, while it is difficult to mention a particular quarter growth, as we have always been saying, that we should look at the annual numbers. And as you rightly mentioned, we have been proudlyp delivering about four quarters of good performance.

The percentage keeps on varying. But we have been working on all the factors that you mentioned and more. So, adding new customers, adding the products with those customers and our existing customers, providing better quality, innovation, incremental innovation for our customers, and building on leadership team and business development teams, consistently working on customer connect, are all the factors that we have been consistently working on.

And we feel that now the results are becoming more and more visible in our CDMO business as well, for which we have been patiently waiting and working in the background. So, we are very positive for all the three verticals in terms of growth. We feel much more confident as we keep on delivering quarter after quarter.

Hitesh Windlass: Yes. And also, just to clarify, Devansh, there is no sort of lumpy revenue here. So there is no, like, dependence on one particular product being shipped or one particular big account.

So this is all a combination of, if you see from Q2 to Q3, you are consistently adding and delivering. So there is, in fact, last year, Q4 onward, you see that momentum being built up. That's why we are very positive about the future as well.

Komal Gupta: And the percentage growth, Devansh, is a resultant number. What we have been continuously, consistently trying to do is to do better in comparison to last quarter. And that is how we want to look at it.

So we want to continue doing that. How we did in past and basis that what is my percentage growth every quarter is just a resultant number for me. What is important is I try to do better than what I did last time.

Devansh: So there is no one-off, or this is just from your existing customers, maybe a better acute season has helped us. So I don't know.

Hitesh Windlass: No, no, no. You are absolutely right. No one-off.

In fact, we don't have antibiotics. So really no, big push from acute season perspective. And, there is a change in terms of, the winter products will have more cough syrups, will have more winter product related, winter disease related supplies that customers take.

But there is no sort of a one thing that, has led to this jump. If you look from Q2 to Q3, we are steadily growing and that's how we are trying to build.

Komal Gupta: So Q1 was 109, Q2 was 117, Q3 is 125. That is how we are progressing. No one-off, one-off in any quarter.

Devansh: Got it. So this progress is basically from your existing clients giving more orders or increasing their wallet shares of products with you. Is that correct?

Komal Gupta: And also new customers.

Devansh: Okay, okay. And so what would be your guidance for FY25 going forward?

Komal Gupta: Devansh, we have not been giving any guidance for future. Just in terms of numbers, but we feel very positive. We think that the growth that we have been deserving has now started, you know, showing.

Devansh: But you are maintaining your original FY'27 guidance of doubling your CDMO, tripling your trade generics and co-tripling your exports?

Komal Gupta: No, that…

Hitesh Windlass: No. Devansh, if you look at that guidance that we gave like almost two years ago, on the trade generics side, we would have already achieved the outcome this year, right? So from that perspective, we are ahead in some cases and behind in some cases.

And in fact, if you see from last four quarters, we have not given any guidance. And we have said that we are doing the right things to unlock value and not sort of given a target that we will be hitting, as a guidance to the street.

Devansh: Okay. And the last question, when can we expect an update on your capacity, increasing capacity? Because at your current growth rate, you would probably be hitting the sales of NR600 crores to INR700 crores in FY'25. And beyond that, you would need incrementally capacity expansion to grow. So when can we expect a sort of update on that?

Komal Gupta: So, Devansh…

Hitesh Windlass: Yes. In addition to what Komal just shared, you got disconnected, maybe. So we are working on three factors, three things. One is, internal enhancements, unlocking inefficiencies, and also reducing bottlenecks. That is one aspect.

The second aspect is to look at adding capacity within our existing framework. So that is also ongoing. And the third is to add a new site, which will take us to a longer term, three, four-year potential. And that work on that is also ongoing. So hopefully, maybe by end of this financial year, we can come back with an update on that, on the planned capacity.

Komal Gupta: But we…

Hitesh Windlass: Yes. But we are very confident, Devansh, that we will not let lack of capacity be a reason for a stifling of growth.

Devansh: Got it. Thanks.

Moderator: Thank you. Next question is from the line of Miten from Fractal Capital. Please go ahead.

Miten: Yes. First of all, congratulations on an excellent set of numbers. I think efforts are paying off. The question is actually the same as the previous participant. If you can provide some color around the factors that drove growth. I'm sure, I mean, or at least overall granularity in terms of product concentration, customer concentration, that has been preserved and yet you have delivered this growth. Is that what you're sort of broadly hinting at?

