Dishman Carbogen Amcis

Dishman Carbogen Amcis Ltd
Dishman Corporate House
Iscon-Bopal Road, Ambli,
Ahmedabad - 380058
Gujarat, India
CIN: L74900GJ2007PLC051338

+91 27 1742 0102
dishman@dishmangroup.com
www.imdcal.com

29th May, 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 AND YEAR ENDING 31ST MARCH, 2023

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 Tuesday, 23rd May, 2023 to discuss the financial result and performance of the Company for the quarter and year ended on 31st March, 2023.

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: 2023.05.29 16:28:52 +05'30'

Shrima Dave
Company Secretary

Encl.: As above

Dishman Carbogen Amcis Limited

Earnings Conference Call Transcript

Event: Dishman Carbogen Amcis Limited – Fourth Quarter and Year Ending March 31, 2023 Earnings Call

Event Date/Time: May 23, 2023/17:10 HRS

CORPORATE PARTICIPANTS

Arpit J. Vyas
Global Managing Director - Dishman Carbogen Amcis Limited

Sanjay S. Majmudar
Director - Dishman Carbogen Amcis Limited

Harshil Dalal
Global CFO - Dishman Carbogen Amcis Limited

Paolo Armanino
Chief Operating Officer - 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 Dishman Carbogen Amcis Limited Earnings Conference Call.

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 this 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. Arpit Vyas – Global Managing Director from Dishman Carbogen Amcis Limited. Thank you, and over to you, sir.

Arpit Vyas: Good evening, everyone, and welcome to the Dishman Carbogen Amcis financial year '23 conference call. It's a pleasure to have you all amongst us.

Just a few updates I would like to give everybody. It has been, of course, a roller coaster of the year. But even in that we have been able to progress extremely well as planned, and the results have been better than expected for many of the improvements that we were trying to make, some of the strategies gaining a few.

Let me start with the stability chambers:

We did a brand-new facility with top of the line working temperature and humidity control chambers. Some of you may have been able to see the pictures uploaded on LinkedIn and other platforms. Automated and technologically advanced QC lab completely brand new with the German company was done in collaboration with JD in India. They did a fantastic job and we have created a QC lab, which is if not better as good as the European standard that I have seen.

The purified water plant from the Swiss company BWT shall be completed within this year. And that is going to be the largest capacity plant that BWT will have installed in India. And we are very excited for that to be completed soon as it is technologically highly advanced, and it will be a great security for us for a long term near future. Then we have also done a fully automated F1 treatment plant which is beyond the required compliance, but we did the expenditure and made it highly advanced considering the long-term future and better the environment. The same goes for our new facility which is for the zero discharge. And the operation of the B2B have begun and zero liquid discharge is under qualification and soon to start.

The warehouse is technically refurbished, but it is as good as new and it is a thing of beauty. I have seen quite a few warehouses across the globe. And trust me when I say that what has been created is truly something unseen at least in our industry. We've also got something that was questioned heavily by the regulators. And now we are in a position that we cannot wait to show them. It really sets the standards as we see them, and these will help imagine how the future of the company not so far down the line if any results to be developed.

Talking about regulator in Q1 were invited as many of you may know in October last year and they have finally come back to us requiring some additional queries. And based on that, we can make that calculated assumption that we can expect them any time between now and December. However, we have confirmed with an important customer and audit with adjusted regulatory that is the PMDA, who have confirmed their dates to be any time within the first week and mid of April. PMDA and EMA have been working closely since a long time along with 50-plus other regulatory agencies of different countries.

And in our opinion, this established relationship will allow to an extent and is with the customers who are expecting to see a positive outcome from EDQM. And in any case, we have seen a key customer interest from their audits done and what they have seen. They have been extremely impressed and many of them have decided to take a risk and start ordering looking at the facilities and the quality of the talent that has been seen during the audit. All in all, we are on track, and we have shaped the path for the future, and we can emphasize that demand is going to be extremely high.

With that, I would like to pass the call to our Carbogen Amcis CEO, Mr. Pascal Villemagne to give a short update from his side. Thank you.

Pascal Villemagne: Thank you very much, Arpit, for your introduction. And good afternoon dear shareholders. So, Carbogen Amcis has finished its fiscal year on the 31st of March, with a total turnover of CHF 244 million, which represents 12% increase on the target that we had. It was mainly due to the high performance of our commercial product with products that were in development over the last few years and came in our commercial product portfolio.

