

May 31, 2022

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

Scrip Code: 524558

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

Scrip Code: NEULANDLAB; Series: EQ

Dear Sirs,

**Sub: Audio recording and transcript of Earnings Call pertaining to the Audited Financial Results for the quarter and year ended March 31, 2022.**

In continuation to our intimation dated May 5, 2022, we would like to inform you that the audio recording and the transcript (attached) of the Earnings Call on Audited Financial Results (Standalone and Consolidated) of the Company for the quarter and year ended March 31, 2022, held on May 10, 2022, have been uploaded on the website of the Company on May 10, 2022 and May 13, 2022 respectively. Please find below the weblinks to access the same:

Web link to access audio recording is as under:

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

Web link to access above transcript is as under:


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

This is for your information and records.

Thanking you,

Yours sincerely,

For Neuland Laboratories Limited



**Sarada Bhamidipati**  
Company Secretary

Encl: As above



# “Neuland Laboratories Limited Q4 FY22 Earnings Conference Call”

**May 10, 2022**



**MANAGEMENT: MR. SUCHETH DAVULURI – VICE CHAIRMAN & CEO**  
**MR. SAHARSH DAVULURI - VICE CHAIRMAN &**  
**MANAGING DIRECTOR**  
**MR. DEEPAK GUPTA - CFO**  
**MR. SAJEEV EMMANUEL MEDIKONDA - HEAD,**  
**CORPORATE PLANNING & STRATEGY**

**Moderator:** Good evening friends, we welcome you to the Q4 FY22 Earnings Call of Neuland Laboratories Limited. To take us through the results and to answer your questions, we have with us the top management from Neuland represented by Mr. Sucheth Davuluri - Vice Chairman and CEO; Mr. Saharsh Davuluri - Vice Chairman and Managing Director; Mr. Deepak Gupta - CFO and Mr. Sajeev Emmanuel Medikonda - Head, Corporate Planning & Strategy.

We will start the call with a brief overview of the financials by Deepak and then Saharsh will give you broad highlights of the business trends and what he is observing in the market and then we will open the floor to Q&A. With that said, the standard safe harbor clause applies as we start the call. With that said, I am handing it over to Mr. Deepak Gupta. Over to you, Deepak.

**Deepak Gupta:** Thank you very much, Ravi and good evening friends and very warm welcome to all of you for our Q4 FY22 earnings call. I think that you must have seen the presentation which Ravi was just mentioning and it was put on our website right from now, which is uploaded both on BSE as well as NSE service. As always, any comments on the contents of this presentation which we have sent will be highly appreciated and we will do our best to give our additional data points which will be required for you to analyze it better.

I will briefly update on the financials. The total income for this quarter is at Rs. 256.5 crores as against Rs. 259.3 crores in Q4 of FY21. I would like to state that we had lower off-take at our customer's end for some of our GDS products in the business. Our EBITDA for this quarter was Rs. 39.3 crores with EBITDA margins of 15.3% points which was almost flat as compared to the previous year which was at 15.4% and it is increase of 100 basis points on a sequential basis. I would also like to give some contexts on the flat EBITDA margins on a yearly basis. We continue to experience elevated costs across the value chain, for example, logistics, power and fuel, consumer goods and also we are witnessing some supply chains delays disruption on the raw material volatility front also. As stated in the earlier calls, some of our key raw materials hedging context which we have taken in H1 have expired by end of September and for the second quarter, second half of the year, we had some challenges in terms of raw material prices which is leading to some volatility in the margins front. We continue to maintain high inventory to avoid future possible disruptions due to the disruptions happening globally. Profits after tax was at Rs. 21.8 crores as compared to Rs. 17.2 crores last year. This is mainly due to reversal of higher deferred tax provision which we had taken earlier. This quarter EPS is at Rs. 17.

If you talk about on a full year basis, our total income stands at Rs. 953.2 crores which is constant compared to the last year. This was due to certain GDS products where we saw low off-take due to the reasons stated earlier. With regard to EBITDA, it is at Rs. 144.3 crores as against Rs. 162.5 crores in FY21. The EBITDA margin is at 15.1% as compared to 17.1% that we had last year for the reasons that we stated above. I would also like to state that high manpower cost and other expenses which is raising mainly from Unit III commercialization has also contributed to the said margin declines. In terms of cash and cash equivalents as on the date of the balance sheet which is March 31st end, it is at Rs. 19 crores. We continue to make investment in the

future and also for the CAPEX we spend around Rs. 95 crores in the last financial year. And if we talk about our CAPEX plans, it is on track and with greater commercialization of products which is happening and on the future commercial prospects, we expect that CMS segment will perform well and it will also help us to improve our future realizations as well. I would like to mention that even though we had substantial CAPEX till date, our net gearing ratio continues to be low. So, as of now, as it stands it is at 0.3x. With that I would like to hand over the call to Mr. Saharsh for his remarks and thank you very much.

