Dishman Carbogen Amcis

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15th February, 2023

To, **Department of Corporate Services** **BSE Ltd.** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001. **Ref.: Scrip Code No. : 540701 (Equity)** **: 974556 (Debt)**	**To,** **The Manager,** **Listing Department,** **National Stock Exchange of India Ltd.** "Exchange Plaza", C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai – 400 051. **Ref. : (i) Symbol – DCAL** **(ii) Series – EQ**

SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL - QUARTER ENDING 31ST DECEMBER, 2022

Dear Sir,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015, pls. find enclosed herewith transcript of earnings conference call arranged by the Company with Investors on Friday, 10th February, 2023 to discuss the financial result and performance of the Company for the quarter ended on 31st December, 2022.

The aforesaid transcript is also being hosted on the website of the Company, www.imdcal.com in accordance with the Regulation 46 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015.

Kindly take the same on your record.

Thanking You,

Yours faithfully,
For, Dishman Carbogen Amcis Limited

SHRIMA GAURANGBHAI DAVE
Digitally signed by SHRIMA GAURANGBHAI DAVE
Date: 2023.02.15 15:26:33 +05'30'

Shrima Dave
Company Secretary

Encl.: As above

Dishman Carbogen Amcis Limited

Earnings Conference Call Transcript

Event: Dishman Carbogen Amcis Limited – Third Quarter and Nine Months Ending December 31, 2022 Earnings Call

Event Date/Time: February 10, 2023/1700 HRS

CORPORATE PARTICIPANTS

Sanjay S. Majmudar
Director - Dishman Carbogen Amcis Limited

Harshil Dalal
Global CFO - Dishman Carbogen Amcis Limited

Pascal Villemagne
Chief Executive Officer - CARBOGEN AMCIS entities, Company's wholly owned subsidiaries

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Earnings Conference Call of Dishman Carbogen Amcis Limited.

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. Pascal Villemagne – CEO of CARBOGEN AMCIS entities. Thank you, and over to you, sir.

Pascal Villemagne: Good evening, everybody. Good evening, dear shareholders. Just to correct, I'm the CEO of Carbogen Amcis only, not Dishman Carbogen Amcis.

I'm going to start to give you a bit of an overview of where we are standing at Carbogen Amcis branch. Business has been very good over the third quarter, thanks to a good financial result despite of difficulties over the cost of energy across Europe as there are some price increase with specific raw materials that we are using into some of the cholesterol and vitamin, minerals that we are manufacturing in Netherlands. So, the financial results are, as I mentioned, on the top line, pretty good and also better than expected on the EBITDA level. But our CFO, Harshil Dalal, will come back on more numbers little later.

Our current development project pipeline is also extremely healthy because we are above CHF 100 million of development project within Carbogen Amcis. We are reaching CHF 114 million now, which represents more than a year of work for all the value at Carbogen Amcis.

On the commercial product side, we also register a good progress in that field with higher consumptions on some products that are coming to our portfolio this year. So, the end of the quarter has been very good, and the forecast for the end of the year is also very good.

In terms of strategy, as mentioned in the last investor call, we are carrying on the digital transformation, which is going to enable to do more with the current assets we are having. These projects have been started by December, and we are engaging now in the expansion of the different softwares that we are implementing. Among them, we are going to import a new ERP SAP and also a laboratory support system called WINS.

Those physical software will enable us to unleash and debottleneck part of the company and enable us to reach a better profitability and hopefully also increase our possibility to do more projects with the current assets we have.

In terms of good news, the new facility in France has been inaugurated last Friday successfully. And in the meantime, we also received a very good news from the French authority. We have been awarded with the authorization of opening a pharmaceutical site there, which will enable us to continue and finalize the progress and start operating with our first client in the next quarter.

In the field of customer success, we are completing our expansion in Switzerland for our specific Japanese customer with his ADC projects, also successfully will start over the second quarter of the next fiscal year. So, everything is on track, on budget and normally should deliver what was planned for next year.

That's it for Carbogen Amcis. And I'm leaving it over to Harshil Dalal, our Global CFO.