On top of that, we have achieved our target in terms of profitability. However, we were, as it was mentioned by Arpit, struggling against a lot of external parameters, among them energy cost increase, high inflation rate on either raw material, like the raw material we use for productions of our cholesterol and Vitamin D analogues, but also clear competition in terms of recruitment of forcing us to hire people at higher salary to recruit the proper talent.

Despite of those external parameters, Carbogen Amcis scope of company performed well in almost all the sectors. And we are in the product segment, finishing the qualifications of our new unit that we have inaugurated on February '23. We are about to start the final qualification grant that is mandatory and required for by regulatory authorities. And we are actually optimistic on the take-off of the activity from an operational point of view with a very strong pipeline of new projects for this new unit and very huge appetite from the new customers to come and to use this unit for the manufacture of their products.

So, we are very confident that by the end of this fiscal year, we are going to reach our ambitious target, but especially looking forward into the future that we can really improve that new units quickly and look at current basement in the future. Last we heard about also our important internal transformation through digital transformations, where we are implementing a number of new pieces of software. And the major one is obviously the upgrade of our ERP by

SAP/HANA also with the Dishman Carbogen Amcis Group. This project is moving fast and we're entering in second phase of the project where we put a lot on the energies and our resources to implement this new ERP by the first quarter '24. The outcome of these implementations will drive and that's one of the objectives, a lot of efficiencies that we will see later on the next fiscal year. And we also tried to implement over elements to digitalize the way we work to rather improve our profitability in the western country.

Thank you very much. And I hand over to Harshil Dalal, our global CFO.

Harshil Dalal: Thank you very much, Pascal. A very good evening to everybody. As far as the financial results for the quarter are concerned, this was again a very good quarter for us, both from a revenue perspective as well as from an operating profit perspective. Obviously, the operating profit had certain one-offs, which I would highlight during my presentation. But overall, it was a satisfying quarter for us.

The net revenue for the quarter stood at Rs. 618.6 crores as compared to Rs. 569 crores in the comparable quarter last year. The EBITDA adjusted for the mark-to-market FOREX losses, the software as a service IT costs and sort of nonrecurring expenses stood at Rs. 83 crores as compared to Rs. 77 crores in the comparable quarter last year.

For the full year, again, the revenue stood at Rs. 2,413 crores which is a growth of almost 12% towards what we achieved in the financial year ending March 31, ‘22, which was Rs. 2,140 crores. The EBITDA for the year stood at about Rs. 414 crores, again, adjusted for the FOREX loss and the SaaS IT costs stood at Rs. 414 crores as compared to Rs. 390 crores in financial year '22.

So, overall, this translates into about 17.2% EBITDA margin for the year as compared to 18.2% in the previous year. And looking at the increase in the energy cost, which increased by almost Rs. 18.5 crores for us with at least 5 of our manufacturing sites or manufacturing locations based in Europe. This is a good achievement for the full financial year.

Again, coming to the cost part of the financials, the COGS for the quarter ended March 31, '23 stood at about Rs. 180 crores over a revenue of Rs. 618 crores, which translates to roughly about 29%. So, this is much higher than what you see as our average COGS, which is roughly about 20% to 21%, and which is something which we have achieved for the full financial year.

The reason for higher COGS percentage in the fourth quarter of FY '23 was largely on account of 2 reasons. One, at Carbogen Amcis Switzerland we saw more of the commercial supplies happening in Q4, where the cost of materials is higher as compared to the development projects, so that is the reason #1. Reason #2, we continue to see higher costs for the raw materials for our cholesterol and Vitamin D analogues business that we operate out of our Dutch facility. And because of higher sales of cholesterol in the fourth quarter of FY '23, that essentially had a negative impact on the gross margin and the COGS were higher.

As far as the employee expenses were concerned, more or less, they were in line with what we had last year in the same quarter. For the full year, there is an increase by about 5.5%, but this is largely on account of foreign currency translation since most of our costs are denominated in Swiss francs as far as the employee expenses are concerned.

