"RPG Life Sciences Limited Q4 FY24 Earnings Conference Call"

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MODERATOR:	**MR. VISHAL MANCHANDA – SYSTEMATIX INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day and welcome to RPG Life Sciences Limited Quarter 4 FY2024 Earnings Conference Call hosted by Systematix Institutional Equities.

As a reminder, all participant lines will be in listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Manchanda from Systematix Institutional Equities. Thank you and over to you, sir.

Vishal Manchanda: Thank you, Ria and good afternoon everyone. This is Vishal Manchanda and on behalf of Systematix Institutional Equities, I welcome you to the Q4 FY24 Earnings Call of RPG Life Sciences. We thank the RPG management for giving us an opportunity to host the call.

Today, we have with us, the Senior Management of the Company represented by Mr. Yugal Sikri - Managing Director; Mr. Vishal Shah - Chief Financial Officer. I will now hand over the call to the Company management for the opening remarks. Over to you, sir.

Yugal Sikri: Good afternoon. Thank you, Vishal, my good afternoon to everyone.

As always, it is my pleasure to share with you briefly RPGLS' performance versus the market and brief highlights of our performance in Q4 Full Year FY24 and since we strongly believe that hallmark and true test of a strategy is "Consistency" and since FY24 marks the fifth year of our transformation agenda, a quick panoramic view of the five years at a glance.

Therefore, first, the Market:

In the context of market as per the database IQVIA of MAT March, market is currently growing at sub 10%, 7.6%, the AIOCD AWACS indicate the growth is ahead of 6% or less than 7%, but what is important for me to share with you is RPGLS or RPG Life Sciences is growing at 18.8% that is 2.5 times the market growth.

In terms of Volume:

The market growth is flat on 0.7% is what IQVIA data indicates for the market, whereas RPG Life Sciences volume growth is solid 13%. I am also pleased to share with you that RPG Life Sciences on MAT March 24 basis has emerged as the seventh fastest growing Company of pharma industry's top 75 companies and further important for me to share with you is in Q4 our in-market growth as reflected by IQVIA is 19% versus the industry growth of 5.7% that is 3.3 times the market growth.

Now, let me move to the key highlights of Q4:

Q4 revenue growth is 7.2%, it appears slightly muted due to couple of transient factors, which has something to do with couple of products and a couple of markets – One of our products got impacted because of seasonality, second one because of one product discontinuation, which happened in the fourth quarter of the last year due to the government order. The third one is with respect to market where government has imposed some kind of restrictions on the release of import licenses due to the foreign exchange crunch in the country and I strongly believe that all of these factors are transient and are easily resolvable. Therefore, what is important for us to know is that the in-market growth has been robust 19% vis-a-vis 5.7% market growth in quarter 4, which I mentioned earlier.

Coming to the other financial metrices:

I am happy to share with you they continue to be as robust as they are on full year basis. The growth for EBITDA, PBT and PAT has been solid 26%, 29% and 28% respectively on Y-o-Y basis. Margin improvement also continues with the 5-year Q4 uptrend with a significant increase in the margins in Q4 indices. EPS grew at 30%.

With this, I would like to move on quickly to the picture on full year FY24 and I am sure you had the opportunity to look at the investor presentation which we have uploaded in our website, but if not just presenting you a few highlights:

The sales growth is 14%, EBITDA growth 26%, PBT growth 28%, PAT growth 28%. These are with the market as mentioned earlier, Market Evolution Index is 110, our growth 18.8% which is 2.5x of the market growth, several fastest growing Company as I mentioned earlier, pleased also to share with you market rank have been up by 5 positions or 5 notches and I am sure you all know our market cap is up by 118%, significantly ahead of the BSE Healthcare index growth.

On the margin front:

The EBITDA margin moved from 21% to 23.3%, PBT 17.9% to 20.2%, PAT 13.2% to 15.1%, all of them reflecting a very healthy growth in the year FY24. Cash flow is Rs. 127 crores after paying record Rs. 51 crores CAPEX which we incurred on the plant modernization and significantly higher statutory payments. Working capital management continued to be healthy. New product contribution reached closer to 30% of the sales. Productivity uptrend continued; the productivity moved from Rs. 5.4 lakh to Rs. 5.8 lakh per person.