Harshil Dalal: Thank you very much, Pascal. Hello, everybody, wishing you all a very good evening. We will quickly go over the financial results that were declared today, and we have uploaded the investor presentation as well.

The current quarter, that is the quarter ending December 31, 2022, was actually the best quarter that we have seen in terms of revenue over the last 10 quarters. And hence, the revenue stood at about Rs. 640 crores for the quarter. This translated into a revenue of Rs. 1,794 crores for the 9 months ending December 31, '22.

The COGS for the quarter were quite low as compared to what we have seen in the previous 2 quarters, and that is largely on account of high-value Phase III development work that was done in Q3, which is, obviously, at a much higher margin. And this also translated into lower cost for the 9 months ended December 31, '22, as well.

As far as the other expenses for the quarter are concerned, those were much higher as compared to last year's same quarter. Obviously, one of the factors driving it was the external factors, such as the energy prices have increased significantly as Pascal also mentioned.

But a couple of other things that I wanted to touch upon. One, we had made a provision for onerous contracts in Carbogen Amcis Switzerland. So, that was to the tune of about Rs. 24 crores in the quarter as well as there was a foreign exchange loss of Rs. 34 crores that was booked in this particular quarter. So, these were kind of the outliers for this particular quarter, which was booked as part of the other expenses, which, in addition to the external factors led to the increase in other expenses.

The EBITDA for the quarter was quite healthy at Rs. 115 crores, which translated into 18% margin on the top line. And for the 9 months, this translated into Rs. 287.5 crores, which is roughly about 16% of the top line. The depreciation and amortization for the quarter stood at about Rs. 50 crores as compared to Rs. 75 crores, which was in the last year same quarter.

So, one of the changes that has happened in the last quarter is that the goodwill, which was getting amortized over a period of 15 years, starting from April 1, 2015, we have taken a fresh look at the goodwill and the amortization period has been expanded from the original period of 15 years to now 22 years. So, now the balance amount of the goodwill will be amortized over the next 15 years. So, instead of Rs. 89 crores charge to the P&L every year, we will see that reducing by almost 50%.

The finance cost for the quarter stood at about Rs. 22 crores. One, obviously, because of the increase in interest rates across the world. We are seeing an increase in the interest cost for us as well. Secondly, this Rs. 22 crores of finance cost also include a foreign exchange loss, which is to the tune of roughly about Rs. 3.5 crores. The profit before tax stood at about Rs. 45.6 crores as compared to Rs. 38.4 crores during the comparable quarter last year, and this translated into a profit before tax for the 9 months at Rs. 33 crores.

As far as the segment-wise performance is concerned, we had a very strong quarter from Carbogen Amcis, all entities put together, on the trend side. So, for the third quarter, the revenue stood at Rs. 462 crores as compared to Rs. 421 crores for the comparable quarter last year, which is a growth of about 10%. And for the 9 months, this translates into a growth of about 16%.

The Dutch business, we saw the revenue increasing significantly in the last quarter, largely because most of the customer orders were expected to be serviced between Q3 and Q4. So, while we had a flat first half as far as the Dutch business is concerned, in terms of the revenue, we were able to make up a good part of it in the third quarter of the financial year. As far as India is concerned, it was, again, a quarter with good revenue on the API and the intermediate side, where we had reported a revenue of Rs. 46 crores as compared to Rs. 39.6 crores in the comparable quarter last year. And thus, for the 9 months ending December 31, '22, the revenue for India NCE API stood at Rs. 171 crores as compared to Rs. 111 crores, representing a growth of about 54%.

The India Quats and Generics business, which is largely done out of our Naroda facility did a revenue of about Rs. 49 crores as compared to Rs. 46.5 crores in the comparable quarter last year. For the 9 months, this translates into a revenue of Rs. 148 crores as compared to Rs. 127 crores in the 9 months last year, representing a growth of 16%.

As far as the margins are concerned, we, again, saw a very good quarter for the CRAMS business at all of the Carbogen Amcis entities, where the Carbogen Amcis consolidated EBITDA margin stood at about 22% for the third quarter as compared to 20% in the comparable quarter last year. And for the 9 months, this translates to close to 19% as compared to 20% in the 9 months of the last financial year.

