"Concord Biotech Limited Q3 2025 Earnings Conference Call"

February 14, 2025

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MODERATOR: **MR. AMEY CHALKE, JM FINANCIALS**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '25 earnings conference call of Concord Biotech Limited, hosted by JM Financial.

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

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

Please note that this conference is being recorded.

I now hand the conference over to Mr. Amey Chalke from JM Financial. Thank you and over to you sir.

Amey Chalke: Thank you, Steve. Good evening, everyone. I, Amey Chalke, on behalf of JM Financials, welcome you all on the Q3 FY '25 Earnings Conference Call of Concord Biotech.

At the outset, I thank the Management of Concord Biotech for giving us this opportunity to host the call.

Today from the Company, we have with us; Mr. Ankur Vaid – Joint Managing Director and CEO; Mr. Lalit Sethi – Chief Financial Officer; and Mr. Prakash Sajnani – Compliance Officer and Assistant Vice President, Accounts.

I now hand over the call to the Management for their "Opening Remarks". Over to you, sir.

Ankur Vaid: Good evening, everyone. This is Ankur Vaid. Thank you for joining us on our Q3 FY '25 Earnings Conference Call.

We are pleased to report stable performance for Q3 FY '25. Our revenue from operations stood at INR 244 crores compared to INR 240 crores in Q3 FY '24, a modest growth of 1%. This growth was moderated due to customer procurement patterns and also on account of upcoming annual tenders for the formulation, resulting in lower uptake in Q3 FY '25.

EBITDA for Q3 FY '25 stood at INR 98 crores, with EBITDA margins at 40.1%. Our profit after tax stood at INR 76 crores with margins at 31.1% for Q3 FY '25.

Looking at the 9 months FY '24 performance, revenues increased by 10% year-on-year, driven by a 3% rise in API revenues and a 42% increase in formulation revenues compared to the same period last year.

Our outlook remains positive, in line with our long-term guidance of achieving a 25% CAGR growth over the next 5 years.

Moving towards the segmental breakup:

Our API revenues for Q3 FY '25 stood at INR 176 crores against INR 172 crores in Q3 last year, a growth of 3% year-on-year. We would like to highlight that the interunit sale of API to formulations has not been considered in the API revenues. Hence, we see a muted growth for our API segment. Including the interunit sale of API to formulations, our API revenues grew by 9.6% for Q3 FY '25 on a year-on-year basis.

We observed some of the customers phasing out their procurement from Q3 to Q4, which is also reflected in the strong order book position we have. Our formulation business has experienced notable success, gaining strong acceptance among customers across various regions.

In Q3 FY '25, our Formulation segment stood at INR 67 crores. Formulation segment revenues were impacted during the current quarter on account of the calendar year closure for many of our global clients and on account of tenders from these customers, which generally open for the next year in January, reflecting high order inflows and revenue booking in the coming calendar year.

However, for 9 months FY '25, our revenues from the Formulation segment stood at INR 192 crores, up by 42% on a year-on-year basis. We have built a strong on ground sales and marketing team of over 200 members across India, driving expansion and deeper market penetration. With the continuous addition of new products to our portfolio, we are optimistic about broadening our customer base in the years ahead.

Our strategic focus is to target domestic and emerging markets, leveraging our expertise and market reach with an opportunistic approach for the regulated markets. As our Formulation business continues to evolve, we anticipate substantial growth in both product offerings and customer acquisition, contributing significantly to our overall success in the medium to long-term.

Currently, our product portfolio includes 30 plus Fermentation-Based APIs across Immunosuppressants, Oncology, Anti-Infective and Anti-Fungal segment. As part of our strategic growth plan, we aim to introduce 8 to 10 additional products over the next 3 years, with a strong focus on oncology and anti-infectives. This expansion aligns with our R&D priorities, where we are developing niche products with complex processes and limited competition.

By leveraging our expertise in fermentation-based APIs, we are strategically positioning ourselves to capture a significant share of these niche markets. Our goal is to establish a strong global presence and achieve market leadership, targeting a sizeable global market share within the next 5 years.

In addition to product expansion, we are actively acquiring new customers across different regions, while strengthening relationships with existing partners. By offering a comprehensive and differentiated portfolio, we are enhancing our market share, driving long-term revenue growth, and solidifying our leadership position in the specialized space.

In our CDMO business, we continue to engage with potential customers to consider Concord as the potential CDMO partner and are seeing growing number of inquiries and multiple RFQs being submitted.

With our established capabilities, strong track record, and regulatory approvals in place, we are well positioned to capitalize on this opportunity and drive our future growth. Our strategic focus is to partner with large innovators and well-established generic companies with significant market presence.

Concord offers a unique advantage as a CDMO partner, utilizing our expertise in fermentation-based APIs, complex formulations, and higher-value products, making us a strong and reliable partner for major industry players looking for a fermentation-based manufacturing partner.

While CDMO was initially part of our long-term strategy, we now see it as a medium-term growth driver, given the increasing industry interest. This shift reflects our confidence in utilizing our niche capacities and capabilities to support large partners in bringing innovative and complex products to market.

Moving on to quarterly updates. During the quarter, we made a strategic investment of $1 million in compulsory convertible notes of Palvella Therapeutics Inc. Palvella Therapeutics founded in 2015, is driven by a singular mission to provide treatments for individuals suffering from rare genetic skin diseases.

