



February 09, 2024

The Manager
BSE Limited
Corporate Relationship Department
P. J. Towers, Dalal Street,
Mumbai – 400 001.

The Manager
The National Stock Exchange of India Limited
Exchange Plaza,
Bandra - Kurla Complex, Bandra (E),
Mumbai – 400 051.

BSE Scrip Code No. 524280

NSE Symbol: KOPRAN

Dear Sir/Madam,

Sub.: Investors Conference Call Recording/Transcript

Dear Sir / Madam,

Pursuant to Regulation 30 read with Part A of Schedule III and Regulation 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, recording of an Investors Conference Call held on February 08, 2024 is uploaded on Company's website:

<https://www.kopran.com/investors/financials/>

The transcript of the Investor Conference call is also Annexed herewith.

Regards,

For Kopran Limited

Sunil Sodhani
Company Secretary & Compliance Officer
Membership No FCS 3897



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Kopran

“Kopran Limited

Q3 FY '24 Earnings Conference Call”

February 08, 2024



MANAGEMENT: **MR. SURENDRA SOMANI -- EXECUTIVE VICE
CHAIRMAN – KOPRAN LIMITED
MR. AJIT JAIN -- CHIEF OPERATING OFFICER –
KOPRAN LIMITED
MR. SANJAY DOSI -- GROUP ADVISOR –KOPRAN
LIMITED**

MODERATOR: **MR. HRISHIKESH PATOLE -- BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Kopran Limited Q3 FY24 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on the touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Hrishikesh Patole from Batlivala & Karani Securities India Private Limited. Thank you and over to you sir.

Hrishikesh Patole: Good afternoon everyone. On behalf of B&K Securities, I welcome all to the Q3 FY24 Earnings Conference Call of Kopran Limited. Hope everyone is in good health and doing well.

On behalf of Kopran, we have with us today Mr. Surendra Somani, Executive Vice Chairman, Mr. Ajit Jain, Chief Operating Officer, Mr. Sanjay Dosi, Group Advisor. I now hand over the call to the management for the opening remarks post which we'll open the session for Q&A. Over to you sir.

Surendra Somani: Good evening and I welcome all the investors to this call and hope all of you are in good health and for Kopran, as you all might have already read, for quarter 3, the consolidated turnover was marginally higher as compared to the corresponding quarter ended December 2022.

However, the EBITDA grew from INR13.84 crores to INR23.58 crores. This growth in the margins was achieved due to optimization of costs and a better product mix because of the share of new molecules in the overall business. We expect to continue improvement in margins in the medium term also. The company's focus continues to be in development of new products, both in APIs and formulations.

Further, we plan to do a backward integration of the API by manufacturing KSMs, which will improve the margin, the quality and reduce the dependency on commodity products. We are also investing to improve our share in the regulated markets, including US, Europe, UK and certain other countries which are very stringent non-regulatory in the Middle East and South American.

During this quarter the company has filed two CEPs. And amongst the new launches, the big one was [Tebipenem], which is another [PANM] in the APIs. We are seeing price stabilisation and demand pick up for most of our products and our outlook for quarter 4, seems to be better as compared to quarter 3. And we will continue with this strategy to grow in the coming years also.

In the last two years, the company invested heavily in capex and going forward, we expect this capex to yield the increase in revenues and profits. So, our strategy would be to go moderate on the capex and generate higher free cash flows from our operations.

I now welcome the investors to ask their questions. Thank you very much.

Moderator: The first question is on the line of Srinivas Rao, an individual investor. Please go ahead.

Srinivas Rao: Good afternoon, sir. Is your unit acquired in Gujarat newly, is it in running or is there still a [peso safety permission] from pollution control board?

Surendra Somani: May I respond, sir? You are referring to our new API unit, which we expect to start in Panoli, Gujarat. We have received clearance from Delhi and expect the Gujarat Pollution Control Board clearance in the next couple of months. We are targeting to start the commercial production in the next quarter, that is Q1 of 2024-2025.