Brand building exercise continued to happen, which resulted in the newer milestones of our iconic or textbook brand, they happen also to the age-old products. Naprosyn which we are aspiring to take it to Rs. 100 crores made another milestone. It touched close to Rs. 74 crores turnover in FY24 and as I mentioned earlier, yet another portfolio which we are aspiring to take to 100%, again which happens to be an age-old portfolio crossed around Rs. 70 crores, so both of them are quickly closing to the Rs. 100 crores aspirational target which we have set for these products. The legacy products put together contributed 67% to the sales of the domestic business with 15% growth.

New product launches continue to be in the segment which you had identified as well as the line extensions which we have identified in our three-year new product grid, we did 2 launches, 2 line extension launches for our iconic brand, Naprosyn, two line extension launches for Tricaine tablet, and we launched new molecules in our Nephro segment. We also launched 2 molecules in the Rheumatology segment, and I think that continue to augment our portfolio significantly.

In the segmental performance, I think the Domestic Formulation as I mentioned earlier continues to register robust growth 15% and the margins of Domestic Formulation business touched another record high, easily crossing 20%. International Formulation also grew at 15% and here again the margins and when referring to that margin, I am referring to the EBITDA margin, it also moved up to its own high so far achieved in the last 5 years. Similarly, API also registered significant improvement in the EBITDA margin, but grew at 7%. Now, the API growth 7% is perhaps understandable because we have not been able to launch any new molecules since we started focusing on API as the third engine of growth recently after we thought our plant upgradation takes place and we are able to invite the regulators to visit the plant. Now, we have the strategy in place, we have the new product in place where the R&D setup in place and I am sure going forward API growth will also be similar double-digit growth what we have been mentioning earlier. So, on all the three segments, the revenues were double digit in case of Domestic Formulations and International Formulations and in case of API, it was 7%. The EBITDA growth in all the segments have been healthy double digit and that is what gives us the confidence for going forward.

I am sure you have seen the Investor Presentation. I have given highlights five pillars, the five growth drivers of Domestic Formulation business, which are:

Product portfolio rejuvenation, strategic asset building, customer coverage enhancement, productivity enhancement and cost optimization.

Significant strides have been made in each of these five pillars, which is what has resulted in the growth which you have seen. Similarly, both on the COGS front and the OPEX front, all the initiatives continue to be as robust as they could be and all the six or seven initiatives which we have a margin improvement continued to result the improvement in the margins as I described to you earlier.

Similarly coming to IFs and API, we have two growth drivers, two basic prerequisites, considerable progress has been made.

One was the plant modernization and capacity expansion. I am happy to share with you both the projects have made extremely significant progress, the API almost complete and we are expecting the results of the regulators visit and similarly in case of the formulation Ankleshwar plant, again it is WIP, and we expect that by the end of the third quarter we have invited the regulator, and the regulator visits the plant and then we will have that facility also ready for the export. So, plant modernization over simultaneous period also briefed up the R&D, we had created the bench strength for chemists and the research scientists. We have identified the products both for API and the formulations which are currently under development. As we mentioned earlier, our portfolio strategy is a niche strategy so that we are able to have good margins and all business because it does not attract the attention of the big players. So, that is just about the three business segments.

I just mentioned to you about this happens to be the fifth year of our transmission agenda and therefore I am very proud to share with you that if you look at the financial indices, almost all the financial indices are at their benchmark if we compare ourselves to Company's Rs. 1,000 crores turnover category. Revenues go up significantly year after year ahead of market that touch Rs. 582 crores. EBITDA, we last year crossed Rs. 100 crores, this year we touched Rs. 135 crores from Rs. 34.4 crores to Rs. 35.4 crore in 5 years has been a significant achievement. Similarly, PBT from Rs. 15 crores 5 years back, it is Rs. 117.8 crores now, multiple jump. Similarly, the PAT which was Rs. 10.8 to Rs. 87.7is a very significant jump, almost close to 8 times what we can see in the last 5 years. In terms of margins also, we have EBITDA margin which was 10%. So, it is now 23% plus. PBT, which was 4.6%, now it is 20% up. PAT, which was 3.3 is now 15.1% up and the EPS which was Rs. 6.5 is now Rs. 53. What is critical and what is important is that not even a single year in the last 5 years in any of these financial metrices, there has been a blip. It has been consistent upward trajectory year after year. A similar story was increased margin which I have mentioned to you already. Now that is about the 5-year trajectory.

