Date: May 27, 2022

To,
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai – 400 001
Scrip Code: 543434

To,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051
Scrip Symbol: SUPRIYA

Dear Sir (s),

Subject: Transcript of the Earnings Call for the fourth quarter and financial year ended 2021-22

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 Monday, May 23, 2022 at 3.30 P.M. IST to discuss operational and financial performance of the Company for the fourth quarter and year ended March 31, 2022.

This is for your information and records.

Thanking you,

Yours faithfully,
For Supriya Lifescience Limited

SUPRIYA LIFESCIENCE LTD. MUMBAI

Shweta Singh
Company Secretary & Compliance Officer
Membership No.: A44973

SUPRIYA LIFESCIENCE LTD.

"Supriya Lifescience Limited Q4 & FY22 Earnings Conference Call"

May 23, 2022

SUPRIYA LIFESCIENCE LTD.

CHORUS CALL®

MANAGEMENT: DR. SATISH WAGH – CHAIRMAN & MD
MR. SHIREESH AMBHAIKAR – CEO
MR. ASHISH NAYAK – CFO

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of Supriya Lifescience Limited. Please note that today's call is being recorded. Today on this call, we have Dr. Satish Wagh – Chairman and Managing Director of Supriya Lifescience Limited along with the 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict.

Now I hand the conference over to Dr. Satish Wagh – Chairman and Managing Director of Supriya Lifescience Limited. Thank you and over to you, sir.

Satish Wagh: Very good afternoon and warm welcome to all the participants. Thank you for joining us today to discuss Supriya Lifescience Limited's Q4 and Financial Year '22 Results. I am joined by Shri. Shireesh Ambhaikar – the Chief Executive Officer; Mr. Ashish Nayak – the Chief Financial Officer of Supriya Lifescience; and our Investor Relations partner Orient Capital. I hope everyone got an opportunity to go through our financial results and investor presentation which have been uploaded on the stock exchange as well as the company's website.

Starting with the financial performance for financial year '22:

Revenues from operation grew by 35% year on year driven by the healthy EBITDA margins of 40% and the PAT margin of 29%. Even though the world continues to face enormous business challenges, we have maintained our performance in financial year '22.

We continue to hold the leadership position in our top 3 products – chlorpheniramine maleate, ketamine, and salbutamol sulfate – of export from India. I am pleased to inform you that the board has recommended a final dividend of 30% in financial year '22. The same is subject to approval in the annual general meeting. In order to further increase our competitiveness and cater the future expansion plans, the company has strengthened its team by making senior level hiring in operations, research, and business development and will continue to hire from other functions as well.

For future expansion plans, the company has recently acquired 80,000 square meters on lease from MIDC at Isambe Industrial Park dedicated to manufacturing of active pharmaceutical ingredients (API) and drug intermediates. With consistent investment and improvement in capacities and capabilities, we have demonstrated a record performance and expect the same focus to endure.

With this, I now hand over the call to Mr. Shireesh Ambhaikar – our CEO to share the key highlights of our business performance. Over to you, Shireesh.

Shireesh Ambhaikar: Hello everyone, hope you're doing well. The financial year '22, i.e., the year gone by, was an eventful year with manufacturing activity slowing down in China, new waves of Covid-19, the Ukraine-Russia war that resulted into increase in the cost of raw materials and solvents. There are delays in import and export shipments and delays in raw material supply. We at Supriya took reasonable measures to counter these challenges by building up inventory of raw materials to ensure smooth operations. Raw material orders were placed well in advance to mitigate delays. Our teams were in close coordination with shipping agents and customers to minimize delays. We also increased our stock levels of solvents to minimize the impact of cost increases.

Result is that we could deliver a decent growth in top line while maintaining a healthy EBITDA and PAT margins. At Supriya Lifescience, we are focused on ensuring sustainable and consistent performance through development of newer products and penetration into newer geographies. The geographical locations that are distributed within our sales team who focus on sustaining the business and expanding the business are locking in new customers.

We at Supriya Lifescience understand what it takes to manufacture special chemicals and chemical processes that go into the production of our active ingredients with complex process chemistries. We see good opportunities in the CMO and CDMO space. We have initiated discussions on these opportunities with various companies ranging from big pharma to innovator companies to work as a partner for supplying products as per their requirements. We plan to reduce customer concentration by penetration of existing products into newer geographies by registering these products and adding niche products that offer high volumes and pursue CMO/CDMO opportunities. We are currently building 2 new R&D centers – one at our Lote site focused on product lifecycle management and backward integration and the other one in Ambernath with a pilot plant for new molecules and pursuing CMO/CDMO opportunities. The expanded R&D centers at our sites in Lote and Ambernath are expected to be fully operational in Q2 and Q3 of this financial year, i.e., FY23, respectively. With these new facilities, we are now looking at several opportunities in this market and the potential for an experienced player like us is promising.