Srinivas Rao: Thank you.

Moderator: The next question is on the line of Julie Mehta from B&K Securities. Please go ahead.

Julie Mehta: Thank you for the opportunity. Sir I wanted to ask some questions regarding the future of the company. So can you tell us the strategy going ahead for the next 4-5 years to diversify from being an antibiotic company to other therapies?

Surendra Somani: Our strategy is basically to focus on new products both in the API and in the formulation and in the new product development. We are definitely focusing on anti-diabetes as well as cardiology products, CNS, central nervous system products, which will be, not only for the API business, but the same range of products we will be manufacturing the formulations. The other strategy is to focus on the regulated markets where, in US or in Europe or in UK, we will be able to launch these products with better margins.

Julie Mehta: Thank you sir. My next question would be that we see that we are highly dependent on South Africa and Africa as a geography which would be other emerging markets that you are currently focusing on?

Surendra Somani: In South Africa, we are one of the biggest players in the penicillin-based products. So, almost all the major companies rely on us to buy a majority of their products and therefore that business is very high under African countries. We have been historically registered there and that will continue to grow.

However, we are now registering ourselves in South East Asia. We will also focus on UK as well as the Latin American markets. So virtually the whole world, we have just launched our products in Canada, for example. We are focusing on other markets.

But as you know, here product launches and commercialization is in Phase 1. The product growth in terms of the share of the business takes a long time. However, we will meanwhile even grow in the South African and African markets also. But as such, it's a global phenomenon that we continue to register new products and grow everywhere. But the South African and Africa share is only in the formulations market. In the API business, it is global including the domestic market.

Julie Mehta: As we move on to other objectives, we would also...

Moderator: Sorry, there is a lot of disturbance from your line.

Julie Mehta: Is it not on?

- Moderator:** No, there is a lot of background disturbance from your line.
- Julie Mehta:** Okay, I will join back the queue.
- Moderator:** Thank you. We will move on to the next question that is in the line of Kaushik from KK Capital. Please go ahead.
- Kaushik:** Thanks for the opportunity. I hope you are doing well, sir. Sir, I want to understand are we taking any CDMO opportunities in antibiotics? That is my first question.
- Surendra Somani:** CDMO opportunities, we are seeking not only in antibiotics but in all types of products including cardiac, including diabetes, including other painkillers, etc. We are doing CDMO activity also.
- Kaushik:** So, how much the pie of the revenue comes from CDMO?
- Surendra Somani:** Less than 5%.
- Kaushik:** Okay, do you wish to grow this part? How big, sir?
- Surendra Somani:** It will grow and that is why when we are doing the investment in R&D of both API, formulation and even the KFM's, it will ultimately yield to a much... A good part of the growth will come from the CDMO activities.
- Kaushik:** Okay, great, sir. Great, great. I have another question. This is regarding your group company. So, you have been selling assets in your other group company which is the parent of Kopran. And do you wish to sell total business and focus on this pharma business totally?
- Is that your focus area? Or do you have a big growth plan for your group company, Oricon, on plastics? What are the thoughts there, sir?
- Surendra Somani:** Sir, I have no comments to offer for whether there is any business for sale or not at this stage. I cannot comment on that.
- Kaushik:** Yes, Yes, but I am asking on the growth prospects of the Oricon.
- Surendra Somani:** Sir, they are independent listed companies and I am not on the board of Oricon, so I cannot comment, sir. I am not authorized to comment. Unfortunately, I am not on the board of Oricon. I am not authorized to comment, sir.
- Kaushik:** Okay. Thank you.
- Surendra Somani:** I think you are understanding.
- Kaushik:** Yes.
- Moderator:** Thank you. The next question is on the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Yes, am I audible?