**Saharsh Davuluri:**

Thanks Deepak, good evening everyone, I would just like to add a few comments on top of what Deepak has already said and then we can open it up for Q&A. In terms of the prime business, we did have a very muted year. We have done well in products like Mirtazapine, Labetalol and Levofloxacin, but products like Levetiracetam which has been doing well for us historically that is where we actually had challenges this year. We believe that this is because of low customer off-take, perhaps because of high inventories and we expect that the volumes should recovery in the coming quarters. On the specialty side, we have done well. Products like Dorzolamide, Entacapone, Salmeterol and Ezetimibe have done really well for us and that is something that we are excited about.

With regards to the CMS, I think for the year, we clocked close to about Rs. 300 crores which is the highest we have done in CMS. This growth actually happened despite a significant drop in sales of one of our oldest commercial products, so you would see in the analytics that we have provided that commercial revenue in CMS has dropped, but despite that the CMS business has done well and that is because of the increase in development revenues. What I will also like to mention here is that one molecule has moved from development into commercialization stage which is a very important milestone for Neuland.

Also with regards to the business, what we have noted before, we work a lot with Biotech companies and it is our ability to deliver complex late stage projects which is really going to differentiate us and make us as a very well recognized CMO and therefore we have been working a lot on improving our project delivery timelines. We have been also trying to create a very collaborative project management interface, so that we are able to work with these biotech companies and although we have been making steady progress over the past several months, we do continue to face delays and execution for various reasons and our customers do understand the complexity of these projects and they continue to remain very supportive of us during this journey of commercializing a New Chemical Entity (NCE) and needless to say, these delays have had an impact on the performance for this quarter.

With regards to Unit III, I would like to state that it is scaling up well. We are seeing some of our key late state CMS projects also being scaled up over here. The utilization of Unit III continues to steadily increase as we keep scaling up these products. Consequently, Unit III has also contributed to higher operating expenses as Deepak has noted.

Other updates, I would like to say that we have filed two DMFs this quarter, so I think for the year itself, we are pleased that we have 5 DMFs, 3 in the previous quarter and 2 now, one is for Elagolix Sodium and the other one is for Linezolid. These are products which we are excited about and could have an important role to play in the future. We also continue to see good traction with both CMS and GDS customers that could help us drive growth in the medium to long term. The potential for CMS projects especially in phase 3 for both development and commercial which have been evident in the revenues this quarter as well as for specialty GDS business and for strategic prime products gives us confidence that long-term business remains intact. These are some of the comments that I wanted to share. May be we can open it up to Q&A, Diwakar and then we will be happy to answer more questions. Thank you.

**Moderator:** Thank you Saharsh. We will now begin the Q&A. We now take the first question. The first question is from the line of Mr. Ankush Mahajan from Axis Securities. Mr. Ankush, please go ahead.

**Ankush Mahajan:** The CMS business have grown by 5% for a full year on a Y-o-Y basis, reasons for this low growth, as industry demand seems to be very high?

**Saharsh Davuluri:** One of the reasons why the growth is only 5% is because we have also had offset due to the degrowth of one of our largest CMS molecules this year and that something that we had mentioned previously as well. I don't recall if you have quantified it, but about Rs. 50-Rs. 60 crores of revenue which we were steadily recognizing in the previous years, we have not recognized this year and this growth happened despite that number. So, yes, the growth overall is low, but it has been also offset by older molecule that has not really contributed this year. This growth would perhaps be higher if we were able to deliver a couple more projects which did delay in this quarter and are now consequently going to get delivered in FY23. So, I think it is a combination of these two factors which have actually dampened the growth of the CMS business.

**Moderator:** Thank you. The next question that we have is from Keshav Kumar. Mr. Keshav please go ahead.

**Keshav Kumar:** To make our development efficiency more robust for the CMS vertical, are we looking for any translational science technologies, say something like digital print for the development processes or some part of the process that might help us to reduce the likelihood of running into such situations?

**Saharsh Davuluri:** I think like translational science technologies, these would apply to early-stage drug discovery programs where you are trying to do lot of interactions with different biological organisms and things like that, so it is not really something that we could use. We do use modern technologies for our areas of work, but not any of the items mentioned by Keshav.

**Sucheth Davuluri:** Just to add to what Saharsh said Keshav is that what we are doing to keep getting better in these issues is strengthening our process engineering and the depth of the science and technology that we are using within Neuland even when we are going to our scale-up studies we are using much more sophisticated technology, trying to incorporate algorithms that can actually predict what are the issues that could come during scale-up and what kind of experimentation we need to do before we go for scale-up and make our technology even more robust. So, I think in the spirit of your questions, we are definitely investing a lot in technology as well as predictive analytics, but as Saharsh clarified, this specific technology that you are talking about is more applicable for very early stage research than in the context of Neuland.

