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May 16, 2023

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 May 11, 2023**

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 year ended March 31, 2023, conducted on May 11, 2023. 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  
Q4 FY2023 Earnings Conference Call”**

**May 11, 2023**

**MANAGEMENT: MR. SUCHETH DAVULURI – VICE CHAIRMAN & CHIEF EXECUTIVE OFFICER – NEULAND LABORATORIES LIMITED**  
**MR. SAHARSH DAVULURI – VICE CHAIRMAN & 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**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Neuland Laboratories Limited Q4 and FY '23 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.

**Ravi Udeshi:** Thank you, Bikram. Good evening, friends. We welcome you to the Q4 and FY '23 Earnings Conference Call of Neuland Laboratories Limited. To take us through the results and to answer your questions, we have with us today 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. Sajeev 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 give you broad highlights of the business trends and what he is observing in the market and post this, we will open up the call for the Q&A session. As usual, the standard safe harbor 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 a warm welcome to you all for joining our Q4 and FY '23 earnings call. I'll briefly talk about the financials now. The total income for this quarter was the highest ever at Rs.415.1 crores as against Rs.256.5 crores in Q4 FY '23, an increase of 61%. This was largely driven by growth in the Specialty and CMS segment.

Our EBITDA for the quarter stood at Rs.127.8 crores with our highest EBITDA margin of 30.8%, an increase of 15.5% over Q4 FY '23. The increase in EBITDA margin has been due to a better business mix, combined with an operating leverage as well as some easing in input prices. Compared to Q3 FY '23, our revenues increased by 53.7% and our EBITDA margin increased by 10.47% or 1047 bps.

I would like to state that the overall operating environment still continues to be unpredictable. However, we have seen some favorable movement in the past 2 quarters. Also, our focus on execution excellence and costs has enabled us to mitigate the unpredictability. I would request you to measure as we have consistently said in our previous earnings call, to measure our performance over a 1-year time horizon as our EBITDA margins will fluctuate on a



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quarter-on-quarter basis based on business mix, which is dependent on the order flow and project execution.

Now coming to specifics. Our gross margin was 54.1% in Q4 FY '23 compared to 47.9% in Q4 FY '22 and 55.2% in Q3 FY '23. The profit after tax was at Rs.84.5 crores as compared to Rs.21.8 crores last year. This quarter's EPS is at Rs.65.9 per share. On a full year basis, our total income was Rs.1,200.9 crores, an increase of 26% over the prior period. The EBITDA increased by 94.8% to Rs.281.1 crores as against Rs.144.3 crores in FY '22.

The EBITDA margin has come in at 23.4% compared to 15.1% for FY '22, an increase of 830 bps due to better mix and operating leverage. We generated a free cash flow for the year of Rs.172.4 crores, and our net debt position stands used to Rs.62.9 crores. We continue to invest in upgrading our facilities and have invested Rs.66.1 crores in capex during this period.

With that, I would like to hand over the call to Saharsh for his remarks. Once again, thank you very much.

**Saharsh Davuluri:**

Thank you, Abhijit. Hi, good evening, everyone. Given that the financial year is complete, I would like to share some thoughts on the year gone by first and then talk a little bit more specifically on Q4. Neuland has displayed significant growth in FY '23. Given that FY '22 was a flat year for us, we are pleased to see that the company has resumed its upward trajectory. I would like to state that this year is a fairly good illustration of the course we have set for ourselves as a company.

You may recall from the past last few years' management commentary that Neuland has always been positioned as a complex API player striving for growth in both the generic API space and the CDMO space. We have highlighted in the past how the CMS business has a strong pipeline of NCEs that will fuel business growth as these molecules achieve both clinical as well as commercial success.

On the generic side, we touched upon the filings made and how patent expirations will stimulate the GDS segment growth. We have also talked about the lumpiness of our business in general and how the progress should be measured on an annual basis and not on a quarterly basis. I might add that even at an annual level, the growth is unlikely to be linear.

I believe that FY '23 merits a few highlights. Number one, a better business mix. CMS business is expanding in line with the company's strategy and objectives. Molecules that are commercial or on the verge of commercialization are fueling this expansion. Number two, despite a decline in contribution from a few prime products like Levetiracetam, GDS growth is healthy, and it's driven by specialty APIs like Apixaban and Paliperidone, which again point to an improvement in the business mix.



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Number three, Unit III utilization has increased, especially in the second half of the year as seen by the rise in operating leverage. Number four, execution challenges continue to exist, but they're being proactively managed. Finally, number five, in FY '23, we have laid foundations to strengthen the organization structure and support the growth and the vision that we have, which is to be a partner and not just a service provider to our customers. While we have focused on strengthening the team in the past, I believe we are taking a much more comprehensive approach now.