- Moderator:** Yes, you are. Yes, sir.
- Deepak Poddar:** Okay. So, first of all, I mean, in your opening remarks, you mentioned we expect to continue to increase our EBITDA margins in the medium term. So, any kind of aspiration we have in terms of a range of where we want to achieve in the medium term, in terms of margins?
- Surendra Somani:** Sir, I mentioned that the EBITDA will increase in the numbers. As a percentage, it will gradually increase because as we make the KSMs, obviously the margins will also increase. So, we will have a situation in the next few years where we will be manufacturing the KSM also, the API also, and the dosage form, leading to an increase in the overall EBITDA on the consolidated results.
- Deepak Poddar:** Correct. And what would that aspiration be? I mean, currently I think we are at about 15%, right? I mean, do we have an aspiration of 18%-20% kind of EBITDA margin?
- Surendra Somani:** It would be in 20s. Our aspiration would be to near to your expectation.
- Deepak Poddar:** Okay, around 20%?
- Surendra Somani:** Yes.
- Deepak Poddar:** Okay, okay. Fair enough. And you also mentioned, I think, we are focusing a lot in terms of our regulated market and even the new products in terms of APIs and formulation. So, what sort of growth we see then, I mean, driven by all this effort that we are doing for the next 2-3 years?
- Surendra Somani:** Sir, the major business from regulated markets will come only after 2-3 years because we have filed dossiers, DMFs, and we are working with partners. But right from getting the approval, then commercial production, validation, etc., etc., it's a long process. Normally, any product to launch in any market takes 3-5 years. So, we are looking at the U.S. market also. We are already in the European market. And we aspire that in the next 5 years, we also go into the Japanese market.
- Deepak Poddar:** Okay, okay. So, your growth, I mean, growth will be largely back-driven, I mean, maybe in 2-3 years once you establish your market and start the production and all?
- Surendra Somani:** But the growth will be there not only from regulated markets, even from the domestic and the other markets. See, now this word regulated, let me clarify, it's an old generation reference that regulated market means only U.S. and U.K. and Europe or Japan. You may be surprised to know, maybe, but today if I have to work in Brazil, for example, or in Mexico, or even in the Middle East, GCC countries, they are as regulated or at times more stringent than U.S.
- Like, some products we are entering into Brazil, they are already there, some products we are manufacturing, some we are waiting since 2 years. So, growth will come from all countries together. The whole world is gradually becoming a regulated market. I don't think in the next 5 years you will have any country, barring maybe a few African or some countries, which will be like non-regulated. The terminology needs to change.

Deepak Poddar: Fair enough. Fair point, sir. Fair point. So, I understand that. But in the near term, I mean, you have to see next 2-3 years, so what sort of growth we are looking at? Because your regulated growth will come only after 2-3 years, right? So, your domestic, driven by your domestic market and other international markets, what sort of growth we are looking at?

Surendra Somani: Between 25%-30% in the next 3 years.

Deepak Poddar: 25%-30% CAGR you are saying?

Surendra Somani: Yes CAGR. Compounded Annual Growth Rate.

Deepak Poddar: 25%-30%. And can you throw some more light, I mean, which markets will drive this growth in the next 2-3 years?

Surendra Somani: Including the domestic market for the API, as well as the various countries. I mean, we export our products to about 40 odd countries. So, it will be a mix of all. For the API, it will be Southeast Asia, Brazil and the South American market, US market, European market, Middle East, including Iran and all the markets. Korea, we may market everywhere the APIs. The formulations, except US, we are there everywhere. So, it's a growth everywhere. Like our percentage growth will come higher from Lat-Am, Latin America, for example, where the base is very small, where the percentage growth in Africa will be lesser, because the base is higher. You know what I mean?

Deepak Poddar: Correct. Fair enough. I think I got a fair understanding. I think that's it from my side. And all the very best to you. Thank you.

Surendra Somani: Thank you so much, sir.

Moderator: Thank you. The next question is on the line of Hrishikesh Patole from B&K Securities. Please go ahead.