The other expenses stood at about Rs. 132 crores for the quarter as compared to Rs. 147 crores in comparable quarter last year, which is a decline by about 10%. These other expenses also included, as I mentioned earlier, foreign exchange loss. So, in the quarter, there was a mark-to-market foreign exchange loss of about Rs. 16.5 crores while for the full year, that stood at about Rs. 50 crores. So, the Rs. 534 crores of other expenses that you see for the full financial year which shows like a growth of 40% over financial year '22, most of that was on account of the translation largely from the U.S. dollar, the Swiss franc into INR because INR is the reporting currency. The EBITDA, as reported, stood at about Rs. 51 crores as compared to Rs. 22 crores in Q4 of FY '22 but the right way to look at the EBITDA would be by adjusting for the one-offs and the of foreign exchange mark-to-market loss.

As far as the finance cost is concerned, yes, we did see an increase in the quarter as well as for the full financial year, and this is largely on account of increase in the interest rates across the globe whether it be the U.S. dollar or the Swiss franc LIBOR, we did see an increase, and that had a negative impact on the finance cost.

After that line item, you see an item for the exceptional items, which is to the tune of about Rs. 45.6 crores or about CHF 5.4 million. What we have done in the quarter ending March 31, '23 is we have done a reassessment of certain design and engineering costs, which had been incurred at Carbogen Amcis, Switzerland for a greenfield project. This was in 2020. So, the total cost was about CHF 16 million and part of that cost related to the design and engineering studies that were undertaken for that particular project. Since our priority was to get the French project completed, which is a new injectables plant, which has already now been inaugurated in February of this year and which would start operations in financial year '24 as well as complete co-investment project for the ADC expansion, it was decided to put this other new greenfield project on hold for the medium term.

So, what we have done in this last quarter was done a reassessment of all the costs that had been incurred for that particular project, which included the design and the engineering cost, and it was determined internally that some of those costs would have to be re-incurred as and when we actually go ahead and implement the project in the future. So, on a conservative basis, about CHF 5.4 million of those design costs have been impaired in the P&L. However, what we are trying to see is across the group, whether those studies can be utilized for some of the other CAPEX projects that we are undertaking in India as well as at other locations. So, that is something which will be reassessed in the current financial year.

And we will see if some or all of it can be charged back to the P&L. But for now, it has about CHF 5.4 million has been impaired and charged to the P&L as an exceptional item. Apart from this, for the full financial year, we also had additional provision for onerous contracts, as I mentioned in the last quarter conference call. So, for the full year, we had made an additional provision of about Rs. 42 crores, which is built into the P&L. As I explained last time, as the project progresses, we would see some of these costs being written back from the provision into the P&L. But this is, again, on a conservative basis that we put in this provision.

In the fourth quarter, we also saw a certain one-time expense like R&D expenses for our own projects, especially for Vitamin D which we are undertaking in collaboration with the Boston University as well as certain nonrecurring consultancy expenses of about Rs. 4.2 crores. The net debt, excluding liabilities as of for March 31, '23, stood at about CHF 159 million. The capital expenditure for the full financial year stood at about $69 million, and for the quarter stood at about $18 million.

With that, I would like to hand over the call to Mr. Paolo Armanino, our Chief Operating Officer, for the India site. Over to you, Paolo.

Paolo Armanino: Thank you, Harshil. So, good evening, everyone. I think Arpit already mentioned pretty well the situation from operations. We have witnessed an excellent year in one of our sites, Naroda, where we see apart the excellent revenue, we have seen a mentality which is going in the direction to keep improving every single aspect.

So, we are adding highly sophisticated equipment to the site, which are allowing us in the future to achieve better margin. Just recently in the last quarter, we have started clubbing together the processes together with the new equipment. And we see how the operational excellence should bring more benefit in terms of margins. So, we are aiming more revenue and also more margin due to operational excellence.

We have a chance also to refurbish several parts of the company in Naroda from warehouses to the pharma areas, and we are keeping planning further improving other areas. We are introducing also other equipment which they should allow again in the future to increase the productivity of the site.

We also successfully passed several customer audits. We are somewhat concerned with the other site, Bavla. We, as I mentioned earlier, by our global management director, we are making big progress in redesigning with the site. We are having one of the best warehouses I ever seen personally, and with the latest devices, so is really a very good achievement. And the warehouses have been improving in all the area, not only the raw material, but also the intermediate warehouses and also the finished good warehouses.

We are having also one of the QC lab from a German supplier as mentioned earlier. So, this is also another good achievement, I would say, very big achievement and especially is allowing to double the capacity of QC lab, which is a key point strategically for the future years. So, when we are going to expand production a lot. So, having a double capacity of the QC lab will be very, very important during the coming years.