Let me now talk about the Q4. Specialty recorded another high-growth quarter with revenues crossing Rs.100 crores, and it's being driven, like I said, by Apixaban, Paliperidone, along with products like Ezetimibe and Donepezil. We continue to be enthusiastic about the growth of these products and our Specialty portfolio. Additionally, during this quarter, we filed for 3 DMFs: Tafamidis, Voxelotor and Voxelotor cocrystal, which are all part of our long-term plan for the GDS business in line with our strategic priorities.

The CMS business this quarter contributed to over 45% of the revenues being driven by a few molecules which have recently transitioned to commercial as well as some old molecules. We have also seen significant contribution from molecules under development. We are seeing a lot of traction for new business in CMS as new customers are becoming aware of Neuland's capabilities in scaling up products from clinical to commercial. We see this as a vindication of our position as a well-regarded CDMO. I would like to place an additional comment here about the current CDMO business. We have a list of over 85 active projects, all of which we consistently share with our investors. But I'd like to underscore that these projects are all catering purely to innovators working on human health.

We are observing a shift towards high-margin business, which has been our stated objective. However, we continue to be mindful of any future negative effects that the business mix, product mix, raw material prices or forex could have on these margins, and we would like all of you to be cognizant of this.

In addition, I want to reiterate that Unit III is ramping up effectively in supporting our expansion. Some of our late-stage CMS projects are being scaled up here, and as some of these products scale up, we can see that Unit III utilization will continue to increase. Despite the fact that this will result in increase in operating costs, we believe the operating leverage will continue to kick in, and we will maintain the momentum we saw in FY '23.

Even as we have closed FY '23 on a high note, we continue to aspire for healthy growth. With regards to the same on the manufacturing side, we are focusing on modernizing our operations as well as adding newer capacities and capabilities. This is being done to ensure our leadership position in key molecules as well as open the door to manufacture new molecules, which are in the pipeline. Also, on the R&D front, we are consistently investing



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in our labs as well as deepening and widening our R&D talent pool, even as we continue training our cross-functional teams so as to deliver high-value complex projects. Our focus continues to be on our customer needs, and it is central to all the actions that we take as a management team.

In conclusion, I would like to emphasize that the performance in Q4 doesn't comprise of any one-offs and that it is a healthy indicator of the direction in which we want to drive the company. However, I would also like to emphasize that the business is inherently fraught with the challenges that we have talked about over the years, and this is something that could potentially have impact as we go forward.

So, I will pause here and open it up for Q&A.

**Moderator:**

We'll take our first question from the line of Sajal Kapoor, an investor.

**Sajal Kapoor:**

Congratulations on awesome results, excellent execution. A few questions. Number one, culture and chemistry go hand in hand. So how has the culture been transformed in recent years as NCE scale-up is a very different game compared to generics? What concrete steps have been taken regarding the culture side of things? That's one.

We know how the CDMO pipeline has progressed over the years, but can you paint a qualitative picture of your journey over the years? So things like the level of complexity you guys were handling 10 to 12 years back versus today, the kind of innovators that were willing to partner with Neuland back then versus today, and similar attributes, if possible, keeping the molecule and the client confidentiality intact.

**Saharsh Davuluri:**

Thanks for the question, Sajal. I think the first question is about culture and chemistry and how do they go hand-in-hand with regards to execution. I think for us, as I had mentioned in the opening remarks, being a service provider helps us stay focused on the needs of the customer. There are no challenges such as conflict of interest, redeveloping a molecule that potentially is competing with our customers' molecule, etc.. So I think the business model itself is inherently set up in a positive way. However, having said that, I think for us, the challenge that we face -- and I will ask Sucheth to explain that.

The challenge that we face is that we work in predominantly a culture in the industry where people are used to working in a product environment. They are actually focusing on what they have to do people within specific departments have to do. That's a challenge we've had to address, and we've had to transform and create our own culture where there's a need for cross-functional teams. That's something that we have strived very hard to work on. Maybe Sucheth, if you want to just elaborate on that, then we'll answer the second question.



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**Sucheth Davuluri:**

Sure, thanks, Harsh. I think second question first, Sajal, in the sense if we had to reflect in this room, we've always maintained in our past investor calls that Abhijit was referring to that we've always had a strategy of an organization that wanted to focus on complex APIs. That explains why we developed the specialty APIs, our focus on contract manufacturing, development of peptides. That's the strategy we set out to achieve. Obviously, it's been a long time coming, but we've been consistently on it, and we've completely shared that strategy as well. That's what, as Harsh referred to in his opening comments, that's what we're seeing playing out and it will in the future as well.

