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February 13, 2024

To  
**BSE Limited**  
Phiroze Jeejeebhoy Towers, 25<sup>th</sup> Floor,  
Dalal Street, Mumbai - 400 001

**The National Stock Exchange of India Ltd**  
Exchange Plaza,  
Bandra Kurla Complex  
Bandra (E), Mumbai - 400 001

**Scrip Code: 524558**

**Scrip Code: NEULANLAB; Series: EQ**

Dear Sir/Madam,

**Sub: Transcript of the Earnings call conducted on February 9, 2024**

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings call for the quarter and nine months ended December 31, 2023, conducted on February 9, 2024. Also please note that this transcript of the call has been uploaded on our website.

The weblink to access it:

<https://www.neulandlabs.com/investors/investor-updates/announcements/>

This is for your information and records.

Thanking you,

Yours faithfully,  
**For Neuland Laboratories Limited**

**Sarada Bhamidipati**  
**Company Secretary**

*Encl: As above*



**“Neuland Laboratories Limited  
Q3 & 9M FY24 Earnings Conference Call”  
February 09, 2024**

**MANAGEMENT: MR. SUCHETH DAVULURI – VICE CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER – NEULAND  
LABORATORIES LIMITED  
MR. SAHARSH DAVULURI – VICE CHAIRMAN AND  
MANAGING DIRECTOR – NEULAND LABORATORIES  
LIMITED  
MR. ABHIJIT MAJUMDAR – CHIEF FINANCIAL  
OFFICER – NEULAND LABORATORIES LIMITED  
MR. SAJEEV EMMANUEL MEDIKONDA – HEAD -  
CORPORATE PLANNING AND STRATEGY – NEULAND  
LABORATORIES LIMITED**

**MODERATOR: MR. RAVI UDESHI -- ERNST & YOUNG**

**Moderator:**

Ladies and gentlemen, good day. Welcome to the Neuland Laboratories Limited Q3FY24 and 9MFY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ravi Udeshi from Ernst & Young. Thank you, and over to you, sir.

**Ravi Udeshi:**

Thank you, Muskan. Good evening, friends. We welcome you to the Q3FY24 and 9MFY24 Earnings Conference Call of Neuland Laboratories Limited. To take us through the results and to answer your questions, we have with us the top management from Neuland Laboratories, represented by Mr. Sucheth Davuluri, Vice Chairman and CEO; Mr. Saharsh Davuluri, Vice Chairman and Managing Director; Mr. Abhijit Majumdar, CFO; and Mr. Sajeem Emmanuel Medikonda, Head, Corporate Planning and Strategy.

We will start the call with a brief overview of the financials by Mr. Abhijit Majumdar and then Saharsh will review broad highlights of the business trends and what he is observing in the market. And post that, we will open up this call for the Q&A. As usual, the standard safe harbour clause applies as we start the call.

With that said, I now hand over the floor to Abhijit. Over to you, Abhijit.

**Abhijit Majumdar:**

Thank you very much, Ravi, and a very good evening, and warm welcome to you all for joining our Q3FY24 and 9MFY24 earnings call. I'll briefly talk about the financials now approximately. The total income for the quarter was INR394.9 crores as against INR271.2 crores in Q3FY23, an increase of 46%. This was largely driven by growth from existing molecules, newly commercialized molecules, molecules close to commercialization and a healthy base of business mix.

Our EBITDA for the quarter stood at INR122.7 crores with a margin of 31.1%, an increase of 10.8% over Q3FY23. The EBITDA margin has seen improvement primarily due to enhanced operating leverage and as well as increase in revenue from Unit 3.

I'd like to state that the overall operating environment continues to be unpredictable, although as we have witnessed stability in terms of input prices, and we continue to be vigilant in controlling our operational costs, driving operating leverage. This gives us the ability to grow with marginal cost addition.

We remain unwavering in our commitment to operational efficiency and cost optimization initiatives for consistent development of our organization. As we have consistently shared in our previous earnings call, please measure our performance over a 3to4 year horizon, as our revenues and EBITDA margins will fluctuate on a quarter-on-quarter or even a year-on-year basis based on business mix, which is dependent on order inflow and project execution.