We also added in Bavla site the special equipment, which are highly sophisticated. And we also had a big improvement in the EPP side, so all in the part related to the environmental part, so all the waste treatment and the water treatment and so on and so on. So, this is just a bit of data for what concerned the operation in the 2 sites.

Harshil Dalal: Sanjay, would you want to add something.

Sanjay Majmudar: Thank you very much. I think it was a fairly long presentation from our side. But if I have to summarize, I think we are at the inflection point, almost everything that should have been corrected has been put in place. France is ready to go. The co-investment project will be commercialized. As Paolo explained Bavla, EDQM is more likely to be over completely, and we should see almost a near full production of all the 8 or 9 production units at Bavla and Naroda doing well.

Carbogen Amcis seeing a very strong order book. I think this year, FY '23, we have completed almost all one-off kind of write-offs. So, '23, '24, I'm quite confident that we should see at least a double-digit growth in the top line and definitely a much more aggressive growth, at least a 20% plus growth in EBITDA as compared to FY '23, which should 100% take us in a significantly positive trajectory on the PAT side. So, I think with this, moderator, let's open the house for Q&A.

Moderator: We will now begin the question-and-answer session. Our first question is from the line of Prasad Yadavalli, Individual Investor. Please go ahead.

Prasad Yadavalli: Congratulations to you all. I'm an individual investor. My question might seem very basic, but there has been a long process over a period of time there over which the share value has been on the downward trajectory and after touching Rs. 80 couple of times. I think now moving forward, would we say that the worst is over for the shareholders? I don't mean in a negative way because the company would take its own time for all this groundwork to be done. And are we ready to take off is the question?

Sanjay Majmudar: So, Harshil, you are taking it?

Harshil Dalal: Yes. So, thank you very much for your question. So, I mean I won't comment on the share value. But yes, I mean what I can say is whatever efforts have been put in, whether in India at the Swiss entity, all of those have been in the right direction to take the company forward. And whatever changes that they're doing or whatever capital expenditure that we are incurring would augur well for the company for the next 5, 10, 15 years. So, in that way, we are extremely confident of the future.

And as we have mentioned several times, we are not a company to be looked at for a short period of time as an investor, but you have to take a long-term view because the gestation period for some of the projects that we undertake is quite long, especially on the development side.

Sanjay Majmudar: And just to add to what Harshil says. Mr Prasad, as I said in my closing comments, we are quite confident to now come in the positive profit territory in the current fiscal year. So, from that perspective, as I said now, going forward, we should see a consistent growth both in terms of top line as well as profitability. So, from a shareholder's point of view, I think this is a very clear message.

Prasad Yadavalli: Thank you very much for the clear answers and that's very reassuring. We will wait for the long term.

Moderator: Our next question is from the line of Ankur Agarwal from Aarti Wealth Solutions. Please go ahead.

Ankur Agarwal: Sir you have declared the result at 5 pm and you have kept the conference at 5 pm too, how could we ask questions until and unless we analyze the results?

Harshil Dalal: Yes. No, you are right, Ankur. Actually, the Board Meeting just went a bit longer than what we were expecting. And since the time of the call was already fixed. So, that was the reason we thought it would be a good opportunity to explain to the investors about the results. And the presentation was also uploaded during that time.

Ankur Agarwal: Please give at least one day gap so at least we analyze the result and put up the question.

Sanjay Majmudar: Ankur Ji if you have a question we are there to answer.

Ankur Agarwal: Is our business a cyclical business wherein in one quarter we have a profit and in another quarter loss or it works like that?

Sanjay Majmudar: No, as a CRAMS (contract research and manufacturing) company we are long-term partner for the global companies so what happens long-term if you want to see in a right view so over the last couple of years whatever negativity was there they are all are over. And you have to see on a long-term basis because the contract we make with the companies we have to give the material the way they want. So, there is a little bit of cyclicity. If you see annually you will see the consistency.

Ankur Agarwal: We are invested for a long time but we have not seen performance in your company.

Harshil Dalal: If you want to see our company then you have to see 3 to 5-year view so obviously, last 2 years there was this overhang of the EDQM and the Bavla site is not performing because of that issue. But now when we are coming out of it, we will keep on seeing the Bavla revenues increasing, Naroda has been performing quite well. So, overall, India operations as revenue increases, like that there would be an increase in the operating profitability at a group level. And the rest overseas, if you see all the entities, all the subsidiaries, they are performing quite well.