Currently, as regards the capacities, Supriya facilities are running at full capacities. Supriya is enhancing and expanding infrastructure at our Lote site not just in R&D but also in manufacturing, quality control laboratory, warehousing, and wastewater treatment. These facilities are expected to be operational during the course of FY23. We have already started work on the next manufacturing block which we would be calling the E block at Lote site with a capacity of 350 cubic meters or kiloliters that would replace an old block with 145 kL or cubic meters capacity. In addition to this, a manufacturing block of about 70 cubic meters is coming up at Ambernath site associated with the R&D facility that is coming up there.

Lastly, I would like to touch upon the company's backward integration model. The top 12 products that we produce contribute 68% to our total revenue. This integrated business model has helped us grow revenue and sustained margins during the course of the last financial year. A large part of growth and sustainability was driven by these backward integrated products.

Forging ahead, our focus would be on improving our infrastructure which includes debottlenecking of our capacities and developing new manufacturing blocks. Overall, in FY22, we made good progress towards new opportunities by launching products which are complementing our existing therapies and product basket initiating new capacity projects and making progress on CMO/CDMO opportunities.

With this, now I hand over the call to Mr. Ashish Nayak, our CFO to share the key highlights of our financial performance. Over to you, Ashish.

Ashish Nayak: Hello everyone. I will now share the operational performance for the financial year FY22 which is under review.

Starting with the therapies, this 4th quarter was a phenomenal quarter for anesthetics, antihistamines, and vitamins. These 3 therapies have done exceedingly well in the 4th quarter. Our exports for the full financial year stand at 76% and the share in the regulated markets has gone up from 34% in FY21 to 53% in FY22 primarily driven by increased penetration in European and LATAM markets.

Coming over to the yearly financials of the company:

The company's reported revenue from operations was Rs. 5,300 million in FY22 as against Rs. 3,912 million in FY21, a growth of 35%. EBITDA stood at Rs. 2,140 million for FY22 as against Rs. 1,732 million in FY21, a jump of 24%. EBITDA margins for FY22 were 40% as against 44% in FY21. PBT increased by 24% to Rs. 2,072 million for FY22 as against Rs. 1,673 million in FY21. PAT stood at Rs. 1,518 million for FY22 which was about 29% of the operating revenue.

Now, talking about the quarterly performance:

The revenue from operations for Q4 FY22 was Rs. 1,813 million as against Rs. 1321 in Q4 FY21 delivering a growth of 37%. EBITDA stood at Rs. 752 million for Q4 FY22 as against Rs. 612 million in Q4 FY21, a jump of 12%. EBITDA margin stood at 41% in Q4 FY22 as compared to 51% for the same period last year. PBT increased by 15% to Rs. 755 million for Q4 FY22 as against Rs. 656 million in Q4 FY21. PAT stood at Rs. 462 million for Q4 FY22 which was about 25% of the operating revenue. Despite of the increase in the revenue in Q4 FY22 over Q4 FY21 by 37% and FY22 over FY21 by 35%, the EBITDA growth was marginally lower for these same periods primarily on account of :

1. launch of some of our products in the semi-regulated markets wherein the average selling price for these products are relatively low as compared to regulated markets. We are in the process of getting these products registered in the regulated markets. Once these move into the regulated markets, we expect the margins as well as the average selling price for these products to grow up.

2. The next point was on account of this year in the 1st quarter, we had the 4th manufacturing block which got operational. Typically, it takes about 1 to 1-1/2 years for any new manufacturing block to reach its peak capacity. For FY22, the blended capacity utilization for all the 4 blocks was 47%. There has been an increase in the employee expenses as well that's primarily again driven by the 4th manufacturing block having got operational in FY22. Besides that, other operational expenses such as power, repair & maintenance have also gone up.

` As far as earnings per share is concerned, it has gone up from Rs. 16.89 in FY21 to Rs. 18.86 in FY22.

On the balance sheet front, the property plant and equipment in FY22 addition of Rs. 948.75 million was primarily towards the 4th manufacturing block. Of this, Rs. 461.15 million was transferred from capital work in progress. Capital work in progress as on March 2022 was Rs. 434.64 million. This was primarily towards factory building at Ambernath and infrastructure upgrades which are currently under progress at our site at Lote.

Out of the total IPO proceeds of Rs. 2,000 million, after apportioning the IPO expenses of Rs. 117 million, till March 2022, we have utilized Rs. 100 million towards the 4th manufacturing block, Rs. 600 million towards repayment of working capital, and Rs. 350 million for general corporate spent for operational purpose and payment of first tranche of the Isambe plot which we acquired.