Going forward, you would have noticed in our website in the Investor Presentation we indicated there are 7 pillars of growth. The first pillar of growth is to have state-of-the-art plants.

Second is the targeted R&D pipeline. I think these two will take care of the business of the three segments, all of them together. We have identified 70 products for a three-year product grid, and we are on post launch the products. In the Domestic Formulation business and International Formulation business, also we have crossed about 10 products. In case of new APIs, we have crossed about 10 products. They are all under development and therefore all are going on at the moment. In the case of the plant as I mentioned to you, we are in the modernization quite at advanced stages and we expect the developed markets, regulators to come for approval during this year. And in case of the API, the visit has already happened. We expect this revert continuing from them.

The third pillar is innovation. Innovation is not a buzzword, it is actually the necessity for us in an old Company, we have done institutionalization adoption, institutionalization of the innovation, and every single activity out of 70 activities has targeted innovation agenda. We are working with technology, digitalization front end to back end and I am also happy to share with you that GenAI has also formed a significant traction in our front-end operations. We have completed 13 initiatives last year and a three-year road map, we have 9 projects being implemented now. Since we have cash on our books, we have a very targeted M&A agenda going on, a quite intelligent work is going on and this space is little more clutter as many people want to grow through M&As, we are also into the race, but we will do something which is very accretive, but on this agenda we are active.

We also identified certain other area of growth like can we have, other than medicines, the Med-Techs to get the synergy from the doctors who we have strong leadership that work also is going on.

And last but not the least is the capability building and talent development, particularly in the area of sales and marketing, digital, quality manufacturing. So, that is in a nutshell, I wanted to give you background before I start taking questions.

So, thank you so much for your patient listening and I am all ears to your question. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sudarshan Padmanabhan from JM PMS. Please go ahead.

Sudarshan Padmanabhan: My question is, we have also been investing quite a bit in the Chronic business. Well, I am happy to see certain brands reaching a scale. If you can talk a little bit more about the aspiration of one, having more than Rs. 50 crores and Rs. 100 crores brand as you touch the Rs. 1,000 crores aspirational mark and second is the proportional Chronic, as a percentage of what you expect from the overall Domestic business? The second question is on the margin, I think as you said from FY20 FY19, we see consistently margins across all heads cost improving given that we have some kind of near-term war like situation and issues in the sense the Red Sea etc., how do we see the margin in the near term and also from a longer term as you touched the Rs. 1,000 crores where do you see the EBITDA margin? These are the two things of mine.

Yugal Sikri: Thank you for the questions and I think both are very important questions. As I mentioned to you earlier that product portfolio rejuvenation in domestic business is targeted towards 2 specific action agendas. One is, since we have very strong what you call textbook or iconic brands, how do we convert those brands where I see or where we see promise into mega brands. So, that is one. Second is as you rightly pointed out on Chronic, how do we maximize or enter even the chronic part of the business? Traditionally, historically we have not been strong in Chronic as well as Specialty. So, first as I mentioned is the textbook iconic brands maximization through a very diligent life cycle management strategy and the second is entering the Chronic and Specialty businesses, the chronic area which you identify new therapy as Rheumatology, Dermatology, Gastroenterology and on the mass side, Urology and Cardiovascular, Metabolic Disorders segment.

So, now the actions have happened, one action is do we have the targeted doctor. We didn't have the target doctors in our customer list. We have made sure that almost 90% of this particular segment doctors are covered. So, we have put that in place, number one. Number two, we should have products, so we have identified the products. We have 70 product grid created in which quite a number of products are other than the line extensions for the iconic brands which comes under life cycle management with quite a number of products have been identified in the Chronic and the Specialty segments. So, that is the second part.

The third part is the Fieldforce training. We have worked on the Fieldforce training so that we are equipped to launch such products in their respective segments. So, these are the actions which we have taken. As far as the Rs. 100 crores or Rs. 50 crores aspiration which you talked about, the aspiration we did it for the Naprosyn as one brand as you mentioned, which was Rs. 18 crores in 5 years back is now almost Rs. 74 crores this year and we think in couple of years we should be able to touch Rs. 100 crores . Aspirationally, that is one brand which should be Rs. 100 crores.