Now just adding to what Harsh said on the culture side, I would say it's been a continuous evolution. One thing I would say we've done is, referring to Harsh's comment about projects and the CMS business, we've brought the customer to the center of focus over the last couple of years, where how we are impacting the customer, how our products are impacting the customer, how our projects are impacting the customer has been bang in the center of all our discussions and all our processes within the organization, whether it's project management, communication, how we plan, how we execute that's become a major factor in our decision-making. The only other thing I would add is that our CHRO, our top leadership of the team, they've been spending a lot of time in building a culture of strong cross-functional teams that are able to make decisions, investing in their capabilities and bringing focus to the customer.

So Harsh and I could go on, but I think this would suffice.

**Saharsh Davuluri::**

I think with regards to the second question, I know Sucheth has answered it, but I also if you could just repeat, you also wanted to understand how the demographic of the customer has changed on the CDMO business? Is that the question?

**Sajal Kapoor:**

Yes, I mean so we have been on this journey as far as I remember, somewhere around 2009 or 2010 when the new R&D center was set up. So just wanted a qualitative color on the level of complexity that you guys were handling in the initial years with no sort of track record versus the level of complexity, maybe late-stage molecules that you guys are getting now or any other qualitative attributes. I'm not interested in what molecules, or client name, etc. because you already shared the molecules in the pipeline, which I must say no other player in the industry is sharing in India, including some of the bigger players like Syngene for that matter. But I just wanted a qualitative assessment over the years.

**Saharsh Davuluri:**

Yes, so I think when we started off in the CDMO business, I think a lot of the work was trying to just find some opportunities of partnering with innovators because we were not a household name for innovators. So, the projects were more smaller in nature. They were like making building blocks, simple chemistry, something that would at least create a certain level of basic trust. I think as the journey progressed, I think the first 5, 7 years was a lot about just doing



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intermediates, we spent a lot of time and effort trying to work with big pharma. We were never successful on that front.

We parallelly were exploring opportunities with biotech and even there started off with early-stage simpler projects. Then I think over the next 5 years, starting from FY '13 onwards, we were able to get some early breaks. We were able to work on opportunities involving NCE APIs. I think maybe we were also not very fortunate at that time because some of the molecules at that time were also potential blockbusters, but they really didn't take off.

But we at least started working on NCE APIs, maybe about 8, 10 years ago, starting from FY '13, '14. I think over the few years after that, we've transitioned into a much larger pipeline of CMS molecules and a larger pipeline statistically gives you more opportunities for success. So I think, yes, the journey is maybe almost 15, 20 years old, I think we've been in this space. But I think for us, the critical mass of projects with biotech companies has actually resulted in more opportunities in late-stage clinical and commercial. I think today, there is a healthy basket in front of us. I think as you indicated, we cannot disclose names and such, but this is broadly how the journey has been.

**Moderator:**

We take our next question from the line of Aditya Khemka from InCred Asset Management.

**Aditya Khemka:**

A couple of questions from my side as well. Let's start with the CMS business, both development and commercial arms of the business. So, if I look at your quarterly numbers, in the fourth quarter, there seems to be a four-fold jump in the development revenue and a 20% jump in the commercial revenues. Could you just talk to us about what has driven this? How sticky or how consistently would you be able to grow the business from here on? Is the fourth quarter run rate something which you feel is sustainable? Or is this something which we should look on a full year basis rather than looking on a fourth quarter and going forward basis.

**Saharsh Davuluri:**

Yes, so I think, Aditya, definitely, the last point you mentioned, I think you should look at it on an annualized basis and not on a quarterly basis because as you also know, it's a fairly lumpy business. I think what might happen in one quarter is not necessarily going to repeat. But on an annualized basis, I think it's fair to surmise that this is a reasonable number.

I think the development revenues are also going up because see, we categorize commercial as molecules, which are commercially approved by the FDA or the regulatory agency, and those are categorized as commercial. Anything that is not yet commercial is part of development. But the development revenues are also higher because molecules, which are on the verge of commercialization, I think they have the same size and revenue potential, etc. as





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commercial molecules. But categorization wise, we categorize them as development, and that's why the development side is looking large. So I think that's what I would say to your question.

**Aditya Khemka:**

No, I'm sorry, I have a cross question here. Your development pipeline on Q4 FY '22 had 16 molecules, 8 API, 8 intermediates. Your development pipeline at Q4 FY '23 had 15, 1 less on the intermediate side, so 8 API, 7intermediate. So clearly, despite the number of molecules, not in fact, decreasing from Q4 to Q4 last year versus this year, your revenues have grown manifold compared to Q4 FY '22 to Q4 FY '23. So my question was specific to is it certain projects which are driving it? Or is it just a couple of projects driving it? Or is it like a broad-based sort of improvement in the volumes of the business?