From a financial perspective, despite of a very turbulent year, we have managed a healthy growth both in revenue and maintained healthy margins.

Happy to announce a final dividend at the rate of 30% which is subject to approval in the shareholders' meeting.

The overall focus going ahead is on backward integration, to register existing products in regulated markets, CMO/CDMO opportunities, new API molecules, infrastructure upgrades, building capacity, and debottlenecking the existing facility to cater to future opportunities. It is exciting time ahead for the Supriya team and for all of us.

This is all from our side. We can now open the floor for questions & answers.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead.

Naresh Vaswani: The first question is on the gross margin we have seen a drop both year on year and Q on Q, while you mentioned that there was introduction of some new products where realization is lower right now because of semi-regulated markets, but your regulated market share overall in FY22 was 53%, and I think in Q4 also, we have maintained that share. What is the reason for that and how do you see this trend going into FY23? The second question is on capacity utilization. You said 47% is the blended utilization. That would mean that if I take 71% for block A to C, then block B utilization would have been just around 10% to 12%. Is that correct? And then, if on 47% we have done a turnover of Rs. 530 crores, then considering 70% utilization, you would end up generating around Rs. 800 crores out of this 547 kiloliters per day capacity. Is that correct?

Ashish Nayak: As I stated in my speech, although the top line has increased and the regulated market share has increased, some part of the top line has come in from products which were sold in the semi-regulated markets. All of us are aware that the margins in the semi-regulated markets are lower as compared to that in the regulated markets. While these products are now getting registered and some of them have already got registered, but it takes some time for us to start selling it a commercial scale to the customers and that is currently work in progress, but for the 4th quarter as well as for the full financial year, one of the main reasons why the margins have dipped is because the margin are very low for these products. That's point 1. And as I also stated, the 4th manufacturing block when it got operational, it takes typically about 4 to 5 months for any new manufacturing block to start reaching a particular capacity. For the full year, the blended capacity is 47%. When I say for the full year, the 3 blocks were operating for the full year and the 4th block was operating roughly for about 8 to 10 months. As things stand in April 2023, we are currently operating at somewhere in the range of around 60% to 65% at a blended rate. While the overheads are constant in terms of power, in terms of manpower, in terms of other expenses which are factory related, overall, the recovering from that particular plant takes some time. That's one of the other reasons why there is a dip in the gross margins for about 3% to 4%.

Shireesh Ambhaikar: If I may add to what Ashish said, when the new block was commissioned, the initial months were used for, in typical pharma language, qualifying and performing validations; and the real capacity utilization started somewhere in November. So, if you are talking about the capacity utilization of D block, right now, it is almost at the same level as the older blocks.

Moderator: We will move to the next question from the line of Ashwin Agarwal from Akash Ganga Investments. Please go ahead.

Ashwin Agarwal: So, what will be the revenue for this vertical over the next 3 years and profitability? And the second question is, the company has mentioned that it is in the process of further backward integration of 3 more products. Can you throw some light on which products and how much it would be beneficial?

Ashish Nayak: On the revenue and the profitability front going ahead, historically if you look at the last 4 to 5 years, we have grown at a CAGR of 24%. We are confident of growing at the same pace going ahead. On the profitability front, in FY21, we had an EBITDA of about 44%. This year, we are doing around 40%. As to what would be the margins going ahead – a good question – all of us are aware of the turbulent times that we are going through. There is a lot of volatility when it comes to the raw material prices. So, it's a very difficult question to answer. But what I can assure you is, we will be maintaining a healthy EBITDA margin going ahead as well.

As regards the backward integration, there are 3 products which we believe are going to be important in our portfolio going forward. When we talk about backward integration, we would like to reduce our dependence on the suppliers of key starting materials. We would do the key starting materials ourselves. Currently, as we are registering these products in other geographies, we are working on the backward integration to develop processes for the key starting materials. These are going to be the 3 products which will be important from a future point of view in our portfolio.

Moderator: The next question is from the line of Kenil Mehta from Omkara Capital. Please go ahead.

Kenil Mehta: Sir, what was the reason for increasing other current assets and other financial liabilities which led to decrease in our CFO? Can you specify the line items?

Ashish Nayak: As far as other current assets is concerned, it was Rs. 555 million for March 2022 as compared to Rs. 266 million in FY21 March. This primarily comprises of advances to suppliers amounting to Rs. 169.85 million. As we have stated earlier, there is a lot of CapEx work which is going on at the site. There is a new block which is in the pipeline for which work has already started. In addition to that, the infrastructure upgrades for which work is already at a very advanced stage. For that, we have made some advances to suppliers, and in addition to that, Rs. 139.34 million is towards the advance for new plot at Isambe which is what Dr. Wagh stated sometime earlier. We have made the full payment in fact now for the new plot at Isambe which is about 80,000 square meters. On the other current liabilities front, the increase as on March 2022, it was Rs. 274 million as against Rs. 234 million in FY21 which primarily comprises of advances from customers amounting to Rs. 178.31 million.