Hrishikesh Patole: Hello. So, just quickly on the penem front, I mean, we have a very good and a very sizable portfolio on the penem front. So, generally, what is stopping us from gaining more market share? And we have seen a commentary across key peers, large cap peers of their interest in the penem market. Some are adding capacity or some would be doing partnerships. So, how is this space evolving in your view? Whether these new entrants turn out to be competitors, stringent competitors, where we will probably surprise or anything. You can provide or throw some light on that.

Surendra Somani: Sir, penems which are known as carbapenems as a family, are fourth generation antibiotics. And within the penems, there is the older penem like the Imipenem and the Meropenem. And there are the newer penem like the Ertapenem, Biapenem, Doripenem, etcetera. As a strategy, we are manufacturing both the oral and the sterile penems. And we have expanded in the last two years our capacities also. We are already growing and we are a significant penem player.

In the long run, in the next two to three years, we also intend to integrate forward to be able to make the dosage forms also. So, penem will continue to be a major pillar for us in time to come.

The oral penem market, which we entered only about a year back, which is Faropenem, and in the current year will be a significant contributor. We launched just last quarter, Ertapenem, which is a sterile again. So, for the [user makes a sterile], so that is, we just launched successfully and we have got the vendor approval.

There will be competition as you said there are many players like six players or so but the market is also growing globally but as an antibiotic our major market continues to be in the Asian, African and the south American region much more than the European or the US market. So a good chunk of the business will be in what we earlier used to refer as non-regulated market.

Hrishikesh Patole: Fair enough, fair enough so this Ertapenem that we probably launched that was this for this for Africa and Asia market or?

Surendra Somani: Mainly for the Indian market as of now.

Hrishikesh Patole: And what would be the plan for...

Surendra Somani: And the formulator exports, well, because we are making the API. As of now, we do not do the formulation of penems.

Hrishikesh Patole: Okay, then do you expect this penems to be filed in the US? And you going ahead?

Surendra Somani: Sorry?

Hrishikesh Patole: Have you already filed some penems in the US?

Surendra Somani: Penems, we have not filed in the US as of now. No.

Hrishikesh Patole: So, are there any plans to file?

Surendra Somani: Sir, as of now, except Ertapenem by Aurobindo, there is not much export to the US of the finished dosage form. Ertapenem we have just started, so we will take a year or so of our production, and then look at how we can go into the US market and with whom.

Hrishikesh Patole: Correct. Now, coming to the -- yes, I think for now, that is it. I will probably get back in the queue if I have any more questions.

Surendra Somani: Thank you, sir.

Moderator: Thank you. The next question is from the line of Kaushik from KK Capital. Please go ahead.

Kaushik: Yes, thanks for the opportunity. Sir, if I see your revenues from the last 10 years, it has not grown much. But in the COVID era, that inventory built up, at that time it was growing. But now you are envisaging we will grow by 25% to 30%. What has changed from a management mind-set point of view or what are the growths do you see suddenly emerging from that 10% to 15% or 10% to 25% to 30%? That is huge. So, what is changed in the management side? Can you throw some light there, sir?