**Saharsh Davuluri:**

It's very specific projects. It's not a broad-based number. It's 1 or 2 molecules in that column that are actually driving the revenue up. Sajeev, you want to add...

**S E Medikonda:**

Yes, just to clarify, even though what you say via label means -- I think the 2 tables, which are there on the same side are slightly different reflection because the development revenues that we are talking about is revenue from all the products which are not commercial. So even revenues from, say, product in Phase III or even preclinical are also counted there. So I think we just need to make that distinction. So as you talked about the number of projects in development, you have to consider all the projects together when it comes to development revenue.

**Saharsh Davuluri:**

Anything that is not commercial is classified as development.

**Aditya Khemka:**

Understood, so that makes sense.

**Saharsh Davuluri:**

To that point, I think we we'll tweak the nomenclature because I think there's a valid point of confusion there.

**Aditya Khemka:**

Yes, thank you, that would be helpful for investors in the future as well. My second question was really on the patent situation regarding Paliperidone Palmitate in the European market. Could you talk to us about what the patent situation currently there is?

**S E Medikonda:**

So I think, Aditya, in terms of the patent situation for Paliperidone, I think even as the product patent has expired in the past, I think the innovator continues to be fighting on the various patent fronts. So as per our customers, they believe that the patent has expired and they should be able to launch the product soon in Europe and a few other markets.

**Aditya Khemka:**

So that is slightly confusing to me. If the patent has expired, how come the innovator is still fighting on it? Generally, the fighting happens when the patent is still not expired as you're



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fighting on the validity of the patent. That I understand. But if it's already expired and the innovator really has no case in the court, right?

**Saharsh Davuluri:** I think maybe, Aditya, as the API maker, we are probably not the best to comment on the legitimacy of the generics to enter. I think from a demand perspective, I think the visibility is there. But I think whether why the innovator is not challenging is something that maybe we may not be the best to answer. Sucheth, do you want to say something?

**Sucheth Davuluri:** No, Aditya, I think it's a legitimate confusion. As you know, all of Europe does not have the exact same patent landscape. So the SPCs are expiring at different times in different countries. So what our customers have done is that they filed across multiple countries in Europe where there is no challenge, is where they expect to launch the product and have already bought those launch quantities from us.

But as we know, that innovator will continue to fight each and every possible battle to keep the generics off the market. Therefore, those are the conversations that we're continuing to have with our customers. So we discussed our patents where we feel strong about it, where can we launch, where can we not launch, but our customer has the best visibility. As API supplier, we only have limited visibility to what's going on.

**Aditya Khemka:** That's helpful.

**Moderator:** Taking the next question from the line of Anirudh Shetty from Solidarity Investment Managers.

**Anirudh Shetty:** I had a few questions on our CDMO business. We had a non-compete approach, which I am aligned with, I understand the rationale behind that. So, my question is I see a few competitors of ours that do not have a non-compete approach. They are in formulation, but at the same time, are growing quite well. So just wanted to understand, is this something bases our discussions with our customer, is something that gives a competitive edge for us, helps us stand out? Or could this be a restriction of some sorts, which does not improve our positioning in CDMO. Just wanted more clarity on that.

**Saharsh Davuluri:** I think there's no enforcement from the customer, but I think what we've seen in our experience when we are working on a molecule for the CDMO business, it's very challenging for us to work on the same molecule for the generic business because there is a lot of technical, there's a lot of IT involved, which could potentially belong to the innovator. A lot of times, innovators are explicitly clear about it. They have contracts with us, which prohibit us from working on the generic.

But in many cases, they also don't have such contracts, but we elect not to place those



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molecules in the generic list because there will always be certain analytical methods, there would be certain procedures that we may have learned from the innovator, and we do not wish to expose those to their competitors, which is generic. So you could say that it's partly strategic. It's partly our intention of keeping our business model very straight. Also, it's partly driven by the fact that we believe we can grow this business without necessarily making the generic version of the NCE as well.

**Anirudh Shetty:**

Got it, fair enough. Also, the CDMO business would be about, I think, Rs.440 crores, Rs.450 crores this year. How does one think about the margin profile of CDMO? Do you believe that the current margins here that we're making are peak? Or as we scale up from here onwards, there is scope for better margins, just for our CDMO business.