Palvella Therapeutics is a biotechnology company specializing in developing and commercializing medicines for patients with rare dermatological diseases. Headquartered in Wayne, Pennsylvania, Palvella's Leadership and Scientific Management Team hasa proven track record of success and a strong commitment to leading the way in the advancement of target treatments for rare genodermatosis.

With a team of passionate industry leaders, the Company is dedicated to developing breakthrough solutions for patients with high unmet medical needs. This investment aligns with our long-term growth strategy as it paves the way for a strategic partnership, focused on the manufacturing and commercialization of QTORIN, a therapy designed to treat rare genetic skin diseases.

Through this financial commitment, we aim to strengthen our collaboration with Palvella and enhance opportunities for supplying our products to them in the future, expanding our footprint in the global markets.

Additionally, we have also made a strategic investment by entering into a share purchase agreement with CleanMax Private Limited and CleanMax Enviro Energy Solutions, under which Concord will acquire a 26% equity stake in CleanMax.

Our investment is specifically in the state of Gujarat, where CleanMax operates a 6.6 megawatt wind capacity and a 3.3 megawatt DC solar capacity, dedicated to powering our Dholka plant. This investment aligns with our commitment to sustainability and our focused efforts to address environmental challenges. By transitioning to renewable energy sources, we aim to significantly reduce our carbon footprint, contributing to global climate action initiatives.

Additionally, renewable energy adoption offers long-term financial benefits, including lower energy costs and enhanced operational efficiency.

Finally, an update on our injectable plant. The plant is scheduled to begin commercial production in the current quarter, with revenue generation expected to build up over the next financial year. We have several products lined up for launch from this facility in the upcoming year, which will contribute to both revenue growth and profitability going forward.

Concord is one of the few companies that manufacture both oral solid dosage and injectables, along with in-house API production and backward integration to produce key starting materials. This unique capability positions our products alongside those of large pharmaceutical companies, increasing their acceptance and usage within the medical community.

We are also delighted to announce that Concord has been honored with the Sustainability Reporting Award from the Institute of Chartered Accountants of India. This prestigious recognition reaffirms our commitment to transparency, ethical governance, and sustainable growth, all in alignment with global standards and the UN Sustainability Development Goals.

At Concord, sustainability is at the core of our business strategy, and this award is a testament to our ongoing efforts to drive responsible and impactful growth, while maintaining the highest standards of corporate governance.

At last, I would still emphasize to assess our financial results on an annualized basis rather than a quarterly one. This is because customer procurement patterns may lead to lumpiness, with some quarters experiencing higher procurement than others.

Therefore, a more accurate assessment of our performance is best achieved by analyzing the medium and long-term trends, rather than focusing solely on short-term variations.

With this, I hand over the call to Lalit Sethi, our CFO, for financial and operational performance. Thank you.

Lalit Sethi: Thank you, sir. Let me take you through the financial and operational performance for the quarter ended December 2024. Our revenue for the 9 months FY '25 stood at INR 770 crores as compared to INR 698 crores in 9 months FY 2024, representing a growth of 10%.

Our revenue for this quarter stood at INR 244 crores as compared to INR 240 crores in the same period last year. Revenue from API business stood at INR 176 crores in this quarter against INR 172 crores during the same period last year and API revenue in the 9 months of this year stood at INR 577 crores against INR 562 crores during the same period last year.

As mentioned, API revenue excludes intercompany sales to the formulation unit and hence shows muted growth. API revenue growth includes interunit transfer to the Formulation segment, excluding that it stood at 9.6% for the quarter and 10% for the 9 months on a year-on-year basis.

Revenue from the Formulation business for this quarter was INR 67.6 crores compared to INR 68.5 crores in the same period last year. The revenue growth was impacted by the year-end closure in several of our international markets, which led to the sales being pushed to the following quarters.

Additionally, new tender releases typically occurring in January will be reflected in the financials of the current quarter. Revenue from the Domestic business grew by 13% in the 9 months '25 on a year-on-year basis and revenue from the Exports business has grown by 8% in the 9 months of this financial year.

Speaking on EBITDA. EBITDA for the 9 months stood at INR 315 crores, representing a growth of 6% on a year-on-year basis, and EBITDA for this quarter stood at INR 98 crores as compared to INR 105 crores in the same period last year. This is on account of subdued revenue growth. However, our long-term sustainable margin guidance is in the range of 40% to 43%. EBITDA margin for this quarter stood at 40.1% and for 9 months, it stood at 41%.

On profit after tax, our profit after tax for this quarter stood at INR 76 crores as compared to INR 77.6 crores in the same period last year. PAT margins for this quarter stood at 31.1%. PAT for the 9 months '25 stood at INR 231 crores as compared to INR 213 crores in the same period last year, a growth of 9% Y-o-Y.

PAT margin for the 9 months financial year '25 stood at 30% as compared to 30.5% for the same period last year. We are a zero-debt company with investments, bank balances, and cash and cash equivalents to the tune of INR 250 crores as on 31 December, 2025.

With this, I shall now leave the floor open for question-and-answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and 1 on their touchtone telephone. If you wish to withdraw yourself from the question queue, you may press "*" and 2. Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Chintan Sheth from Girik Capital. Please go ahead.

Chintan Sheth: Thank you, Ankur Ji, and Lalit Ji for the opportunity. On the revenue growth, you mentioned the reason for quarterly revenue. But even if I look at trailing 12-month revenues, the growth has been around 10%, 12% versus what we were initially guiding for this year, which was around 18% to 20%. So, I am just trying to understand whether we maintain our current year growth guidance at around that level or if we will like to revise it a little downward.