And second is the portfolio which is Immunosuppressant portfolio. We are very strong in one molecule called Azathioprine. Now, we have focused on the four molecules in that segment. Apart from Azathioprine, the other three are Mycophenolate, Tacrolimus and Cyclosporine. Put together, we are wanting that portfolio to also cross Rs. 100 crores. So, that is on the textbook product or the legacy products.

Now, in terms of the Chronic we have products launched in number of the sub therapy segments in Cardiovascular and Metabolic Disorders which includes Anti-diabetic products, which include Gliptins which include Gliflozins and their combinations. We have launched some products. We are in the process of launching the product. We are mindful of the fact that we are a late entrant in this market. Therefore, it would take time for us to establish ourselves and take away the share from the existing players who have hugely invested in that field. We are mindful of that, and we are also okay for hockey stick kind of growth and that we are committed and we think that Chronic will also be able to give us the business because it is important for us to be in the Chronic business that is long term that is also more profitable and that is where all the new molecules which are identified are largely belonging to Chronic and the Specialty segment.

Now Specialty segment, Nephro we are strong, so we are continuing to launch new products in Nephro, for example this year we launched Ferric carboxymaltose, Fc-Iro as a brand which we launched. And Rheuma which we entered as a life cycle management strategy for immunosuppressant, we have launched Rheuma specific product, this year, we launched Teriparatide as one of the product and Iguratimod is another molecule which we have launched in the Rheuma basket. Similarly, Gastro and Derma are in incubation. We are covering almost 50% of the targeted doctors already there. That is also part of the lifecycle management for immunosuppressant. As we get establishing in that segment through our immunosuppressant basket, then we launch Derma specific and the Gastro specific products. That is where we are. This is where our status is on the two segments of growth driver. If I put it that way, one is the existing product life cycle management and second is the maximization or entry into the Chronic and Specialty segment.

Now, the second question was with respect to margin, yes, you would have seen the margin uptrend trajectory in RPG Life Sciences has been very indicative of the fact that what is leading to margin improvement. As I have been saying every time, our margin improvement story is structural, which means we are addressing the basic cost elements, whether they come in the COGS or OPEX and doing some fundamental changes there, which is why the margin improvements are happening year after year. And I understand there are issues which are relevant to us also whether it is Red Sea or Middle East conflict, they are impacting us as well, but I think since our structural agenda is so strong, it is not only able to overcome the negatives coming out of those external factors, but also is able to improve our margin. That is why you will see the gross margins improving and so also the EBITDA, PBT and PAT are improving. I hope I have been able to answer the question.

Sudarshan Padmanabhan: So, we should basically see an improvement in the near term as well, I mean apart from the long-term operating leverage middle play in terms of the margin?

Yugal Sikri: Yes, the only rider will act there is that if you see the slope of our margin improvement is quite steep in the last 5 years. Going forward, that slope is going to be not as steep. It is going to be a little obtuse. That is the only point I need to put across.

Sudarshan Padmanabhan: And one final question before I join the queue is, one is, absolute cost basis also we have seen a significant improvement. So, I mean how much more is left, apart from the structural changes that you talked about and what interestingly has been happening is we have basically seen a phenomenal utilization of our Fieldforce in terms of launching products, in terms of line extension, so can you talk a little bit more about your Fieldforce, has the Fieldforce already been created for the chronic so which means that every unit of sales you will have an operating leverage on margin. I am talking about more from a structural and a longer-term basis on this side?

Yugal Sikri: Yes. So, in pharma very important are the prescriptions and second important is your relationship or the engagement you have been able to do with the customer. Now you know well that Chronic part, for example, is something which is already well entrenched by very age-old players, whether it happens to be Sun or USV or Sanofi, they are all very well entrenched in the Cardiovascular area. What we have done at our end is we have identified products as I mentioned to you earlier, which we are launching in a very professional way, and we are training our Fieldforce.