**Saharsh Davuluri:**

Yes, I think the margin profiles are really a factor of the product mix of the CMS business. There are products which have 80% gross margins, there are products which have only 35%-40% gross margins. All these molecules are NCEs, and these are all molecules under patent for innovator companies. So, the concept or the molecule itself is still attractive to Neuland. But what it presents to us as a business in aggregate is a factor of how these molecules do.

So, I think it will be hard for us to guide or indicate that, what is this gross margin. I think it is what it is right now. We believe that as we are growing this business, we will see molecules which have very high gross margins. We may also see molecules which have slightly lower. As we had indicated in our earlier commentary also, sometimes when we get on board as a source for an innovator, as a second source, the margins are scrutinized a little bit more because there's a reference point of the first source. It's hard to become a second source for an NCE API and expect to get 80% gross margins. Maybe if the drug is an orphan drug, maybe there is no pricing pressure for the innovator, maybe if we have been with the molecule from Phase I, then maybe you have headroom for a higher margin. But that's the color we can provide to you. Unfortunately, we can't really answer the question more specifically.

**Moderator:**

We'll take the next question from the line of Sachin Jain, an investor.

**Sachin Jain:**

Sucheth, many congratulations on wonderful results. I have a couple of questions. One on as you are right now building the organization and probably your aspiration is to build a scalable organization, what are some of key pillars you intend to build from here, particularly people, hiring, culture, mindset change? Indeed, you spoke about some of the -- one cultural aspect about customer-centric, now entire organization is galvanized towards customers. What are some of the interventions you are doing for the scalability? That's number one.

Number two, can you also talk a bit about how do you see capital allocation going forward in the next couple of years, particularly what kind of new capacities or capex plan you guys have?



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**Sucheth Davuluri:**

A couple of things, Sachin. One, I think in terms of building capabilities, currently, the primary focus of all the leadership of the organization is to build that depth in terms of the talent that we have in the organization. So, there's a lot of focus on what are the key positions in the organization, what are the key projects, who are the key people? How do we invest in them, how do we unlock their potential, who else do we need to hire? I think that I would say is our largest focus right now. Apart from that, we have our future plans. We've projected our business in terms of how it could perform.

So therefore, we are constantly looking at what could be the possible obstacles for it, what are the interventions which are required? We've significantly strengthened our enterprise risk management program to anticipate what are the macro risks, what are the risks that could impact us, what are the risks we need to be aware of, who are the directly responsible people or the teams responsible for mitigating those risks. That's a big focus area, apart from ESG that we've spoken even in the last call.

Because at the end of the day, all this doesn't mean anything if you're not able to build a sustainable organization. Therefore, our focus on having those environmental controls, targets, our social governance, the overall governance in terms of our Board, all of that. So I would say these are probably the top 3 or 4 pillars, apart from the culture that we've talked about in the previous question by one of the participants.

I think notwithstanding that, broadly, in terms of the capital layout, I think majority of the capital is going to go into the technology. As you know, we've talked about it. Harsh, I, in the previous calls, we mentioned it in our annual report are our top 6 strategic priorities, which talked about what R&D capabilities we want to add, how do we want to build our manufacturing capabilities in terms of buffer capacity alternative production lines, our project management strategy, our digitization strategy, our people strategy and finally, the kind of products that we want to develop in the generic space.

we have a set of 6 clear strategic priorities. A lot of our decision-making in terms of what we want to do, what we don't want to do is dictated by the strategic priorities. Similarly, that's going to dictate where we allocate our capital as well in terms of the technologies we want to invest in, the R&D infrastructure as well as the manufacturing infrastructure, both in terms of capacity as well as technical capabilities. So this is broadly what I can tell you in terms of what the top team of this organization is focusing on as far as the future is concerned.

**Sachin Jain:**

What's going to be intensity of new capex? Are you going to be more aggressive now as you are seeing maybe more engagement with new clients and probably your current capacity can take you how long in terms of revenue?

**Sucheth Davuluri:**

No, Sachin, I think our capex is very business driven. So we've set certain policies internally



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in terms of how we want to deploy our capex in terms of the percentage of the overall operating cash flow, in terms of the debt equity ratios that we want to maintain, the credit rating we want to maintain. So the capex that we deploy is business driven, also based on internal policies of how we want to develop and grow the business.

**Saharsh Davuluri:**

I think maybe I'll just add a comment on top of what Sucheth said. I think as our endeavor also has been to improve the quality of our business, to the point that we are able to partner with customers, that means capex that would get created would be backed by partnerships. We're not necessarily saying that customers would fund the capex, but at least we would have enough business visibility, we would have enough conviction so that some of the challenges that Neuland had faced in the past of creating assets and then perhaps having to wait for an extended period of time, we are now in a better off position to avoid that end. So that's what will be the endeavor. I think faster growth would probably result in capex being deployed sooner. If the growth takes a little bit more time, then I guess we'll have a little bit more headroom for capex deployment.

