



SUPRIYA LIFESCIENCE LTD.

Creating true values that bind global health

Date: January 25, 2022

To,

The Corporate Services Department, Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400 001 Scrip Code: 543434	Manager - Listing Department The National Stock Exchange of India Ltd. Exchange Plaza, Plot no. C/1, G Block, Bandra-Kurla Complex Bandra (E), Mumbai - 400 051 NSE Symbol: SUPRIYA
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Dear Sir/Madam,

Subject: Transcript of the Earnings Call for Q3 of FY 2021-22 for the quarter and nine months ended December 31, 2021

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 we hereby enclose the transcript of the Earnings call held on Friday, January 21, 2022 at 4.00 P.M. IST to discuss operational and financial performance of the Company for the quarter and nine months ended December 31, 2021 (Q3 of FY 2021-22).

This intimation is also being made available on the website of the Company at:

<https://supriyalifescience.com/investor-relation/>

Kindly take the information on record.

Thanking you,

For Supriya Lifescience Limited

Shweta Singh

Company Secretary & Compliance Officer

Membership No.: A44973



Corporate Office : 207/208, Udyog Bhavan, Sonawala Road, Goregaon (East), Mumbai 400 063. Maharashtra, India.

Tel : +91 22 40332727 / 66942507 | Fax : +91 22 26860011

CIN: U51900MH2008PLC180452 | E-mail: supriya@supriyalifescience.com | Website: www.supriyalifescience.com

Factory : A-5/2, Lote Parshuram Industrial Area, M.I.D.C., Tal.- Khed, Dist.- Ratnagiri, Pin: 415 722, Maharashtra, India.

Tel: +91 2356 272299 | Fax : +91 2356 272178 | E-Mail: factory@supriyalifescience.com

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SUPRIYA LIFESCIENCE LTD.

“Supriya Lifescience Limited's Q3 FY'22 Earnings
Conference Call”

January 21, 2022



SUPRIYA LIFESCIENCE LTD.



**MANAGEMENT: DR. SATISH WAGH – CHAIRMAN & MANAGING
DIRECTOR, SUPRIYA LIFESCIENCE LIMITED
DR. SALONI WAGH – WHOLE TIME DIRECTOR,
SUPRIYA LIFESCIENCE LIMITED
MR. SHIREESH B. AMBHALKAR – CHIEF EXECUTIVE
OFFICER, SUPRIYA LIFESCIENCE LIMITED
MR. ASHISH R NAYAK – CHIEF FINANCIAL OFFICER,
SUPRIYA LIFESCIENCE LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to Supriya Lifescience Limited's Q3 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in a listen-only mode. 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.

Today, on this call, we have Dr. Satish Wagh – Chairman and Managing Director of Supriya Lifescience Limited along with senior management team.

This conference call may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on date of this call. Actual results may differ materially. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict

I now hand the conference over to Dr. Satish Wagh from Supriya Lifescience. Thank you and over to you, sir.

Dr. Satish Wagh: Good afternoon, everyone. I hope that you and your families are safe and healthy and taking due precautions from COVID. With me, we have our senior management team, Dr. Saloni Wagh -- Whole Time Director; Mr. Shireesh Ambhalkar -- CEO; Mr. Ashish Nayak -- CFO and Orient Capital and Investor Relations Advisors. I welcome you all to our first earning call after the initial public offering. The Company got listed on the National Stock Exchange and the Bombay Stock Exchange on 20th of December 2021.

Before I speak, of the regular Q3 performance, I would like to thank everyone for supporting the IPO of the Company. With the support of the trust, the IPO was oversubscribed by 71.5x. We have uploaded our 'Investor Deck' and 'Financial Results' on the stock exchanges and the Company website. I hope everybody had an opportunity to go through the same.

As this is the first call, there are few people with whom we will be interacting for the first time, I would therefore like to briefly give a brief description about the Company before we move on to the performance of Q3 financial year '22. Supriya Lifescience Limited got incorporated in the year 2008 and became one of the key Indian manufacturers and the supplier of APIs. Supriya sells 38 API focused on the diverse therapeutic segments, along with being the largest exporter of Chlorphenamine Maleate, Salbutamol Sulphate, Ketamine Hydrochloride and Esketamine from India. Supriya Lifescience is a pioneer in segments like antihistamine, analgesic, anesthetic, vitamin and anti-asthmatic and anti-allergic.

Our business model is perfect blend of domestic and the global supporting capabilities, with the Company having longstanding relations shift backed by the consistent program quality and the global footprint and extends to 86 countries. We have state-of-the-art of the modern manufacturing facility at Parshuram Lote, spread across 23,806 square meters with a capacity of 547 KLPD, which is combined with advanced R&D capabilities. We are always focused more



on penetration into regulated markets. Hence, the current site is three times USFDA approved and European authority approved, as well as the Health Canada.

Our focus has always been more on export since beginning. 77% of the total revenue is generated from the exports and about 23% in the domestic. This 77% is also spread across almost 86-countries today and the different geographies, like Latin America, Southeast Asia, Europe, which is one of the strongest regulated markets, North America and other parts of the world.

We have a longstanding relationship with our clients, some of the large end users that we are catering to our LNK which is US-based, Mankind which is one of the largest end users in India, and we have customer base of 1,296 +.

Supriya has a proven track record of operations and delivering strong financial performance year-after-year. This can be visible in its revenue and the key profitability ratios in a dynamic and constantly changing industry.

I'm very happy that my second generation, my two daughters, both Dr. Saloni and Shivani Wagh have entered into business and continue the legacy which brings instrumental in driving the growth of the Company in the future. Now I request Dr. Saloni Wagh to take us through the strengths and the future growth of the strategies.