- Surendra Somani:** Sir, the major change is the investments we have made, not only in capex, but also in the new products which we have developed and including a new plant starting in Panoli. So, the mix of all this will result in the growth.
- Kaushik:** Even if you look at 2021, 2022, 2022, 2023, we have roughly grown by 20% this year also. So, we would be roughly growing about 17%-18%.
- Kaushik:** So, when did we start the plant?
- Surendra Somani:** The Panoli plant is expected to start next quarter.
- Kaushik:** So, before that, it was coming from the existing capacity, right?
- Surendra Somani:** Yes, sir. But in the existing plants also. In the last one year, we have invested. But as you know here in pharmaceuticals, you increase the capacity, then you take validation batches, then you get the approval, stability data to be generated for six months. So, from the day your plant starts, your actual commercial potential is expected more after one year. So, please bear that in mind.
- Kaushik:** Okay. Just to summarize, sir, maybe in the last five to six years, in 2021-22, we got the cash flow. With that cash flow, we invested in the facility, but before that, we have not invested.
- Surendra Somani:** We were slow on capex earlier to that.
- Kaushik:** So, okay. We were slow earlier and through 2021-2022, whatever we got, we have built a facility. How much did you spend for the facility, sir?
- Sanjay Dosi:** About INR100 crores.
- Kaushik:** Oh, okay. What is the asset utilization? What is the asset turnover you are thinking here?
- Sanjay Dosi:** Two to three times.
- Kaushik:** So, INR300 crores of asset you are thinking. So, that will translate in the next three years, INR300 additional crores, right?
- Sanjay Dosi:** That is not a function of only this. One is capacity in terms of your reaction capacity. And secondly, the product which you are manufacturing. In the API, the product range from 1000 to 1 lakh or 10 lakh or 12 lakhs, 15 lakhs. So, your top line depends both on your reaction capacity as well as what kind of products you will be manufacturing in the plant. And if you see, all newer molecules which we have developed or which we are developing are of much higher value than what existing older products we had earlier.
- Kaushik:** Okay. So, the asset turns would vary, you are saying. It won't be directly 3x, it can be much higher, you are saying. Is that what you are saying?
- Sanjay Dosi:** Yes.

- Kaushik:** So, okay. If at all with the asset, we are getting INR300 crores of revenue additional, but the rest INR200 crores, you are envisaging that from the existing business, we would be able to churn it out.
- Sanjay Dosi:** Yes.
- Kaushik:** So, because you are saying three years, you will basically double INR1000 crores top line you are envisaging, right?
- Sanjay Dosi:** Right.
- Kaushik:** Okay. And what about the process chemistry talent? How are we hiring it?
- Surendra Somani:** Sorry, I did not understand.
- Kaushik:** So, I am asking that to build the process chemistry and to lay the facility and you need employee and hiring process chemistry talent. So, existing talent is suffice or how many employees do we have in the Kopran?
- Surendra Somani:** Sir, we had only one R&D centre for API earlier in Mahad. We have already just initiated and started the R&D centre at Panoli. So, we have already more than doubled our R&D capacity as recent as two months back, which will, the actual work will start from April. So, we are hiring people and we will be having more than 65-70 people only in Panoli. Then we have our R&D team in formulations at Khopoli so overall between all the three units we'll have nearly 100 people who are working in R&D regulatory for new products.
- Moderator:** Thank you. The next question is in the line of Arvind Rai, an Investor. Please go ahead.
- Arvind Rai:** Hello, am I audible?
- Moderator:** Yes, sir. Please proceed. Yes, please go ahead.
- Arvind Rai:** Sir, I have one question. I could not hear very clearly in the beginning. Have you received the permission for Panoli plant from Delhi?
- Surendra Somani:** See, we do not receive any permission from Delhi.
- Surendra Somani:** The Gujarat Pollution Control Board seeks a permission from the Ministry of Pollution, Ministry of Environment in Delhi. So, we are informed that they have received the clearance from Delhi and now they will process it. Hence, we expect that in the next quarter, we will be able to start. There is no direct application by us to Delhi. Let me clarify very clearly.
- Arvind Rai:** Okay. So, Gujarat Pollution Control Board –
- Sanjay Dosi,** I think final approval, we would be expecting by the end of March or the beginning of April. And after that only, we expect to start production in Q1 of next year.