Obviously, there were these external factors because of the Russia-Ukraine war, which is in nobody's control for which reason there is a cost escalation. But what we are trying to do internally is to pass on this cost to our customers as much as possible. Only cost increase, there is a time lag to pass, which we are trying to mitigate in the best manner possible.

Ankur Agarwal: What is the management's view for the next 2-3 years, with regard to turnover, what will be the margins, etc?

Harshil Dalal: So, we have our internal targets. We move back to the 25%, 26% EBITDA margin, which we did in 2019-2020. And that is very much possible with all of the triggers on hand right now. Then '25, '26, definitely we are eying to get to. And in terms of the top line, we will keep on seeing at least 12% to 15% kind of CAGR over the next 5 years.

Moderator: Our next question is from the line from Ritwik Sheth from One-Up Finance. Please go ahead.

Ritwik Sheth: Sir, I have a few questions. Sir, firstly, on the EDQM inspection. When are we expecting the agency to come and inspect our Bavla facility again?

Harshil Dalal: Paolo, do you want to take that?

Paolo Armanino: Yes. See, EDQM can be contacted only via mail. And they approached us to ask some other questions. So, we replied just a few weeks ago, so we are expecting to have the audit with them within now and the coming months. They are selecting the data. Of course, we cannot decide when the audit can be done because EDQM 36:49 is a high authority. But basically, they are let's say, fine-tuning the period where they are coming to meet us. From our side, I just want to point out one thing. We gave the green light to other authorities to come and audit us.

So, we are expecting, even though we are waiting for the official confirmation, but we are already in discussion with the Japanese PMDA, so PMDA Japan and they are supposed to come to audit the Bavla site. So, the same site where EDQM is supposed to come from 1st to 4th August even though we are still awaiting the official date. So, EDQM, we are awaiting their final date confirmation, and we already gave the greenlight from other authorities.

Ritwik Sheth: And you mentioned that the Japanese partner is going to come from the 1st to 4th August to audit. Did I hear this right?

Sanjay Majmudar: Japanese regulator.

Paolo Armanino: Regulatory Authority. It's like the, let's say, the FDA from Japan.

Ritwik Sheth: And in the opening remarks, you mentioned about the project, which we are doing jointly with the Japanese. Did you mention that the audit has been completed successfully?

Harshil Dalal: Is your question regarding Carbogen Amcis Switzerland or about the Japanese?

Sanjay Majmudar: Yes, I think it's co-investment project. Harshil, you may clarify or anybody.

Harshil Dalal: So, that's the co-investment project in Switzerland, and that expansion is completed. And right now, we are under qualification at the qualification stage.

Ritwik Sheth: So, will they come to audit or how does that work if you can.

Harshil Dalal: I think they just visited us, but Pascal, maybe you can elaborate on the things.

Pascal Villemagne: Yes, absolutely. That product is already on the market, on the Japanese market. So, of course, the Japanese authority will audit us after the first validation campaign, of course, like in U.S., where they come before, in Japan they come after to verify what we have done. But, of course, the Swiss site have been visited many times by different authorities with U.S., Japan. So, we are absolutely confident that this is just administrative milestones.

Ritwik Sheth: So, we are confident of doing some kind of revenue in FY '24?

Pascal Villemagne: Yes, absolutely. We already have orders in hand. We are going to finalize the qualification for this new extension of the facility dedicated to that product and which starts with this validation campaign, which is the first pre-commercial companies that you have to do to validate the process into the facility. And then from that on, we will be able to deliver our commercial batch to that specific customers in Japan certainly.

Ritwik Sheth: Sir, my last question is related to the gross debt. I see that it has ballooned to Rs. 1,800 crores. So, what is the interest cost on this Rs. 1,800 crores?

Harshil Dalal: So, first of all, the gross debt in rupee terms is Rs. 1,800 crores. However, I would say, almost 80%, 90% of our debt is denominated in Swiss francs. So, in the last 1 year, the Swiss franc has appreciated against the INR by almost, I would say, 13% to 14%. So, most of that increase that you see because of the currency depreciation, so the INR depreciating against the Swiss franc, but that is not a risk for us because most of that debt is that Carbogen Amcis holding level where they have cost in Swiss francs. They also have revenues in Swiss francs, so that is not actually a risk for us. Coming to the cost part, our interest cost is roughly about on an average 4% to 4.5% of the gross debt.