Now coming to specifics. Our gross margin was 59.8% in Q3FY24 versus 55.2% in Q3FY23 and 59.8% in Q2FY24. This gross margin includes manufacturing and other costs directly

attributed to the product. The profit after tax was INR80.7 crores as compared to INR30.4 crores in Q3FY23. This quarter's EPS stands at INR62.9 per share. We have been strategically optimizing operations and resource allocation to boost internal cash flows thereby enhancing our business resilience in the face of the potential fluctuations.

We generated a free cash flow for the 9MFY24 of INR129 crores and we use part of this cash surplus to reduce debt by INR38.8 crores. Consequently, our debt position stands at negative INR44.6 crores. We also reduced our working capital cycle to 118 days at the end of December '24 as compared to 137 days.

We saw slight lowering of cash acceleration during the quarter under review. This was due to receivables arising from Christmas and year-end holidays in the developed markets. As we have already seen it normalizing in the month of January.

We continue to invest in upgrading our facilities and have invested INR68.2 crores in CAPEX during this year. I would like to add that we continue to be mindful of balancing growth with profitability by having continuous focus on cost control and efficient operations and to be able to capitalize on opportunities, which we believe will bring us greater scale over the long term. We will continue to be on the lookout for opportunities that will generate healthy and visible cash flows.

With that, I would like to hand over the call to Saharsh for his remarks once again, and thank you.

**Saharsh Davuluri:**

Thank you, Abhijit. Good evening, everyone. We have now completed 9MFY24. The growth in performance that we have witnessed over the last few quarters reflects the transition of Neuland's business model from predominantly prime APIs to a healthy combination of CMS, GDS specialty as well as GDS prime. This transition has also been driven by commercialization of molecules over the past 2 years, and also ongoing improvements in R&D project management, operations and business development initiatives.

In particular, in the past 9 months, we have seen an increasing scale of the CMS business as well as contribution from specialty products. On the CMS side, the growth of the business stems from both existing commercial products and projects under development with significant revenue attributed to molecules near commercialization. We continue to see traction in the CMS business, led by increasing interest from customers with large pipelines.

These interests further fortify Neuland's reputation as a well-regarded CDMO. We believe that the analytics we are sharing over a significant period of time, provide you the comprehensive understanding of the business' performance and trajectory. Therefore, in the interest of customer confidentiality, we will be unable to comment on any further questions on specific molecules.

On the GDS side, we have seen growth both in specialty as well as prime segment in both Q3FY24 as well as on the 9-month period. Paliperidone, ezetimibe, apixaban and dorzolamide have driven the 9-month growth. The prime segment growth is driven by mirtazapine and escitalopram. On a side note, I'm also happy to share that Neuland has achieved an S&P ESG rating of 64.

Besides the highlights of this quarter, Sucheth and I thought it may be helpful to share a broader management perspective on the business and how we see this business scaling up going forward. As you can surmise from the performance of the last few quarters, the business has delivered on both growth and profitability.

The growth in revenues supported by product launches on the GDS as well as CMS side and a healthy mix of products consistent with the long-term strategy of the company, include operating leverage, particularly around large assets like Unit 3 that drove EBITDA margins.

Again, for those of you who have followed our journey for some time, you may recall that we operated Unit 3 on very low utilization for a 4-year period before it could start delivering growth.

Maybe now I'll request Sucheth to add a few more comments before we put it up to Q&A.

**Sucheth Davuluri:**

Thanks, Saharsh. Hi, everyone. If you were to go back 5 years and look into the future, we believe that the business has transpired largely as expected. We definitely could have done things better. But we believe that the overall hypothesis of the Neuland business model remains firm and validated.

Now as we look into our future from where we stand today, we have much better visibility of our business. We expect it to grow at around approximately 20% annually over the next 4 to 5 years. As the quality and size of our business grows, we're getting a better visibility for our future.

We will continue to commercialize molecules over the next 1 to 3 year time frame. We continue to create capacity, keep ramping up with specific molecules in mind. As it stands today, FY25 looks like it will be a year of modest growth with some normalization of margins and operating expenses rise due to inflation and ongoing investments.

Beyond FY25, which is FY26, FY27 and so on. We see a quicker growth on the back of both existing molecules and new ones yet to be commercialized from the capacity that we'll be creating in FY '25. Do keep in mind that this is the current management outlook into the next 3 years. Factors such as individual product performance, forex, raw material costs, geopolitical changes, changes in regulation will impact this outlook as could other factors that are integral part of us doing business.