Hitesh Windlass: Yes. What we are saying, Mithin, is that there is no sort of a one-off lumpy revenue here, which has been driving the growth here. It is a result of working across our customer base, across our product base, and building that momentum. There are external aspects, which we have discussed, like in previous con-calls, where the new Schedule M has been implemented. We have already complied and are ready across all our facilities for the new Schedule M. That is generating good momentum with customers.

We are also working on overall delivery time reductions, and that is a long and very deep manufacturing-related working. And that is also paying off, because as we are able to deliver faster to customers, we are able to improve our satisfaction levels and gain more wallet share from them. So it's a lot of factors, which are, if you see across the last four quarters, there has been consistency in building towards this. And I feel confident that if we continue these, we will continue to build this momentum and growth.

Komal Gupta: So in terms of customer concentration, just to give numbers. So around 40% top 10 and around 50% -- 45% top 20 customers' percentage. That is what has been in Q3 as well, Miten, just to sort of solidify it with numbers. In terms of product portfolio, no one or two particular product additions in the quarter that has happened. So it is a combination of internal and external factors. So yes, some softer aspects also we have been continuously working. There are programs for motivation of the employees that we have been working on. There was leadership team that was built, who has stabilized. So, we were working on that as well. Business development team, restructuring is what we were doing. So there were a lot of things that we kept on doing. And I think the recipe was in place, the dishes now being served, something like that.

Miten: That's understood. Congratulations, again. All the best.

Komal Gupta: Thank you.

Moderator: Thank you. Next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: Yes, thanks for the opportunity. First of all, congratulations on some great set of numbers. My question is on the trade generic business. So while, you know, since our IPO, we have delivered a phenomenal growth rate of more than 40% CAGR in this vertical. Last couple of quarters, our growth has kind of slowed on a Y-o-Y basis to about 19% to 20%. So if you can just highlight what's the reason behind it? And are we on track to grow at a similar growth rate as in the past?

Hitesh Windlass: Hi, Neelam. So I think that the right -- as we've been saying in the past also, probably the right way to look at trade generics is the YTD growth numbers. Because even when we had very high growth rates, given that the base is still relatively small, even at this base of whatever, a run rate of INR120 crores, we are still very small in my view.

So quarterly growth rate, this business has both our trade generics and institutional aspects. So there are tenders and supplies related to timelines of those tenders. So many things are there. The right way to, I think, look at it is on the YTD basis where our growth YTD basis is around 28% this time. But that said, I think if we see the large trade generic companies in the marketplace, they are all reaching around INR2,000 crores. And there is nothing that keeps fundamentally Windlas Biotech away from reaching that kind of a goal.

We are manufacturers for most of our products, and that is we are ensuring quality at the product level through being the right manufacturer. And as a manufacturer in this space, you have a natural advantage. So that's how we believe that eventually in this space, more and more manufacturers will grow.

And we want to also maintain our strong growth momentum and achieve those heights. So fundamentally, I would not say read too much into a lower quarterly number here. My sense is that up until INR300 crores or odd number, we should -- there is no fundamental limitation coming in terms of what can be a growth rate.

Neelam Punjabi: Got it, sir. I just wanted to understand…

Komal Gupta: Two to three business verticals, that's the fundamental thing. So there's one quarter, one vertical might do much better than the other one. And net-net, our endeavour is to be able to deliver good growth overall.

Hitesh Windlass: Holistically.

Komal Gupta: Holistically, Yes.

Neelam Punjabi: Understood. That makes sense. And just to add on another question for this vertical, if you can just give us some metrics around what's the kind of market that we have covered in terms of therapies and in terms of products.

So, for example, overall, IPM is less than INR2.5 lakh crores as a market. So our products which we are selling via trade generics, are we covering 20% of it, 30% of it? If you could just highlight that.

Hitesh Windlass: So, Neelam, we -- in this space, you know, the product portfolio is dependent on the market that we are selling in. So, for example, as I've said before, when we look at the Northern Belt, UP, Bihar, Uttarakhand, West Bengal, this is where the highest population densities are. And at the same time, the highest poverty is also there.

So what we end up finding is that the disease and the products needed by people in this space are primary care products. They have waterborne infections, so you have antibiotics, you have pain, you have respiratory issues, there are gastroenterology problems. So this is the kind of portfolio that is offered in these markets.