For the Dutch business, we, again, saw pressure on the raw material prices as we had explained in the last quarter. So, while the revenue grew significantly, we did see that the margin stood at about 17%, which is more or less what we did in the first half of the financial year. Having said that, we do expect that in the course of the next financial year, I mean we should see the raw material prices going down as compared to what they are right now and expect the margins to, again, start increasing. As far as the India business is concerned, on the NCE, API and intermediate side, we did see a one-off expenditure in terms of the cost for EDQM resolution, and that is the reason the EBITDA for the third quarter was not positive. And on the Quats and Generics business, we saw that the EBITDA margin stood at about 7.3%.

With this, I would like to hand over the call to Mr. Sanjay Majmudar, our Independent Director.

Sanjay Majmudar: Thanks, Harshil, and a very good evening to all of you. Very quickly, just to summarize the key highlights, not in terms of numbers, but in terms of a few qualitative statements. I think in as much as the France facility, which has been inaugurated and which has come in production, we are quite excited and we see a very decent revenue starting to flow from this highly sophisticated injectable unit from the next fiscal. Again, as Pascal shared with you, we are also quite excited about the co-investment project with a Japanese company, which is growing on stream. Hopefully, I think by the third quarter of the next fiscal.

Lastly the EDQM part is also coming to an end. Hopefully, the inspection, which has already been triggered by us, should be over as per the time lines, which are indicated by the regulator. And the first quarter of the next year should see normalcy being restored. So, Bavla should commence the normal operations, definitely in the next fiscal.

And overall, therefore the top line as well as the bottom line growth should be much, much better and respectable in the next fiscal year, with all good things coming together.

I think with this, let's open the house for Q&A. Moderator?

Moderator: Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.

Subrata Sarkar: Yes. Sir, first up, like accounting question, sir, it is looking to the current quarter consolidated numbers. What I see is like cost of material consumed has drastically reduced from Q-on-Q 105 to like last year vis-a-vis 105 to 86 and last quarter, 194 to 86. And vis-a-vis, sir, like other expenditure has also gone up drastically from 68 to 175 and 117 to 175. So, any reason to that? Number one.

And second, sir, like what is the reason for changing our depreciation and amortization policy? Like if you can throw some light on that first.

Harshil Dalal: Sure. Thank you, Subrata, for your questions. So, first of all, as I've explained in my remarks, so the cost for the quarter, so we had a high amount of development revenue, especially in the late phase coming out of the Swiss entity, where the margins for those products were extremely high as compared to some of the early phase development work that we do. And that was precisely the reason why, in the third quarter, we had a much lower cost as compared to what we had in the previous quarters as well as last year in the same quarter.

However, if you see for the 9 months, the cost comes to roughly about 19%. So, more or less our COGS for the year, if you see historically, has been in the range of anywhere between 18% to 20%. So, that is more or less the benchmark of the cost for us on a consolidated basis. It just depends upon whether it's bulk of the development revenue or commercial revenue, which is reported in a particular quarter, which would rise the costs for the particular quarter. So, that was on the cost part.

As far as other expenses is concerned, so there were I would say 3 major things because of which the other expenses are much higher as compared to last year's same quarter. One, we had made a provision for onerous contracts, which was to the tune of about Rs. 24 crores. And what this means is that while we do a lot of the development work for our customers, as a prudent policy, wherever we believe or wherever we think that there could be cost overruns, this is obviously subject to negotiation with the customers from getting the increased price from them to compensate for this particular cost.

But as a prudent conservative policy, we would make a provision for this cost into the P&L for whatever development project it is. So, right now, in the last quarter, we have made a provision for about Rs. 24 crores. And as the progress of the project goes further, we do expect that some of this could get relieved depending upon the percentage of completion and the negotiation talks that we have with the customer.

Secondly, there is a foreign exchange loss, which has been booked, which is to the tune of about Rs. 34 crores. So, this is the notional foreign exchange impact on the foreign currency balances and the hedges that we have undertaken. So, that is something which is provided for in the P&L.