The bottom line is that we will continue to pursue growth and profitability in alignment with our strategic priorities and we believe that the future is exciting. However, it will also bring its own set of challenges that I feel we are much better as an organization to deal with.

Ravi, back to you to open the floor.

**Moderator:**

The first question is from the line of Rahul Bhardwaj, an individual investor.

**Rahul Bhardwaj:**

Congratulations on the numbers. Thanks for sharing the guidance. As I understand correctly, you mentioned for the next fiscal year, we would expect nominal growth, and then for the FY26, we can kind of expect a healthy growth rate with new molecules in commercialization. and then

you also mentioned like for the next 4 to 5 years, we can expect the business to grow 20% annually. So are you suggesting more on the lines that the growth would be north of 30%, 40% in the FY26 versus the current fiscal year and the next fiscal year. So would that be a correct understanding, and interpretation to quantify?

**Saharsh Davuluri:**

Thanks for the question. I think your audio was not very clear, but we understood the question clearly. Rahul, I think the way we had given our outlook, which is not really a guidance because it's not quantified. There's more to convey two things. One is, as a company as we have been doing well, we are getting better visibility into our future. That's one thing.

Second, based on the visibility, we also thought it's important to just kind of articulate qualitatively how we see the future. And therefore, we had said that FY25 will be kind of a moderate growth and the growth beyond that will be higher. But I think we would probably limit our outlook to what we have said and not be in a position to quantify it based on the question that you've asked.

**Sucheth Davuluri:**

Yes. And I would reiterate that what we've provided is not a guidance, but the way we see the business as it stands today, of course, as we gain a clearer understanding and as things develop, we will come and we'll be sharing those during these calls in the future as well.

**Moderator:**

The next question is from the line of Narayan Singh from Navanand Securities.

**Narayan Singh:**

So congratulations on a good set of results, sir. I just have one question. So there are some news flow around about this KarXT and Karuna Therapeutics takeover by Bristol Myers and so on. The question is this molecule considered as near commercialization molecule or it's already under commercialization molecule, sir? Just for my understanding, to understand.

**Saharsh Davuluri:**

Yes, Narayan, thanks for the question. I think as we had indicated several times, we will not be able to comment on any specific CMS molecules. I think whatever information we have been in a position to disclose is already there in the public domain. And therefore, I think a lot of this information that you're asking is available, but we will not be able to comment on it.

Maybe what I can also just kind of help you understand is generally, and this is not the first time that our customers, which are typically biotech companies, have been acquired by larger companies, big pharma or other large companies.

And typically, for us, as a CDMO, it's always a positive development because it actually opens up new opportunities to expand the business with a newer company. But what I'm saying is a general comment, it is not connected with the question that you asked. But hopefully, it will be helpful for you, but I will not be able to comment on the specifics. Thank you.

**Narayan Singh:**

Thanks for the clarity here. I understand that you don't want to disclose any more information. But if you answer my one more follow-up question about what happens if the biotech companies are taken by big pharma, and we are hoping that the company will really benefit from this kind of acquisitions. Thank you, sir. And all the best for the future.

**Moderator:**

The next question is from the line of Sajal Kapoor, an individual investor.

**Sajal Kapoor:**

Thanks for repeating the business unpredictability, uncertainty and lumpiness warning again and again over past several earnings calls, and that's extremely ethical and appreciated. Thank you for that. And please allow me to ask both questions one by one.

Innovators given their novel assets to a CDMO, is comparable to parents sending their young kids to a faraway boarding school, where the parents will never be able to keep close day-to-day vigilance. So reputation, trust, integrity and the capability to develop that young assets, are some of the very important factors in their decision making.

So in this context, the protection of intellectual property from external fraud like cyber crime as well as any sabotage attempts internal to the organization are extremely important. So what steps is Neuland taking to ensure a complete IP protection, so that we continue to remain "the boarding school" for the novel assets. And I've got a second question.

**Sucheth Davuluri:**

So Sajal, I think, thanks to the comparison, I mean, I wouldn't go to the extent of saying that it's a parent sending their kid to the boarding school. But I think I take this spirit of your comparison that it is a very important decision for a company to outsource its molecule. What we've seen, Sajal, based on our interactions with customers as well, is there, to a large extent, they are very objective about these decisions.