**Moderator:** Thank you. The next question is from Jatin Kumar. Mr. Jatin Kumar, please go ahead.

**Jatin Kumar:** Whether you have any revenue and margin guidance?

**Saharsh Davuluri:** I think in terms of guidance, we cannot provide any guidance, we don't usually provide any guidance, but I think what we do believe is that the general outlook for FY23 from a business perspective is looking healthy, we expect to have growth in terms of both CMS as well as GDS. While we don't give guidance, we are also mindful especially in the current environment that input cost and other factors could have a bearing on how we perform financially, so I think it is all the more reason why we would caution from giving any guidance, but I think in terms of the business outlook as we had indicated earlier, we are reasonably optimistic.

**Moderator:** Thank you. The next question is from Mr. Keshav Kumar. Keshav, please go ahead.

**Keshav Kumar:** Can you help to understand that for the likes of Finerenone and Voxelotor which have recently got approvals, how do we assess the opportunity cost as in we applied for the process patents, but would we be able to capitalize it in the next 7 to 8 years? Is it the rationale that we see the origin for favor of the drugs to do well and we find opportunity as in alternate suppliers of the small molecules?

**Sajeev Medikonda:** Keshav, I think both these products, Fineronone as well as Voxelotor are part of our GDS portfolio, so we have looked at these two products from the perspective of adding them for customers who are looking the GDS portfolio. These are products which initially we hope to get revenues from developers who are looking first profile opportunities whereas the actual revenue that you will get will only be in the 30s in the next decade, but overall, we are looking at these molecules move from the GDS specialty perspective.

**Moderator:** Mr. Ankush Mahajan is next.

**Ankush Mahajan:** Any guidance or outlook on CMS business for FY23?

**Saharsh Davuluri:** With regards to guidance, I think we have already answered that question, I think specifically from CMS business, as I did mention, for us getting molecules into commercialization is a very important milestone. In Q4, we had one molecule transitioning to commercial. We expect that may be another one or two molecules will also get into commercial in FY23. What that could translate in terms of revenues etc., I think that remains to be seen because it depends on how the drug picks up and what decisions the customer must make, but I think as a CMO our strategy is to really execute on these projects well and quickly translate them into commercial molecule, so that we are able to see recurring business from them. So, I think FY23 in that regards will be important, we do expect to see the business grow, but not really able to give any guidance.

**Moderator:** Thank you. The next question is from Mr. Prashant K. Mr. Prashant, please go ahead.

**Prashant K:** Whether the ongoing supply chain issues are going to affect Neuland in FY23 also?

**Sucheth Davuluri:** Yes, for sure, Prashant, good question something that we are also continuing to grapple with. There is a lot of uncertainty coming out of the role, Russia-Ukraine conflict as well as what is happening in China, so we have seen disruption in supply. What we did earlier in the year is in anticipation we did stockpile a little bit and some of our key raw materials, Deepak also alluded to that in his comments and that is why our inventory value has gone up. It was done as a precaution and as an insurance to protect the business in FY23, notwithstanding that we have seen a steep increase in prices of certain raw materials which is impacting our margins. We are working through those challenges in terms of negotiating long-term contracts including our cost position, negotiating better terms with our customers, so we are attacking it on all fronts, but there is definitely a challenge caused by the supply chain issues for FY23.

**Moderator:** Thank you. The next question is from Mr. Rikin Shah. Rikin please go ahead.

**Rikin Shah:** At what point do we expect lumpiness in Neuland to reduce as of this moment there are large variances in the quarterly performance?

**Saharsh Davuluri:** I think the lumpiness is largely attributable to the CMS business and within CMS business the development projects. The development projects as especially since they are late stage, whenever we execute a development project, we are seeing significant revenues come from that project, it could be Rs. 10 crores, it could be Rs. 30 crores as well and when we have two of those projects when you see a big lump and then in the quarter if you don't have those projects then you see kind of reduction. I think for us, the way this lumpiness would reduce, it may never go away is when more of these molecules which are in development stage become commercial molecules and obviously when they become commercial molecules, they will start contributing steady recurring revenues and that will help increase the base of the CMS business and these development project as they keep happening, they will contribute to sporadic revenues, but because the base of the business is going to increase as more molecules get commercialized, the impact of the lumpiness will become less. So, I think as an API company even for the GDS



business, we will experience lumpiness whenever we have specialty products like Paliperidone or Salmeterol, some of these low volume high value products shipping out, they will contribute to higher margins and higher profitability. So, I think it is going to be there, but I think as we become a larger company we will see a reduction. Sucheth, you want to add something on to this?

**Sucheth Davuluri:**

No, I think I would just stick-on what Saharsh has said, we don't see the lumpiness going away completely especially from quarter to quarter, notwithstanding that from a year to year our goal is margin expansion and consistent performance over a long period of time. I think purely viewing the organization from your point of view, we completely understand this question, but I think we are at a point where we are operationalizing Unit III, there is a lot of CAPEX going into Unit III, we are improving our efficiencies and outputs, so that the overall requirement to deliver sales is less dependent on a proportional increase in CAPEX expenditure because of the increase in occupancy and efficiencies. From that, we will definitely see a margin improvement because of the overall improvement in product mix, more efficiencies coming from our operations and Unit III giving fully operationalized as well. I think that is the general direction that the business is going in terms of performance in the medium to long term, but I completely echo what Saharsh said that we may not see the quarter-to-quarter lumpiness completely going worse.