Dr. Saloni Wagh:

Thank you, Dr. Satish Wagh and we thank for everyone who's present on the earnings call today for Supriya Lifescience Limited. I would like to take this opportunity to highlight the five key strengths of the Company. The first key strength is the significant scale of operations that we have, and the leadership position in our key products. The top three products that we manufacture which is Chlorphenamine Maleate, Ketamine, Hydrochloride, and Salbutamol Sulphate, we control a large percentage of exports from India. Chlorphenamine Maleate is about 45% to 50%, Ketamine is 50% to 65%, and Salbutamol Sulphate is about 30% to 40%.

The other key strength of the Company is diversified therapeutic categories that we have. Currently if you see in the last four to five years, most of the therapies have shown a good growth.

The goal going forward would be to add more and more therapies with the existing basket so that we further derisk this portfolio. Some of the new products that we have launched this year are now complementing with the existing therapies like decongestant molecules goes in combination with anti-semantic, anti-allergy.

Shireesh Ambhalkar:

I am just taking it over from Saloni. Talking about the second strength here that we would like to highlight of the Company's backward integration in our business model, the top 12 products which we produce contribute 67% of our total revenue. We are fully backward integrated Company in these products. We do not buy any advanced intermediates from outside and we manufacture all these APIs mostly from the basic stage because we are not relying on external



parties. We have not faced till so far any supply chain disruptions and our manufacturing continues as per our plan.

On the third aspect, our revenues are diversified with extensive global presence. The vision of the Company for the last five years has always been penetrating into more of European, US markets, regulated markets. And that would be the vision for the Company going forward as well. If you look at the total percentage contribution of regulated markets to the revenue offered by the Company in FY'21, it was 38% for the period April to December FY'22. It has gone up to 47%. So more and more focus on penetration into regulated markets where we can get a better average selling price of our existing products is something that we are focusing on going forward.

The fourth strength that we as a Company have, which has helped us to get the regulatory certifications and penetrating globally is our manufacturing capability and the R&D capability. Currently, we have a site where we have four manufacturing blocks in operation with seven clean rooms for isolation of the final products. Our total reactor capacity is 547 kilolitres or cubic meters. If you look at the capacity utilization, it has grown from 52% in FY'18 to 71% in FY'21. That is one of the reasons why we have recently added one more production block in the first quarter of FY'22.

The other thing that we would like to highlight here is all the regulatory authorities that have already audited and approved this site, such as USFDA, European authorities, Australia, Korean authorities, Chinese authorities, and all the authorities where we have registered our products.

One additional capability that which we have unique to Supriya and the reason why we are dominating in the portfolio that we are offering is our capability in handling complex chemical reactions. We handle complex chemistries involving processes such as Grignard Reaction, High Pressure Reaction. We have completely backward integrated operations in our narcotics portfolio. We have molecules which are photosensitive and which require very careful handling under controlled conditions. We handle very temperature sensitive molecules, and the scales at which we are operating these molecules is something that requires expertise that we have built over the last 30-years.

The current R&D Lab is DSIR approved. We are on the verge of expanding our R&D so that we can produce more new products in our facilities going forward with a significant expansion in the R&D that is progressing and it should be going live in Q1 of FY'23.

Fifth strength is our eminent board of directors. We have very strong board of directors; Dr. Satish Wagh is our Chairman and Managing Director, Mrs. Smita Wagh who is the Whole Time Director of the Company; Dr. Saloni Wagh, Shivani Wagh, who is also a Whole Time Director in the Company and Mr. Balasaheb Sawant, who is the Whole Time Director of the Company and responsible for all manufacturing operations at the site.



Other than this, we also have a strong and robust independent board of directors who come from different sectors like finance, education, chemicals, pharma, and they add a lot of diversity to our board and add their experience to our Company.

The senior management that we have in place is also strong. In the last five to six years, we really focused on building a very strong second line, so that the organization can run in a more professional way. So we have onboard now a professional CEO, CFO that we recently hired Chief Scientific Officer, Chief Sales and Marketing Officer, who're all these professionals were working with well-known international companies for the last 15 to 20 years, and they bring in a lot of experience into our organization.

About the future strategy of the Company, I would like to touch upon Supriya Lifescience growth going forward. Now Saloni will take over from here, please.

Dr. Saloni Wagh:

Thanks to our CEO for giving us the information about the strength of the Company. Regarding the future Company strategies, I would like to touch upon a couple of things that we're doing, because the Company has such strong fundamentals because of the derisk business model and because of the global presence that we have. We also have a very good top line as well as good profits for the last five years, which is why the Company has great potential going forward as well.

Some of the things we are doing in order to help and facilitate the growth that we are in envisaging in the next couple of years is the first and foremost expansion of our manufacturing capability, enhancing our capacities for infusion of new products into the basket and scaling up of the existing molecules by further penetration into newer geographies, then expanding the product portfolio where we are definitely increasing our R&D infrastructure so that we can add more and more molecules into the portfolio.

Our focus on lifecycle management for existing molecules for further backward integration and derisking the business, then our increase in the current market presence for existing basket that we also have penetrated into newer geographies that currently we are not a part of.

We are also one of those companies who has an excellent track record when it comes to regulatory and statutory compliance. That is why we are one of the right partners for CMO and CDMO opportunities, because we have proven our potential on a global scale by supplying for 34-years with consistent quality to all the multinational companies. I think these are the areas that we are really likely to explore and that can bring in a good growth for the Company going forward.

The focus of the Company has always been in adding more and more products in newer therapies into the basket and the operational excellence that we have maintained across 34 years.

Now I would also like to hand over to Mr. Ashish Nayak, our CFO, to take you through the financials of the Company.



