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

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

BSE CODE: 543329

NSE SYMBOL: WINDLAS

Dear Sir/ Madam,

Subject: Q2 FY22 Earnings Conference Call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Q2 FY22 Earnings Conference Call Transcript.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For Windlas Biotech Limited

Ananta Narayan Panda
Company Secretary & Compliance Officer

Encl: As above

“Windlas Biotech Limited
Q2 FY2022 Earnings Conference Call”

November 01, 2021

MANAGEMENT: MR. HITESH WINDLAS – MANAGING DIRECTOR - WINDLAS BIOTECH LIMITED
MS. KOMAL GUPTA – CHIEF FINANCIAL OFFICER - WINDLAS BIOTECH LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Windlas Biotech Limited Q2 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh Windlass, Managing Director, Windlas Biotech Limited. Thank you and over to you, Sir!

Hitesh Windlas: Good evening everyone and Season's Greetings to all of you present on the call today. I hope everyone must have got an opportunity to go through our financial results and investor presentation which has been uploaded on the Stock Exchange as well as our company website. For the benefit of all the participants, I would like to discuss about the company in brief initially followed by financial highlights of the quarter, which will be shared by our CFO, Ms. Komal Gupta.

I am happy to announce that our company has continued to maintain a good pace of growth. The top line grew by 14% and 11% on a YoY basis for Q2 and H1. In fact on an adjusted basis, H1 FY2022 grew by 15% YoY.

On the operational front, the plant utilization has also improved to 43% for Q2 as compared to the corresponding period last year. In our first vertical, the CDMO services and products vertical, where we offer services related to drug discovery, prototype development, technology licensing and high volume commercial manufacturing of complex generics products in compliance with current generic to pharma companies who onwards market these products under their own brand name.

Our company has consistently maintained strong and lasting relationships with the leading Indian and multinational pharma companies, being seven of the top 10 formulation companies in India. In this vertical, our Q2 revenue for CDMO services and products, stood at 91.2 Crores up 6% YoY, which contributed approximately 79% to the consolidated revenue.

Next, our domestic trade generics and OTC brand vertical, this vertical is the fastest-growing vertical for our company and in the past has grown at a CAGR of 27% between FY2019 and FY2021, with the number of brands growing faster than revenue at approximately 30%. The main drivers for this growth are lower price points, but the similar quality compared to branded generics and growing penetration in rural India. Q2 revenue for trade generics vertical stood at Rs. 16.9 Crores up 52% on the back of new product launches and appointment of new stockiest.

Trade generics vertical contributed approximately 15% to the consolidated revenue. The company is focusing on increasing the number of stockiest and distributors network along with increasing number of brands. This coupled with rising price sensitivity amongst Indian patients even supported by government schemes, such as Jan Aushadhi Yojana and Ayushman Bharat are going to drive the next leg of growth for domestic trade generics and OTC vertical.

Our third vertical, Export is engaged in identifying high growth opportunities in semi-regulated international markets and select regulated markets. The motive is to develop and register product application in order to obtain market authorizations for medicines and health supplements. These products are also subsequently sold by local pharma companies and pharmacies in their respective markets.

Q2 revenue for the exports vertical stood at Rs. 5.5 Crores up 65% year-on-year and the export verticals contributed approximately 5% to our consolidated revenue. The company's overall growth trajectory is expected to accelerate further underpinned by a strong pipeline of innovative products, available capacity and a growing customer base.

Our next five years vision is to double the CDMO business, grow our trade generics and OTC by 3x and grow our exports vertical by 4x. This growth will translate to approximately 17% CAGR over the next five years at the company level.

With this, let me invite Ms. Komal Gupta our CFO for the financial performance highlights. Over to you, Komal!

Komal Gupta: Thank you, Hitesh. I will now take you through consolidated financial and operational highlights. Let me begin with the quarterly financial highlights. The company continued to report a robust financial performance. On a consolidated basis, net revenue from operations, grew 14% YoY to Rs.115.3 Crores for Q2 FY2022.

EBITDA margins stood at 11.9% as against 12.2% YoY. A minor decrease in the EBITDA margin was primarily due to change in the product mix, increased research and development expenses, additional plant manpower and higher product development or registration.

The company also incurred Rs.0.5 Crores ESOP related expenses during the quarter. Adjusted PAT stood at Rs.8.3 Crores as against Rs.7.0 Crores, up 18% YoY.