But as we are growing slowly across to Southern states, we find that even products in diabetes and cardiovascular are being sought by our stockists in these hinterland areas. So it is -- what we are doing is not to say that, okay, let us put all the therapeutic areas and then go everywhere. We are saying we'll follow what is the market need and work on those product penetrations in those areas.

So our strategy is follow the market rather than sort of come up with a large portfolio and just say that I have everything, you take whatever you want.

Neelam Punjabi: Got it. Okay. And last question…

Moderator: I'll request you to come back for a follow-up question.

Komal Gupta: Sure. Okay. Thank you.

Moderator: The next question is from the land of Gaurav Sood from Kanav Capital. Please go ahead.

Gaurav Sood: Yes. Thanks for taking my question. Congrats on a great set of numbers. The growth year-on-year is truly astounding. And so one of the things that has recently come up is the government moving in to implement the GMP practices across the manufacturing units in India, given the quality issues that the Indian pharma products have faced globally. And then you refer to Schedule M and that being implemented.

So could you give a more detailed idea about what's happening on the ground? And because you are much better off than other manufacturing units, especially the smaller ones, will it create a tailwind for you going forward in your CDMO vertical?

Hitesh Windlass: Okay. Thank you, Gaurav, for asking that question. It is actually a very important thing, you know, shaping the industry, in my view. The government is committed to eventually signing up to the PIC/S standards. So Schedule M is a revision to quality standards. And this is the first time, actually, where a very strong enforcement is also happening.

So surprise audits are happening at various plants. There are samples being picked and tested. And a lot of, you know, the failed samples are becoming public news. And it is uploaded on websites of the Drug Controller General. And so many things are happening like that. And there are, of course, a lot of penalties and things for some of these kind of cases.

So what we feel is we anticipated this. Even if you see at the time of our IPO, we were talking about how this change is going to maybe structurally change the market. Because as a very small manufacturer, one does not have the capital or infrastructure to meet the requirements of the higher Schedule M testing protocols or validation protocols or the area maintenance or ASU requirements protocols.

So and also smaller manufacturers struggle with having the right talent. So how do you bring people who actually know how to run facilities with compliance when you are a very small manufacturer? And third, it is know-how. And I think Windlas Biotech is uniquely positioned because of our large customer base, which has so many multinationals.

We get audited more than 70 times a year, 70. And there are permanent quality reps of our customers stationed in our plants. And we always welcome if a company is wanting to do that, who have complete access to any time, go to any product line and look at what is happening. This becomes a very strong learning ability for a company like us.

And we have been always constantly leveraging this and growing. So my sense is that the Schedule M implementation is a quality driver in a very fragmented industry. And anytime such a scenario appears, it always benefits the more organized players at the top. And I think that eventually these B2B business in CDMO is a business of reputation.

It is a business of constant performance and a business of strong relationships. And all of these take these three things take time to build. And our consistent effort across this in the last two years is going to continue. And we have already met all the Schedule M requirements across all our facilities.

Any new capacity expansions and things that we are doing, we are already anticipating and building for the future. So for us, this is something that was a way of working. What we have now seen is the customer's appreciation of having this compliance levels already. So my sense is that it will eventually lead to more and more strengthening of our relationships and that eventually benefiting in the business.

Gaurav: So, and given that you're already compliant and some of the non-compliant setups may struggle to deliver. So over the period of time, can this also lead to an increase in your CDMO margins?

Hitesh Windlass: I think that this is a cost plus business, Gaurav. So we have open cost sheets with our customers most of the times, unless they are very, very small and only having one or two products. So my sense is that the margin increase shall happen through volumes. And our ability to create efficiencies and pass some of them to our customers.

Rather than through sort of saying that, okay, because the customer doesn't have any other option, I will charge higher and extract it like that. But it will happen on its own natural course, because of growth in terms of volumes and growth in terms of being able to create more efficiencies.

Gaurav: Okay. So, and Hitesh, your manufacturing footprint is largely in Dehradun, all your units being located. So that results in a geographical concentration. So over a period of time, do you plan to go out of Dehradun to set up your manufacturing plants as capacity needs arise?

Hitesh Windlass: Gaurav, actually being in one area gives us tremendous advantage also, because a lot of the high volume markets for our customers are also in the north, right? And Dehradun with its very strong road connectivity, train connectivity, airport connectivity more than 20 flights daily to Delhi, a lot of growth has happened in that way.

And having our senior staff in one location also helps us bring harmonization to our quality standards and bringing that complexity down to a little extent that said, we are not constrained. We are not looking at only growing in Dehradun. Wherever we have the best ability to, or the best trade-off in terms of looking at other dosage forms and acquisition opportunities inorganics, we are agnostic.