- Arvind Rai:** Sir, I have one question. Without environmental clearance, how did you do so much of investment in Panoli?
- Surendra Somani:** Sir, without doing the investment, what clearance can I apply for?
- Surendra Somani:** Without a plant, I cannot get the clearance. We had bought a plant which was existing and on that, we have done the refurbishing and made it a USFD-approvable plant.
- Sanjay Dosi:** It's a plant that I have an approval to manufacture. A product which we don't want to manufacture. We are changing our product line. We have expanded our fresh approval for doing that.
- Arvind Rai:** And you are 100% sure that you will get it?
- Surendra Somani:** Well, we are always sure. Otherwise, we would not as a management invest money in something where we are doubtful of not being able to start it.
- Arvind Rai:** Sir, my second question is that since you are doing backward integration and you are going to make API and then you will be using that API in your formulation division also. So my question about the structure of the company, why have R&D in subsidiary? Why can't you merge that subsidiary and make one program which has everything integrated?
- Surendra Somani:** There was a strategic reason for keeping it independent. In due course, in the next few years, we will examine the situation and take the call accordingly.
- Sanjay Dosi:** I think the rationale of having these in two ways is basically both business has different dynamics, different operating environment and to have better focus on API as well as formulation, it's better to have two separate entities. Though we operate as a single business group as such in terms of all synergies are concerned.
- Arvind Rai:** Sir, we have so many pharma companies who are having everything under one roof.
- Sanjay Dosi:** Everybody has a different structure. If somebody has single unit, it doesn't mean I should have a -- for us, what we feel is to have a better. We are in a growth phase and to have a better focus and concentration on each separate business, it's better to have two units. So that can be achieved. As far as synergies are concerned, we are operating as a single unit.
- Arvind Rai:** But maybe after two, three years, you will look at the possibility of merging the two?
- Sanjay Dosi:** How does it change the -- We'll see it whenever it looks to have a single unit or two units. We'll keep evaluating it time to time.
- Arvind Rai:** Sir, my question is that Kopran as such, standalone, is only in one segment of the business. The other very important segment of the business is in that subsidiary. So I'm just trying to discuss the structure of the company. Is it not better to -- Kopran has everything under one belt?
- Sanjay Dosi:** As far as. As I said earlier, these are two different corporate entities as far as legal entities are concerned. As far as operations are concerned, we operate or we take decisions keeping both the

units in mind. The purpose of keeping two separate units is basically to have a very focused approach to each business, which has different dynamics, different business environment and business segments also. And if you see our API as of today, consumed by -- for formulation is hardly 5%. 95% is to outside customers.

Arvind Rai: Okay, sir. That's all from me. Thank you very much.

Moderator: Thank you. The next question is on the line of Kaushik from KK Capital. Please go ahead.

Kaushik: Just a request, sir. If I want to more understand on the business, whom should I connect with respect to Kopran and Oricon? If you could provide the details, that would be helpful, sir.

Surendra Somani: For Kopran, you can contact Mr. Sanjay Dosi. For Oricon, I think you'll have to take the number from the website. I think Mr. Sanjay Jain is the company secretary. He would be the right contact.

Kaushik: Okay. Fine. Thank you, sir.

Moderator: Thank you. The next question is on the line of Julie Mehta from B&K Securities. Please go ahead.

Julie Mehta: Thank you for the opportunity again. So, while we were discussing about the fact that we are planning to expand into a newer geography, I just wanted to understand, while we plan to enter new geographies, we would also have to plan to launch new product segments. So, what is the plan around that? How do we plan to expand into newer product segments? And if you can elaborate on these lines?

Surendra Somani: So basically, new products only will help to go into newer geographies because the older products would be saturated. For example, if I want to launch a new API or get a new partner to consume my new API, the old API like we make at [inaudible]. Now there, that is saturated. Nobody in the UK or Europe will now are fresh, want to manufacture a validation batch and spend money to approve my API.

But for example, we have just launched [inaudible], it's a new anti-diabetic. Now there I will have an opportunity to enter the newer countries because the patents are now expiring. So they are all seeking API suppliers. So it goes hand in hand, newer products go along with the new geography. Whether it could be Brazil, whether it could be Germany, whether it could be US, whether it could be UK, all the companies operating in India for those markets.