Now coming to H1 FY2022 financial highlights; on a consolidated basis, net revenue from operations grew 11% YoY to Rs.226.2 Crores for H1 FY2022 while adjusted net revenue from operations grew 15% YoY.

EBITDA margins stood at 11.7% as against 12.8% year-on-year. The company also incurred Rs. 0.9 Crores ESOP related expenses during the period. Adjusted PAT stood at Rs.15 Crores as against 12.3 Crores up 22% YoY.

I will now take you through vertical wise highlights. CDMO vertical highlights: Q2 and H1 revenue for the CDMO vertical stood at Rs. 91.2 Crores and Rs. 186.9 Crores up 6% and 8% YoY respectively. CDMO vertical contributed approximately 79% and 83% for Q2 and H1 FY2022 respectively to the consolidated revenue.

Trade generics vertical highlights: Q2 and H1 revenue for the trade generics stood at Rs.16.9 Crores and Rs. 29.2 Crores up 52% and 45% YoY, respectively. Trade generics vertical contributed approximately 15% and 13% for Q2 and H1 FY2022 respectively to the consolidated revenue.

Export vertical: Q2 and H1 revenue for the export vertical stood at Rs.5.5 Crores and Rs. 7.7 Crores, up 65% and down 10% YoY respectively. Export vertical contributed approximately 5% and 3% for Q2 and H1 FY2022 respectively to the consolidated revenue.

During the quarter, the company has repaid Rs.20 Crores of loan which was taken from Bajaj Finance with almost zero-project coupled with healthy cash and cash equivalence on the balance sheet the company is net cash positive with the liquidity of more than Rs. 190 Crores. The company has witnessed improvements in the working capital resulting into improved operating cash flows.

The company has utilized Rs.60 Crores from the IPO proceeds for the various activities mentioned in the RHP out of Rs. 152.1 Crores, roughly translating into 39% IPO proceeds utilization. Going forward, the company will utilize the proceeds to fund the incremental working capital requirements and capacity expansion and addition of injectables dosage capabilities which will further strengthen the company's value proposition while maintaining the strong balance sheet.

I will reiterate that our business needs to be looked at on annualized basis rather than a quarterly basis. We continue to invest in strengthening our business and expect investments to translate in better revenue and profitability, going forward. We can now begin the Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nikesh Shah from Momentum Advisors. Please go ahead.

Nikesh Shah: I had two-three questions; the first question is the CDMO business for the first half had improved by around 8% YoY while if you look at IPM data, the growth has been much more. So, can we say that why there is a gap between our CDMO business and overall domestic pharma growth?

Hitesh Windlas: See, in the IPM what you see is a very big growth spurt associated with antibiotics which were associated with hospitalizations during the COVID second wave and we are not present in the antibiotics business. So, in fact, that is an area that almost is inaccessible for us to grow and it is a very, very low margin and we have consciously chosen to stay away from this product. The second area is in terms of new product launches. What we have, our customers are still getting the medical representatives, who are into the doctor chambers to do new product launches. I mean that is not completely remediated in Q2 and we expect that hopefully in Q3 and Q4 some of these challenges will get better, but this is another reason where new product launches have been slightly slower than let us say a similar period last year. I think these two are the primary reasons. There has been some changes in outsourcing versus insourcing by some of our customers and so there is a little bit of churn that happens on some of the brands that we manufacture, but we have not seen any structural changes as such. So I hope that addresses your question.

Nikesh Shah: Second thing can you share revenue bifurcation in terms of raw mix subchronic, acute and others as well as in terms of complex generics to conventional products?

Komal Gupta: In terms of chronic subchronic we can broadly share. H1 FY2022 revenue is about 60% and acute is about 40%.

Nikesh Shah: In terms of complex generics and conventional?

Komal Gupta: Complex would be around 73%,-74% and conventional is about 25% for H1 FY2022.

Nikesh Shah: Lastly as of March 2021, we had 204 customers for the CDMO segment. Have we added any more customers in the last two quarters?

Komal Gupta: Yes. Broadly the customers that we have served during the period are about 200 only, but out of 204, there will be some customers who they will be failing in the coming H2 so probably it would be a better idea to look at the end of FY2022 because there are surely additional customers that have been added and there will be a few to whom they will not be any morphing in H1.

Nikesh Shah: Thank you. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Amit Shah from Ace Securities. Please go ahead.