Kenil Mehta: Did in this quarter, our realization increased drastically because the utilization levels are very low compared to earlier quarters?

Ashish Nayak: The realization levels, I do not understand how that would be impacted by the capacity utilization. My operating revenue has gone up, yes. It's a multiproduct facility, so it depends upon which products we focus on at a given point of time. Given the existing orders that we had, we focused on some specific products and that has what has driven the revenue up. But I don't understand how that has to do with the capital utilization.

Kenil Mehta: Has the Chinese market opened up?

Ashish Nayak: All of it's in the public domain. As of now, there is nothing which is in the positive on that front, but although we expect maybe by the end of this quarter things to ease out. Just have to wait and watch and keep your fingers crossed.

Kenil Mehta: So, then we should expect there should be some jump in our gross profit margin as soon as China opens?

Ashish Nayak: I don't see any major impact as far as the Chinese market on our margins is concerned. Yes, it is one of the key markets, but there are other markets which have picked up momentum. As I stated sometime back, the European and LATAM markets have done exceedingly well in this financial year. And for the products which are now being rolled out, there are other markets which are also opening up – like the US and Japan. That's how it is.

Moderator: The next question is from the line of Manish Saini from Hansraj Virendra Capital. Please go ahead.

Manish Saini: My question is related to CDMO space. If you can throw some light on what we are doing to grow in this segment and where do, we see ourselves in the next 3 to 5 years' time frame?

Shireesh Ambhaikar: On the CMO/CDMO business, we just made some beginning a few months ago. At the moment, we are working on 5 active projects, and because of the confidentiality agreement that we have signed with the customers, we are not able to give specific details. All we can say is there are 5 projects that are active out of which two have progressed to the extent that the customers have approved our quality and we are progressing on the scale up. The other 3 projects are at a stage where assessment of the quality is in progress, or the development work is in progress. There are opportunities that are coming our way for the future, but it is too early to talk about it.

Moderator: The next question is from the line of Aashish Upganlawar from InvesQ Investment Advisors. Please go ahead.

Aashish Upganlawar: Sir, you mentioned that the YoY drop in gross margins if I look at from 78% to around 61%, so quite a sharp fall if I look at it that way. You mentioned that maybe the overheads are much higher because of the utilizations being lower as a percentage to sales. Any other reason…. If we can get a clear understanding of where this 17% of gross margin fall is? Basically is it because of raw materials being too costly or whatever? Is it possible to get some clarity on that?

Ashish Nayak: I think you need to re-look at the figures. The figures that I have in front of me, as per the audited financials, in FY21, our gross margins are 67%.

Aashish Upganlawar: Sir, I am referring to Q4 margins.

Ashish Nayak: That's primarily on account of, as I stated earlier, it's a question of the product mix. Understand one thing; you have got products which are very high margin yielding products which are in the regulated markets and then you have products which are in the semi-regulated markets where the margins are very low. So, one of the reasons is, primarily because of the product mix – that's one. The second part is on account of the increase in the overheads, as Dr. Shireesh Ambhaikar stated sometime back, with a new manufacturing set up. Although we were incurring expenses and overheads almost from April 2022 onwards, the plant effectively got operational somewhere in November. So, that's about 7 to 8 months of overheads which were hitting my P&L against which there was not much of revenue which was coming in from that plant. That's one of the reasons why you see a phenomenal drop as far as the margins are concerned.

Aashish Upganlawar: Nothing to do with the pricing pressures or something like that you are seeing….?

Ashish Nayak: Nothing. We have been looking at the prices for our finished products as well as our raw materials very consistently. There are no pressures on both the selling price as well as the raw material pricing for our key raw materials are concerned.

Aashish Upganlawar: So, as it stands today, can one assume that for this financial year FY23, we look okay in terms of the gross margins to be sustained what we achieved in FY22? Is it okay to assume that because that has been quite a volatile part basically on the gross margins?

Ashish Nayak: Yes. As Dr. Shireesh said, now we have started reaching the peak capacity for our D block as well. So, there would be some ease of pressure as far as the overheads absorption is concerned. But let us also understand that these are very turbulent times when it comes to pricing. It has not impacted our business as yet. How things are going to pan out going ahead is really a question mark. All of us are going through that question mark. What I can assure you is, definitely we will be looking at very healthy margins and a healthy growth as far as the top lines are concerned. That much I can assure you.