And we believe that we have the bench strength to handle and grow geographically in other areas. We are not also saying that, okay, we have to have the next unit in Gujarat, or we are not saying that we have to have a next unit in Baddi or anything. We will follow where the opportunity is.

Komal Gupta: Yes, so organically, we would prefer Gaurav to grow locally. And inorganic, we are not averse to anywhere else within India.

Gaurav: Got it. Thanks, Komal. One final question.

Moderator: Gaurav, sorry to interrupt you. Please come back in the question for a follow-up.

Gaurav: Yes, thank you.

Moderator: Thank you. The next question is from the line of Laxmi Narayan from Tunga Investments. Please go ahead.

Laxmi Narayan: Thank you. A couple of questions. First, this injectable facility of INR50 crores that you are putting in, and what's the kind of capacity utilization you would actually achieve in the first one full year of operations, and what kind of revenue throughput you can expect from that?

Hitesh Windlass: So, Lakshmi Narayan, as I was sharing earlier also during the discussion, I think that we already have begun showing our facility to customers. We have identified our product portfolio initially. It will be serving all three verticals. So, we will be manufacturing for our trade-generics vertical, our CDMO, as well as for our exports. I think that the real question on capacity utilization, turnover, bottom line on injectables, we should really evaluate maybe three quarters into the new financial year.

That's where we should really look at it, because that is more realistic in terms of how things are. But what I can share with you is that we have significant optimism and really a lot of enthusiasm, even within our customer base, our existing customers whom we have been working for the last 15- 20 years. They are looking at the facility and a lot of good feedback is there, and we want to leverage that momentum.

But really, we should look at things maybe three quarters into the new financial year before we think more about on the injectable side in terms of -- or on asset turnover or on opex or all those aspects.

Laxmi Narayan: And this injectable facility, when it comes online, in terms of the sheer capacity, it puts you in what league of CDMO players, how many players would have the kind of capacity you would have. Let's say your capacity is indexed to 100. Who would be the next person who would actually have more than you and how many people would be having less than you?

Just get a sense of proportion in terms of, you mentioned it's high in terms of quality, etc. But I just want to understand where it puts you in the league.

Hitesh Windlass: Very difficult to say because we don't -- nobody is publishing data on what dosage form-wise capacity they have. What I can say is actually that having the largest capacity and competing as the biggest player is not what has been our strategy. We want to cater to that area where there is complexity, as you can see in our oral solids, multi-drug therapy, fixed-dose combinations, and things like that, where customers have a real need to get a good, high-quality manufacturer supply to them.

So this is where our strategy in injectable is also there. We have not put the highest capacities. Although we have left space for almost going 2x, maybe 2.5x already within the plant, we have left space for doing that. But we want to take on products which are not the plain vanilla because those products tend to be either the most low-margin ones or they tend to be those that customers want to manufacture in their own facilities.

So from a strategic perspective, our goal has never been to be one of the largest injectable manufacturers. Our goal has been to be able to do specialized things for customers at the right quality and right price.

Laxmi Narayan: One last question…

Moderator: Sorry to interrupt you, Mr. Laxmi.

Laxmi Narayan: Just one last question. Can I just squeeze in? So in terms of your employee cost, it has actually gone up meaningfully over the last nine months. Is this because you increased the number of employees or you actually increased the remuneration per se

Komal Gupta: There are a couple of factors resulting into this. There is also ESOP scheme that we introduced for which the impact has come in Q3. As I mentioned some time back, we have been working on developing a strong leadership team and business development team.

That is also something that has come into play. We don't think that there is anything worrisome about the personnel cost. In fact, for us, it is more than opex while accounting.

While we show it in opex, for us, it is investment because we will be able to deliver the kind of numbers that we have been delivering through motivation of the employees. So we have been working on variable and incentive program for the employees.

ESOP we introduced. We worked on building strong business development and leadership team. So all this we are consistently working on while maintaining or in fact improving the EBITDA margin.

So that is how we think about it. We want to share. So philosophy of the company as you would see is not to keep the money.

We believe in sharing the work with our employees, with our shareholders. So stakeholder sharing is what we believe in while keeping the strong set of numbers.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Dam Capital Advisors. Please go ahead.

Nitin Agarwal: Thanks. Just one question. On our current sort of network , what kind of revenues can we potentially generate on an overall basis?