And secondly, on the Limbasi facility, if you can highlight how the ramp-up and the product shifting, which was likely to happen during the year, how that progress has been made so far?

Ankur Vaid: Sure. Thank you. So, as you would have seen in our quarter-on-quarter numbers, our Quarter 1 number was slightly on the lower side, and we saw a ramp-up in our growth in Quarter 2. And again, Quarter 3 has been relatively muted.

And as I mentioned that, given our order book position that we, have and given that much of the phasing out has happened or the shift has happened to Quarter 4, we expect our Quarter 4 again to be on the higher side. And so it is going to be more about the execution of the orders book position that we have.

That being said, in our previous calls also, we have mentioned that if you have to break down the growth for us, it is basically, say, at 10% on a baseline growth, we look at around 2% to 3% shift from the innovators to the generic, another 2% to 3% growth comes from new customer acquisition, and another 2% to 3% comes from increasing the market share for our newer products. That's how the 18% comes out.

Historically, we've been doing that. And even in this quarter, we are looking at a couple of our customers that we intend to work with new customers for some of our new products. So, one would have to see how that pans out. But as I said, we have a good order book position, and I think our Jan numbers have been good.

We are working very much on getting our February numbers out as well, in line with what we expect. So, I won't be able to guide you on that, but from the looks of it, we are moving in the right direction. We just need to see that some of the customers that we intend to build on as part of the 2% to 3% know, how we are going to be doing that. Things are moving in the positive direction.

In terms of the Limbasi ramp-up, our capacity utilization, Lalit, stands at?

Lalit Sethi: Yes, it stands at 35% for this 9-month book against 32% in the same period last year.

Ankur Vaid: So, while the customer additions have happened, I would say that still some of the customers are taking a little bit more time than I would have actually wanted it to be.

But again, the efforts are going on, on that front. We have a couple of customers who have taken the material from the new site, and we expect that in the next couple of months, they would also shift.

So, depending upon the resources that our formulation partners have versus new products and site qualifications. This process is an ongoing process. And we anticipate that more and more customers in the coming months will be shifting to Limbasi facility, which will further increase our capacity utilization. And as I said earlier also that the new products that we intend to build on in the anti-infectives, Antifungal segment, that is all going to be coming from the new site only instead of the Unit 1.

Chintan Sheth: And just to touch upon the growth. Are we seeing end market demand for the products for our clients are declining or competitive intensity with them has increased, which results in the slower offtake from them? Or this is just a channel timing issue in terms of procuring from you guys?

Ankur Vaid: So, we have not seen any change in the market per se. It's not like our customers have added alternate suppliers and they are procuring it from other players. I think since we had a heavy Quarter 2, my sense is that probably because of the heavy quarter, they would have had inventories, which would have led them to some of the customers phasing out. It is not that all the customers ended up phasing out to Quarter 4.

But some of the customers phasing out gets reflected in the overall growth for that specific quarter. But new customer addition for our existing products, I think that is something that didn't happen in Quarter 3, but the discussions were ongoing. And I expect that at least a couple of them should get on board in this quarter.

Chintan Sheth: I will join back. Thank you for the question.

Ankur Vaid: Thank you.

Moderator: The next question is from the line of Huseain from Carnelian Capital. Please go ahead.

Huseain Bharuchwala: I just wanted to understand on the CDMO side, since you said that moving from long-term, it has now moved to medium term. So, how do you see the CDMO contract? Can you give some color on that? And are you seeing customers visiting your site? And have RFQs have actually increased over the period compared to last quarter or so or maybe a year or so? So, give some colour on that, sir?

Ankur Vaid: So, on CDMO, as I mentioned that we had earlier built it into a long-term strategy. And we have given how things are panning out globally. We have made it into more of a medium-term strategy. And currently, we have filled out a lot of RFQs. But if you see active engagements, I would say those would be a couple of projects that we are actively discussing.

Again, decisions like these could take time and the true impact of that would take at least 9 to 12 months. And that's why while our efforts are going on, on building this CDMO segment, I would still put this in a medium-term bucket. While things can change, but the true impact on the financials, I would say, would be in the medium-term only. But our efforts are ongoing in this CDMO space.

Huseain Bharuchwala: Any number that you can share in terms of the RFQs that have gone up, if you can, say, the RFQs have gone up by 40% or 30% or anything of that sort if you can share?

Ankur Vaid: RFQs never talk about the quantum of the business. So, they are typically talking in terms of the technical evaluations that are going on. So, I would not want to give any number on the CDMO, because whatever growth that we talk about, that is apart from the CDMO. So, if that happens and our efforts are going on, I think at appropriate time when things move to that level, I would be happy to share that in terms of what is the quantum impact on the top line. But for now, I would just say that our efforts are ongoing on that, and a couple of the projects are where we are actively engaging with them.

Huseain Bharuchwala: Got it. And sir, any viewpoint that you would like to share on the raw material prices. So, are the raw material prices gone up a little bit and we are not able to pass through, because our gross margins have contracted. Is it because of the change in the mix in formulation going up? Or is it because the raw material prices have gone up, and we are not able to pass through all those increases in the cost? Any color on that front?

Ankur Vaid: I think our gross margins have been relatively flat.