**Moderator:**

Thank you. The next question is from the line of Mr. Jay Shah, an Individual Investor. Jay please go ahead.

**Jay Shah:**

Do we have price passthrough mechanisms in the contracts for the CMS business, also considering the new base of price as of Q4 FY22, will we be able to get back on track by Q3 FY23 in terms of margins and EBITDA uptake?

**Saharsh Davuluri:**

So, Jay, I think every CMS molecule has a different contract, it has different clauses, but I think typically what we have seen is when it comes to raw material costs, this is something that an API maker is expected to manage, either through various strategies or therefore we expose to extreme situations of raw material heights, etc. I think obviously in a CMS business, there is also certain level of collaboration which we have with our customers and therefore we try to work together if there are any extremities in terms of raw material hikes etc., but strictly speaking, most typical contracts expect us to manage raw material price variations and that could also be sometimes beneficial to us because when raw material prices fall which sometimes do happen in business cycles, as an API maker, we can tend to benefit from that as well.

**Jay Shah:**

Thank you. Couple of more questions, one is, do we expect to renew contracts in a manner that we pass on the higher raw material costs in such a way that we achieve the EBITDA margin around the range that we did in FY22? That is the first question. The second question is, Neuland had guided on 6 molecules going from development to commercial stage, one is already done, do you think the balance 5 will be achieved in FY23?



**Saharsh Davuluri:** I think with regards to the first question I have already answered that and I think with regards to the second question, yes, I would not say we have guided, but we did indicate that we expect 5 or 6 molecules to go from development into commercial. So, far, two have already made that jump. We expect 4 more to happen, but we would not be able to say that they will happen in FY23, in fact I do not believe that all of them will happen in FY23. As I have mentioned earlier, we expect may be 2 to happen in FY23 and then perhaps in the year to come after that, but as they happen, we will definitely keep you inform, but it is also very difficult for us to predict when they will happen because these involved FDA approvals, etc.

**Moderator:** Thank you. The next question is from Mr. Ankush Mahajan, Ankush, go ahead.

**Ankush Mahajan:** When could we get the lost business of the Rs. 50 to Rs. 60 crores in the CMS business back?

**Saharsh Davuluri:** I think Ankush, we don't know for sure because I think there are certain circumstances that have led to that business not coming for us. We do have the capacities and we are prepared for delivering on that product, but we also have alternate plans to utilize that capacity, should that product not come back, but at this point it is not very clear and I think whatever plans we have made right now, we are not really hinging those plans on that product coming back either, but we will expect or we will attempt to try to recover of that business if it is possible, but at this point we don't know much.

**Moderator:** Thank you. The next question is from Mr. Keshav Kumar. Keshav, please go ahead.

**Keshav Kumar:** What was the reason to stop pursuing Octreotide?

**Saharsh Davuluri:** I think one of the main reasons was the lack of commercial interest and I think what we typically do when it comes to some of the GDS molecules is that we reach a stage of lab development or even a stage of filing at DMF with small quantity, but then perhaps once we are able to gauge the market situation we make a decision whether we want to pursue it or not. I think other than that Sajeev, anything specific you want to add on Octreotide with regards to the market dynamics?

**Sajeev Medikondat:** So, as Saharsh you had mentioned, I think ultimately for the peptides, we are at a stage where we don't simply file the DMF once we have done the development in the lab, but we are looking to work closely with the formulation collaborators and at this point of time, we haven't really seen that interest as a result of which we have not taken further steps with Octreotide, but where we are with Octreotide is we have a fully developed process in the lab and in case there is any further interest you could always take it up.

**Moderator:** Thank you. The next question is from Mr. Prashant K., an Individual Investor. Mr. Prashant please go ahead.

**Prashant K:** Whether any patents are going to expire this year and any comments on R&D spend going forward and where do we see Neuland 5 years from now on?

**Saharsh Davuluri:** I assume that Prashant is asking about if any CMS molecules patents expire this year, we don't expect any patents to expire this year. I think further, rest of our commercial pipeline I think when we last examined, the patents are at least 5-6 years away. So, we don't expect any patent expiry.

**Sucheth Davuluri:** In case Prashant, this is with regard to generic patent expiry, we do have molecule such as Apixaban, Paliperidone and to some extent Salmeterol where some specific patents are expiring and in the process of launching those products commercially. So, hopefully, between those two responses, this covers the answer to your question, whether with CMS or GDS side.