And their objective, because they take into consideration, what are the options? What is the cost? What could be the risk associated with the outsourcing option? What are the time lines of that project? What is the technology that they require? Usually these are the top 4 or 5 reasons why they would outsource a molecule, assuming that they don't have that in-house capability or they don't tend to invest any more in their own in-house capability.

Having said that, I think it becomes a very clear decision for them. And that is the view that we've taken when it comes to building our own internal capabilities. Having said that, the point you raised about intellectual property is absolutely right. In fact, we saw this coming, I think, more than 10, 15 years ago.

So in fact, we are one of the first companies in India who also get certified by ISO 27000 for information management and protection. And that certification, we get re-audited and we get recertified once every couple of years. So that certification gives one level of confidence to our customers that their information is safe with us.

Second is that, currently, since we don't do any molecules of our own or neither do we manage any or manufacture any finished dosage, and therefore, we are not at any type of a conflict with our customers. That gives them an additional layer of comfort that they can be rest assured that our priorities as an organization are aligned with that of the customers. So, that continues to build.

**Saharsh Davuluri:**

And maybe, Sajal, I'll add one more comment to what Sucheth has said, I think the fact that these molecules that we make for these innovators are increasingly complex in nature, so you might always almost look at the analogy of biologics. Biologics is made in a particular facility. And as per regulatory guidelines, if it's made in another facility, it is actually defined as a different

molecule altogether because as the molecules become more complex, I think what Sucheth has said about protecting the IP, ensuring our business model does not conflict is very likely.

But third and also equally important is that there is so much complexity in the entire process and the specifications and the end deliverable to the customer, that it is very difficult to actually "steal" something like this. And therefore, clients do generally feel very comfortable working with Neuland because we have all these 3 factors. If it was a very simple molecule, then yes, perhaps there might be some risk, but because we also deal with extremely complex molecules that also creates an additional layer of security for us.

**Sucheth Davuluri:**

And today, there's enough legal protection that's available in our country and otherwise, for clients to make sure that their technology is protected. So I think we've come a long way, Sajal, from where we were about 10 or 15 years ago.

**Sajal Kapoor:**

That's a very comprehensive response and shareholders are reassured. My second question is novel CDMO, of course, is a sticky business. And we know that. But the true test of stickiness is when the molecule changes hand. And with that, the relationship between the innovator and the CDMO partner also changes hands.

So I know Saharsh touched upon this a little earlier on this call, but to explore further because both scenarios have played out, I have seen a small biotech being taken over by big pharma, and the CDMO, who was working on that molecule, lost the right to commercially manufacture that.

So take a hypothetical scenario of a big pharma gobbling up a small biotech that own some high potential molecules and there is a CDMO partner behind the development and the scale-up of those assets, what typically happens to that CDMO partner when the ownership moves from small biotech to big pharma, who may be having a network of other and potentially larger CDMOs that the big pharma is already working with.

And this happened with one of the Indian CDMO companies, not Neuland, a different one, where a small biotech company that they were working with for an ovarian cancer drug was acquired by a big pharma and then the Indian CDMO lost the contract to commercially manufactured. Which one is a more typical scenario when a small biotech is acquired by a big pharma? Do they retain the original CDMO? Or is it difficult to tell? Or is it a function of molecule complexity as and Saharsh just mentioned?

**Saharsh Davuluri:**

I think it's a very good question, Sajal. And I think one thing is that, there is no black or white response to this. I think it is subjective. But I think maybe in our experience, what we've seen is as you get closer to the NDA. And if you have validated the process at your side and your site is registered in the NDA, that perhaps could be construed as really a binding kind of a relationship. And post an NDA, if a big pharma comes in and decides to change the CDMO then perhaps there is maybe some strategic impetus behind it.

But if the molecule is still earlier in the clinic, it's going through Phase I or Phase II, then the risk of the incumbent CDMO losing out to the preferred partner of the big pharma is slightly more because the sites have not been registered in the file yet and the process is perhaps still



evolving. And therefore, I think what we've seen is 2 or 3 key factors. One is where in the clinical part of development, this drug is. That is one factor.

Second is how complex is this process? If the process is complex enough that it will be a risk to shift the molecule to a preferred CDMO, then perhaps the big pharma would not still take that risk, because ultimately, what big pharma is thinking about is, is my supply chain going to be protected?