Shireesh Ambhaikar: If I may add to what Ashish said, what we explained to you about our new block going operational last year and taking time to get I would say output that was contributing, this would happen again next year when the manufacturing block at Ambernath would be commissioned and there would be a phase where there will be time to fill up the capacities there.

Ashish Nayak: So, effectively, if you look at FY21 was the year where there were these 3 blocks which were running at peak capacity, but FY22 onwards, every year there will be a new manufacturing block that would be coming up, at least one of them. In this year, in fact, we are targeting two of those blocks. So, yes, while we will try and deliver the best margins and the healthiest margins that we can, but also you need to keep at the back of your mind that with every increase in capacity, there is a potential for future growth. That's what we are targeting.

Moderator: The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Sir, first, just to understand qualitatively, is it fair to assume that since we launched a few products and I am assuming a large part of the incremental growth in Q4 would have come from these products, a reasonable part at least, would it be fair to assume that on an overall basis last year, our gross and EBITDA margins would have at least largely been in line maybe 100 bps here and there but largely in line with what we delivered in FY21 and the overall dip in the margin is more to do with these new products which I assume will have a few quarters of curb before they start to deliver the real margins? Is that fair to assume?

Ashish Nayak: Yes, you are spot on the target. Till FY21, we had a set of products which were registered in the regulated markets. While those products were high margin yielding products and they themselves have a good potential to grow going ahead as well, but we already had a basket of around 8 to 10 other products which were in the pipeline for getting registered in the regulated markets. Currently, we are selling them in the semi-regulated markets and their share has gone up. Typically, it takes about 1 to 1-1/2 years for any product to be registered in the regulated markets. Now, I would say in FY23, is where we would see a lot of traction as far as these other products are concerned – their increased contribution in the regulated markets which would also mean there would be better margins from those products as well. So, if I compare apples to apples minus these products and minus the expansion that happened in D block, FY21 and FY22 would be comparable in terms of margins.

Tushar Bohra: And to extend this logically further, if our new products start to contribute better margins in FY23 and assuming that the overall external environment doesn't worsen from here and I know we are already dealing with the significant negatives at an industry level, would it be fair to assume that if things remain where they are today or if hopefully they start to improve, then our overall margin should trend up from current levels given that the new products also will start to contribute better margins in '23?

Ashish Nayak: Yes. As far as only those existing range of products and the new products once they start getting into the regulator markets, the margins will go up as compared to what they were in FY22, but at the same time, try and understand that there would be new products that would also be rolled out in this financial year as well in FY23. It's a cycle wherein every new product that is launched, it is first launched in the semi-regulated markets, we register this product, and then they are launched in the regulated market. And the entire cycle time is around anywhere between 1-1/2 to 2 years. While the margins would be better, at the same time, there would be a push and pull of the new products. And to add to that, the new capacities that are coming up. For example, Ambernath is expected to roll out by the end of this calendar year. So, all those new capacities which are being rolled out, there would be again a pull on the margins slightly which would bring it down because initially there wouldn't be the kind of revenue returns on these new projects which are coming up. That's how it would be. Over the next 3 to 4 years, as there are new projects coming up and new products coming up, there would always be a push and pull of existing products getting into the regulated markets and new products coming into the semi-regulated markets and the new CapEx which is at the lower capacity utilization. Minus the Capex, obviously, the margins have to improve.

Tushar Bohra: But in that case, it would be fair to assume that the overall revenue growth that we are looking at should be much more than the number that we are comfortable guiding that you have guided 24% because you are obviously increasing capacity substantially you have done so over '22 and '23 you will be doing so plus we have just announced some more or rather intention for more CapEx plans also – early intentions – is it fair to assume that our revenue guidance or revenue target internally will be much higher than what you are guiding to the markets?

Ashish Nayak: Fully agreed.

Tushar Bohra: Sir, if you can help us understand on the specific products that you mentioned in regulated markets which will come up over the next say 12-15 months, what is the exact status and which products you start to see first up? Can you share more details on that?

Shireesh Ambhaikar: We can talk in terms of the therapies. We are strong in the cough, cold, and allergies segment. There is one product which has, I would say, significant potential. This is just, I would say, starting to contribute. I think over the next 8 to 12 months, we could see a positive impact on this product.

Tushar Bohra: Which others where we expect regulated market penetration….?

Shireesh Ambhaikar: As I said, the cold, cough, & allergies segment; we have got one product which is going through and there are a couple of more following them.

Tushar Bohra: Anything further on the new opportunities that you briefly mentioned in the opening remarks, Shireesh sir, regarding any specific areas of interest where you think there is a lot of opportunity?