**Saharsh Davuluri:** So, the patent expiry benefits the GDS whereas it hurts the CMS business.

**Moderator:** Thank you. The next question is from Mr. Keshav Kumar. Keshav please go ahead.

**Keshav Kumar:** Have we ever lost a CMS molecule due to not being able to deliver as per the schedule?

**Saharsh Davuluri:** Not in the last 3 years at least, Keshav.

**Sucheth Davuluri:** Before that we had one intermediate project Keshav where it was a fragment of an overall API molecule. We did lose that project, not because we failed to deliver as much as per schedule, but it was a challenge technically and I think we took too much time to overcome that, but that is the only thing that comes to my mind and as Saharsh said, we haven't anything in the last 3 years.

**Moderator:** Thank you. The next question is from Mr. Rahul Bhardwaj. Mr. Rahul go ahead.

**Rahul Bhardwaj:** Can you share more about the molecule that got commercialized recently and how it will impact the sales in FY23 and if you can please share the progress on the peptide product line segment and by when can peptide start contributing meaningfully to the company's revenue?

**Saharsh Davuluri:** Unfortunately, we cannot share much about this molecule which got commercialized recently. We do expect that it will do well and contribute well for the CMS business, but it also really depends on how it will do. I think over the next 1 or 2 years, we should be able to ascertain how well this drug does, but at this point, we cannot really comment on the molecule specifically and our strategy also is to create a diverse portfolio of commercial molecule so that collectively as a group the business does well, even if it includes the molecule that may not necessarily do well, so that is also one of the reasons why we do not wish to attribute specific comments on any of the CMS molecules.

**Moderator:** Thank you. The next question is from Mr. Sureshnath Puramshetty. Suresh please go ahead.

**Sureshnath Puramshetty:** Can we expect FY23 revenue growth of around 20% and also the profit?

**Saharsh Davuluri:** As I had indicated in the earlier comments, Suresh, the plans as it stands for FY23, we are very optimistic in terms of the outlook both for the GDS business as well as the CMS business. I think a lot depends on the external factors as well as internal constraints, etc., so at this point as we don't give guidance and I think just given the uncertainties that we have, I think I would say that the business looks optimistic, we do expect to have growth, but we would not really comment on the 20% question.

**Moderator:** Thank you. The next question is from Mr. Surnit Majumder. Mr. Surnit, please go ahead.

**Surnit Majumder:** Whether there are any new product launches planned in FY23?

**Sajeev Medikonda:** I think as Sucheth had earlier mentioned I think we have certain products expiring in different markets like say Apixaban in certain customers, in certain geographies, in Europe and also have Paliperidone to schedule for launch in certain markets, so I think those are two products. I think even we have products like Rivaroxaban in certain markets too, so these are 2-3 of the products which has immediately come to mind in terms of launch and launch quantities happening in FY23.

**Sucheth Davuluri:** So, just to add to that I think it is not only new products, but we also have a couple of launches for our older products but in new markets and for us these products are exciting because Apixaban especially, it is based around litigation around specific patent, so there is a good opportunity there for early product launches without too pressure on margins here. Similarly, Paliperidone as probably some of you know, it is a specialty sterile API that we supply and we don't have too much competition in this area for that specific API and we had positioned ourselves well. I think Salmeterol has been discussed multiple times on this call and lot of our customers have gotten specific commercial approvals for Salmeterol, so hoping that lot of the effort that we made several years ago and in some cases almost a decade ago, we start to see a good penetration in the market.

**Moderator:** Thank you. The next question is from Mr. Keval Ashar of DSP Investment Managers. Keval please go ahead.

**Keval Ashar:** Two questions, first one is, there were some headwinds regarding to Mirtazapine in Q3 and are the sales back to normal as of currently? That is number one and number two is for the CMS segment, we have seen 6 APIs in commercial stage since last many quarters and now we have two more APIs in the commercial stage in this quarter, please share the potential and opportunity size for these APIs?

**Saharsh Davuluri:** I think the answer to the first question is yes, I think as we had expected Mirtazapine has done well in Q4 which was kind of it had overcome some of the headwinds we had talked about in

Q3 which is a positive indicator, although for Levetiracetam, we are still waiting for things to go back. I think with regards to the CMS segment, we have two more molecules getting into commercial stage. Each molecule has different potential and the opportunity size are very different and again it is very hard for us to quantify or talk about the range because all these molecules are fairly new drugs and they are getting into the market and typically they take anywhere between 1 to 4 years for them to achieve their full commercial potential. For us, we think it is a little unfair to try to quantify it because if the drug does lower than expectations then again it is obviously disappointing for all of us. So, I think as we have seen in the past, we have seen molecules which have commercialized 6-7 years ago for Neuland only picking up in the last 1 or 2 years and therefore it is very hard for us to say how soon or how big these molecules can become. We would only just kind of comment on them as we start seeing growth happening. So, if we see orders coming up from new molecule in the upcoming quarters, we will be sure to indicate that this is coming out from a recently commercialized molecule, but we would not be able to articulate that before that growth happens.