Ashish R Nayak:

Thank you, Dr. Saloni and thank you, Dr. Shireesh and Dr. Satish ji. I will now share the operational performance for the quarter under review, which is the third quarter FY'22. Starting with the therapies, this third quarter was a phenomenal quarter for anesthetic therapies, anti-asthma and vitamins. These three therapies have done exceedingly well. Just to give an idea, anesthetics, which was contributing about Rs.21 crores in Q3 FY'21, it has gone up from Rs.21 crores in Q3 FY'21 to almost Rs.72 crores. That has been a phenomenal growth and jump so also the vitamin as well as the anti-seminal therapies have grown very well. And catering to the markets again, as far as the region wise is concerned Q3 FY'22, there has been a phenomenal growth in Germany and Latin American sales. So, these have been two very big plus points as far as Supriya Lifescience's third quarter is concerned.

I will come over to the financials of the Company, Q3 FY'22 versus Q3 FY'21. But before getting into that, I also want to say one thing as far as the investors and analysts are concerned over here. Historically if you look upon it, the therapies that we cater to, typically, our second quarter and our fourth quarter are the most promising quarters and historically it has been so and it will continue to be so in the next at least next couple of years, till we have more products in the pipeline which are able to cater to different markets which enable us to balance out these quarterly ups and downs. But having said that, if you compare Q3 FY'21 with Q3 FY'22, Q3 FY'21, our top line was Rs.85 crores, Q3 FY'22, it went up to Rs.122 crores, that's a growth of 44%. Gross profit margins have increased from 61% in Q3 FY'21 to 66% in Q3 FY'22. Our EBITDA has improved from 35% to 36%, and has gone up from Rs.30 crores in Q3 FY'21 to Rs.43 crores in Q3 FY'22. PAT has gone up from 18% to 32%, that is from Rs.16 crores to Rs.39 crores, Q3 FY'21 to Q3 FY'22.

Comparing nine months ending FY'22 versus nine months ending FY'21, for nine months ending FY'21 we had a top line of Rs.266 crores, our top line for nine months ending FY'22 has grown up to Rs. 352 crores, that's a growth of 32%. Our gross profit margins have improved from 63% to 65%. Our EBITDA has improved in absolute terms from Rs.113 crores Rs.142 crores, although as a percentage, it has marginally dipped from 43% to 40%. That's primarily on account of the new products that were launched in this financial year, which we are focusing more on the semi-regulated markets, so we were expecting a dip in the margins. But going ahead, we expect these margins to balance out. As far as the PAT is concerned for nine months again, it has gone up from Rs.75 crores for nine months FY'21 to Rs.105 crores for nine months FY'22. As a percentage of sales, it has gone from 28% to 30%. So that's where we are.

As far as the earnings per share is concerned, it has gone up from 10.26 in nine months FY'21 to 13.12 for nine months FY'22. I'm through the financials. I would now leave the floor open for questions and answers if any. Thank you.

Moderator:

We will now begin the question-and-answer session. The first question is from the Rahul Veera from Abakkus. Please go ahead.

Rahul Veera:

Just a book-keeping question from my end. So what has happened to the tax rate in this quarter?



- Ashish R Nayak:** The tax rate is remaining the same; it's somewhere in the range of 25% to 27%. But what has happened is because of deferred taxes of the earlier years that have been set off.
- Rahul Veera:** And this will continue even in Q4?
- Ashish R Nayak:** Yes, it should.
- Moderator:** The next question is from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.
- Mitul Mehta:** Can you please tell me what was the revenue of your top three molecules in this particular quarter – CPC, Salbutamol and Ketamine?
- Ashish R Nayak:** The top three products revenue for this quarter will be somewhere in the range of around 35% of the total sales
- Mitul Mehta:** Is it possible for you to give the absolute number for the three products?
- Ashish R Nayak:** What we will do is we will share the numbers with Orient Cap and you can get the details from them.
- Mitul Mehta:** What was the volume growth for these three products in this particular quarter vis-à-vis Q3 of last year?
- Ashish R Nayak:** There has been a growth as I said both for anesthesia, anti-asthma as well as vitamins, there has been a phenomenal growth as far as the volumes are concerned. What we can do is we will share the volume details with the Orient Cap team. You can get the necessary details from them.
- Mitul Mehta:** But is it not possible for you to share the volume growth?
- Ashish R Nayak:** I would not be in a position at this point of time. I will share that separately with the Orient Cap.
- Mitul Mehta:** What was the share of the regulated market in this particular quarter?
- Ashish R Nayak:** Q3 was around 44%.
- Dr. Saloni Wagh:** April to December for the nine months it is 47%, and for this quarter, particularly it is 44%. We have seen a very good growth in regulated markets like Latin America and Europe specially for the anesthetic product range, which is why even for this quarter we have maintained that 44% for regulated market penetration.
- Mitul Mehta:** And this regulated market share, can you compare it with last year nine months and Q3?



- Dr. Saloni Wagh::** Well, we don't have the Q3 comparable number, but if you look at the complete last year, we had about 38% coming in from the regulated market as opposed to that for the first nine months we are at about 47% coming in from regulated markets. So definitely in line with the Company's strategy, the regulated market share is increasing year-on-year.
- Mitul Mehta:** And is it possible for you to disclose the price growth in this particular quarter?
- Dr. Saloni Wagh::** Well, I don't think that is something that we are in a position to disclose in this particular call. If you want any particular details, I think our IR person Orient Capital would be the right people to connect to, and then they can resolve those queries for you.
- Dr. Satish Wagh:** Price remains the same. There is no increase in price. Why should we increase the price?
- Mitul Mehta:** No, no. Because I think as a Company, we are currently not able to disclose the volume number. So I just thought was there any sort of a price increase that we witnessed in this quarter in our key products, which is why I wanted to understand the bifurcation of the value growth?
- Dr. Satish Wagh:** For us, value remain the same. Our philosophy is different. We never try to increase unless and until there is a major change.
- Mitul Mehta:** Can you also talk a little bit more about your CDMO strategy, and where are we at this point of time, and by when do you see that part of the business taking off, and what sort of margins are there in that business?
- Shireesh Ambhalkar:** As regards your question regarding the CDMO business, we just started getting into this space. We have about four projects that are at various stages. One, I would say is in the early supply for registrations. The second one is where we are in the final stages of development. In the third project, we are in early lab development. And the fourth one we have to initiate development in the lab. So this activity we started just a few months ago. The activity is picking up and CDMO business is such that there is typically a slow start. And it takes about two to three years to realize some significant, I would say, commercial benefits. So it will start impacting perhaps in about two to three years' time, but four active projects, two more significant ones, discussions are initiated in a new space I would say which is not in our therapeutic basket at the moment.
- Mitul Mehta:** Sir, for the full year, do you still believe that we can comfortably close the year at 40% margins, and how confident are you on this number over the next 12 to 15 months in terms of margins?
- Dr. Saloni Wagh:** Yes, if you look at our historical numbers for the last couple of years, we have maintained the 40% EBITDA margins, and we've maintained a revenue growth of about 18% to 20%. And we are very confident that with the Q4 of this year and towards the end of this year, we'll be able to maintain the margins that historically we have been maintaining.
- Shireesh Ambhalkar:** And for that matter, I look upon it even for the nine months ending, EBITDA as a percentage of total income in any case was maintained at 40%.