And ultimately, that is what determines, and we have to be very cautious, and we have to treat the transition of ownership with a lot of sensitivity. And of course, then the third part is, I think contracts and things like that can also help make sure that you don't get kicked out unreasonably. But I think those are slightly more business tactics. So we won't dwell into those in detail.

**Moderator:**

Next question is from the line of Nirali Shah from Ashika Stock Broking.

**Nirali Shah:**

My question is that currently, we are experiencing a significant decline in the biotech funding. It's been a while that it was from 2023. So my question is that what challenges are we facing? And what is our strategy to mitigate this risk? And also, what is the timeline that we can expect or anticipate that the situation like destabilizing in then sooner or in this year or coming to current year '25?

**Saharsh Davuluri:**

So, I think the biotech funding crunch is still prevalent. I think that's what we hear. I think for us, maybe the simplistic way to look at it as a CDMO is that right now, we are fortunate because the molecules which are driving the growth especially in the CMS side, are all coming from companies which don't require funding. These are cash-rich companies.

But where perhaps we're seeing some challenges in the early-stage pipeline, drugs which are kind of either in preclinical or maybe in the early clinic. There are some challenges. I think even from the top of my head, I can recall 2 or 3 projects which have not moved forward in the last 6 months because the companies are still unable to raise funds.

And what we hear from these companies is that it's a matter of 6 months. But obviously, we are not the experts to answer that question. But I think the important thing is that for a limited period, if this biotech funding crunch continues. I don't think there will be any challenges on our business performance or the outlook that Sucheth and I had provided. Obviously, this biotech crunch stays for a long time, then since Neuland works predominantly with biotech companies, there could be an impact. But for now, we don't see a direct impact.

And the last thing I can also say maybe is, depending on the indication of funding is also a challenge. So for example, if you are in neuroscience and you're coming up with a path breaking Alzheimer drug, the biotech cycle doesn't really impact the company's ability to raise funds. But if they're developing an ophthalmic indication for something which where there's already multiple drugs approved then that company might struggle for maybe a few more months to raise funds. So I think that's how we see the biotech funding situation.

**Nirali Shah:**

Okay. So, if everything goes well, can we see these issues to start diminishing by Q2FY25?

- Saharsh Davuluri:** The biotech funding is not really factoring into the outlook we have portrayed because new projects as a percentage of the total business that we see in CMS is not very high. So therefore, it may not really have a significant impact. So therefore, we won't be able to answer that question.
- Moderator:** The next question is from the line of Sanjaya from Ampersand Group.
- Sanjaya:** My question is that what is the kind of utilization this plant 3 now has and I believe that you have taken a plant for subsequent factory expansion. Can you just give us some idea about your further expansion plans?
- Abhijit Majumdar:** So current utilization of Unit 3 is in the range of 57-odd percent as we speak today.
- Sanjaya:** Okay. Okay. But you still have gone ahead and bought more land for extension, right sir?
- Abhijit Majumdar:** Yes. So the land that have been acquired, which we have communicated to the stock market is in a land adjacent to Unit 1, this is for future expansion.
- Sanjaya:** So, the last question that I just wanted to get a sense from you people are trying to ask some multiple annual like biotech funding and so many and you also give your total active CMS projects and that year-on-year basis, the total number to be kind of looking like stagnating and your overall revenue probably is kind of settled out at certain levels for last year quarter. So is that something kind of a state jump kind of a pattern that we follow, that there is a seasonality. How do we really look at your coming year growth prospects?
- Saharsh Davuluri:** I think this question has been asked -- answered clearly in the opening remarks. So I'm not sure what else we can add over here.
- Moderator:** The next question is from the line of Atirek Roy, an individual investor.
- Atirek Roy:** Congrats on the good numbers. So my first question is, if I as a pharma company, wants to change or add a supplier for my commercialized drug API under patent, what is the typical steps to be followed and how much time that each step takes typically.
- Sucheth Davuluri:** So, you're saying if you're a pharma company who wants to change your supplier for a drug which is under patent?
- Atirek Roy:** Commercialized drug API under patent.
- Sucheth Davuluri:** Yes. API, which is under patent. Typically, if you want to do that, I think it's possible, the key is, the complexity of the process, not just for the API, but for the finished dosage. And also the regulatory strategy, depending on how many countries that drug has been filed in. And depending on the situation, it could probably take a minimum maybe 2 years and maybe it can take even 5 years. So it really depends.
- Atirek Roy:** Okay. And what if the drug API, is in registration phase or is in clinical trial phase?