**Moderator:** Next question is from Mr. Nitesh Awantha. Mr. Nitesh, I have unmuted you, you can please go ahead.

**Nitesh Awantha:** This is Nitesh here. I have couple of questions. The first question is, I see that the cost of materials has reduced year-on-year assuming that the raw material prices have gone up, could you please explain why the cost of materials has increased year-on-year?

**Saharsh Davuluri:** I think the main reason for that is because of the development revenues on the CMS side Nitesh. We have seen a significant increase in the CMS development revenues which have typically a very high contribution margin and that has kind of offset the increase in raw material prices that we have seen in all the other businesses including the CMS commercial.

**Moderator:** Thank you. Next question is from Mr. Pramesh Parikh. Mr. Pramesh Parikh, please go ahead.

**Pramesh Parikh:** Sir, my question is with respect to Unit III, is it operational and currently at what capacity it operates in terms of percentage? Same follow-up on that Unit III, when do we see Unit III depreciation coming in from reduction form, there is one line item I see in your presentation where is your net debt has increased by 40%, it has gone from Rs 152 crores something to Rs 212 crores and I think one question you already addressed with respect to your GDS client you lost, so I would not repeat that, but can you give us some, I am not seeing the guidance, but what potential do you see on the 5 DMF's filed in 2022 in terms of the next 3 to 4 years as an outlook?

**Deepak Gupta:** With respect to Unit III, so Unit III we commercialized last year and as of now, it is operating at roughly around 40%, operating efficiencies and we have generated close to Rs. 80 crores plus of revenue from Unit III in the FY21 overall and what is the next question?

**Sajeev Medikonda:** So, I think the other question which Pramesh asked was about the potential of the 5 DMF's which were there, so I think when it comes to 5 DMFs, I think all of them are in the specialty segment and at least 4 of them where we expect more development revenues in the short term and only in the long term probably 5-6 years down the line we will have commercial revenues from them, whereas when it comes to one of the molecules which is Linezolid we expect revenues more in terms again for the injectable portion of it which is close to around 15 to 20 million kind of API market to have substantial revenues from the injectable market for Linezolid. That will be more short term whereas the other 4 DMFs are more long term in terms of their nature.

**Pramesh Parikh:** There is one question which is left out is on the net debt?

**Deepak Gupta:** Yes, the net debt has increased to Rs. 212 crores, so mainly it is like partly we have taken the debt to fund our CAPEX requirement for the current year. So, we have invested around Rs. 95 crores overall in the CAPEX, the part of which is funded through the debt which we have raised in foreign currency term loan, so that is the reason. There is also increase in the working capital mainly because of two reasons like for MSME vendors we have made payments as of end of March as per the regulation and also we have seen that there were lot of customer order in the month of March, so our receivable has gone up in the month of March or the same realization will happen in the subsequent Q1 of FY23. So, there is an increase in the working capital requirement to take care of the payables as well as increase in the receivables at the end of the month.

**Pramesh Parikh:** Thank you because I was moving to ask you on receivables as the next follow-up on that, you have addressed that.

**Moderator:** Thank you Pramesh. The next question is from Mr. Keval Ashar from DSP Investment Managers. Mr. Keval, I have unmuted you, you may please go ahead.

**Keval Ashar:** Two questions, first of all, we had some headwinds in Mirtazapine in Q3, so it that sales back to normalcy from this?

**Saharsh Davuluri:** Yes, Keval, we had answered that question already.

**Keval Ashar:** Sorry, I missed that and the second question is, what is the potential and opportunity size we have in the molecules which were commercialized in this quarter in CMS segment?

**Saharsh Davuluri:** I think you missed the answer to that as well, but we did answer saying that it is very difficult for us to quantify these molecules because the range is very big, therefore we will have to wait for the business to come and then we will be able to articulate how the drug has done, but at this point, we are not able to give any kind of indication just given the width of the range.

**Moderator:** Thank you. The next question we have is from again a follow-up question from Mr. Nitesh Awantha. Mr. Nitesh, I have unmuted you, you can go ahead.

**Nitesh Awantha:** Just a broad question, looking the current business environment and also the new pipeline whatever we have which is yet to be launched, are you confident because every time we do ask the same question, what is the outlook for next 5 years and every time we say that it looks very promising, but where do you see yourself in next say 5 to 10 years, do we see as one of the largest API player from India?