- Ashish R Nayak:** I want to clarify one thing over here. See, when you look at other income over there, the one question which I get, is people looking upon it as sort of an interest income or dividend income. No, in our case, a major part of this other income is actually an operating or the operating income. You understand? See, what happens is when we are exporting, there are incentives which are given by the government like the product focus incentive which was there earlier, the MEIS that we used to get earlier and duty drawbacks. So this is primarily the revenue which is related to the business of the Company. So, I would look upon not only operating revenue, but also operating revenue plus the other income, which is a part of the business I would consider. So that's how I would look upon it.
- Mitul Mehta:** So let's say your total other income of about 5.4 crores which we have reported, how much of that would be duty drawback, export incentive?
- Ashish R Nayak:** Almost 95% of that will be duty drawback and export incentives.
- Mitul Mehta:** So about Rs.1, 1.5 crores, right?
- Ashish R Nayak:** More than that, 95%.
- Mitul Mehta:** Can you please give us an absolute number for that particular other income, how much of that is pertaining to export incentive and duty drawbacks?
- Ashish R Nayak:** Roughly in the range of Rs.4.5 crores.
- Mitul Mehta:** So balance is other income, Rs.2.5 crores is the business income.
- Ashish R Nayak:** Yes. So what I'm saying is almost 95% of the operating revenue, which is like duty drawback or product focus incentives which the Company was getting from the government as an incentive to export. The balance amount is on account of either some dividend income or some interest income. That's it. Nothing else.
- Mitul Mehta:** So that dividend income and interest income is the other income, so that we cannot include as the business...?
- Ashish R Nayak:** Absolutely.
- Mitul Mehta:** So Rs.2, 2.5 crores is what we should be accounting for, right?
- Ashish R Nayak:** 95%.
- Moderator:** The next question is from the line of Yash Gupta from Angel One. Please go ahead.



Yash Gupta: Sir first question is on a region wise contribution. Our European business contribution has increased from 22% in Q3 FY'21 to 53% in Q3 FY'22. So what is the reason behind it and how we are looking forward for the next couple of years?

Dr. Saloni Wagh: Well, the main reason for the increase of sales in the European region is because some therapeutic categories like anesthetic, vitamins have shown some good growth in Q3 FY'22. So mainly it is driven by that. Like I mentioned before the Company strategy is to penetrate into more and more regulated markets. And the European region is a focused region for the Company. Even today, other than the top products, there is a group of about 10 to 12 products that we have already applied for CPs, and we are expecting to receive the CPs in the next six to nine months. So that is one of the main reasons for growth in the European region.

Yash Gupta: Is there any one-off in the European region or is there anything that one-off that we have received or one of the order that we have received in this particular quarter?

Dr. Saloni Wagh: No, there is nothing one-off. It's an effort of multiple years and the CPs sort of coming in, in the last couple of months, wherein the sales for certain products in the European region has increased, by getting better penetration and acquiring new customers. So it's not a one off. This is a trend that we expect that would continue in the next couple of years as well.

Yash Gupta: What's the capacity utilization by the end of this Q3?

Dr. Satish Wagh: As on today, if you talk about the reactor capacity, which we measure in kilo litres or cubic meters, we are at approximately 550 cubic meters. And one of the major activities that we are undertaking or already have started work on is modernization of our infrastructure. What this means is some of the old manufacturing blocks we'll be replacing with new ones. So in the near-term, out of this 550 cubic meters, we'll replace 150 cubic meters with a new block, which will have overall 300 cubic meters of reactor capacity, meaning 150 cubic meters incremental. So we will go to 700 cubic meters with this first phase from 550 cubic meters. And in the next phase, we plan to replace another 150 cubic meters with 600 cubic meters. So in the next three to four years, from today's capacity of 550 cubic meters, we will go to approximately 1,100 cubic meters, almost doubling in the next three to four years.

Yash Gupta: So what will be the CAPEX requirement for the first phase in FY'23?

Dr. Saloni Wagh: For the first phase, in FY'23, for the one production block that Mr. Ambhalkar just mentioned, we are looking at a CAPEX of about Rs.55 crores. This would add about 350KL for the capacity to 547KL that we have.

Yash Gupta: And then the recent one that block you have added it was a replacement or the new block that you've added?

Dr. Saloni Wagh: The one that we have added recently, which we call our 'D' block that has actually gone into production in June of this financial year, and it's a new production block.