Depending upon how these contracts are utilized in the future against the revenue, depending upon how the exchange rate moves for the balances that we hold in different currencies, we do expect that some of this FOREX loss might either get translated into realized ones or it would get kind of reversed if the exchange rate moves in our favor. So, that is the foreign exchange loss, which has been booked.

And thirdly, there have been certain EDQM expenditures, which had been incurred in the last quarter, taking into view that we are expecting the EDQM authorities to perform a reinspection anytime maybe by the end of this quarter or beginning of next quarter. So, there were certain one-time expenses which had to be incurred, and that is also factored into the other expenses.

And lastly, obviously, the energy cost as compared to last year's same quarter have increased significantly. So, while we are trying to pass on to the extent possible as much of the increased cost to our customers, there is, obviously, a time lag between the cost increase and when we are actually able to achieve the passing on of the increased cost to our customers.

So, last year, obviously, in Q3, there was no impact of the Russia-Ukraine war. All of that started only from the end of March and then getting into the current financial year. So, that is also one of the cause which has impacted other expenses. I hope that answers your both questions.

Subrata Sarkar: So, now, sir, more question related to business. Now, sir, like in this quarter, we have our line margin on the cholesterol facility and at least the top line have come back to some extent, although the margin is quite low still. So, any guidance or any understanding for us because traditionally cholesterol and vitamin and analog used to be a higher-margin business. Currently, it is only 15%, 17%. So, what kind of margin improvement, as well as like top line we are expecting from this?

Second, sir, again, these are all margin-related questions. Second say, now since we are expecting like Bavla facility to come back after the EDQM remediation measure to full force, then like I remember at some point of time, our margin was actually maybe higher than the Switzerland and Netherlands facility, at least Switzerland facility. So, like what kind of steady state margin and top line we can expect?

And last, sir, since we have started the new facility, so any understanding on that, like how much top line we are expecting? And what kind of like steady state or optimal margin we are expecting?

Harshil Dalal: Sure, Subrata. So, coming to the margins, so what we expect is that India facilities, I mean, as you mentioned, historically, it has generated quite high amount of EBITDA margin. And what we expect is that as the revenue from the India facility, and when I say India facilities, which will be both Bavla as well as Naroda, keeps on increasing in the future, and when I say future, starting from the next financial year, we should see the margins at the group level increasing significantly. We do expect that the next year, we should have the India facilities do revenue, which is at least 15% to 20% more than what it would do by the end of this financial year. And this is obviously on a conservative basis. As we move into the fourth quarter and once the clearance from the EDQM happens, we would get a better sense of how the next year will pan out. So, essentially, what we believe is that with the India operations coming back on track, it would have a positive impact on the overall margins for the group as a whole. That is number one.

Number two, we do expect that many of the increased costs in that we are seeing because of external factors, also because of factors, not just related to the energy cost, but what we are also seeing is that because of the higher inflation that we are seeing in Europe, the employee cost will also increase at least in the next financial year.

So, what we are trying to do is to pass on this increased cost to the extent possible to our customers. And obviously, it's a process that we have to go through. It's not like the cost increase today and tomorrow, I'm able to pass it on. It does take time. So, once we are able to get through that particular lag, we have already started the process. Once we are able to get through that particular lag, we should again see the margins coming back to what they were earlier.

Netherlands, yes, I mean, the raw material prices have increased because of various factors. And I would say in the next year or so, we do expect that the prices should come down. Having said that, there are a lot of other development efforts that have been undertaken in Netherlands on our products business. And hopefully, that should also help us in improving the margins for our products business.

So, I would say there is a lot of scope in improving the margins. It is all about focusing our energies on these key assets. As you would have seen in the numbers, for the Carbogen Amcis grant, one of the factors for the increase in the margins was also our China business. So, Shanghai, if you see historically, has always generated a negative EBITDA or even when it got into the positive territory, it was anywhere between 10% to 15%.