**Saharsh Davuluri:** Given the fact that it is a qualitative question, I will give my perspective and then I will request Sucheth to share his perspective as well. I think from a 5 to 10-year perspective, our strategy would be to continue building very strong relationships with innovator companies for the CMS business wherein we are able to bring in very diverse as well as high quality portfolio of molecules. We want to be in a situation where we are making some of the upcoming blockbusters which are typically the small molecules and on the GDS side we would want to be able to keep adding complex generic APIs especially molecules where we are able to differentiate ourselves based on our quality or GMP track record and our technical capabilities and our focus would be to enter into molecules where there is a very strong synergy in terms of our infrastructure, in terms of our R&D capabilities which means that we want to have molecules both on CMS and GDS where our capacities are very fungible in a way, so we can switch between a GDS molecule as well as a CMS molecules where our R&D specialists are able to cross contribute between CMS to GDS and vice versa and also where we are able to add the lot of value, so we would not want to be typically me too kind of products. So, that is the journey we want to go and we do believe that it is a very large market. There are reports that say it is close to \$100 billion market and we are barely scratching the surface at \$150 million or so. So, we do think that there is a very huge opportunity and I think in terms of the near term we will continue to see more molecules get commercialized both in the CMS space as well as in the GDS space. I think Sucheth and Sajeev have talked about the kind of products that are getting off patent on the GDS side and I think the commercialization of those molecules will give very healthy growth in the next 2 to 3 years. On the CMS side, commercialization of these development molecules and they translating into commercial revenues will definitely be very important. We are also investing a lot in terms of getting more new projects into the system. So, while we do talk about the 6 molecules getting commercialized, we are also constantly adding more molecules into our development pipelines as well and I think with the pandemic ending, we are also able to build traction with newer customers, we are able to build new relationships and we expect that should contribute to new business as well, but I think just given the lumpy nature of our business and the kind of challenges we face both internally and externally, we still remain very cautious in terms of giving guidance for annual growth or profitability because there are many factors that could impact our growth and profitability and that is why we refrain from giving guidance. So, that is kind of my take on it. Sucheth, you want to share your perspective.

**Sucheth Davuluri:** I think Saharsh has covered most of it, so I won't repeat any of it. I think just to summarize in a nutshell, one, I think it is a good question, how do we see our since 5 years down the line, I think what is important to us that in the next few years, we build a very high-quality business, when I say quality, I don't mean GMP or quality products that is given in our industry anyway. Without that we don't even have the existence, but when I say quality means the overall quality of business, which is to file DMF which are specialty DMFs on the API side, so that we are able to protect our margins, we don't lose products or lose market share because of too much competition and customers who are not willing to stick to our high-quality business. On the CMS side, as Saharsh said it, we found a space, we found our space, we found our competitive edge in helping our customers take molecule from early-stage clinical development, all the way to late stage clinical development and commercial launch and to be a partner of choice for customers through the commercialization and beyond through the life cycle of the product as well. So, that is why we have focused, that is why we build our capabilities, that is where our infrastructure, our technical capabilities, our analytic capabilities, addition of those are focused on. So, I think our goal is to build a very high-quality API manufacturer supplying these APIs both on the generic and the contract manufacturing side to customers that value this quality of business. I think that is how we see our business going forward.

**Moderator:** Thank you. Next question is from Naitik Mohata. Mr. Naitik Mohata please go ahead.

**Mr. Naitik Mohata:** What are the utilization levels of each of the three units respectively?

**Sucheth Davuluri:** I think about Unit I and Unit II are close to about 70 to 80%. It is not such a straight forward answer because our capacity also keeps evolving based on our debottlenecking and product mix that happens. As Deepak answered earlier, Unit III is about 40%, but Unit III is also where lot of the CAPEX is growing in the new products and projects are going as well. So, the capacity in Unit III will also continue to increase given that it is a fairly large size unit, but that is kind of indicator to you for the sales.

**Moderator:** Thank you. We have the next question from Mr. Amey Chalke of Haitong Securities. Amey please go ahead.

**Amey Chalke:** Whether we have any comments on building robustness in the business where we can build scale of mote in some of the molecules which can potentially remove the volatility from the business, currently we are present in a lot of molecules, but we do not have any scale of mote in any of the molecules?

**Sucheth Davuluri:** It is not entirely true; I think it is a good question though. For lot of the molecules that we do such as Levetiracetam, even Mirtazapine, Ciprofloxacin, Labetalol, all of these molecules are molecules where we actually have scale, in fact we are either the market leader in these APIs, Mirtazapine, Sotalol, Labetalol, Ciprofloxacin for sure, but even products such as Levetiracetam, Mirtazapine, Donepezil we are actually on our way there and we are definitely building scale for



all of these APIs. That is very hard core to our strategy is to continue adding capacity, reducing cost, adding customers, so that we end up in a leadership position. As far as the mote is concerned, I think it depends on the specific molecules that product such as Salmeterol, Entacapone, Paliperidone Palmitate where we have a significant differentiation where the competition is not able to take away any market share for us. I think apart from that once we actually have a leadership position, unless we actually screw things up or something happens because of macroeconomic factors which are beyond our control, we have seen that we are able to continue maintaining that market share. So, I think sometimes the mode is because of scale and continuity of supply and our cost position, sometimes it is because of the patent that we have or sometimes it is just purely because of the technology in that specific API.