- Moderator:** The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.
- Susmit Patodia:** My first question is your estimates fail this time in this quarter, was zero as per your presentation. So, if you could help us understand that?
- Dr. Saloni Wagh:** Well, historically also if you look at our sales, Q1 and Q3 are usually lower. Because antihistamine, anti-allergic kind of products have a certain seasonality attached to them. So, Q2 and Q4 are usually the stronger months for this category of products, especially for the regions like China where we are supplying usually Q4 is the time when there is a lot of seasonality change and there is a surge in the demand for these products during this particular quarter. So, whatever minor dip that you see in the Q3 for antihistamine range, will be back on track in Q4, we expect the demand to go back to where it was in Q2.
- Susmit Patodia:** Dr. if I look at your presentation slide #6, anti-histamine sales were 19% in Q3 FY'21 and 0% in Q3 FY'22.
- Dr. Satish Wagh:** What has additionally happened also is that because post 15th December, there were a lot of lockdowns imposed in certain parts of China, specifically which is our larger market for our key antihistamine products. One container that we were supposed to ship in the month of December, the delivery has now moved on to January. So that is the only impact if you are comparing it with the Q3 of FY'21.
- Susmit Patodia:** In terms of the sales momentum in Q4 and with the expanded block of three to four years, so is it fair to say that the capacity utilization can be maintained, can top line move at the same pace as capacity addition?
- Dr. Saloni Wagh:** Yes, historically also the revenue has grown at about 18% to 20%. We expect the revenue to grow almost in the similar range to what we have seen historically, and the capacity utilization also to remain in the same line. See, because we are in a very large growing phase and with new products being infused into the portfolio, with new CMO opportunities coming our way, like our CEO mentioned, there would always be a need for additional capacity. So the capacity utilization would be more or less what we are seeing today.
- Susmit Patodia:** Last question was on bookkeeping on tax rate this quarter was almost zero. So, what is the sustainable tax rate for the Company; 22% or 25%?
- Ashish R Nayak:** 25%, it would remain that way. But that's primarily on account of the deferred taxes, which has been set up against the tax expense. That's the reason why it appears to be lower, but for the full year it would be somewhere in the range of around 25%.
- Moderator:** Next question from line of Kenil Mehta from Omkara. Please go ahead.
- Kenil Mehta:** So I want to know, if the share of a regulated business market increase, then why our gross profit margin is decreasing?



- Ashish R Nayak:** In fact, if you look at my gross profit margins, gross profit margins have improved from 61% to 66% for Q3 and for the full financial year, if you look upon it, it has improved from 63% to 65%.
- Kenil Mehta:** No, if I see the nine month margin have decreased from 67% to 63%.
- Ashish R Nayak:** Again, I reiterate. What I think you're doing is you're not considering other income as a part of the total income, whereas what I've clarified earlier as well is the other income 90% of that component is primarily towards business operating income, which is business other operating income, which is towards the duty drawbacks and incentives that we get from the government for making the exports. So I consider it as other operating income and not just as other income. I consider that when I arrive at that. That's what I said.
- Kenil Mehta:** Any new product we have commercialized like Allopurinol and Ketamine?
- Dr. Saloni Wagh:** Yes, from the new production block, which is the 'D' block like I mentioned, that has gone into commercial production in June of this year. We are scaling up Dextromethorphan, Hydrobromide, Allopurinol, Esketamine also, and Pentoxifylline is also another product that we are scaling up. So these four are the ones that would be coming from the new block.
- Kenil Mehta:** Have the customers approved the product or still in approval stage?
- Dr. Saloni Wagh:** The customers have approved the products, in the sense that the sampling and all we have completed because we didn't have the capacity, we were producing them at a very small scale, with the new block and the larger capacity, we are just scaling up the product. So the quality approvals and all are done. We are now in the phase of registering these products, specifically in the US market, in China market, in Japan and in the European market. So the CPs and the US DMF we have already applied for. Usually it takes about nine to 12 months to get all these approvals. So that's where all the four products are currently.
- Kenil Mehta:** What was the overall capacity utilization in this quarter, including the block 'D'?
- Dr. Saloni Wagh:** Well, if we consider the existing 332KL capacity leaving the block 'D' we were at almost 71% utilization. I would say with the 'D' block we are at about 35% capacity utilization.
- Moderator:** The next question is from the line of the Siddharth Purohit from Invesco Invest Advisors. Please go ahead.
- Siddharth Purohit:** Sir, just two clarifications. When I look at the quarterly numbers, I see some sort of variations or volatility in terms of revenue and margin. So margins you clarified a bit. But on the top line front also like in Q1, like if I extrapolate based on the nine months number that you have given, so, there was a sharp jump from Q1 to Q2, and there is a decline in Q2. Same thing happened in last year Q3 to Q4. So, is there any seasonality, like it's going to continue or how should we look at on a quarter-on-quarter basis, obviously, on a YoY basis, you have done good numbers for



nine months, but that volatility, what is the reason behind that? On the employee cost front there is a sharp jump in employee cost. So is there any one-off item on that also?

Dr. Saloni Wagh:

Well, I will take the first part of the question, which is the quarter-on-quarter volatility. Like we have mentioned before, if you look at the historical numbers also, Q2 and Q4 are very strong for the Company. Yes, there is a little bit of seasonality attached to the products because the key product portfolio that we have is antihistamine, anti-allergic kind of products. Basically, they are related to seasonal changes. So due to this reason for the key markets, where we are selling these products, usually also sales for Q2 and Q4 are stronger. The same kind of trend you would be seeing for this financial year, and also for the coming few financial years. Like Ashish has already mentioned that if you look at the nine months, we have still maintained the margins that we have promised, which is about 40%. And we are very confident that going forward also in spite of the quarter-on-quarter volatility, we would be able to maintain those kind of margins.