Shireesh Ambhaikar: As many of the CMO/CDMO that we talked about, some projects are progressing which are going to commercial scale.

Tushar Bohra: Any specific therapies or chemistry competencies that you are targeting?

Shireesh Ambhaikar: The chemistry is something that we are good at or we are strong at and that is what is appealing to the potential CMO/CDMO companies that want to partner with us.

Moderator: The next question is from the line of Viraj Parekh from JMP Capital. Please go ahead.

Viraj Parekh: Sir, I just wanted some sense on the capacity utilization of our D block during Q4 FY22. I suppose we were at around 35% in Q3. Where were we in Q4 regards to the same?

Shireesh Ambhaikar: What I can tell you is because it is a very complex calculation, I would not go on it quarter on quarter. Currently, we are working at almost peak capacity as far as the D block is concerned, 60% to 65% is what we are currently. I did the calculation for referral. For the 4th quarter, I do not have the results available.

Viraj Parekh: If I heard it right, in terms of peak capacity what you mentioned is 60% to 65% for block D, correct?

Shireesh Ambhaikar: I would say, since it's a multi-product facility, somewhere around 75% to 78% would be a peak capacity for that block of which we are very close to that in terms of utilization. It is somewhere in the range of 60% to 65%. So, by the next 3 months, we expect it to be reaching the peak capacity. We have orders in hand, we have products, and we have the technical specifications. It is just a question of reaching the capacity.

Moderator: The next question is from the line of Siddharth Purohit from InvesQ Invest Advisors. Please go ahead.

Siddharth Purohit: Sir, one thing if you can explain a little bit. As you said, when the new block goes on stream, initially it will hit the semi-regulated market and then gradually it will start targeting the regulated market. Is it fair to assume that probably the incremental revenue that the new blocks will generate will have a little lower margin for the first 18 months or 1 year and then probably those set of molecules start hitting the regulated market, then we will start getting the peak margins or maybe the margins that we are generating like? Is it correct understanding?

Ashish Nayak: I wish it were so simple. Let us understand the capacity increase which is happening is not only for the product. It is, we are also scaling up the capacities for the backward integration part of it for which there wouldn't be an incremental revenue but there would definitely be a cost saving and there are very hidden benefits in terms of surety of supplies as and when we want them rather than being dependent on imports. That is one of the areas where the capacity increase is going to happen. The other capacity increase is happening on products which are already in the regulated markets for which we are seeing a good traction as far as the regulated markets are concerned. So, for that particular utilization, the margins would be higher because those products are being already registered and sold in the regulated markets. And the 3rd part would be for the products which are newly being rolled out for which obviously as you rightly said, since those products would be initially launched in the semi-regulated markets, the margins would be lower. Then, there are some other products which may not be that highly regulated which are in the pipeline. Especially when you are looking at CMO/CDMO space, for example, for those products, the margins would be constant all throughout the tenure of the agreement that we would be signing up. It's a combination of all these things that needs to be understood. It is not so simple that you invest a particular amount of money and in 18 months, some particular margin will start generating. Every product has a different margin, has a different market. Some products may have very high margins; some products may have steady margins. It's a combination of all these things.

Siddharth Purohit: Sir, just extending the same question. Now that we have enough time to probably communicate to our client before the new block comes on stream, is there a scope that we can expedite the entire process for reducing the time gap for launching the products or it takes a minimum that much of time, say 1 year or 18 months minimum?

Shireesh Ambhaikar: In this business, it takes about 1 to 1-1/2 years to create the capacity. After that, the clock for the regulated market starts which is typically 2 to 2-1/2s years. This is something of a standard time frame I would say in developing new products and working with customers. Even the customers understand this and they also are fair in looking at these timelines and they accept those timelines.

Moderator: The next question is from the line of Anil Kamat from True Freedom Consultant. Please go ahead.

Anil Kamat: Just one question is about the cash flow where we are seeing a significant increase in the cash in the books. I don't have the numbers, but I could see there was a significant increase in the cash flow from the financing activities. Can you clarify how this happened?

Ashish Nayak: From financing activities if you look upon it, that's primarily because of the proceeds from the IPO. Rs. 200 crores were earmarked for the company and Rs. 200 crores were what came in. As far as the end utilization of the Rs. 2,000 million is concerned till March 2022, we had of the Rs. 2,000 million that we received, we have utilized Rs. 100 million towards the 5th manufacturing block, Rs. 600 million towards repayment of working capital, Rs. 139 million for the first tranche of the plot that we just acquired from MIDC in Isambe. That has been the utilization. That's as far as the finance activities are concerned. That's primarily the net effect of what you are seeing in terms of inflow from the IPO and the utilization of those funds.