Lalit Sethi: Flat. It's flattish. Basically, there is some product mix. But as far as the prices of the raw material is concerned, there is no impact on the raw material prices.

Huseain Bharuchwala: Got it. Okay, that's the only question from my side. Thank you so much.

Lalit Sethi: Thank you.

Moderator: The next question is from the line of Sumit Gupta. Please go ahead.

Sumit Gupta: Sir, what has been the capacity utilization of all the 3 facilities?

Lalit Sethi: For Unit 1, it is 78%; and for Unit 3, it is 35%. Unit 1 is the Dholka facility and Unit 3 is the Limbasi facility. And for Unit 2, it is 26%.

Sumit Gupta: Okay. So, what utilization can we expect over the next, let's say, 1 year or 2 years? How do you see that panning out?

Ankur Vaid: See, if you look at Unit 1, while we're at 78%, but at times, the capacity may not be a true indicator of the volume, the revenue contribution that it could give, because when we talk about the utilizations, it is based on the fermentation capacity being used.

Now for oncology products, where we have a 5,000-liter fermenter compared to the 400 meter cube that we have at Unit 1, the contributions from the 5,000 liter fermenter would be significantly higher at times. So, with an increase of maybe 0.5% to 1% level, the contributions to the topline could be much higher.

But that being said, as I mentioned earlier, much of the growth in the API space is going to come from Unit 3, where we'll be shifting the customers from Unit 1 to Unit 3, and also newer products are going to be manufactured at the Limbasi facility. So, ex-oncology products, the capacity utilization is bound to increase on Unit 3.

And given the growth guidance that we have given, the API growth will move in line with the capacity utilizations for Unit 3.

Sumit Gupta: Okay, sir. Thank you for the detailed answer. The second question on basically about the trajectory of the margin. So, how do you see that panning out? What has been the pricing environment and then leading to the margin trajectory, over the medium term?

Ankur Vaid: I'm sorry, the margin trajectory and?

Sumit Gupta: And the pricing scenario, what has been the overall trend? And how do you see that panning out?

Ankur Vaid: So, the growth for us has been primarily volume-driven growth. And there is not much change on the pricing front with our existing partners. That being said, when we go for a much larger customer base, the newer customer acquisitions could be at times higher or lower than our average pricing that we have for the products. It depends upon the market and depends upon the customer to customer. But the existing prices to our existing customers have been fairly stable, and have been primarily a volume-driven growth for us.

And when it comes to margins, since the price points are not changing and there is not much variation on the raw material cost, the gross margins are expected to be relatively stable, and that's something that you would see on our 9-month gross margins as of date as well.

Lalit Sethi: Well, another variable is the product mix, which does have some impact on the margin profiling. But since our API and formulation split is normally in the range of 20% and 80%, so therefore, the margin profiling is going to be more or less in the same range, unless and until there is a significant shift in the split.

But as far as the designing of our capacity is concerned, with respect to the API and formulation, the designing of the capacities has been in such a manner that the potential revenue from API and the potential revenue from the formulation stands at 80% and 20%, respectively. Therefore, going forward also, in the long run, our margin profiling is going to be in the same range of 40% to 43% EBITDA.

Sumit Gupta: Okay. And sir, your overall employee cost has also increased, if I take the 9 months data of around nearly around 10% of increase. So, do you expect more employees to be added, sir? Like what is the current headcount? And like what exactly do you see the trajectory going on here?

Lalit Sethi: So, as far as the Unit 4, which is also ready for capitalization, the new headcount is likely to be appointed for the Unit 4. Therefore, there could be a onetime increase in expense. And going forward, this is going to be offset from the revenue, which will be generated from the injectable units.

Ankur Vaid: See, in addition to the injectable manpower, as our capacity utilizations would increase and also with the injectables coming in, there could be some increase in our field force also, but that is not a significant change. But definitely, we expect some additional manpower coming at both Unit 3 as well as our injectable marketing team as both the things ramp up.

Sumit Gupta: Understood, sir. Lastly, on the price, I understand that you stated you have not a taken price hike. It is on a consolidated basis, right? But are there some contracts where on a case-to-case basis, you have taken price hike?

Ankur Vaid: Yes, of course. So, it depends upon the customer. As I said earlier, there could be certain accounts wherein we want to get into those larger accounts, where the pricing could be different compared to what our average pricing could be. And there could be certain smaller accounts where we may be able to get relatively better pricing. So, it depends upon product to product, customer to customer, and which region we are targeting.

Sumit Gupta: Okay. So, in that case, what is the frequency of price revision?

Ankur Vaid: So, we don't have a standard pricing. It depends upon, if we are going with a second source opportunity, what is the price that we need to give in order to get that opportunity? So, it gets on a case-on-case basis. And if there is any revision in the price, then it depends upon that opportunity. But I would say that there are no upward revisions. So, ours is more of a volume growth, but price revisions could happen depending upon the opportunity that we intend to capture.

Sumit Gupta: Understood, sir. Thank you.

Moderator: Thank you. Participants who wish to ask a question may press "*" and 1. The next question is from the line of Alok Dalal from Jefferies India. Please go ahead.

Alok Dalal: Yes. Good afternoon. Lalit, sir, what is the growth that we are seeing in the top 5 APIs?

Lalit Sethi: In the top 5 APIs, the growth is at the range of around 5% to 6% case taken on the third-party sales.

Alok Dalal: Okay. And rest of the APIs, how is the growth trending there?