Hitesh Windlass: You mean to say on our current set of network in trade generics or on CDMO?

Nitin Agarwal: Overall, I mean the manufacturing network is fungible I guess for you.

Hitesh Windlass: Manufacturing network. Okay.

Komal Gupta: Yes, so, Nitin, as I mentioned, the current capacities we had increased and we have been consistently working on. So we are comfortable delivering INR700 crores to INR750 crores with some incremental expansion internally that we have been working on. We have been adding it as needed. So we are able to do that. So we should be able to deliver INR700 crores to INR750 with that. And there is other work going on for further runway..

Nitin Agarwal: And Hitesh, just going back to the question that you were answering earlier about the Schedule M norms being tightened. I mean, do you envisage a meaningful change in the business trajectory from a volume growth pickup because of whatever is really happening? And how prepared are we to handle, you know, assuming that kind of business comes our way?

Hitesh Windlass: Yes. So Nitin, if you think about the structure of the industry, it is not very well documented in industry reports, but you know, some market research has shown that there are more than 12,000 - 13,000 CMOs in the country. And, you know, that really is not needed, right?

At the max, you need any country of our size or even, the kind of generic penetration we have, probably maybe, 150-200 manufacturers are enough to take care of, the vertical in a very good way where patients are also protected. And the drug quality is not suffering just because everybody is putting, some kind of a plan somewhere and trying to do things below a sustainable cost. So my sense is that eventually this will lead to more and more benefit towards the organized and, players who are at the top.

I mean, we are top five, top six right now in CMO. But so I think the players at the top should benefit with this kind of, quality enforcement. And I think actually it's high time when, that the country actually ensures this because eventually it's our kids only who are taking these drugs, right?

Taking these medicines. We have to be able to stand up and say that every product in our facility can be taken by our own children, right? So I think that it should eventually lead to a structure of the industry which is favourable to the top players.

And as part, second part of your question is how is Windlas geared to receive that growth? we are geared very strongly, the kind of balance sheet that we have the kind of ability to create capacity, the kind of ability to the customer relationships that we have longstanding quality track record we have. All of these are the right the things that are important for unlocking that opportunity.

And we have, we will not hesitate to take the right actions as we see this opportunity unfolding.

Nitin Agarwal: Thank you, Hitesh. Best of luck.

Moderator: Thank you. Ladies and gentlemen, we'll take the last question from the line of Nitesh Dutt from Burman Capital Management. Please go ahead.

Nitesh Dutt: Hi, thank you for taking my question. So you explained the shift from unorganized to organized in a very nice way. My question is within the organized space, right, how will you get more of the outsourcing pie?

So for example, there are other players as well, Innova, Tirupati, Akums, etc. And they are expanding quite heavily. So when a player decides to outsource incrementally, what are the factors that they focus on and how can Windlas get an incremental share out of that?

Hitesh Windlass: Yes, sure. See, if I am a customer, and I am thinking about outsourcing from my products from a few parties. First thing is that I will never give all my business to one party.

Right? Because it is a matter of supply chain risk. So I will always distribute products across a spectrum of manufacturers.

Now, as you do that, you add a complexity that how do you monitor the quality standards of the products coming from this network. So that adds to an overhead that a customer has to bear as soon as they add more and more manufacturers. So what mostly customers tend to do is to have some pour manufacturers and then around that, have a spread of options which allow them to also take care of supply chain risk, price increase risk, and many other factors.

Now, what we are trying to say is that the one size fits all is not an approach. Right? So when you look at our product portfolio, we are focusing on the complex therapies, we are working on products that are in the chronic space.

We are working on dosage forms that are more complicated, like going into injectables now. These are all ways where customer gets the confidence and the relationship can then translate across dosage forms. So for us, the growth method of increasing wallet share will be to add dosage forms, and then take our rightful share of business from our long standing customers.

That's sort of the way we believe that growth should come. And, and we believe that it would be healthy for us as well as the industry.

Komal Gupta: I believe that the set of strategies that we have been applying are showing good results. So I don't, I sort of do not agree that we are anywhere behind the other names that you have taken in terms of delivery or growth. And if we continue to do what we are, we have been doing, I am pretty confident that we should be able to get a bigger chunk of the growth.

Nitesh Dutt: Sure. Thanks a lot for explaining that. That was my question.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. On behalf of Windlas Biotech Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Komal Gupta: Thank you.

Hitesh Windlass: Thank you, everyone. Thank you very much. Have a wonderful day. Thank you.