Moderator: Since there is no response from the current participant, we will move to the next question from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead.

Naresh Vaswani: Sir, what was your contribution from the top 3 products in Q4 FY22 and similarly for the last year Q4?

Ashish Nayak: My apologies for that. I wouldn't be in a position to answer that question.

Naresh Vaswani: On the creditors and debtors while you have mentioned in the presentation, what would be the normalized days for FY22? Do you see it normalizing in the next 6 to 12 months?

Ashish Nayak: The working capital increase is primarily on account of inventory going up and for reasons that they have stated earlier. Just to ensure, what has happened is, we have been in this business for the last 34+ years and we have been dealing with these customers and they depend and rely on us for our supplies. Given the last 12 months, all of us are aware of the multiple challenges that we have faced with – what from the shutdown of factories in China, lockdown in China, Ukraine war, the Suez Canal blockage. With all that, we took a conscious call of increasing the inventory. That has helped us to reach the 35% growth over last year primarily because one of the reasons was that. The receivables have gone up primarily because in the 4th quarter, the sales within India and the sales to LATAM country for which the credit period is much higher as compared to the rest of the sales was at its peak, so these two are there. Going ahead, you asked me as to where it would normalize. I would put it; the working capital was somewhere in the range of around 67 to 80-85 days. We expect it to reach the same level, but obviously, once things change both on the Covid lockdowns that are happening and the Ukraine war coming to an end, once things normalize, then we would obviously want to bring it back to those same levels.

Naresh Vaswani: One last question from my end. The other expenses as you mentioned that now block D is getting fully utilized. So, Q4 exit run rate of around Rs. 22-25 crores, should we consider this to continue in the next year or do you see substantial increase in FY23 on the quarterly run rate?

Ashish Nayak: At least for the next 2 quarters, I expect it to be the same. From the 3rd quarter, once the Ambernath block starts getting operational, that would go up to some extent.

Moderator: The next question is from the line of Monica Joshi from Hornbill Capital. Please go ahead.

Monica Joshi: I just wanted to understand the tax implications. What would the effective tax rate be for the following year and the post tax component that you had in Q4?

Shireesh Ambhaikar: In the 3rd quarter, there was a deferred tax adjustment. If I take out the effect of that, my PAT for Q4 FY22 which was Rs. 463 million would actually have been Rs. 529 million as against Rs. 485 million in Q4 FY21. For the full year, there won't be any impact, but quarter on quarter in Q3, that was a reversal adjustment of deferred tax which has been nullified in Q4 FY22. As a result of this, there is a slightly higher provision for deferred tax and a result of which the PAT for Q4 FY22 appears to be slightly lower, but in effect, it is higher.

Monica Joshi: For full year FY23 and beyond, what would your effective tax rate be? Should we consider it at the same rate, i.e., about 26.7? Should we take that same rate, or should it be closer to 25?

Ashish Nayak It would be 26.7, but understand, there's a depreciation impact as well. So, effectively, if you cannot directly calculate it on PBT, but yes, it would be in that range.

Monica Joshi: Just one question for Shireesh sir. When we talk about the CDMO operations and the CMO operations, I understand that these would take time for things to materialize, but would you need dedicated facilities for these?

Shireesh Ambhaikar: It's too early to say whether it is going to be dedicated facilities. It could result in that but the projects that we are having right now at that particular stage or phase, we are utilizing our existing infrastructure, but it may call for higher capacities, and as we are building higher capacities, we are getting prepared for that in any eventuality.

Monica Joshi: And when would you reach a stage when you realize that you would need to step up your infrastructure plans for CDMO?

Shireesh Ambhaikar: The customers in the CMO/CDMO business, they give a good visibility to us in terms of how the projects would pan out. So, our capacities would be aligned with their requirements and their timelines as well.

Ashish Nayak: Having said that, Monica, I would also want to add that that's exactly the reason why we are also building upon the land space because that is one of the factors which can work in our favor because whenever these multinationals come up with any opportunities, that becomes a selling point in terms of you have space and then building up the capacity takes anywhere between about 8 to 12 months. So, in 12 months flat, you can start converting these opportunities and commercializing them.

Monica Joshi: I just wanted to understand whether are we investing a little too early in this opportunity? Because, if we do that, then we are blocking our capital a little too early. That was the limited point in the discussion.