Another important thing I should mention at this juncture is that we made use of digital in a very interesting and productive manner. We have launched an initiative called "RPG Serv". The name itself is RPG serv. We have onboarded close to about 90,000 doctors in this portal RPG Serve and this portal is providing the close to about 34-35 services to the doctor and what is important is that we keep on changing those services so that there is a newness factor and that is working out a very good tool for us to increase the share voice. Otherwise, in physically maximum time, the Rep can meet the doctor maybe 24 times a year. But in this case, we are able to reach the doctor through this portal a number of times, 10, 15, 20, 30 a month depending upon the services which the doctor asks us. So, these are the areas, these are the things which we are working on which has given us dividends in the entire legacy portfolio of ours of what I said growing at 15%, but I am sure it will also help us to establish in the new segment which we entered called Chronic. And that is particularly severe, and you said there is some traction I see in Uro, our Uro business growing at 20% or so, though it is small business contribute only 3% of our business, but it is growing strong. Rheuma business, which we entered just about 3 to 3.5 years back is also doing pretty well, contributing close to about 5% to our sales at the moment and I am sure similarly Derma and Gastro will also contribute as I elaborated earlier.

Moderator: Thank you. Next question is from the line of Sejal Kapoor, an Individual Investor. Please go ahead.

Sejal Kapoor: I have two questions, what is our net cash position currently and what organic/inorganic plans we have given the trend that is emerging on the acquisition side in the Indian market, I have seen companies acquiring assets 7x, 8x sales, is that something that you would be prepared to go for or what is the overall plan because the cash will continue to increase year-over-year or quarter-over-quarter actually?

Yugal Sikri: As you have yourself rightly pointed out because the operating performance is improving, margins are improving, therefore profit volume is improving and despite the fact that we have invested this cash which we are generating for our future growth by investing in the two plants which we have, API plant and the formulation plant which needed modernization, so that we can use both the plants for exports. We had only 10% contributing plant in the formulation which was being used for exports. Now, we have the entire 100% plant refurbished for and waiting for a regulatory approval to happen, and that would be used for expanding the export business and similar thing for API.

Now, what we did was since in our business, 67% comes from the Domestic Formulation and 18% comes from the International Formulation, 15% comes from the API, obviously our priority was the Domestic Formulation and we actually worked on Domestic Formulation and I have described five pillars already. Now was the time for International Formulation, API and the prerequisite was that we must have modern plants. I am very happy to share with you, the both plants are modernized. The plant, which is currently 65-55-year-old plant, now you can see, it is totally refurbished, ready for approval. I dare say even US FDA readiness has also been considered when we had created a new plant for API and similar thing is formulation. So, that will help us for the organic growth to make the International Formulation, API as the second and third engines of growth. Now, so that is on the organic part.

In the DF, it is more OPEX driven because we have to expand Fieldforce, we have to launch new products, we have got very good CDMOs in the country. And I think we use them to get new product supplies fast and we are launching those new products. So, that is the organic part. In organic part as you very rightly mentioned, since we have close about Rs. 127 crores in our books now and after investing, as I mentioned huge amount of CAPEX close to about Rs. 140 crores in the last 3-4 years on the plant modernization including our office modernization, I should say that, now we are looking at the acquisitions and like you rightly mentioned, the market is crazy. Their crazy evaluations and I can only tell you that we have created our framework, what kind of molecules, what kind of therapies, what kind of these products which we are going to acquire, which are likely to acquire, should have all that diligence is going on. We have actually just to share with you around 23 proposals reviewed in the last 1.5 to 2 years and we also submitted non-binding bid, but the market is a bit crazy. We don't want to do any acquisition, unless it makes sense value accretive, but we are hopeful. We have also added into our M&A list, APIs as well. Earlier we are looking on formulation including API because I think that space is also presenting very good opportunities. So, that is where our net cash is being planned to be utilized. I hope I could answer your question, Kapoor.

Sejal Kapoor: And another follow-on question. So, the Indian pharmaceutical market is highly fragmented, right, so if you exclude the top 15-20, maybe let us say top 50 players, there are hundreds of small micro nano sized companies, how does that landscape look like in the ecosystem or the emerging ecosystem of this government and generic-generic rollout, the Jan Aushadhi? And so currently I understand that the backend of WHO GMP infrastructure, so there are close to 10,000 CMOs in India and most of them, more than 90% I believe are not WHO GMP compliant. So, there is a guidance, but not the law. And so let us say over the hypothetical scenario, of course, let us say over the next 2-3 years, majority of these CMOs, either they disappear, they go down under or they upgrade to become WHO GMP compliant and then the government will be in a better position to roll out the generic-generic push. So, in that context, assuming that scenario plays out, how will branded generic space and performance, what does that mean for a Company like RPG Life Sciences in that kind of a scenario where we have real push coming on the Jan Aushadhi or generic-generic rollout?