**Sachin Jain:**

So now you're at what percentage capacity utilization, Sucheth?

**Abhijit Majumdar:**

Currently, as you are aware, we have 3 plants. The first 2 plants are closer to 80%, 90%. Unit III is at around 64% for FY '23, and we expect it to be at that same level in FY '24. So we have a headroom to grow in to fund our growth or fuel our growth or meet our growth through Unit III for a couple of years.

**Sucheth Davuluri:**

The only caveat I would add Sachin, to what Abhijit said is that capacity utilization is always a tricky question. The reason being is that it changes as the product mix changes, and we are constantly debottlenecking in the existing units. Every time we do that, the capacity utilization or the available capacity inches up. So I think what Abhijit said are very fair as far as the current situation is concerned, but that could change based on the business mix.

**Abhijit Majumdar:**

I will add also, we have the ability to create more manufacturing blocks there. That is to what Saharsh alluded to, that we want to be very sure that as we are investing, we're tying it to some part of customer commitments in some form so that we are able to convert capital into revenue.

**Moderator:**

We take our next question from the line of Sanjaya Satapathy from Ampersand.

**Sanjaya Satapathy:**

So, my question is that in your opening remarks, you attributed the sudden surge in your Q4 FY '23 revenue to commercialization of some new molecule. Am I correct, sir?

**Saharsh Davuluri:**

We did not say commercialization of a new molecule. So I think what we had attributed to the growth to was the growth in the CMS business. That growth is attributable to the



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advancement of commercialization or advancement of the clinical molecule. So I think it's a combination. So we were not very specific on that.

But please, go ahead and ask your question.

**Sanjaya Satapathy:**

Yes, the reason why I'm asking is that the details that you have given about how many molecules you have in commercial state, in API as well as intermediate, it is staying at that 9 and 12, respectively, for last 3 quarters. So I'm trying to understand that what really happened? I'm not being able to understand relate the numbers.

**Saharsh Davuluri:**

Yes, I think the way we present our table is we present what are the molecules that have contributed or active at this point of time. So the table actually tells you how many molecules are active in Neuland's portfolio for you to be able to see progress over a period of time. What we have said or what is contributing to the revenue, if you are not correlating that with the table, it just means that it's not like there's a new molecule that has entered that has given us the revenue, but a molecule that has already been in the table is contributing to the revenue, which is very likely to happen.

So when a molecule is in Phase II and moving into Phase III, or a molecule is in Phase III, it's getting into commercialization, the table itself may not change. But as we are shipping out product for that particular quarter, the revenue number will be there. So the table is more to give you a high-level long-term health of what's happening on the CMS side. The revenue split or the revenue itself, coupled with the commentary is meant to give you an idea of what's contributing to the quarter. But it will be difficult to connect both for every quarter.

**Sanjaya Satapathy:**

Understood. In that context, can I ask that, between the state of CMS revenue, between commercial and development, I would assume that development would be a lot more lumpy and unpredictable compared to commercial. Is that a correct assumption?

**Saharsh Davuluri:**

Yes, absolutely.

**Sanjaya Satapathy:**

Okay, because your commercial is the one which has seen the maximum increase. So to that extent, we're trying to see sustainability of Q4 number.

**Saharsh Davuluri:**

Yes, see, I think commercialization is happening, Sanjaya. I think I'll also just add another point here. See, commercialization of molecules are happening. That commercialization is recorded as commercial revenue. That revenue on an annual level is fairly stable. At a quarterly level, even commercial molecules can have lumpiness because some of the lower-volume CMS molecules that we do, we don't necessarily ship out material every quarter. We ship out maybe twice a year, 3 times a year or maybe sometimes once a year. So again, I think Q4 by itself for CMS is not a representation of the CMS business as a base. But if you look



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at the overall CMS business of FY '23, it's a good legitimate base for the business.

**Moderator:**

We take the next question from the line of Keshav from RakSan Investors.

**Keshav Kumar:**

Congrats for a great quarter. Sir, firstly, I understand lumpiness is part of a model. For other CDMOs, we've at times seen multi-year lumpiness even for decently sized molecules. So they better might end up stocking for longer than a year. There's some variation between big and small innovators as well. So when we reiterate better commercial sales on an overall basis from an annual standpoint, is there an element of the innovators' conviction on us as a CDMO that we'll be able to deliver in time and therefore, the sales can be better spread out? Or it's largely depending on their activity of sourcing?