Ashish R Nayak:

Having said that, for the full financial year, whatever projections that we have made earlier, we're very confident of achieving that with a good Q4 in the pipeline. Having said that, to answer your second question with regard to the jump in the employee benefit expenses, yes, there has been a jump. Some part of it is one-off, some part of it is recurring. The recurring part is primarily what has happened is with the 'D' block, which is the fourth manufacturing block having got operational, there has been an increase in the manpower. Let us understand as Dr. Saloni said that particular plant is currently operating around 35% to 40% capacity utilization. But we are almost fully stretched in terms of the manpower recruitment for that particular plant. As that plant matures and as it is able to reach higher capacity utilization of this year, the percentage of the total, in absolute terms it may not be much of the change, but as a percentage of total, the margin could definitely go up. That's point one. And the second part, in the last quarter there has been a significant increase in the recruitment for the senior management positions both at the plant as well as at the corporate office. So that's the second reason why it has marginally fallen. But as I said, some of these expenses are one-off expenses like bonuses or incentives, which were given on achieving targets to the team and those are one-off expenses which are not repetitive in nature. Some part of it is one-off, some part of it will be repetitive.

Siddharth Purohit:

Just could you clarify that Q1 margins that we saw is short. So was there any one off expenses also because I don't see major expenses being incurred in that quarter? So it was only because of the lower top line that we booked during that quarter.

Ashish R Nayak:

Q1 and Q3 are typically months in which both the top line and because the margins are not at their peak. We did very good both in terms of top line EBITDA as well as PAT in Q2, and we expect it to be better in Q4 in fact.

Moderator:

Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal AMC. Please go ahead.



Ashish Thakkar: Sir, as you said, fourth quarter is starkly different from the third quarter and even if I try to do some rough backward calculation, I see that last year Q3 of FY' 21 obviously, we did 16 crores, but fourth quarter of FY'21 works out to around Rs.48 crores, so almost three times QoQ jump in the profits. So, now given that we have done almost around Rs.40 crores in Q3 of FY'22, would you say that Q4 does give you that kind of material jump into profits, is the variance so large?

Ashish R Nayak: Yes, it is so large because...

Dr. Saloni Wagh:: Because what happens is that, like if you look at the Q3, it is mainly driven by anesthetic, antiasthmatic and vitamin therapy. In Q4, you will see a strong performance by antihistamine, anti-allergic, which is also our key therapeutic areas of operation. So they will also largely contribute. So Q4 historically also has been the largest quarter for us, would be the same this year and the trend would be even similar going forward.

Ashish Thakkar: Ma'am, you said 35% capacity utilization on a blended basis. So in the next two years, where do you foresee this capacity utilization falling in?

Dr. Saloni Wagh: No, 35% is basically the new block, which we have started. The existing capacity that we had, which was 332KL, that is almost at 72% utilization, which I would say is optimum utilization because it's a multi-product facility, and we have to consider the change over time. So D block, the only new block that I mentioned is at around 35%. And as the four products that I mentioned, which is Dextromethorphan, Allopurinol, Pentoxifylline Esketamine as they scale up in that block, the capacity utilization of that block also would increase, which is why we have already initiated the work for the new block, like our CEO mentioned the E block, which would further add about 350KL capacity.

Ashish Thakkar: Any specific you would like to share on Dextro given that we are probably one of the few players who might have got this product on our size?

Dr. Saloni Wagh: For Dextromethorphan, we are fairly backward integrated for this product. The one key advantage that Supriya has and one of the key strategies of taking this product into our portfolio was that it goes in combination with our key product, which is Chlorpheniramine Maleate and we are the market leaders for that product. So the global presence that we have in the customer base, across 1,300 customers that we have currently, the strategy would be to leverage this customer base because whoever is currently buying Chlorpheniramine Maleate is also buying in combination, Dextromethorphan. And they have already audited Supriya's facility, they have approved the quality, they have seen our consistency in quality for last 30 years, so the approval is much faster as compared to any other supplier. So that's the basic strategy for taking this product in our portfolio.

Ashish Thakkar: Last one last question for Mr. Ashish. Sir, I think in your opening remarks, you did say antihistamine from 21 crores to 72 crores. Was it for a QoQ comparison, because, as the earlier participant said, antihistamine is 0% contribution, so did I miss something?



- Ashish R Nayak:** Yes, what I said was anesthetic, not antihistamine. Anesthetic, there have been a phenomenal growth in the third quarter.
- Ashish Thakkar:** And the reasoning you gave there was some shipment got delayed and that will spill over to fourth quarter?
- Dr. Saloni Wagh:** There is a little bit of deferred sale that would happen in the month of January, because of lockdown post 15th December in many ports. A large percentage of our revenue is generated from exports, which is almost 77%. What happens is post 15th of December, the entire European region, Latin American region, North American region, usually they get shut for holidays. So we are unable to ship any kind of material after 15th December. So there is a little bit of deferred sales that will happen in January. This is a consistent thing.
- Ashish R Nayak:** We did a higher sale as far as fourth quarter was concerned. And that will continue in this financial year as well.
- Moderator:** The next question is from the line of the Vivek Gautam from GS Investment. Please go ahead.
- Vivek Gautam:** I'd like to highlight one point that before IPO, we had confidently predicted margin in the range of 40-plus percentage, and the 30-plus percentage margin which has come as a dampener for many of the investors who sort of said that, before IPO, the projections are rosy and subsequently the numbers are. So this is basically a one-off, but over the full year we can be able to draw back to 40% margin?
- Ashish R Nayak:** One correction. What I'm sure you're doing is you're considering other income and not considering that as a part of the EBITDA, whereas what I have stated earlier in this discussion as well is a major part of that other income is basically other operating revenue which is primarily towards incentives, like duty drawback and product focus incentives, which are a part of my operating income. But what happens is since it is reflected as other income, I'm sure you're not considering that. If you consider that aspect as a part of the total income, my EBITDA as a percentage of total revenue comes to around 36% for Q3 FY'22, which has gone up from 35% and for the nine months ending FY'22, it is continuing at 40%. Second part is with the improved performance in the fourth quarter, for the full year, we are very confident of delivering the results that we had promised in the investor presentation.
- Dr. Saloni Wagh:** So, just to summarize what Ashish has said, we have done a top line for the nine months if you look at it top line of 352 crores with 142 crores EBITDA which is still 40% and a PAT of 105 crores which is still at 30% So, whatever we have promised even during the road shows, the performance for nine months if you look at it is consistent with what we have promised and would only get better in the Q4.
- Vivek Gautam:** What about the CAPEX plan especially for the Ambemath unit also you mentioned that some one more unit is coming up and single location get reduced and molecule which you are going to launch?