If you see the first 9 months and the last quarter, the margins have been in excess of 25%. So, what we will try to do is to kind of have our projects transferred to the other locations, where we could bring in cost efficiencies for us as well as for the customer, which help us in debottlenecking the capacity constraints that we have in Switzerland as well as help us in improving the overall margin. So, margins is definitely something that we have in mind in terms of the improvement, and we are definitely working towards that.

Subrata Sarkar: Sir, my last question on the balance sheet side. Like a few of the other CDMO players are mentioning like they are facing some challenge with respect to like receivables from their clients in this situation. So, on a broader sense, like what is our feedback from the client? Are they withholding their like CDMO projects? And are they withholding the payments? And in this respect, sir, do we need to do some additional provisioning in our balance sheet? And do we expect our date to go up in this circumstance?

Harshil Dalal: Subrata, for us, we haven't seen any kind of, I would say, strain as far as the receivable collection is concerned. For a matter of fact, as far as our development projects are concerned, we would not start a project unless and until we get a 30% kind of prepayment from our customers. So, on the development side, it's more like a milestone-based contract that we enter into with our customers. And it's only by receiving prepayment that we will kind of start the work for the customer and we would not take any risk on ourselves.

As far as the commercial supplies are concerned, with the kind of customers that we have, the bulk of our business being NCEs, all AAA rated pharmaceutical companies, all innovators, we have not seen any kind of strain on the collection side. So, we are still seeing a very strong demand for the kind of work that we do on the NCE side. And we are not seeing, I mean, to answer your question, not seeing any kind of stretch on the collection from our customers. So, we don't see any kind of provisioning required for that.

Moderator: We have our next question from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: Firstly, on the gross margins, right, I mean you spoke about a high-value development project being executed this quarter. So, my sense is maybe 80% to 82% is a more realistic number to look out for rather than what we've seen in this quarter. Would that be the right way to look at it?

Harshil Dalal: Yes, I would say that Tarang, you are right. That's the reason I say that if you see the 9 months, our cost is at around 19%. So, 18% to 20% is kind of the cost that we see.

Tarang Agarwal: The second question is, you spoke about a FOREX loss that's been booked in this quarter. It's a sizable amount. I mean, typically, we would incur a loss on our receivables only in a scenario where our currency appreciates, right, which while has been the case in Q2 wasn't so in Q3 and going forward or at least the initial trends that we are getting, rupee continues to depreciate. So, why would we book a FOREX loss?

Harshil Dalal: This was Tarang the largely at the Carbogen Amcis Swiss entity, where we received a lot of our payments in US dollars from our customers. So, as of the end of that particular quarter, as on 31st of December, we had a huge amount of balance, which was lying in the U.S. dollar account. So, now that account has to be restated in Swiss franc for the balance sheet purpose. And then it was restated in INR when we do the consolidation for you. So, that is due for….

Tarang Agarwal: Hypothetically, I mean, correct me if I'm going wrong, but hypothetically, if you hedged your receivables at 80, okay? And today, the rupee-dollar is at 83. Then to that extent there is a notional loss of Rs. 3. But in reality, you've just hedged your volatility on currency, correct?

Harshil Dalal: Absolutely. You're absolutely right. That's correct.

Tarang Agarwal: On the French facility, right? I mean, congratulations, I mean, we've been long awaiting for this facility to come up. My sense is there's been a sizable expenditure that's been incurred, right? How should we see the scale up of this business in terms of it contributing optimally to the top line? What are the kind of fixed costs that you anticipate as this facility commercializes? And by when do we see the optimum utilization happening?

Harshil Dalal: Pascal, you want to take that?

Pascal Villemagne: Yes, for sure. So, as it's a greenfield project, and it'll be interesting on the ground, you would need to staff that particular unit mix in advance because in the pharmaceutical environments, we have to go through the loan qualification and validation of your facility and for doing this, you need new staff. So, that's why we are currently bearing quite a lot of, and you're absolutely right, quite a lot of fixed costs.