**Sucheth Davuluri:**

Usually, if it's in clinical trials or the application has been made, companies prefer not to add any source of change in resource until the commercial approval comes. However, if they have not filed for approval yet. It could add significant amount of time for the filing because then from the new source, they have to take it. That will show that the finished dosage made from the new source is equivalent to the finished dosage that is already part of the clinical trial.

If it is a molecule which is already generic, right, if it is not in the patent. Then you could actually file an alternate source and get an approval within 1 to 2 years. However, if it is a molecule which is still in the clinic being tested on humans, then companies can easily add an additional source at that point, provided that it doesn't delay their filing timeline.

But once they file, until they get the commercial approval, companies will not add an additional source unless there is a significant problem. Once it gets approved, then companies will add an additional source. But like I was saying earlier, that to take easily between 1 to 2 years based on the complexity of that molecule and in some cases, even go up to 5 years.

**Moderator:**

The next question is from the line of Anirudh Shetty from Solidarity Advisors Private Limited.

**Anirudh Shetty:**

Just one question. You have given an indication of how your revenues, evolving over a 3-to-4-year time horizon. But given our focus is early on more profitable growth, then shouldn't we really be looking more at what how profits can grow over the next 3 to 4 years?

And is my understanding right that the profit growth can actually be faster than the custom synthesis business where we have a very strong pipeline and growing faster can grow as a share of revenue and this is higher margin. And we could also see some operating leverage on our Unit 3, which is at 57% right now. So how do you guys think about if you are able to grow at 20% revenue? How does one think about profit growth in purchase scenario?

**Saharsh Davuluri:**

Thanks for the question, Anirudh. I think it's very important. I think if you look at how FY24 is faring, I think we've been kind of at 30% EBITDA margins right now and the PBT levels are also quite strong. And the revenue growth also has been impressive. I think going forward, what's important is that the margins that we are seeing in FY24, in many ways are very optimal.

The plant Unit 3 is being utilized very well. The product mix is excellent, and there has been no significant challenges in raw material prices, forex is kind of reasonably favourable. So there are not too many villain so to speak, in FY24. And the EBITDA margins we see are the 30% plus is kind of a reflection of that.

I think going forward, we already spoke about the growth and how we see that panning out. We also want you to be mindful of the business mix that we are pursuing. I think our strategy is very clear. We want to drive business through GDS Specialty and CMS, and I think that business mix will ensure that our margins are going to remain healthy.

But how exactly the profit margin as a percentage of sales is going to transpire is a question that is very difficult for us to answer. I think maybe somewhere FY24 is not really a baseline or a standard reference point because, as I had said, it's a very, very favourable number, just given the circumstances.

But at the same time, the EBITDA margins we've seen in the years before are perhaps a reflection of the business that was not yet mature. So I think it's hard for us to spell out more than this. I think you'll have to see how things unfold.

But one more thing I would just like to add, maybe a little bit on a cautionary note. See, I think the business mix, CMS and GDS, I think we should also be mindful that each product has a different profit margin there might be a CMS product, which has a gross margin of maybe even less than 50% but it might be very healthy contributor at an EBITDA level.

It might contribute 30% or 25% EBITDA to the business. So what our future will be at a gross margin level or at an EBITDA or a profit margin level? Will it be also depending on how these molecules fare, and today, I think our GDS Specialty business and CMS business are almost having similar kind of margins.

So I think our strategy will be to pursue growth through these businesses, continue to nurture the prime business. And the growth is what we've already indicated. And I think the margins will be a reflection of that, but we won't be able to guide how that will exactly transpire. I know it's kind of a roundabout answer, but I hope that's helpful.

**Anirudh Shetty:**

No, very helpful. But I just wanted to clarify your point on the margins in specialty and CMS being similar. I presume at an EBITDA level you meant. And but what would explain why it's a similar margin because it seems a bit counter intuitive. And I thought that the CMS is a more profitable segment for us because it's a patented product and the customer wants more supply in security, trust in IP, and they're willing to give it better pricing is also more amenable in that segment?