Julie Mehta: Okay, sir. So, my next question would be around the future outlook of the company. So, what do we look out for the next two years? What is the kind of growth that we see in the next two years? And do we plan to get back to the EBITDA margins that were healthy at 17%-18%? Can we get back to the FY '21 levels?

Surendra Somani: I think we have mentioned earlier, we are looking at a growth of the turnover at an average of 25%-30% for the next few years and our target is to achieve EBITDA margin of 18%-20%.

- Julie Mehta:** Okay. And, sir, this last question from my side. What are the capex plans for the next two years? And how much have we done cumulatively in the last three to five years, if you can help me with those numbers?
- Surendra Somani:** I think we mentioned that relatively, we did about INR100 crores of capex in the last few years. And in the near term we don't have any major capex plans only the minimal required capex which we'll continue to do. And we'll focus on generating free cash flow reserves from our profits.
- Julie Mehta:** Okay, sir. Thank you.
- Surendra Somani:** Thank you.
- Moderator:** Thank you. We'll move on to the next question. That is from the line of Hrishikesh Patole from B&K Securities. Please go ahead.
- Hrishikesh Patole:** Hello. Yes, sorry. So, this one from my side. On the M&A side, we probably don't have much history of M&A. Sorry? We don't have much history of margins or any major acquisitions. I think the Abhinandan Rasayan deal was terminated a few years back, I think. So, are there any plans? Do you see any growth opportunities? Are you even scouting, or it is just not in the plans for now?
- Surendra Somani:** Not in the near future. We are not looking at any M&A. Any opportunity comes in the long term. I cannot comment on it right now. If any, some opportunity comes, which is very good value for money, we may look at it. But right now, there's nothing on the anvil. I can't see anything in the short term.
- Hrishikesh Patole:** Probably, if you can throw some borderline, which areas we would be looking at? Anything on the number of therapeutic areas?
- Surendra Somani:** We are not looking at anything as of now.
- Hrishikesh Patole:** Okay.
- Surendra Somani:** But we are in the market right now for any M&A opportunity.
- Hrishikesh Patole:** Thank you, sir.
- Surendra Somani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vishal Bohra from MK Ventures. Please go ahead.
- Vishal Bohra:** Thanks for the opportunity. Congratulations to the management for an excellent set of numbers. You mentioned on the call, in earlier response to a participant about CDMO opportunities that you are pursuing across multiple molecules.

Just on that line, if we could understand, also you are pursuing a lot of backward integration. So, just the overall R&D thought process and how are we looking to develop the CDMO business? Are we looking at this as a meaningful growth driver over the next three-four years? If you can qualify that better.

Surendra Somani: So, basically, the essence of any CDMO is the R&D. And there is a whole host of molecules which are going off-patent in the next seven to eight years, especially in cardio, diabetes, CNS and some other segments. So the idea of doing CDMO is because we have invested in R&D. With having two R&D centres for the API and one for formulations, we are in a position to take up the CDMO. And we are looking at...

Moderator: Ladies and gentlemen, thank you for patiently holding. We now have the line for the management reconnected. Over to you, sir.

Surendra Somani: Yes. Sorry, I don't know where I got disconnected. I think we were talking about the CDMO business. Hello?

Vishal Bohra: Yes, sir.

Surendra Somani: Yes. So since we have the R&D centres, the contractual development and manufacturing becomes a very good opportunity for us and we are doing a couple of them already. But it's right now very small. But as you grow and you are known, then more and more opportunities come up.

Vishal Bohra: So any specific areas in terms of therapeutic focus or chemistry areas?

Surendra Somani: Yes, it will be mainly in the anti-diabetic segment, anti-cardiology segment, central nervous system. These will be in terms of technology. We are looking at pelletization technology as one area for the CDMO.