**Saharsh Davuluri:**

I think it's a factor of the stage of the drug in its life cycle. I think at least that's what we've seen in our limited experience. When a drug is newly commercialized or on the verge of commercialization, there's a lot more lumpiness because the customers also don't know, the innovator doesn't know how the drug will do. They'll order a lot of launch quantities, then they'll sit on a lot of inventory. If the drug, god forbid, doesn't do well, then we don't even see that business for a year, 2 years, 3 years. There's been cases where we never saw the business again after we made launch quantities.

But what happens once 2, 3 years after launch, the innovator starts getting a better sense of how the volumes are moving, how much inventory they need to hold, etc. Then things start settling down and then you start seeing business in a more even clip. The only exception to this point is sometimes when they're low volume products and the customer is getting them made in 1 or 2 campaigns at the formulator side, they might order the API in campaigns as well. But other than that, usually, it's more of a factor of the innovator understanding their supply chain needs and less of their trust or mistrust in our ability to make API.

**Moderator:**

We take our next question from the line of Meet Hareshbhai Katrodiya from Niveshaay.

**Meet H. Katrodiya:**

Sir, we see good improvement in revenue from development and commercial phase molecule in Q-o-Q. So will this sustainable in future also?

**Sucheth Davuluri:**

No, I think as Harsh was saying earlier, there was reference that there will be a quarter-on-quarter lumpiness. In fact, one of the earlier investors also mentioned that they've seen this kind of business even show year-to-year lumpiness. What I would the way I would answer your question is that the business the way it is today, it's sustainable because it's based on a strong foundation and a solid base of molecules as well as customers. Now how that will reflect on a quarter-on-quarter or year-to-year, it is very difficult for us to predict.

**Moderator:**

We'll take our next question from the line of Aditya Khemka from InCred Asset Management.



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**Aditya Khemka:** Just one follow-up on Paliperidone Palmitate again. We know that it's a product that needs to be sterilized, and if I'm not mistaken, we have outsourced the sterilization to a third party. My question to you is, when it comes to sharing that part of the revenue with a third party for sterilization, what is the bargaining power of the third party versus us? I mean, if tomorrow, they wanted more of the pie, how easy or how difficult will it be for us to switch the sterilizer for us?

**Sucheth Davuluri:** No, I think the bargaining power and the agreements that we have with the third-party are confidential to the organization. All we can tell you at this point is that whatever third parties we work with, including Paliperidone and several other molecules that we work with third parties. We have a pretty good relationship and agreements in place, and we continue to manage them.

**Moderator:** We take the next question from the line of Sajal Kapoor, an investor.

**Sajal Kapoor:** Question on our cash flows. So what really needs to happen to make these cash flow sustainable and growing over the next couple of years for this year and next year. When I analyze the cash flow statement, I see that we have a receivable of about Rs.134 crores. So we are negatively impacted because of the receivables.

Yet we have a significantly higher operating cash adjusting for working capital at around Rs.238 crores. Part of the benefit or the positive impact is also coming from the advances that we get from the innovators. So I see a large payable there, around Rs.56 crores as well. So how can we see the cash flow movement over the next years, so this year and next year? What does it mean for our capital allocation strategy going forward?

**Abhijit Majumdar:** So I'll answer the first question is that when you see cash flow of FY '23, you're absolutely right, we generated free cash flow, which was very good, Rs.172 crores. We did get a lot of advances, and it's Rs.135 crores at the end of March. Our estimate is that this is something which is exceptional and will even out in FY '24, and that's how we have planned it.

To your second question on capital allocation, I think as Sucheth has already explained, that we will be very mindful of trying to convert our capex into cash as quickly as possible, back it up with orders. Our priority will obviously be around investing in R&D, enhancing capability there and in manufacturing to service our growth. So we'll be very mindful of that and having some expectations around our key matrices that we have already alluded to in our previous earnings call.

**Moderator:** We'll take the next question from the line of Jay Shah, an investor.

**Jay Shah:** With regards to the capital allocation I think an earlier participant on the call touched upon





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the high amount of cash we're generating. I just wanted to know if we would intend to do an overseas acquisition in a regulated market, say, perhaps in the next 3 to 5 years, Particularly if it could open up opportunities for us to partner with new biotech companies, which are quite stringent in the requirements and focus on specific therapeutic areas by leveraging human resource capabilities in the overseas market. Also, during the call about 1.5 years ago, it was mentioned that we expect around half a dozen molecules to reach the commercializing stage, with a couple of them having the potential to become blockbusters. I'm curious if any of the molecules that have already gone into commercialization or expect to do so in the next 1 or 2 years have the potential to become blockbusters?