**Saharsh Davuluri:**

Yes. No. I think the world of CMS molecule, if you take the entire universe, maybe the margins there are higher, but I think the molecules we see in our pipeline, we see molecules where the gross margin is maybe like I said, under 50% also for some CMS molecules, but they're equally attractive because, as I said, at the EBITDA level, they are still very profitable. It's extremely sticky business. It's governed by contracts. There's an innovator with a patent life. So these businesses are still very attractive. And therefore, we are also not very discriminatory. And ultimately, the blend of all these products is what will make our overall business margin.

on the GDS specialty side, if you see molecules like salmeterol, paliperidone, even some other new molecules like apixaban and all. As it stands now, I think their margins are actually fairly attractive. And these are perhaps not a typical representation of a GDS molecule out there in the GDS universe. So therefore, you might see that Neuland's GDS portfolio on the specialty side is tends to have better margins. And the CMS portfolio is actually a reflection of the handful of molecules that we have. And as this pipeline grows, the margin profile of the business might change as well.

**Moderator:**

The next question is from the line of Pawan Kumar Roy, an individual investor.

**Pawan Kumar Roy:**

Congratulations to the management for putting in excellent results. I have got two questions, which are related with each other. First is a question related to your exports, you have reflected

that 76% revenue coming from internal operations. But the map shows that only 1% revenue comes from India. So there is a mismatch, which I have not been able to connect.

Secondly, most of your operations or products are being exported. What is the situation you're facing in the Red Sea or the Suez Canal area? Is it effecting our existing clients? That is my question.

**S E Medikonda:** In terms of the exports being at 76%, it corresponds to the direct exports to customers who are into sites abroad. Whereas the world as you see the 1% for India, it is in terms of the end market. So our customers could be in India, but the consumption would there end market would be elsewhere. So that's why you would find that there is a difference. So exports are 76% in terms of direct exports, but our customers mostly sell in the regulated markets. So that is where there is a difference. And at this point of time, we haven't seen any impact from the events around the Red Sea.

**Moderator:** The next question is from the line of Dhaval from Infinite.

**Dhaval:** Congratulations on a fantastic set. My question is about the peptides business. How far are we away from generating substantial revenue to our business mix from the peptides division?

**Saharsh Davuluri:** Yes. Thanks for the question. I think for the peptides business, we have 2 molecules in CMS, which are perhaps one step away from commercialization. But in both these cases, we are a second supplier. So we really don't have a handle on the time lines. It could take maybe 2 years or maybe even longer, depending on how the client decides to move forward because they already have a primary source.

On the GDS side, we have about 3 molecules that we are working on right now, for which the milestone would be for us to file a DMF. We expect to file one this calendar year and maybe 2 in FY26.

In terms of potential, the GDS molecules also have very high potential. In fact, they have higher potential than the CMS molecules. But in our forecast or in our plans, we have not really quantified any of these into our projections because until we see some short-term commercial visibility, we don't feel comfortable.

So I think short answer is that, yes, we do have several projects in peptides division, ones which are maybe closer to commercialization, but we don't still have a handy on time lines or quantity of commercializing.