Ashish Nayak: No, typically how it happens is, it's not just acquiring the land. There are a lot of other certifications that you need with that in place. You need to get the connection for electricity; you need to get the environment clearance. These are all time-consuming processes. That's the reason why it's always better to be a bit ahead of time. Again, as Dr. Shireesh said, while there may appear to be 5 opportunities at this point of time, but typically how it pans out is, even any one of these opportunities do click, that would line up a lot of other opportunities. And for that, you need to have, to begin with, space and then the next part would be the capacity. So, having space would be the first step in that direction. And also understand, for whatever projects we are doing for our own APIs, we also need to build up for the backward integration which takes a lot of space and capacity. And with E block coming up and getting operational in just about 12 months down the line, there is no space left for us at Lote within the same premises. So, for any future opportunity, we need to have space and then build up on that.

Shireesh Ambhaikar: Just to add to what Ashish said, we are creating capacities first for backward integration, second for the current products that we have which we see have growth potential, third is the R&D pipeline that we have; these would require capacities, and fourth of course is the CMO/CDMO space.

Monica Joshi: Lastly, I understand that the US FDA has started physical inspections in India and I believe that you cleared one of the joint inspections from 2 European countries very successfully. Congratulations on that. Can you share some timelines that you may have with any regulatory authority in the coming months or coming quarters, especially with the European or US authorities which you have lined up at Lote? Is there anything that you are looking forward to?

Shireesh Ambhaikar: There is nothing that is at the moment lined up. We have got a notice for the European inspection and that was completed. There is nothing that is there now in the immediate future. They may come any moment, we don't know.

Monica Joshi: As far as the US FDA is concerned, the plants are cleared, is it?

Shireesh Ambhaikar: The last inspection was in 2019 and the site was approved.

Ashish Nayak: It's a 3 time US FDA approved site.

Moderator: The next question is from the line of Suhas Naik from Kridha Capital. Please go ahead.

Suhas Naik: I have a couple of questions. The first question is on the current portfolio that we have, what is the potential of these products that we have over the next, say 2-3 years, what kind of growth one can expect there? Second is on the pipeline of products that we have which we are likely to launch over the next couple of years. Could you talk about the market opportunity for those products which are in the pipeline right now or development phase? The third question is on the overall strategy. Are we actually planning ourselves or modeling ourselves like Divi's – somewhere closer to that business model? If we can talk about the business model that you have in mind, that will be great.

Shireesh Ambhaikar: I will try to answer the 3 questions. To talk about the growth potential for the current products, these products are in the market for the last several years or decades and the company has a position of strength in those products and we will continue to hold on to that, and the products are not de-growing; these are growing only. In terms of the strategy for product portfolio, we typically would like to strengthen the basket of our current products. We would like to offer a broader basket in the same therapy. That's what we are working on, but that doesn't stop us from exploring other therapeutic areas if the opportunity is right. For example, if we get some access to unique technology or we develop something unique that can be utilized for a product that has got large volume potential, then we look at that. There could be such opportunities, and of course, we are actively pursuing the CMO/CDMO opportunities anyway.

Suhas Naik: About those products that we talked about, the large potential products which are there in the pipeline, are you working on any of those? Just wanted to understand that.

Shireesh Ambhaikar: We do have some. We can't be telling you specifically anything, but these are there.

Suhas Naik: And on the overall business model if you can make a comment.

Shireesh Ambhaikar: On the business model, we follow what is good for us and has been working for us. I don't know when you say Divi's model, we don't know about it, but we try to be in the business where we have products with large volumes, scope for backward integration, and unique position. That's what I would say. And of course, the margins that are there.

Moderator: Ladies and gentlemen, due to time constraints, we take that as the last question. I now hand the conference over to Dr. Satish Wagh for closing comments. Over to you, sir.

Satish Wagh: First of all, I thank all of you for joining and having a good questions & answers session with us. Let me tell you that we have completed 35 years in the industry and we are very positive about our business model which we are running. We have a lot of opportunities which we will certainly encash. Some of the questions when I was looking at, people were asking about the new land which we have taken. I would like to say that my 35 years of experience always says that you cannot grab a land so quickly. It has its own timeline, and in Maharashtra, the place where we got – Isambe – is the last place which was recently taken over by MIDC and next 2 years we don't know any MIDC land will be available. Looking at the proximity nearby Mumbai, one is very near to Nhava Sheva port where our imports and exports do come. Looking at the new airport, which is coming at Panvel, we understood the urgency and the importance of the land and we have bought it. There are a lot of opportunities which I am seeing in the last 3-4 months in my visits to various places where people are keen to collaborate with Supriya and I am sure the business model which we are currently running will certainly move to that direction. And of course, you all will be with us to support us, and we assure you that the 2022-23 will be also in a similar way a success to us, Supriya Lifescience. I am thankful for giving me the time and opportunity to explain to you about Supriya Lifescience. Thanks a lot.

Ashish Nayak: Thanks to all of you for being here and hearing us patiently. Thanks a lot again.

Moderator: Ladies and gentlemen, on behalf of Supriya Lifescience Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.