Yugal Sikri: Yes, looking at the way we are marked characteristics are, it is a very highly segmented market. We have many players. Generic-generic is getting a push from the government. There are Jan Aushadhi Kendras coming up, their government is also issuing directives to the government doctors to prescribe generic-generic, and you directly described there are large number of CMOs, CDMOs and then the GMP is an issue. I think you have laid out the landscape pretty well, I have some observations and some thoughts of course, as the things play out we will see ours is a branded generic market, almost 90% to 93% of the branded generics. Were generic-generic, not there earlier, generic-generics have been there earlier for decades now. Were Jan Aushadhi Kendra not there earlier, I think somewhere in the early 2000s, the Jan Aushadhi Kendra were launched by the earlier government. And are they under emphasis by the government? Yes. How many they have launched; they have launched around some 7000. They plan to take it 10,000 or 20,000 and those 10,000 or 20,000 which they have planned to launch or even go to 30,000-40,000. They compared to some 700,000-800,000 pharmacies or chemists we have in the country. They will still be much less in terms of percentage, number one.

Number two, the performance of current Jan Aushadhi Kendra is lackluster because they have insisted that they should get the supplies from certain authorized manufacturers and if you visit them, you will find paucity of the brands or products available from there, though they are available at 70%-80% cheaper compared to branded generics, one. And the second one is, you would have seen the kind of the news which we get when some children died as well, we see large number of CMOs which are not CGMP compliant. We also see the government regulatory infrastructure is just not sufficient enough to manage and regulate such a burgeoning pharmaceutical manufacturing setup in this country. So, yes, is it a threat to branded generics? Yes, in a way it is. But will it impact so strongly going forward in the foreseeable future, not to the extent that becomes alarming. Now, the current regulators realize this that quality is critical is just not the cost. The quality is also critical and therefore Scheduled-M, GMP, etc., is being talked about and is being implemented. So, all in all, I think all these points which you have mentioned, yes on the macro environment they are concerning, but on the ground will it make an impact the in the next 5-10 years? Not to that extent. That is what is my personal assessment or take.

Sejal Kapoor: That is helpful Mr. Sikri. I think my assessment was in line with yours, but because you are an industry veteran, I thought I would just double check my understanding with yours. You mentioned quality and not just cost. The thing is if you start upgrading these non-compliant CMOs in the country, the cost of compliance will force their operating expenses to go up and then in that scenario they will be **close** to price there and products higher, right? And so, then the economics that will likely play out will look different from what the cost economics and that is currently present because and they are not investing in the compliance, the quality is poor, it is not reliable and therefore the products are cheaper, is that a fair assessment?

Yugal Sikri: Absolutely, I agree with you. Yes, with this, if the regulators continue to push these reforms, I think it will reset the manufacturing landscape. There are some people who will have to opt out because the quality has a definite cost, and it will reset the manufacturing landscape. I very strongly feel. It all depends upon how strongly the government pushes that agenda. Currently, if you look at the government infrastructure or inspection infrastructure, their ratios are extremely pathetic and they have to be for their own regulatory infrastructure and if they do that, I think the reset for the manufacturing landscape will happen and what you just mentioned is most likely to happen.

Sejal Kapoor: And Mr. Sikri, we have been invested in RPG Life Sciences for 10 years now and thank you for increasing the dividend yet again. Thank you.

Moderator: Thank you. Next question is from the line of Hamesh K. from JM Financials. Please go ahead.

Hamesh K.: Sir, you have answered my colleague's questions, so I will not take much time. Only one suggestion, sir, the new product launch, sir, we have been tracking since FY19 and I understand that is the transformation program that we had, but going forward if you can change it to you know last 2-3 years that will be helpful for us to track how they are doing.

Yugal Sikri: Thanks for the suggestion. I generally have a little long-term perspective because I know in some selling and marketing once you launch the product people should get the product and then it comes to you later as expiries. There is a very common thing, therefore. I include the new products and as this product tracking helps us to see that everything going in the right way.