**Saharsh Davuluri:** And also may be just to add to Sucheth's comment and may be also especially in the last 3 to 4 years, we have also started rationalizing our portfolio. We have taken some tough decisions, we have determined certain products where we are not able to build that kind of a leadership position and we have given due notification to our customers and we have exited those products as well, so therefore we are in that process of rationalization, I think but also given the kind of deep relationships we have with companies, we may not be able to do that immediately, so whether it is to build the market leadership that Sucheth described or to make a tough decision and exit the product, I think that something that Neuland will take some runway.

**Moderator:** Thank you. We have the next question from Mohit Sharaf. Mohit please go ahead.

**Mohit Sharaf:** How much of our CMS revenues in FY22 were recurring in nature?

**Saharsh Davuluri:** I think that is the number that we have disclosed. I think about Rs. 34 crores is what we have disclosed as commercial revenue and that is revenue that we expect to be recurring and Rs. 38 crores is developmental revenues which is project based.

**Sajeev Medikonda:** And for the full year if you look at it I think we have close to Rs. 114 crores of commercial revenue and Rs. 168 crores of development revenue, so we would expect that the commercial revenue would be recurring revenue.

**Moderator:** Thank you. We have the next question from Ankush Mahajan from Axis Securities. Mr. Ankush please go ahead.

**Ankush Mahajan:** Please elaborate on the CAPEX for the CMS business for FY23 and FY24?

**Deepak Gupta:** I think out of the total CAPEX of Rs. 100 crores that we have earmarked for FY23, I think the rough indicative number is about Rs. 54 to Rs. 55 crores of that is for the CMS business, but as Saharsh was saying earlier, our overall manufacturing strategy is to have capacity which is fungible among specific APIs as well. Our intent is to maintain enough buffer capacity, so that any peak in demand or any volatility in demand is taken care of by the organization, so we will

not have any CAPEX which is targeted only for CMS business in the long run. Our strategy is to have capacity which is fungible among all our APIs.

**Moderator:** Thank you. The next question is from Mr. Kailash M. Mr. Kailash please go ahead.

**Kailash:** Is there an operating leverage at play and we would appreciate a color on the working capital cycle as we see that year-on-year short-term borrowings have increased by 54% and long-term borrowings have increased by 18%, so apparently it seems that the CFO to EBITDA ratio is getting affected?

**Saharsh Davuluri:** I think in terms of operating leverage, definitely we have not still seen that at play, I think just the fact that the revenues have not really grown and we have had products like Levetiracetam for which we have lot of capacity, but we have not really scaled to the kind of capacities we have. I think we are still far from saying that operating leverage is there, but I will let Deepak comment on it and the other question also.

**Deepak Gupta:** So, in terms of working capital, as we discussed earlier, we are seeing working capital environment is increasing mainly because of receivables and payables that we discussed, however, there are long-term debt what we are seeing here now is mainly to fund the future CAPEX requirements as I said, so we are trying to fund through internal accruals part of the CAPEX requirement, but when the business is there for long term, then we are also considering to fund it partly through the debt. So, that is why we are looking at in terms of managing the debt, however we see that the working capital requirement will be kind of, we can see some dip happening in the subsequent quarters when we can rationalize inventory which we have built for continuous purpose for the future. We can see dip coming on the working capital front going forward.

**Moderator:** Thank you. We now take the last question from Ms. Harini Dedhia who is the Research Head of Tamohara Investment Managers. Harini, please go ahead.

**Harini Dedhia:** Developed markets are degrowing and venture capital money is more difficult to come by in the developed markets and there are also inflationary pressures, how has this affected the R&D budgets of Neuland's customers and is Neuland noticing a difference in the new conversations that we are pursuing for our CMS business?

**Saharsh Davuluri:** I think the sense we are getting from our customers is that venture funding for their projects or their businesses continues to remain healthy, in fact a lot of companies have been able to successfully raise money. That is also may be because we deal with slightly later stage biotech companies who are already having drugs in phase 2 or beyond, so we have not actually seen too many indications that there is challenges in terms of funding and I am not sure what the other question was?



*Neuland Laboratories Limited  
May 10, 2022*

- Harini Dedhia:** And are we seeing that from our customers and the way our business is coming in?
- Saharsh Davuluri:** Not really because I think as I had also mentioned previously I think now the pandemic is subsiding, we are actually seeing interest from newer companies as well who had not engaged with Neuland because of the pandemic because they could not visit our facilities etc., now we are seeing some new names reach out to us by themselves.
- Moderator:** Thank you. That was the last question and I now hand it over back to the management to Mr. Sajeev Emmanuel Medikonda who is the head of Strategy and Product for his closing comments. Over to you, Sajeev.
- Sajeev** Once again thank you everyone for joining the call and for your questions especially about
- Medikonda:** the future and the potential, we thank you for your interest in the company and joining us on today's call. Thank you.
- Moderator:** Thank you to the Neuland Management and to the participants for participating in this call. With that this call ends. Thank you. Have a nice day.