And in front of that, we don't have it yet because, as I just mentioned, we just got the official authorization to open that particular site as a pharmaceutical unit. So, in the next few weeks, we need to continue this qualification and validation around which was the plan. And for this, for sure, we are going to see carry a number of fixed cost.

And on the energy, the consumable to qualify the line, the salaries of the people that are working on those qualifications. We are going to enter a phase where we can start to now welcome customers to officially visit in all the facilities. We are under discussions with several customers to engage a new program in this new facility.

We already booked our first order that's going to be manufactured by June, just after the completion of what we call the major field test for this very first operations, where you prove to your customers and the authorities that you can run this facility under sterile conditions, which are fantastic.

And from that point in time, we will have to continue and move, of course, the project portfolio forward. As I said, we're under discussions with several customers to implement new projects. But those discussions are ongoing. And as I mentioned, we are in this a little bit gray area where we need the customers to comment on it in writing. Our business plan has been clear. Next year, we want to reach at least CHF15 million revenue for that facility. Top line and when that facility is going to run with two-shift system, we plan to reach EUR30 million for that unit.

Tarang Agarwal: Sorry, did you say that 1-5?

Pascal Villemagne: 1-5, 1-5 for next year. Yes.

Harshil Dalal: The debottleneck financial year.

Tarang Agarwal: Got it. That's CHF15 million, correct?

Sanjay Majmudar: That's right.

Pascal Villemagne: Yes. Yes, absolutely. That's the ramp-up phase of the facility that we are aiming, 50% of the full capacity, I'd say.

Tarang Agarwal: Just a couple of more. On energy cost, Harshil, if you could give us the 9-month FY '23 energy cost versus what it was in 9 months FY '22? Just to get a sense on how acute the impact has been on your other expenses. That's one.

And the last one is on CAPEX, right? I mean last 2, 3 years, the business has been in a significant investment mode, and we see the fruits of all those investments now coming to fore. So, going forward, how should we see your CAPEX number in FY '24 and '25? And consequently, how should we see your leverage for '24 and '25?

Harshil Dalal: Sure, Tarang. So, your first question on the energy cost. For the 9 months ended December 31, '21, the energy costs were about Rs. 43 crores. And for the 9 months ended December 31, '22, this amounted to Rs. 66 crores. So, there is an increase of almost 50% as compared to the 9 months for both the financial year.

Secondly, as far as CAPEX is concerned, yes, as you correctly mentioned, we completed the project in France. We are also completing the project for the extension of our building in Bubendorf, which is going to be used for the ADC manufacturing. And we should start realizing the revenues and the profits from these expansions from the next financial year.

We have incurred a certain amount of CAPEX in India as well, especially for the EDQM remediation as well as we have incurred expenditure, even what is not just the minimum requirement for the EDQM, but for the growth of the India business for the future. So, all of this should start from the results from the next financial year.

One of the projects that we are right now focused on as an organization is the digital transformation that we are undertaking across the Carbogen Amcis entity. And this is across implementing SAP as well as implementing the NIMs as well as a lot of other quality softwares. So, that is something that, right now, the expenditure is being incurred on.

Apart from this, we don't expect any major, I would say, greenfield projects or any major brownfield projects to be undertaken at this point in time, which would have like a massive CAPEX outlay, similar to what we had done in the past. But we will keep on incurring a certain amount of maintenance CAPEX, certain CAPEX, which might be required from the compliance perspective across all of the entities.

So, if we had to give a guidance, I would say a fair run rate in terms of Rs. would be close to about Rs. 300-odd crores in each of the financial years, if we take the next 2 financial years, and most of it would be the maintenance CAPEX. And there will be a certain amount of CAPEX that we would have to incur in India, especially on the water purification plant as well as we are upgrading our ETP systems. So, all put together, I would say, roughly about Rs. 500-odd crores over the next 2, 2.5 years looks to be something that we might incur.

Moderator: We have our next question from the line of Utsav Jaipuria from Dam Capital. Please go ahead.

Utsav Jaipuria: So, my question was on the onetime expenses. Can you please quantify the impact of the EDQM expenditure that you've taken in India?