Lalit Sethi: Yes. So, in anti-infectives and oncology, the rate of growth is significantly better as compared to the immunosuppressants. As there are some new molecules, new markets have been there for those molecules.

Ankur Vaid: And when we talk Alok, about the 5%, that is to third-parties. As I mentioned that, the Unit 2 primarily has backward integration with our API. So, when we are going with a 43% rise in the formulation sales, it is also impacting the growth in the API sales also. So, that 5% is just to third-parties, but we are capturing a much larger market through our formulations, which in turn would also lead to API growth.

Lalit Sethi: So, 1 thing .I just wish to add here. So, in case there is not interunit sale and the interunit sale is to be made to the third-party, in that case, the growth in API would have been 10%.

Alok Dalal: Okay. And, sir, these numbers are on a 9-month basis, no?

Lalit Sethi: Yes, these are on 9 months basis.

Alok Dalal: Would you be able to share the contribution of the top 5 APIs to overall revenue for 9 months?

Lalit Sethi: No. Normally, we don't share the molecule-wise…

Ankur Vaid: So, product by product breakup, typically, we don't provide.

Alok Dalal: Okay, sir. And, sir, what is the CapEx guidance for FY '25 and '26?

Lalit Sethi: Capex is more or less over. As we mentioned in this quarter itself, that amount of INR 225 crores, which we have spent on the injectable unit, will be capitalized. And there is no growth Capex, which is expected for the financial year '24-'25. There will be only maintenance Capex with respect to all the units, which will be to the extent of around INR 15 crores to INR 20 crores per annum.

Ankur Vaid: Yes. But if we do get into, apart from formulations or fermentation APIs, if we look at other opportunities within the adjacencies of fermentation and if that requirement comes, whether to do it in-house or through other procurement, then that's something that we may look at. But for our API and Formulation business, as Lalit said, there will be no Capex requirement.

Alok Dalal: Got it. And Ankur, the last point, what will be the utilization rate for the injectable plant for FY '26? Let's say, when you end FY '26, what kind of utilization can one look at?

Ankur Vaid: So, Alok, a little too early for us to come down on the numbers. But as I said that for the next financial year, this is primarily going to be targeting the domestic market. And we will do the filings into the emerging markets in the coming financial year. And in FY '27 is when we would see both emerging markets and Indian markets contributing.

But for next year, it is primarily going to be the India market, which I believe is also a very, very significant and a very big market, particularly for the APIs, particularly for the finished formulations that we intend to sell in the domestic market, because, as I said earlier that there is no other company like Concord, which is fully integrated right from API to finished formulation. So, definitely, we would be able to use it to our advantage, the backward integration approach, and be able to cater to the Indian markets in a much more aggressive manner.

Alok Dalal: Understood. And sir, while you explained about the margins in the 40% and 43% range, shouldn't the margin be higher, more than 43% because now the Capex is over andit will have the utilization ramping up? So, shouldn't the margin move in, let's say, by FY '27, should it be more towards the 45% range?

Ankur Vaid: So, again, it is more cyclical in nature, because when we had our Limbasi facility not ready or just got ready, our EBITDA numbers were lower. And as ramping up started, we saw that going from 38% to 40%, 42%.

And now that in the next year, we will have the injectable facility coming up, one would have to see that there would be a positive impact from the ramping up of the Limbasi facility, but there would be some bit of drag coming from the injectables.

But of course, we will stay in that 40% to 43% range, as Lalit mentioned. But once the injectable facility also starts ramping up in a manner that we are looking over the next 2 to 3 years, then yes, it could also start having higher contributions to the EBITDA margins.

Alok Dalal: Understood. Okay, sir. Thank you for taking my questions.

Ankur Vaid: Thank you.

Moderator: The next question is from the line of Harsh Bhatia from Bandhan Mutual Fund. Please go ahead.

Harsh Bhatia: Yes. Ankur, just 2, 3 quick questions. Are you calling out the drag from the injectable facility?

Ankur Vaid: Not in this year. This year, we intend to capitalize or commercialize the injectable plant by the end of this quarter. So, I don't see any significant impact in this quarter.

Harsh Bhatia: Okay. And in the second quarter, you had mentioned that the external API sales will grow in low-double digits for FY '25. So, do we still hold to that guidance for the full year, external API sales?

Ankur Vaid: Yes. But see, again, as I mentioned, now you need to look at from an overall company perspective, because there are a lot of markets that we are also able to address through our formulation.

So, the overall pie is the same, whether I address it through an API sales or I address it through formulation sales. And that's why, since the last 2 quarters or so, we have been giving how the API growth has been considering the interunit, because that is a true representation in terms of how we are addressing the addressable market. Some bits happens through the API and some are happening through the finished formulation.

Harsh Bhatia: So, just to get this more accurate, talking only about the third quarter, you mentioned that external sales would have grown by almost 9% to 10%, ex of the captive sales. So, if I do the rough…

Ankur Vaid: No, no. For **c**aptive sale, it is 10%.

Harsh Bhatia: Sorry, you were saying?

Ankur Vaid: I was saying it includes the captive sales. So, the API growth, including the interunit sales, constitutes to 10% API sales growth.

Harsh Bhatia: **So,** roughly, if I do the calculation, again, if I'm not wrong, that would be incrementally another INR 12 crores, INR 13 crores for this quarter that would have been captively consumed?