- Dr. Saloni Wagh:** Yes, along with the new block that we are introducing in our current site for which we are anticipating 55 crores CAPEX, the Ambernath plant would also come into production in the next nine to 12 months. We have already decided a therapeutic category of products for this particular site, mainly high value, low volume kind of products coming from anti-anxiety kind of category. Also that is already in the pipeline, the R&D work is completed And now we are just waiting to install the machineries and everything at Ambernath plant. The civil structure is already ready. This would add about 100KL further to the capacity that we currently have.
- Ashish R Nayak:** The environmental clearance for this particular plant as well as the CETP is already in place.
- Dr. Satish Wagh:** We are just waiting for the environmental clearance changes for the discharge which just got it last quarter.
- Moderator:** Next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.
- Tushar Bohra:** So, a couple of points. On the CDMO side, Shireesh ji mentioned that we already have four projects in hand. If you can just help detail out a little bit more, whether we are already booking any revenue from CDMO CRAMS in the business today or by when do we start to see some revenues accruing? As well as this number of projects for what kind of number of projects do you expect we can move towards over the next 15 to 18 months? What kind of contribution could CDMO as a business have on the overall business say in three years' time from today?
- Dr. Satish Wagh:** As I said earlier, there are four projects that are at various stages. Regarding your question on when the revenue would start coming in, we expect revenues would start in the first quarter of next year. And since these projects have some gestation period to reach level of maturity, it takes two to three years. So as I said in the first project, we are doing supplies for registration, thereafter registration and approval, the first commercial quantities will start, that is one year away for the first project which is the most advanced. The second project is for an intermediate for a global Company. We are in the advanced stages in the lab and the samples will be submitted sometime next month. After they approve, it will take about a year's time to give them the material for qualification. That's on the second project. Third project is in a very niche area for the international Company. They want advanced starting material for a specialty molecule. The first samples are ready in the lab. So this would be a small volume and very high value, but it will be kilogram quantities globally. And the fourth project is something that the customer has asked us to start work on. We will begin the work on that as we move to the new R&D expanded facility, which goes live in June this first quarter of next financial year.
- Tushar Bohra:** These molecules that we're referring to not the intermediates, but let's say the end product. These are pure CDMO projects or the CMO projects, meaning is this...?
- Dr. Satish Wagh:** There is one CMO, the others are CDMO.
- Tushar Bohra:** Just continuing on the same theme, if you can just help us understand what is the criteria for picking up conversation at your end, because you've mentioned earlier in the call that you are



working with a number of complex chemistries and processes and you have obviously built up specialties in terms of manufacturing process, so, what is the criteria for picking up conversations, with potential CDMO partners, is it an extension of existing therapeutics only or is it specific chemistry skills or reactions...?

- Dr. Satish Wagh:** The CDMO space is typically driven by our capabilities. With the capabilities that we have, which is corrosive chemistry, high pressure chemistry, if these products fall into that category, we take those processes. And typically those that involve some level of backward integration, for example, one customer has asked us to do it from a specific route. While we will do it with that route, we will go ahead with backward integration of that if the project becomes a success.
- Tushar Bohra:** On CDMO, it would be fair to assume the number is just a starting point for us and hopefully, over the next 15, 18 months, we should see a number of more such developments happening for Supriya?
- Dr. Satish Wagh:** Yes, for sure, there will be a more development. At the moment, because of restricted travel, we are not able to go and talk to potential customers. But hopefully, with the scenario improving in the next few months, for example, there is a convention called the DCAT Convention in the US in March. If that happens, that gives us an opportunity to showcase our capabilities and talk to potential customers. So, obviously, as we interact more with our customers face-to-face basis, more of these projects will come in the future,
- Dr. Saloni Wagh:** Also, just to add to that, Tushar, with the new larger R&D lab going in operation in June, we would definitely have built in a very strong infrastructure for taking more and more such projects. The new R&D labs would be having about 28 fume hood and 60 scientists would be working in this particular lab. So that will enable us to take on more such innovative projects.
- Dr. Satish Wagh:** Even in Ambarnath also, we are doing similar, partially will be R&D lab with something about eight to 10 fume hood and the next area will be all expensive kilo labs.
- Tushar Bohra:** In the regulated markets, currently three of our key products, Ketamine, CPM and Salbutamol are contributing greater degree of profits because of regulated market presence. If you can help us which amongst the pipeline are the new opportunities where we can see a replication of this over the next couple of years, which are the specific other products where we think regulated market entry is now even intense, where we can see a large contribution to profits going ahead from the pipeline?
- Dr. Saloni Wagh:** There is a group of about eight to 10 products, specifically products like Diphenhydramine or Tramadol, Hydrochloride, Dextromethorphan, Allopurinol, Bisoprolol Fumarate, Riboflavin, Diphosphate Sodium. So, these products we are already registering as we speak in regulated markets like Europe, US, China, Latin America, Japan. So we will definitely be seeing more and more contributions coming from these products in the next few years.