Amit Shah: Sir, my first question would be what is the highest customer's contribution and top ten customer's contributing for H1 FY2022?

Komal Gupta: Highest customer contribution for H1 FY2022 is about 13.9%.

Amit Shah: Our top ten customers would be contributing?

Komal Gupta: Top ten would be around 54%.

Amit Shah: So, do we see this changing in the near term?

Hitesh Windlas: Near term Mr. Amit, we do not see many changes happening but as a CDMO, we have consciously been focusing on bringing the top client concentration lower because it reduces our dependence, but that is not by refusing business, but that is by actively showing the other accounts. So, we do not see marked changes in the short term.

Komal Gupta: For FY2021 we had 58% coming from the top 10 customers which is now 54% so broadly in the same range, a little bit reduction.

Amit Shah: Understood and what is the strategy behind focusing on growing our exports and trade the generic business while our core competency is in CDMO and what is the capital allocation strategy to grow these two businesses?

Hitesh Windlas: So, our trade generic business and our export business both have a very, very strong synergy with our CDMO business because they are essentially served from the same manufacturing plant. So, our fixed assets are serving all three verticals and the technology that we create in India CDMO business help us being sometimes the most efficient producer comparable to some of the other options around us, so the trade generics business utilizes this efficiency creation capability of the company whether it is on the supplier side or whether it is in the manufacturing process side and the overall organization and we are able to bring these trade generics products to market in rural areas where we are also not competing with our CDMO clients. So that is the main synergy over there and in fact, our material margins in the trade generic business are higher than our CDMO business. So, we want to grow this market actually. Also, I think that India this opportunity in the trade generics business is incredibly vast and incredibly exciting because if you look at the branded generics model, it is by feet on the ground models through medical reps, now the large pharma companies have maybe 10000, 15000 medical reps but still, they are largely concentrating 400 odd towns in India where the population is above 1 lakhs because that is where the doctors are there and the medical rep model works, but there is around 60% to 65% of Indian population living in villages and kasbah where there are no doctors, and the dispensing is being done by the chemists himself and this is a vertical which the market which are trade generic vertical is servicing, where we are providing same quality products at a lower price point and helping staff is very, very big and grow up kind of a market. Your question around the export bit, again as you know one of our facilities in fact, earlier, had regulated market approvals also, that facility is a bet for creating better margin products and we are serving Southeast Asian and some African markets and there also we are looking to add some products in the nutraceuticals space as well to both pharma and nutraceuticals space and grow that. That growth is it takes a little bit longer because we have to do the registrations, and get approvals on the dossiers by the authorities of the importing country, but the business is strong, it is defensible and also very good margins as compared to our other businesses. So, this is the reason why we have got into the adjacent verticals and we are excited about growing them strongly. In terms of capital allocation, your second part of your question, there is really no new fixed cost, being incurred in either of the sites from very small dedicated manpower and the allocation of capital is happening in the exports where we are doing product registrations and market authorization. These are permissions that allow to export to those countries, so there is that market authorizations expenditure and in the trade generics it is in the working capital. So, as we expand our footprint, as we grow our sales, we grew by 52% this quarter, so obviously, we will have to offer credit into the market place and we are very, very disciplined about it but that is there, the capital allocation will go.

Amit Shah: Understood Sir. My last question is in our speech we mentioned about 17% CAGR for the next five years, with 2x in CDMO, 3x in trade generics, and 4x in exports. Sir, I understand that trade generics and exports will have a good growth rate due to the low base, but can you please explain how are we going to achieve 2x growth in the CDMO business? Also, how would our margins would look like in the next five years?

Hitesh Windlas: Sure. In the CDMO business, we are expecting to grow by three levers. The first one is that as our customers grow in their own market, the volumes will grow. For the same brand that we have already acquired, it will result in more production towards that brand. The second one is where we are adding new customers. So, there is a huge number of customers, even though we are serving seven of the top 10 Indian pharma companies, there are 25000 Indian pharma companies doing marketing in India and we are still a very small company. So, for us, even a midsize or a decent size client is a good client. So, we are looking to get more of the clients onboarded and start to cater to their outsourced requirement. So, that is the addition of new customers and I think the third one is new products and so you would have seen in our presentation also that we have even accelerated some of our R&D spend which is getting new permissions for selling unique and innovative products to our CDMO clients, for trade generics vertical both of these and this is where a lot of excitement is when we bring new products like for example, this quarter we got approval for two, three new products, which we are the only company in India to have that regulatory permission. So, now we are getting timed for these products together with our customers and bringing them on. These three-pronged strategy is what is going to yield the growth for the CDMO vertical and eventually as we increase our manufacturing footprint, whether it is in, we have already talked about in decibels as the next area and make the facility in that so there also we will do CDMO and trade generics and exports so as we increase our manufacturing footprint into other dosage forms that will also give us fillip and accelerate this entire strategy for the number.