Lalit Sethi: 10% will account for around INR 20 crores. Yes, INR 15 crores to INR 17 crores.

Harsh Bhatia: **So,** this INR 15 crores to INR 17 crores of sales that are basically getting transferred to the formulations in terms of, let's say, capital sales. I'm just trying to get the numbers sort of more directionally accurate. That is not getting reflected in the formulations as of now, right? Because your INR 68 crores formulation sales was in third quarter of last year, and it is the same as INR 67 crores in this third quarter.

So, that incremental INR 15 crores is getting accounted in which format? Like, I understand that transfer pricing might be something that I don't understand. But how should we think about this? Because even in the second quarter, this was the same case, but the formulation sales were higher. But this quarter, you're saying that INR 15 crores, INR 17 croresare getting transferred to formulations, so.

Lalit Sethi: In fact, you need to see that from the 9-month basis. So, in 9 months period, there is a growth of 42% as far as the formulation sales is concerned. The increase in the formulation sales is on account of the API, which has been provided from Unit 1 or Unit 3 to the formulation.

So, that kind of growth number has come only through the interunit sales. So, instead of looking at the quarterly number, we need to see the 9-months numbers.

Harsh Bhatia: And when we provide the guidance of 20%, 25% sales target for the next 3 to 5 year period, that is on an external sales basis, right?

Ankur Vaid: So, the 20%, 25% guidance is at the Company level. So, there, we are not breaking it down into the API or the injectables or the oral solid. Here we're talking in terms of the overall growth of the Company coming at 20% to 25%. And see, there are certain markets where we will go through the API. There are certain markets where we will address it through the finished formulation.

And I think when you have the backward integrated approach, especially for fermentation APIs, I don't think any company globally has that, that they are making the fermentation APIs also and integrating them into injectables or oral solids.

So, wherever required, we would use this as an opportunistic approach to cater to the market requirements. So, that would result inthe overall growth of the company, which is the 25% CAGR that we talk about. So, the breakup will depend upon how the market is panning out.

Harsh Bhatia: So, net-net reported basis, it should be 20%to25% CAGR on the reported basis?

Ankur Vaid: On a company level basis, correct. Correct. On the reporting basis. Yes.

Harsh Bhatia: Okay. Since we're on the fermentation side, is there anything on the CDMO from a peptide level perspective that we're working on? Is there Anything you would like to share or too early to call out?

Ankur Vaid: Sorry, could you repeat?

Harsh Bhatia: Anything from the fermentation side for the CDMO angle? Are we working on the peptides space as of now?

Ankur Vaid: So, definitely, it is an area of our interest and meets our expertise that we have. So, currently, it is definitely a good area to evaluate.

Harsh Bhatia: Alright. Thank you so much.

Ankur Vaid: Thank you.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the Management is able to answer questions from all participants, please limit your questions to 2 per participant. And if you have follow-up questions, please come back in the queue.

The next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

Alankar Garude: Hi, thank you for the opportunity. Ankur, 1 clarification. Can you reconfirm the 25% growth guidance is a CAGR and not a guidance of 25% year-on-year growth in the 5th year, which would be, say, FY '29?

Ankur Vaid: That is correct. So, this is a CAGR guidance that we are giving and not a 5th year 25% growth.

Alankar Garude: Understood. And the second clarification would be, when you say 80-20 split between API and formulations, do you also include the interunit sales within the API percentage of 80%?

Lalit Sethi: No, no. No. In fact, what happens is when the sale is made from the API plant to formulation plant, that sale has not been reported and has been adjusted as the interunit sales in the consolidated accounts.

Alankar Garude: Got it. My question is, so see, if I look at 9 months of overall sales growth of 10% year-on-year, even if you assume that the fourth quarter is very strong, we won't finish the full year FY '25 with more than low to mid-teens overall sales growth.

Now in this context, how should we look at the journey from, say, FY '25 growth rate to the 25% CAGR you mentioned? Will it be a stepwise journey as we had guided in the past? Or will there be a strong growth in FY '26 on this relatively low base, followed by further growth in FY '27 as the injectable contribution kicks in?

Ankur Vaid: So, I will give a broad level answer to this. Again, what we spoke about is that, we know that how the journey is going to be. And again, it is based on the capacities and the capabilities that we have and the product mix that we have. So, maybe I will give a rough number, say, on the injectables.

So, considering the assets that we have for the injectables, the asset turnover should be close to around INR 500 crores to INR 600 crores, based on the asset turnover. And even if I discount it significantly a number to it and say let's go with the number, just now that we're talking, say, INR 300 crores.

And if you take it on INR 1,000 crore base, that turns out on a 5-year period to almost 6% growth. So, again, that 6% is not going to happen on a year-on-year basis. This will happen again on a gradual basis, because as I mentioned, in year 1, it is going to be more domestic, followed by penetration into the emerging markets and then more stabilization and ramping upwill happen..

So, even if we take on an 18% growth, this takes you to the 24% on a CAGR number. But the other areas, which is the oral solid dosage or the new APIs that we are building up on the fermentation side, and the ones that are there in the pipeline, they would also be contributing. So, if you take that out that, when I spoke earlier about 10%, 2%, 3% and 3%, taking it to 18%, there could be a year wherein maybe 1 of those may not have contributed.

But that doesn't mean that the baseline becomes lower and you build on an 18% growth or a 20% growth on that. It could be that, that opportunity, maybe work is going on, but it gets translated into potential business in the next year. So, as long as you have the expertise, you have the scale, and you have a competitive cost point, that opportunity to get would happen.