- Tushar Bohra:** Ma'am, is it fair to assume then therefore two things would happen, say in the next couple of years, our product concentration would reduce significantly from top-10 and top-five products, and also that we would have not just these top three but maybe a basket of eight to 10 products, where we are looking at a significant regulated market presence?
- Dr. Saloni Wagh::** Yes, the goal is to derisk the current portfolio. The top three products itself Ketamine and Salbutamol would continue to grow in terms of volumes in regulated market, these eight, nine products that I mentioned, they will also be adding significantly. So, it will be a group of about 10, 12 products, where we will be having that leadership position what we currently have for the existing top three products.
- Dr. Satish Wagh:** As you all are aware that many of the companies are moving out from China by 2024 as far as US and Europe are concerned. So, some of the customers we are talking that they are moving from China, they are discussing with us for the higher volumes and higher amount of business also, exclusively to be done for them only. And those volumes and the amounts are really large.
- Tushar Bohra:** That opportunity is over and above what we are currently guiding for over the next couple of years, is that correct sir?
- Dr. Satish Wagh:** Absolutely, right. Here, the technology transfer is also coming from them only.
- Moderator:** The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.
- Utkarsh Maheshwari:** A couple of questions. One thing is that are there any some sort of one-offs in the expenditure side because other expenditure has moved up a little bit on a higher side. So, is that got something to do with our logistics cost increment because of the increase in the logistics because I think we have seen the freight, is the freight one large component of other expenditure?
- Ashish R Nayak:** The other expenditure has primarily gone up with the addition of the fourth manufacturing block in this financial year. So, as a result of that expenses have gone up primarily on account of that.
- Utkarsh Maheshwari:** So, this would be a recurring number?
- Ashish R Nayak:** Yes, this should be a recurring number.
- Utkarsh Maheshwari:** Similar is the explanation for the employee cost also because of the new block which has got added?
- Ashish R Nayak:** Employee cost will be in two parts, there are some one-off expenses in the employee and some part is primarily on account of we see the D block getting operational, which is the fourth manufacturing block and also, since we have added senior managerial personnel in the team in this financial year, so that's another reason, but obviously be benefiting in the long run.



- Utkarsh Maheshwari:** As you have mentioned in the call that some consignment which was not shipped, because it is reflected in changes in the inventory. So, it is fair to assume that the run rate what we have achieved in the second quarter should be similar one could be achieved in Q4 also, right?
- Ashish R Nayak:** In the initial roadshow presentation, we had given an indication of the targets that we are looking at. We are very confident of reaching those targets.
- Utkarsh Maheshwari:** Because I can see this inventory which has been there, some 30-odd crores change in inventory versus some Rs.3-odd crores in Q2. So probably that is a reflection of what you have mentioned that some export got deferred sort of thing, so that must have now got exported, right?
- Ashish R Nayak:** It is in the process of getting exported.
- Moderator:** The next question is from the line of Monica Joshi from Hornbill Capital. Please go ahead.
- Monica Joshi:** I just had a couple of questions. One is if you could quantify that one-off part of your employee expenses?
- Ashish R Nayak:** It would be somewhere in the range of around Rs.2.5-3 crores. That will be primarily on account of incentives given to the management team. The rest of it is primarily on account of increase in the manufacturing block, that's one, and increase in the senior management team in the Company.
- Monica Joshi:** Now the question is, for anybody who chooses to answer this, I see that you have a capacity utilization, which is fairly low on your new block, and there is the own line of assets, which is coming up in Ambernath and various other blocks. Now I understand that this is an area where you need regulatory approvals both from your clients and from various regulatory bodies. But I don't see why you should be growing at 18% to 20% when you have this whole set of products coming out, and assuming that you clear all the regulatory hurdles. Is there something that is stopping you from upping your growth guidance to say... I'm just putting out a number, please correct me if I'm wrong, say 25% or 30%, so what is it that to take you to grow at that number?
- Dr. Saloni Wagh:** Monica, fair question, but you have to understand that when we say that we are infusing new products into the portfolio, we are coming up with all these new blocks. There is a certain time period that requires for turning these blocks and starting the commercial production, which we have to anticipate. Also, when you're registering a product in regulated markets, again, there is a certain timeline depending on which country you are registering. It takes anywhere from 12 to 24 months. So considering all these factors and the cooling period sort of involved in registering the product in regulated markets, or getting all these production block up with the civil work and all those areas, then getting the necessary licenses, environmental clearances, and all the approvals for the facility, that's the reason why we anticipate 18 to 20% growth. It's all linked to that timeline of how the turnaround of these products would happen.
- Monica Joshi:** You've grown 35% in the first nine months, correct?



- Ashish R Nayak:** Yes.
- Monica Joshi:** And that is payoff of what you have done in the previous few years. And I suppose you would have continued to do that. You've been at it for a very long time. So with your assets coming up, will that run rate maybe a slightly lower run rate, will that not continue, Saloni, that is the question?
- Ashish R Nayak:** At the end of it, we always believe that it is better to under-declare and over-achieve. Our target is much higher, that's our internal target, but as far as these orals are concerned, that's what we stick to. But obviously, internally, we have got much higher targets. I'm not at liberty to disclose those targets at this point of time, but please rest assure that we definitely strive for much higher targets as compared to what we have declared in this forum.
- Monica Joshi:** Ashish, just one suggestion that if you have this kind of other operating income and your other income, that it is best that you declare it as another operating income, that would help us in putting that as a part of your revenue. That's a suggestion I would request you to take it.
- Ashish R Nayak:** I have already taken note of that. You will immediately see this same from the coming quarter onwards.
- Moderator:** In the interest of time, that was the last question. I would now like to hand the conference over to Dr. Satish Wagh for closing comments.
- Dr. Satish Wagh:** To sum up, we believe our ability to adapt, reinvest, and innovation that has kept it at the forefront of the industry. This uniquely business philosophy on top of promising economic trends, we can get very well positioned to seize the next phase of the growth opportunities. We believe that Supriya Lifescience offers a huge growth potential to investors, who would be on holding with journey with us. Thank you once again to attend the call and for your patient listening and we look forward to taking with you again next quarter. For any further information, we request to get in touch with Orient Capital, our investor relations advisors, and they will be happy to help you. Jai Hind.
- Dr. Saloni Wagh:** Thank you, everyone, for giving us the opportunity.
- Ashish R Nayak:** Thank you very much.
- Moderator:** On behalf of Supriya Lifescience Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.