Komal Gupta: In terms of margins, we expect the margins to be better with several, in long-term the margins are expected to be better than current levels, with higher capacity utilization because there is some fixed cost, the same plant will be used and that is the only the small variable portion getting added so that is one reason and as obviously as Hitesh mentioned trade, generics and exports will higher material margins vertical. With them taking over the higher portion in the total revenue from operations, we expect in the long-term the margins are going to get better than where we are.

Amit Shah: Thank you for explaining so well. Thank you.

Moderator: Thank you. The next question is from the line of Biyanka Singh from Atidhan Securities. Please go ahead.

Biyanka Singh: Sir I had two questions; the first one is what are the R&D expenses for H1 FY2022? And how much are we planning for the second half?

Komal Gupta: R&D expenses for H1 FY2022 is Rs. 2.8 Crores. For the rest of the year also we expect around the same range, a bit lower actually around Rs. 2 Crores.

Biyanka Singh: I see there is no IPO proceeds utilization for the capex at the Dehradun plant. So, when are we planning to start this capex and how much incremental capex is expected?

Hitesh Windlas: We have already started. In the capex, there was some associated with the use of proceeds and there was some that the company was going to do from its own internal accruals. That capex has already started. It is ongoing. There is a little bit of expansion of the civil structure that is being done and we are now in the process of laying out a detailed design for the injectable facility, we are having negotiations with the vendors and our goal is that we bring this up as soon as possible and engage it in terms of producing for our customers and our own trade generics division. So, this is ongoing and we want to be largely on track, I believe injectable facilities we have committed that our first commercialization will be somewhere in the period of February to March of 2023. So, we are at least currently on track.

Biyanka Singh: How much incremental revenue do you expect, a rough number?

Hitesh Windlas: On injectables?

Biyanka Singh: Yes correct, from this new capex?

Hitesh Windlas: There is Rs. 43 Crores of capex for injectables and Rs. 7 Crores for oral solids in terms of line balancing and this is what is going to serve for the entire expansion for the five years so as I mentioned that in a way we are looking to grow in the next five years by 2x on the CDMO and 3x from trade generics and 4x on exports. So, overall revenue will be serviced by this manufacturing infrastructure plus some more that will happen in 2024. So, we will go to somewhere, our current OSD infrastructure is good enough for about Rs. 100 Crores of revenue and injectables will thereafter add to that so that is where roughly I think this is the guidelines.

Biyanka Singh: Thank you so much.

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

Nitin Agarwal: Thanks for taking my question. Hitesh, on the CDMO business we have perhaps how important is inorganic growth in terms of adding on new verticals, we have a strategy, what are your thoughts around it?

Hitesh Windlas: Nitin, as you very rightly summarized even in our DHRP we talked about wanting to be an active consolidator in this space and there are lots of opportunities also emerging. We have started looking at some IMs that have come our way, but I believe we have to be very mindful of how we select what we acquire and then what can we do with it. So that process is a little bit more engaged and time taking so my sense is that over the next two years or so, we will be going a lot more aggressive in this and hopefully be able to pick up a business which can add complementarity to it and our strengths can bring more scale to that. So, that is something that we have been sort of outlining, but my sense is that it will take some more time to find the most appropriate match.

Nitin Agarwal: On organic CDMO business as you mentioned, the bulk of the business is chronic driven and it is acute which has driven a lot of the growth in the first half of the year, are you seeing the outlook improving for the chronic business segments, which is more primarily driver for our business going forward in the second half of the year?