Harshil Dalal: EDQM for the last quarter, that was close to about Rs. 7 crores, Rs. 7.5 crores. And then there was also certain onetime expense that we have incurred in the quarter prior as well. But for the last quarter, yes, it was about Rs. 7 crores to Rs. 7.5 crores.

Utsav Jaipuria: And what was the figure in Q2?

Harshil Dalal: Q2 was close to about Rs. 12 crores.

Utsav Jaipuria: Okay. And on the energy costs, can you quantify it for the quarter as well, apart from the 9 months?

Harshil Dalal: So, for the quarter, last year same quarter, it was about Rs. 15 crores, which, this year, December quarter was about Rs. 21 crores.

Moderator: We have our next question from the line of Saurav Jaju, an individual investor. Please go ahead.

Saurav Jaju: Actually, I'm new to the company. So, my question was on the CRAMS business. In how many molecules are you the primary supplier for your customers? And also, do we supply generics or it is completely patented molecules?

Harshil Dalal: Thanks for attending the call. So, basically, the way it works is that when the customer does the filing with the regulatory authorities when the molecule is in Phase 3, it has domains of site from which the API would be sourced. So, if we are the development partner for the particular molecule, the customer would mark our site as the site from which the API will be sourced. In which case, if the molecule is successful at the end of Phase 3, we should be able to enter into a commercial contract with the customer, which would have us as the supplier of the API.

And depending upon how the customer sees the molecule, how big it could be, how it expects it to be registered in various countries, it might, at some point, also add another supplier of the API. So, that is how our industry works. And how many? We are the primary supplier. Pascal, I mean, I don't know if you have the number in mind? But I think on all of the commercial molecules, we would be the primary supplier.

Saurav Jaju: Sir, your margins are volatile because I think that is a big moat, right, because you are the primary supplier, and this is not generics business, right?

Harshil Dalal: No. So, what we do is we would do NCE business. And at some point, obviously, the molecule would become off taken, and that's how we will need to generate. But we start the journey with the molecule being anything largely speaking.

Saurav Jaju: And my next question is what kind of growth are you expecting in FY '24?

Harshil Dalal: FY '24, in terms of revenue, we do expect that the revenue should grow by in the ballpark figure, it should be anywhere between 12% to 14%. The EBITDA growth should be at a much higher period.

Saurav Jaju: Okay. So, you are expecting margins to go up?

Harshil Dalal: Yes.

Sanjay Majmudar: Because of also the base effect. Because as you would have seen in Bavla, we have been incurring losses in India because of the EDQM-related issues. So, that should be normalized and should enter into a proper positive territory. Therefore, EBITDA growth is quite significant.

Saurav Jaju: Okay. But other CRAMS player and other CDMO players are struggling with their margins, and they are saying that 6 to 12 months are challenging. Any cause for that?

Harshil Dalal: So, we don't know what CDMO players you are taking as a benchmark. But maybe if you're talking about some of the Indian players, they are largely into churn rates with a certain portion of the portfolio being NCEs.

While for us, if you see our business model, what we do is to deal with niche new chemical entities. We work with close to about, what, 270-, 280-odd customers, work on about 500-odd molecules in the NCE space. So, our focus is on development of new molecules and the molecules, which actually become successful entering into a commercial partnership with the customer, which is quite different from many of the other Indian players that might be facing a challenge for the next 2 quarters. Some of these costs, especially in Europe and that is something that we are conscious of, and people try and build it into the selling price to the extent possible.

Moderator: We have a question from the line of Tarang Agrawal from Old Bridge Capital Management. Please go ahead.

Tarang Agarwal: A couple of more. Globally, we're witnessing overall liquidity getting tightened versus what the situation was maybe about 15 months ago. Is that somehow translating into your business in terms of maybe lower than the 4 preclinical inquiries or Phase 1 inquiries? Some color on that would be helpful. Because what we understand is the impact is relatively acute in that side of the world.

Harshil Dalal: So, Tarang, right now, we are not facing any such challenge. And I'll also then hand over the call to Pascal, who can also explain you in detail. But what we have seen over the last 2, 2.5 years is that a huge amount of venture capitalist money has gone into many of the biotech companies. And because of this, we, obviously, stand the beneficiary in terms of the work that we do for many of these biotech companies.