Now it could happen in year 1 or it might translate into business opportunity in year 2. So, that's how we look at in terms of how we break up the API business and then what's the contribution coming from the oral solid and the injectable space.

Alankar Garude: Understood. And 1 last question, with your permission. For us to track the progress of the Limbasi facility, at least we believe that external API sales should be the right metric to look at. Our external API sales have been relatively weak. The growth has been relatively weak for us for the last few quarters now. You did speak about clients taking more time than anticipated. But at the same time, we have also seen 1 of your competitors' newer facilities getting ready. So, in that context, can external API sales growth be relatively slow for a few more quarters?

Ankur Vaid: So, there are 2 points to it. First is that Concord formulation unit was the firstone to qualify Limbasi, which also triggered. So, much of our sales to the formulation actually happen through Unit 3, which is the Limbasi.

So, our procurement is primarily from Limbasi side, while Unit 1 customers have not shifted, we'd like to cater to them through our Unit 1. So, Limbasi facility is not only catering to third-parties, but is also catering to Unit 2, which is our formulation.

In terms of the client, as I said, this is a continuous work that is going on. Many of the customers have shifted, but there are quite a few customers who are in the process and some who have to take that step.

Regarding the competition, Alankar, I won't comment on that. I think we would just need to see that how the progress happens there, and if there are any challenges that come due to that. I think at different platforms, we have spoken in terms of how our competitors' capacities are and how they are panning out. But I would not want to talk in terms of how they are going ahead.

Alankar Garude: One follow-up here, Ankur, would be, so within that 35% utilization, which Lalit sir mentioned, of Limbasi in this quarter. When you started this facility and, got FDA approval for this facility, you would have envisaged a certain captive versus external split. So, at this 35% threshold, can you give a broad indication as to where we are on this external captive split today versus what our expectation was, say, 3 years back?

Ankur Vaid: So, our expectation was to gain more market share. We would have never thought that, let's target an X market through our formulations. The intent is to capture market share, preferably through API, but if it doesn't happen, then through the formulation.

So, there are certain opportunities in formulation like the growth that we have of 42%, 3 years back, we would not have built these ramp-ups in the formulation. So, the idea is to cater to the demand, whether to third party or to our in-house via formulations through the Limbasi facility.

Alankar Garude: Got it. That's it from my side. Thank you.

Ankur Vaid: We have not done this kind of segregation is what I would say.

Alankar Garude: Understood. Thank you.

Moderator: The next question is from the line of Parvati Rai from Equentis Wealth Advisory. Please go ahead.

Parvati Rai: Yes. Thanks for taking my question. So, quick on the follow-up where we just hope that some of these orders have shifted to Q4. So, is there a possibility that it might move beyond Q4? And what I'm trying to ask is, will that grow? So, the shifting that has happened from Q3 to Q4, will that move from Q4 to Q1? Is there a possibility of that as well? Since we are banking so much on a strong quarter, because last quarter also, we did say that H2 would be much stronger. So, that's where I'm coming from.

Ankur Vaid: So, again, H2, we continue to say would be stronger than H1. But we cannot take away the possibility of anything moving to Quarter 1. But our Jan, and so far our Feb numbers have been pretty good. But again, I can't rule out that possibility. That would always be there. But the way that things are progressing, I am confident of where we are.

Parvati Rai: Okay. A quick 1. So, the other income was quite high during this quarter. So, specifically, anything to call out there?

Lalit Sethi: That's basically on account of the investments that we have made, the interest component and the profit on some of the investments, which have been in cash.

Parvati Rai: Okay. And 1 quick one. So, last quarter, we did call out that with respect to the immunosuppressants, some client discussions were on in LatAm, and possibly materialized within a couple of months. So, any update there?

Ankur Vaid: So, I'm not sure on that. But I think if it is for the market that I think probably we have taken that opportunity through the formulations.

Parvati Rai: Okay. And last 1, a quick 1 where you did mention that 8 to 10 new products and possibly 1 or 2 every year. So, 2 to 3 products to be launched every year. So, if you could give some more colour, since we are almost on the last quarter now sitting here. So, from a next year perspective, what are those 2 to 3 products and are we on time to launch them as in on track?

Ankur Vaid: Yes. So, I think we did speak on 1 of the calls also, on this that 1 product like Voclosporin, it is again for immunosuppressants for lupus, and this had a PARA IV opportunity. And we are also working with a PARA IV company on Voclosporin. So, we have just filed the DMF. And so that is there. We have a couple more products which are at very advanced stages of filing also, which I would expect that maybe in February or March, we would be filing the DMF for that product also.

So, I would say this year, we would have 2 products that we would have launched. We have also supplied certain exhibit bag quantities to that customer. But besides the PARA IV opportunity, so the impact of that would probably happen in the next few years. And till that time, we would see how we can take that product to different markets, where that patent is not applicable. But yes, those are the 2 products. And again, for the other products, we are at quite advanced stages as well.

Parvati Rai: Okay. Great. Thank you.

Ankur Vaid: Thanks.

Moderator: The next question is from the line of Harshal Patil from Mirae Asset. Please go ahead.