**Saharsh Davuluri:**

Thanks for the questions. I think with regards to overseas acquisition, I think it's a logical question. I think for Neuland right now, we have a fairly exciting business plan in front of us, which is built out for another 6, 7 years. I think our plan is to execute on that and we're also open to what other possibilities are there. I think this is the current view. It might change in the future, but we don't necessarily look at capacity augmentation as a need for overseas acquisitions.

I think the only reason why we would look at an overseas is if there's a capability acquisition, which sometimes you can't because you don't have certain capabilities in India because the scientists or those labs, etc. not there. But I don't think Neuland would look at building a plant or acquiring a plant overseas so that we can attract business overseas. It doesn't make sense to us.

**S E Medikonda:**

The second question was about the molecules which have gone commercial, whether there's potential to blockbuster...

**Saharsh Davuluri:**

Yes, so I think what we had said is that we have -- I think, 1.5 years -- what you are referring to, we had said that we have a pipeline of molecules of which 5 to 6 molecules are likely to get commercialized over the next few years. I think that was absolutely true. I think 2 of them since that comment, have become commercial. I think that would be reflected in the table as well. So 2 molecules since that comment have been commercial.

One is likely to be commercial next year. Actually, 2 are likely to be commercial next year. As of now, thankfully, nothing has dropped out from that list, but I think it's reasonable to expect that at least 1 or 2 might drop out. So I think we're fairly stand by that comment, and I think it's something that is likely to drive the growth of CMS.

**Moderator:**

We'll take our next question from the line of Darshil Jhaveri from Crown Capital.



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**Darshil Jhaveri:**

Sir, I understand there could be lumpiness in the business and that could be better reflected on a year-on-year revenue. But how could we see our next 2 or 3 years' revenue growth? Because we had a flat year in FY '22, but we had good growth in FY '23. So something from a bit -- maybe longer-term perspective that could account for the lumpiness, something that could help us? In terms of our revenue and margins, what could be our sustainable? That would be very helpful, sir.

**Saharsh Davuluri:**

I think I completely understand your question, but I think everything we've said in the call today is all we can say in response to the question that you asked. I think the business has been lumpy. I think growth, even at an annualized level, sometimes as we have seen from FY '21 to '22 is not linear. I think what is also important, which we said in the opening part of the call, is that the number of molecules in the pipeline, both for GDS and CMS are continuously increasing.

The potential of these molecules are also fairly high. This is evident in the performance of the recent few quarters. I think this is something that is sustainable. They are not one-offs. I think given these points that have been said, I think it's reasonable to assume that going forward, we will have a very good trajectory for growth. But obviously, as an investor, you're asking specific questions like what will be the growth rate or what will be the margin? I think these are things that are difficult for us to answer because it's really a factor of the business mix, the product mix, and those are subject to how individual molecules are going to do.

So I think, yes, I think things are looking optimistic for us. But yes, I think lumpiness is there. But I think what we've seen in the past, what's going to be different about the future is that the base of the business has increased now. I think for several years, we struggled at a Rs.500 crores level. Then we went to like Rs.600 crores- Rs.650 crores. Then we struggled at Rs.950 crores for a year or 2 or we struggled for a year. Now we have started to show a break away from that. So I think we can talk more retrospectively, but we cannot talk that much more prospectively. I think as you watch, I think in the time to come, you will get better confidence on how this growth will pan out.

**Moderator:**

We take the next question from the line of Raghu from Ora.

**Raghu:**

Sir, in spite of such a good result, the dividend is just 10%. Can you highlight what will be the dividend payout ratios going forward?

**Sucheth Davuluri:**

I think just to clarify, if you look at the history of the dividend payout, the highest we have done is about Rs.5 per equity share. So for this year, we've actually doubled that. So we've gone from Rs.5 to Rs.10 per equity share. That's the highest the company has paid in terms of the total payout as far as the dividend is concerned. So I think the dividend payout, the decision that the board and the management have taken, keeping in mind that we've had a



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good year, and it's important that the shareholders also see the benefit of that. I think the dividend payout actually reflects that.

**Moderator:** Ladies and gentlemen, that was the last question. I'd now like to hand the conference back over to the management for closing comments.

**S E Medikonda:** Thank you, everyone, once again for joining us on this call. We really appreciate the enthusiasm shown for our business. Even as was reiterated through the call that the momentum that we see for the future, we are optimistic about it. On that note, I'd just like to thank everyone once again. We'll see you soon again.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Neuland Laboratories, that concludes this conference. Thank you for joining with us, you may now disconnect your lines.