Vishal Bohra: A couple of your peers in their calls recently have highlighted a, the tightening up of the regulatory environment in Latin America and consequently more opportunities for Indian players. Also, European players are reaching out for more CDMO/CMO opportunities.

Do you also see the same happening with you as in terms of more inquiries? You also mentioned about Latin America, the tighter regulation. If you can highlight more on that in terms of the opportunities for us?

Surendra Somani: I cannot be very specific in terms of product. But definitely we are already entering Brazil with many products which are under registration. For example, we are in Mexico. And as for API, we are already in Europe, UK, U.S. We are looking at Japan and we are looking at partners who want specifically a particular API to be developed or in some cases they want the API and the formulation to be developed.

As I mentioned earlier, the entire global market regulatory scenario is changing and you will not have anything [inaudible], including if you are -- you may be aware that on January 8th, the

government published the revised [ULM] in which we have tightened our own manufacturing practices requirement.

So even India as a market is now becoming more and more stringent on the regulatory requirements. So the entire world will be regulatory compliant and therefore there will be more opportunities for India because we do have the infrastructure, the talent, the technology to be able to fulfill their requirements.

Vishal Bohra:

Got it, sir. One question on the gross margins and the consequent flow through to EBITDA. We are at high 30s gross margins for the current quarter. And I think the margins have moved up meaningfully over the last few quarters. Of course, we had a relatively sanguine start to the year. But where do we see the gross margin profile of this company?

Because a lot of our API and CDMO peers, especially those who are backward integrated, which is where we are also moving towards, they have a margin profile which is meaningfully higher than where we are today. So would you say that eventually a mid to high 40s gross margin is a realistic aspiration for the competitive target as we get more backward integrated and into better opportunities?

Sanjay Dosi:

I think if you see, API is probably 40% plus in the immediate term, looks realistic. As far as formulations are concerned, it could be between 35% to 40% kind of realistic target for medium term.

Vishal Bohra:

So we will more or less remain around current gross margins, maybe slightly higher in the near term?

Sanjay Dosi:

Yes. We are targeting EBITDA margins between 18% to 20%, which is currently at 14%, 14.5%. And as you said, gross margin say about 30%, 35% -- between ranges between 30%, 35% which should go to around 40% or nearby 40% or plus 40%.

Vishal Bohra:

Got it, sir. And can you in terms of the growth trajectory going forward, can you highlight the specific two or three major contributions that would come? Let's say we are aiming at 30% CAGR.

So maybe we could be tripling revenues over the next four years, if the understanding is correct, or maybe close to tripling. What would be driving this business, the major chunks across both API and formulations?

Surendra Somani:

Sorry to interrupt? I don't think we are tripling in the next three years.

Vishal Bohra:

No, four years close to triple maybe at 30% CAGR.

Surendra Somani:

Not tripling. Doubling in the next three to four years. We will aspire to double. Current year, our turnover is already 400 and odd for the three quarters. So you can calculate where we'll be there for the year. And in the next three years, we'll definitely double it. That is one aspect. The contributors, as I said, will be the new products, which is the diabetes segment, cardiology segment, and CNS segment.

Of course, there'll be growth in Penems also because they are new Penems which we have launched, like we have just launched the Penem very recently. And we expect that in the next one or two years, we'll be launching one more new Penem in the oral segment. So it will be a mix of all. We are looking at other therapeutic areas also, but not yet closed on it.

Vishal Bohra: So, sir, just on Penems, one of our leading products, I think Meropenem, there were some challenges in pricing environment last year and maybe early part of this year. I believe that is behind us now. The overall pricing situation on Meropenem has improved in the market. What's your comment on that?

Surendra Somani: It has improved in the last quarter and is improving now. It has evolved.

Vishal Bohra: Thank you so much. I'll join back in queue.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for the closing comments.

Surendra Somani: I'll just say thanks so much for all these questions. It increased our confidence in our investors and their faith in us, and we'll aspire to grow and meet up to their expectations. Thank you very much. Goodbye.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.