Right now, we have seen the levels of investment kind of dropping from what they were in the COVID years, but still those are quite high compared to what they were in 2019, that is pre-COVID.

But I'll also hand over the call to Pascal, maybe he can also elaborate on the same.

Pascal Villemagne: Thank you, Harshil. Yes, you're absolutely right. The level of investment in 2019 was in the high judge on the high side. And then when COVID occur, there was obviously a large amount of money that was invested in the pharma and bio to fight against the disease that has raised the lot of investments actually higher level. And then since now, 6 months, we see a decrease in that field because obviously, with the efficiency of the Moderna vaccine, for instance, and many others, that disease is broadly going back to a normal level.

Lately we participated through some of the discussion that JPMorgan Conference earlier this year. And yes, there is clearly a trend where there is a weakness of this money coming into play in U.S. So, that's something that we still look at. However, as Harshil mentioned, if you compare the level of investment that was done around the year of '19 and where it's now, yes, it's less than last year, but it remains as excellent, I would say we're back to normal, but we obviously keep a very, very careful eye on that important partnership of us because as you clearly mentioned, that engine where this money is financing new potential costumer that could come in at some point the innovations would happen and would kind of stop a bit these mechanisms, we might suffer that in the future. As far as time being, we haven't suffered from that. We still have some pipeline of products, and we are quite comfortable for the next fiscal year. Beyond that, it's obviously very difficult to predict.

Tarang Agarwal: I understand that sir. Just a couple of more, if I may. So, I mean, for the project, which is supposed to come on stream in the second or third quarter next year with your customer, what is the primary indication for which that molecule serves, when does the patent expire for your customer?

Pascal Villemagne: Mean for the new customer, that application is a cancer application. And we have a chance that on that particular molecule that we are working on, it's also a community with different type of drugs in the area of cancer, treating different types of cancer. And we have some applications that are coming to the market and they've always been in the market already in Japan.

And that's an expectation for the customer about 20 years before the patenting itself. As I said, the same part of that molecule is going to come into other applications, then we also talk over the installed applications. So, with that business and that customer, we are hand in hand for, hopefully, the next 2 to 3 decades at least.

Tarang Agarwal: And Harshil, last for me. What's the kind of wage inflation or employee cost inflation that you're anticipating for all your facilities in Europe for FY '24, say, over '23?

Harshil Dalal: So, Tarang if you see our highest employment cost across the group comes from the Swiss entity. And while the inflation has increased in entire Europe and for that matter most of the parts of the world, fortunately, in Switzerland, it is around 2.8% to 3%.

So, I would say that, that will be kind of the increase that we would see on most part of the employment costs for the rest of the geographies where we are present. We are still seeing what could be the average inflation, right, that we might have to give to the employee because obviously, we don't want to lose the good talent.

But the number of employees in other locations is not much unsold. Employment cost is not that high. The biggest impact is going to come from Switzerland, but that would be, I would say, anywhere between 2.8% to 3%.

Sanjay Majmudar: We can close the call if there are no further questions. Please go ahead.

Moderator: Yes, sir. Any closing comments?

Sanjay Majmudar: Harshil?

Harshil Dalal: Yes. Thank you, everybody, for joining us on the call. This was definitely one of the good quarters after quite some time, and we're just looking to build on this one and try to improve our performances across the group, across all of the entities. There are a lot of triggers for the next financial year as well as looking into the future. And we do expect that many of these triggers will result into really fruitful results for you as shareholders, for us as the management and also for the employees.

We already had one good trigger in January, which was the opening of the French facility. And we look forward to such more milestones in the near future.

So, thank you very much for keeping your belief, and we hope to deliver on our promises.

Sanjay Majmudar: Thank you so much. Have a very good evening.

Moderator: Thank you.

Harshil Dalal: Thank you very much.

Pascal Villemagne: Thank you very much.

Moderator: On behalf of Dishman Carbogen Amcis Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.