**Dhaval:** So whatever business we generate from peptides in future will be an upside to the projections you've given?

**Saharsh Davuluri:** Yes, we've not given any projections.

**Dhaval:** That an idea that you've given, a picture.

**Davuluri Rao:** Yes. The outlook we have given does not factor in heavy inflow from peptides.

- Moderator:** The next question is from the line of Eldon, an individual investor.
- Eldon:** Firstly, congratulations on completing 40 fantastic years. So, my first question was actually regarding this joint development initiative we have with one of the developers. So I just wanted to understand what is the status? And when can we expect the revenue to accrue to us.
- Saharsh Davuluri:** Your question is about the real estate piece, right?
- Eldon:** Correct. Yes.
- Saharsh Davuluri:** Yes. So I think the building is completed. The developer has completed the construction of building. And in fact, we have requested them to provide an exit for us. And in fact, we hope that it will happen this calendar year depending on how the markets transpire. But if that goes through, maybe it should be around INR100 crores kind of inflow.
- But till we don't have a clear timeline on it yet. I think this with everything going on this year in the country and the real estate markets and all, till we get to a closer point of sales and inflows, we don't want to be too confident about the timelines, but we expect it will happen this year.
- Moderator:** The next question is from the line of Jayesh, an individual investor.
- Jayesh:** Congratulations for excellent set of numbers. A few questions. First is, does the management think that our business and volume mix has scaled up to a level where you can assure that our EBITDA margins will remain north of 20% at least in the foreseeable future or otherwise?
- And I have another question that is, our asset turn right now is approximately 3.1, that is given in the slide. Do we see further increase in the same over the period of, let's say, 2 to 3 years?
- Saharsh Davuluri:** Could you repeat the first question?
- Jayesh:** Yes. Do you think -- does the management think that our business and the volume mix has scaled up to a level where we can assure that our EBITDA margin will not fluctuate a lot and remain above 20% in the foreseeable future or otherwise?
- Saharsh Davuluri:** See, I think assurance is a very strong word, so I wouldn't go anywhere near that. I think I would probably just kind of circle back to the commentary that Sucheth and I made. I think we have a good visibility of our future and we indicated what that visibility is like. But I think our business is governed by a lot of risks and uncertainties.
- So it would not be wise for us to provide any assurances. I think if you see the margins and the way the margins are scaling up and if you see the size of the business and how it is scaling up, I think we would leave it to you to make reasonable conclusions about the business.
- I think I would also just remind that in our previous commentary also you said that we're not seeing this growth coming on the back of onetime businesses. These are all part of our ongoing business. So ultimately, we'll leave it to your wisdom to deduce the stability of the future and the likely margins.

- Abhijit Majumdar:** On the second question on asset turn, we are at around 3, 3.1. We believe that we have kind of optimized it, and we would be in that range. In some years, we would come down. And in some years, we would go up. And so that's our view that kind of our optimum capital turn that brought the industry plus minus.
- Moderator:** The next question is from the line of Nitin Agarwal, an individual investor.
- Jayesh:** Just wanted to know about the capex plans to grow the business further over the next couple of years, what kind of capex can we expect and expected asset turns on that, if any?
- Abhijit Majumdar:** Broadly and it would likely be consistent with what we have said earlier normal CapEx would be around in the range of INR100 crores. As we have on the stock exchange in November this year, we planned we have started building the next block, which we have given a figure of around INR128 crores.
- Moving forward, based on business opportunities, like the one that happened recently where we were able to acquire piece of land, which was joining our Unit 1, 5 acres we kind of went ahead and are in the process of acquiring it. So I would say that broadly take the normal capex of 100 and as we have built up cash, we should spend in the broad range of INR100 crores, INR120 crores in the next couple of years.
- Moderator:** The next question is from the line of Mehul from 40Cents.
- Mehul:** Please pardon me, I'm new to your company. So I have some very basic questions like, what does the DMF stand for? What does CMS stand for? What does GDS stand for? And also, if you can elaborate a bit on the context behind GDS and CMS.
- Saharsh Davuluri:** Yes. So you wanted to know what the GDS stands for, CMS stands for, and what else? I am sorry.
- Mehul:** DMF. DMF being filed. DMF has been filed.
- Sucheth Davuluri:** Okay. So if you are saying DMF, it stands for Drug Master File, GDS, generic drug substances, which is nothing but APIs we make for the generic space. And CMS is nothing but as the CDMO, the molecules that we are made for innovative companies.
- Mehul:** Okay. So the CMS business is all about the CDMO area, right?
- Saharsh Davuluri:** Yes. CDMO business in Neuland is called as CMS, and generics business is what we call a GDS.
- Mehul:** Generics business is GDS. Okay. And how is the revenue split, sir, between the two?
- S E Medikonda:** Our investor presentation covers all the information.
- Saharsh Davuluri:** Perhaps if you could just maybe go over the presentation, I think even if we've given a little bit of an overview of the segments, and then maybe you can circle back to our IR team and then maybe we can elaborate a little bit more.



**Moderator:** That was the last question for today. I would now hand the conference over to management for closing comments.

**S E Medikonda:** Okay. We would like to thank you all for taking time to attend the call and asking questions about the business and your interest in the company. In case you have any further questions, we would like you to reach out to Ravi. We will be happy to answer them. Once again, thanks for joining the call, and a good evening.

**Moderator:** Thank you. On behalf of Neuland Laboratories, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

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(This document has been edited to improve readability)