Harshal Patil: Thank you for the opportunity, sir. Sir, though you've been alluding to we should be looking at it more from an annual basis or a 9-monthly basis. So, this is basically just for my understanding. I just wanted to know, for this quarter, both the API and the formulation sales have actually declined on a sequential basis, and we've actually had a gross margin expansion. Sir, I just wanted to understand if I'm missing anything out here. This is just for my understanding, sir.

Ankur Vaid: So, you're saying with respect to previous quarter or?

Harshal Patil: Yes, with respect to previous quarter, Q3 on Q2.

Ankur Vaid: On the gross margin level?

Harshal Patil: Yes.

Lalit Sethi: I think we need to look into this and get back to you, separately.

Harshal Patil: Sure. Okay, sir. That was it from my side.

Ankur Vaid: Thank you.

Moderator: Thank you. The next question is from the line of Nikunj Mehta from Magma Ventures. Please go ahead.

Nikunj Mehta: Hi. Thanks for the opportunity. And sorry for harping again on the API point. One of the points that you mentioned in this quarter was because of the delays in order bookings from the customer side. And typically, that happens towards the end of the calendar year.

So, my question to you was that if I look at the last quarter, in the base business also, there was a 20% decline in the API business. So, we are anyways sitting on a lower base. And if I'm not wrong, last time also during this time, there was a site transfer, which our couple of clients were going through, and we were expecting that in the second half, we would see the improvement come through.

So, just tallying these 2 points, we were expecting the second half to be, on a third-party sales, stronger growth on the API side, which has not happened. So, is it that the end market itself is seeing some sluggishness? Or are we losing some market share on the third-party side? Any colour, because you mentioned that the pricing has not moved. So, just wanted to get the sense on that part.

Ankur Vaid: So, if you see the impact of the API not being sold to that specific third-party, I think we spoke about it more in the last quarter, and the impact is something that we saw that it happened in March. So, my sense is it happened from December to February.

But that being said, I think if you see the formulation sales growth that has happened, the year-on-year rise that we have had on the formulations. As I mentioned earlier that there are certain markets that we would go through the API and if not then through the formulation.

So, the overall pie is the same. It is just that we are addressing that pie. Certain markets, we have moved in through the formulation route and certain markets we continue to do it through the API. And that's why if you look it on an overall API sales basis, that comes out to be 10%. And our H2 numbers would continue to be higher than the H1 numbers. That's how we are looking at it also.

And if the H2 numbers are higher, that means that the Quarter 4 numbers are bound to be higher. And even the API growth or formulation growth translating to API, I would see that that number moves to the number that we are looking at.

Nikunj Mehta: Understood. So, you are saying that there has been no market share loss, because APIs also are very cyclical. So, you don't see any cyclical downturn or any market share loss from our side, which has happened on the API side?

Ankur Vaid: No, no, because these are not cyclical APIs. Nephrology products, patient has to take irrespective of what happens. They have to take it for the rest of their life. So, there is no cyclical impact here.

And again, when you talk about formulations, maybe injectables could have a cyclical impact. But when the procurement comes for the formulation partners, we don't see that cyclical impact happening. I think the lumpiness that comes to us is primarily in terms of how our formulation partners are targeting the market. What's the kind of inventory they have? So, that lumpiness comes to that, not on account that the product itself has a cyclical nature.

Nikunj Mehta: Understood. And just from my understanding now, since we have the full year in base in terms of the formulation ramp-up and the third-party sales to that extent. So, typically for a 20% overall growth, which we are looking at, we need our third-party API to grow at 10-odd% and maybe the formulation run rate, assuming 43%, which is there, which stays.

So, then only we'll be able to reach that 20-odd% number that we are aiming at, considering even the injectables ramp up to that extent. So, that's the understanding, correct? That's how we should look at that the third-party API sales will have, because it's a mature business, we will be growing in between 10% to 12-odd%, and the formulation is something, since we are ramping up in terms of capacity, that should be north of 40-odd% to make that 20-odd% growth at a company level. Is that a fair understanding?

Ankur Vaid: See, I had given in terms of how the breakup of the 18% kind of growth comes in. And there are certain opportunities that we already have through our strong order book position. There are certain opportunities that we are working on and anticipate to convert in this quarter. And that number, whether it gets translated from API or formulations, I won't be able to comment on at this time.

Nikunj Mehta: Okay. And just, sir, last question in terms of volume terms of our API. In terms of volume, what percentage goes to formulation?

Ankur Vaid: So, I don't think we have a number like that, that of the total capacity that we make, how much goes to formulation. But I would say that depending upon we have the formulation percentage. And based on that, one can translate it to the overall sales that we have done, maybe on a value basis, considering that it is around the gross margins that are there on the formulations, 1 can figure out from that what is the value-based contribution coming. On a quantity basis, we won't be able to have that information right now.

Nikunj Mehta: Understood, sir. Thank you and all the best.

Ankur Vaid: Their weighing measure would be different, like the Mycophenolate Mofetil, if you talk about it, they are in multi-ton. But if you talk about everolimus or tacrolimus, they are at a kg level basis. So, every product would have a different configuration. So, not sure if we'll be able to do that at this point.

Nikunj Mehta: Understand, sir. Thank you

Moderator: Thank you. Ladies and gentlemen, due to time constraints, this was the last question. I now hand the conference over to the Management for their closing comments.

Ankur Vaid: So, thank you, everyone, for joining our Q3 FY '25 earnings call. We hope we have been able to address all your queries. For any further information, please get in touch with us or SGA, our Investor Relations Advisors. Thank you once again. Have a good evening.

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