Hamesh K.: So, maybe 3 years and 5 years maybe bifurcation. As an analyst, we like to see last 2-3 years, how has it been done. So, this is a suggestion. Thanks a lot, and all the best.

Moderator: Thank you. Next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: A lot of the questions related to trade generics have already been answered. Just one thing, sir, how do you look at our own capacity management, so one, are we likely to outsource more or are we likely to outsource less, given that the manufacturing environment, as you rightly pointed out, it is becoming stricter by the day. So, you can just give me a sense of what is our current outsourcing percentage and what do you think is likely to happen when it comes to investing in the capacity?

Yugal Sikri: Yes, as I mentioned earlier, we have modernized our plant. We are in the process of modernizing our plant that I mentioned to you earlier. At the same time, we are also adding to the capacities, capacities which are being added as close to about 25% to 30% if I refer to the two plants, Formulation and API. And with respect to the decision to source the product from the third party or from outsource or internal, I think our strategy is extremely clear when it comes to new products. In Domestic business, I think we have very good CDMOs available in the country and being in the industry for a long time, I have my personal connect with those large CDMOs. I know that they have not only good development lab, development scientists and development plan, but they also have manufacturing operations with good CGMP being implemented. So, almost entire new products in the domestic business are being outsourced and as far as the existing business is concerned, existing products are concerned, we take a very prudent decision, we see what gross margin accretive to us. We take a decision on that account and accordingly we either manufacture the product in-house or we manufacture product outside.

Broadly, it is about 30%-35% plus is the Domestic Formulation business which we are outsourcing and new products I have already mentioned to you, almost entire new product we outsource. We also plan that, and I think that is a smart strategy, when the volumes pick up for the new products, we do consider to bring those products in-house because that adds up to a few percentage gross margin for our case. We don't have a risk because the product might fail, we only do it when enough volumes or threshold volumes are created and then we bring the product in-house.

Overall, broadly speaking, we will like to use our facility for the exports going forward and more and more outsourcing we will do. But before we do the outsourcing, our outsourcing partner selection is very robust because we are mindful of the fact that GMP is critical and in our growth journey we would like our product to be seen as quality products. So, I hope it answers your question.

Nimish Mehta: So, now that we are increasing the number of new products, the percentage of new, I mean outsourced products will also increase, right? So, essentially to that extent, there might be some margin impact as well, is that the right way to look at it or some more?

Yugal Sikri: I should mention, I think margin is also important for us because upward trajectory of margins for the last 5 years has been our aspiration which drives us. So, what we are doing is the products which are the Chronic or Specialty products, we focus on both products which have good margins, which have relatively good margin, should not become margin dilutive for us at least. So, selection of the product takes care of the margin part from the CDMOs model plus the relationship with the CDMO and the assurance to them that we will source the product from you. So, all that broad arrangements also help us to have good margin situation even with the CDMOs.

Moderator: Thank you. Next question is from the line of Ankeet Pandya from Incred Asset Management Company. Please go ahead.

Ankeet Pandya: Just 1-2 questions. So, in the initial comments you mentioned that there has been some government has imposed some restrictions from the point of view of International Formulation business, so can you give some more clarity on that part?

Yugal Sikri: Yes, see, largely in emerging market, Ankeet, there are countries where the foreign exchange is being conserved by the governments. So, their issuing of import licenses is being regulated by the government, even though the fact is that we have very good customers and partners there, but that situation is what some hiccups it creates during the year. That is what happened perhaps last year. That is what I mentioned in that context whether that market is market of Myanmar, some such restrictions in Iran, where the governments want to conserve the foreign exchange for their own priority areas. Now is pharmaceutical a priority area, yes priority area. And that is why I am confident that these are transient and since we have very good, connected customers there, we think we should be able to ride over these hiccups also because the governments cannot put embargo on the medicines for long time, particularly when they do not have a large manufacturing base of their own.

Ankeet Pandya: Sir, another point related to International Formulation was given that for the past few quarters we have been seeing strong growth and the Q4 current quarter has been largely flattish for the International Formulation, so is there any like impact of or even the Red Sea like there has been a delay in supply chain issue, anything regarding that?