Hitesh Windlas: We are definitely very optimistic Nitin. Our customers were also trying to, see when they are targeting a launch in cardiovascular or diabetes or they are targeting launch in urology, typically when they work with their physicians, they are able to attend conferences, they are able to do a lot of education for the physicians, they are able to bring scientific literature into the physician's room, and do that, but still these things are not happening and a lot of doctors are sill wanting to just see the medical rep virtually or they are not attending the conferences, none of the conferences have actually happened, only virtual conferences have happened, so some of the new launches are somewhat delayed but there is a lot of interests, we got three of the new permissions that we got which I spoke, BCG accommodation an all in chronic there is a lot of interest from customers, large customers and we are pursuing this. My sense is that it will eventually follow whether there is a third wave, or not and in how soon our customers are able to meet doctors to do new launches, but we are betting very strongly on this, a lot of our pipeline ideas are in chronic space and we continue to be quite bullish on this.

Nitin Agarwal: Thank you. Best wishes.

Moderator: Thank you. The next question is from the line of Akash Mehta from Capaz Investment. Please go ahead.

Akash Mehta: Good evening. Thank you for taking my question. I have two broad questions based on the investor presentation. When you mentioned the focus on expanding the product development and manufacturing capabilities, mainly in the complex generic products and thereby taking advantage of a near term patent expiry of key molecules, so can you throw some light on which key molecules are expiring in the near term and what is the revenue potential from these drugs?

Hitesh Windlas: Sure. There are almost 2022-2023 have almost close to about 21 small molecules that are coming up for patent expiry. Beyond that of course it is a very rich pipeline. In fact, the pipeline has become very receding not just for domestic-focused companies like Windlas, but there is a lot of excitement about global generics also because of these expiries. Obviously, we are operating in the therapeutic segments that we are in and therefore for us these products will be in the cardiovascular and diabetes, then the new combination of those coming up for expiry with older molecules that is where the treatment regimens are moving, like for example, in case of diabetes, the more favourable treatment regime by a physician is about now combining a gliptin with flozin and as some of these gliptins and flozin are coming off patent these combinations are taking the route, we are developing as part of Windlas. Another thing that we are doing is our investments in injectables is also been done with this kind of thought which was a lot of upcoming patent expiries will happen in the injectable dosage forms as well and from a long-term perspective, that is going to be a very important treatment and only the choices are also going to be made based on that.

Akash Mehta: What could be the potential revenue potential, a ballpark figure?

Hitesh Windlas: Very difficult to say in sartans because when the molecule is still in the patent the innovator pricing is very, very high. When it becomes generic the kind of price erosion that happens has both the competitive element in the market as well as product off related things that happens to the intermediate cost or what happens to the API cost, how do we be able to do that. So the eventual pricing that one comes to is a very dynamic and a moving aspect. In fact, we know we created an API lab where we have started doing some of the upcoming patient expiry molecules at kilo space for ourselves and we have seen a huge price erosion. So, it is very difficult to project the revenue opportunity. We are more focused on bringing the therapy as an option for our customers and creating new combinations that are rationale and desired by our customers for their patients.

Akash Mehta: Secondly, the second question was on the market share domain. Basically, we mentioned that we were one of the top five players in the CDMO space in India, so what would be roughly our market share and have we gained the same in the last three-four years and if so how much would that be?

Hitesh Windlas: The top six companies have about 21% market share as it is told to us by the CRISIL report, which we commissioned during our RHP. Now if you look at the market, it is a combination of both CMOs, and CDMOs and the number of players is also quite large. At present, the understanding is which was reported, it is not covered separately by any market reporting agency, but the understanding is that this CDMO market for India where we play is about 20000 Crores expecting to be grow at about 13%, 14% going forward and Windlas has grown last year was exceptional for us, we grew by 30%, before that around lesser. My sense is that we have typically in the past grown faster than the overall market and this is something that had been done based on growing customers, growing new products, and the exact dose on our trade generics and other things. So, I sense that going forward market share is something, actually, we do not really taken, because see as a CDMO if we focus too much on market share then we have to deleverage the margin erosion, so we want to be selective with these relationships and on some technical complexities, that is how we have been working so far.

Akash Mehta: It makes sense. I think that is it from my side. Thanks a lot.

Moderator: Thank you. As there are no further questions from the participants, I now hand over the conference over to Mr. Hitesh Windlas for closing comments. Over to you Sir!

Hitesh Windlas: Thank you everyone for joining us on this call. Please reach out to our IR consultants, Strategic Growth Advisors or us directly should you have any further queries. Wishing everyone a very, very Happy and Safe Diwali. Thank you. We can now close the call.

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