Yugal Sikri: No, I think just one happened because as I mentioned, we are having plant modernization going on simultaneously for which we had to shut down our one or two blocks because we were modernizing. This was a new facility, new block. So, there was some supply issue for particularly one product and that is what I just mentioned, but I think that is all over because the plant is ready, the new plant and the production has actually started, and we also started to get ready is in the quarter one. So, that was the only point as I don't see an issue. Further capacity expansion, I think we have the capacity available to produce the products plus we have done the expansion now that takes away that fear absolutely from our minds of supply being a constraint.

Ankeet Pandya: Sir, lastly just on the API, given that you mentioned that due to plant modernization and there has been no new launches and that has been largely completed, so can we expect like this is from the second-half of FY25 onwards, the growth in API should pick up given that we will be launching new molecules for the API business? And another question on the CAPEX one, so like last year we have done around Rs. 60-65 crores of CAPEX, so largely believe that majority of the CAPEX is done. So, how much can we expect going forward for the next 1-2 years?

Yugal Sikri: Ankeet, you are very knowledgeable about pharma, I know. Therefore, first question on API, you mentioned, first of all we have created the new state-of-the-art API R&D. We have hired the scientists. This is all a skeleton earlier. We have hired and we have identified new APIs, and the work is now going on. It takes about 1.5 year for a new molecule to be out in the market. That is the development time and then you have the regulatory approvals required for those products. So, last year, we did all of that. We created API R&D state-of-the-art, we hired the scientists, we identified the molecules, the edge work has started, and they are at various stages of the new product development. So, this year, second half we will get the products. That will be too ambitious, but I think we should start getting the product from FY26 because I see good progress happening. There are very strong reviews happening on all the new products. So, I feel that that should start getting reflected properly in FY26 instead of FY25, because all these products are under various stages of development.

Regarding the CAPEX, I think you asked about the CAPEX, the large part of the CAPEX is done, frankly speaking. And now the CAPEX which will come will be more situational. See, it will get a very good opportunity and for which we have to create a particular manufacturing setup whether it is something to do with granulation, compression, whatever and we are prepared to do this and that might have a CAPEX. Otherwise, we will have the routine CAPEX. We will have the CAPEX, which gets included in the new product development and also the CAPEX which I said now could be when we have an opportunity. For example, we were approached by a customer from the developed market, Australia and they wanted us to develop the product to have a product which was niche product. So, we gave them the niche product, we impressed them, then they came up and told us that they want to get the product delivered or manufactured by us. In a very little bit span of time, we created additional facility because we saw that business is a promising business and we spend CAPEX on that. And finally, I am happy to share with you that actually the deliveries from the newly created facility have started. So, such kind of situations, yes, we will have the CAPEX being spent. So, more or less I think this is how it is plus some digitalization agenda, some kind of robotics, etc., when we are improving our manufacturing infrastructure that would entail some kind of CAPEX.

Ankeet Pandya: So, just a classification, the new capacity that you said for the Australian customer. So, this is apart from the Ankleshwar capacity expansion that you have done, this is over and above that you have done CAPEX, or you will be doing CAPEX?

Yugal Sikri: It is included. It is now since the facility is created and the manufacturing started, the dealings have started. It is included in the CAPEX which we have spent already.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Yugal Sikri: I must be grateful to everyone who is on the call today and who has been with us with a number of questions. Net-net, I can tell you that the results which we have got in the last 5 years including the last year are the result of a very clearly established transmission agenda, which is focusing on six or seven tenants and those six or seven tenants will drive the growth further. That is point number one. Point number two is the growth engine, which used to be Domestic Formulation alone would be added by poor growth engines, which are International Formulations and APIs, and the works are in full swing in that direction. Number three is with solid performance improvement happening and the cash flow being generated, we are also wanting to defer the progress by inorganic growth and when happens, we can't predict that. But there are very sincere diligent efforts going on in that direction that should be able to drive the growth.

Overall put together, we want this Company to move to Rs. 1,000 crores mark. This is the well conceptual strategy which we have in place. The kind of recognitions we have got from the industry is really overwhelming. We had been featured in Dun & Bradstreet Top 500 value creators is very humbling, a Company of our size got placed there. So, all of this, I think, gives us the renewed confidence that we will be able to achieve not only the target of Rs. 1,000 crores, but also create solid brands which will become multi Rs. 100 crores brands going forward to get us our due place in the committee of the Pharmaceutical industry companies. Thank you so much for coming over and your patient hearing.

Moderator: Thank you. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.