Ritwik Sheth: And would this be reset at a higher level, given the increase in interest rate that we have seen in Europe?

Harshil Dalal: No. So, that is already factored in the fourth quarter and also in the third quarter results. The good thing for us is that since most of the debt is in Swiss francs, I mean the Swiss francs for the longest time was having a negative LIBOR. It has just moved into the positive territory and now it stands at about 1.5%. So, it's not like the U.S. dollar, you got LIBOR itself has gone up to 5.5%. So, in that way, there is just a 1% increase, and that is the reason our cost is 4%, 4.5%. Otherwise, it has always been around 3%, 3.5%.

Ritwik Sheth: And sir, my last question on this exceptional item of the Hunzenschwil facility. So, just wanted to understand, because this CAPEX was kept on hold in the last year, we had to take an impairment. Did I understand this right?

Harshil Dalal: No. So, the project was kept on hold because we wanted to successfully complete the other projects which were prioritized. So, this included the new French facility, the ADC expansion and even the digital transformation project that we're undertaking currently. So, that was the reason why this project was put on hold. And obviously, we did not want to take on that much amount of additional debt in order to finance this project because it's the major expansion that we were planning.

So, the status right now is that the land is already procured and there were expenses which were incurred towards the detailed designing and engineering studies for the new facility. But post that, we put the project on hold. What we did in this last quarter is did a reassessment of all the costs that were incurred and analyzed and saw that there could be certain costs which we might have to again incur in the future as and when we decide to restart the project. So, whatever were those costs which were incurred or what might not be useful in the future for that particular project is something that has been impaired in the P&L.

Sanjay Majmudar: Yes. So, in a way, you're right, it's impairment related to putting the project on hold.

Ritwik Sheth: So, in case we get back this project, will this come back like as a write-back?

Harshil Dalal: I mean not for that project specifically. What we are doing is trying to see across the group how this cost can be utilized for some of the other CAPEX projects that we are undertaking at the other entities. So, to the extent that we are able to justify the visibility of these costs at the other entities to that extent, you would see a write back. I mean write back or there would be an addition to the other income.

Moderator: Our next question is from the line of Giriraj Daga from Visaria Family Trust. Please go ahead.

Giriraj Daga: First, just a clarification. When you mentioned 10% revenue growth and we're looking at minimum 20% kind of EBITDA growth, are you talking about the adjusted number of Rs. 414 crores or are you talking about a reported number of Rs. 332 crore growth of base numbers should be more?

Sanjay Majmudar: I'm talking about the adjusted number of around Rs. 414 crores.

Giriraj Daga: Second, when I look at the CAPEX, this year, we have seen a decent step-up in the CAPEX. If I look at last 4-year number, like '20, it was about Rs. 410 crores, then Rs. 366 crores then roughly about Rs. 464 crore and this year, Rs. 574 crore. So, can you explain that, like with a decent pickup there?

Harshil Dalal: Yes. So, there were 3 major CAPEX that were incurred in the last financial year. One was the completion of the new French facility. So, that got completed in the last quarter. So, that was one of the CAPEX. So, the total CAPEX incurred for that facility is roughly $50 million.

The second is the expansion that we were doing in Switzerland for ADC as well as some of the other maintenance CAPEX. And third was in India, where we set up a new QC lab, a new warehouse, a new affluent treatment plants. So, this was all which was done in Bavla. So, that was the reason why we see the CAPEX in the last financial year higher than the previous years. And what we expect is that going forward, now most of the CAPEX outside of India, except for, say, certain maintenance CAPEX or maybe smaller equipment CAPEX that needs to be incurred, most of it is completed.

The major expense that we see now for the next, I would say, 2 years would be the implementation cost of SAP across the Carbogen Amcis entity. So, what we are trying to do is, and as Pascal also mentioned, so this is a digital transformation goal that we have in mind, which will obviously have its cost benefits in the future. So, we are putting the entire group on the same platform, which is going to be SAP and that's the only major cost that we see in the future. Apart from that, most of the major CAPEX programs are completed.

Giriraj Daga: So, what would be the cash flow number of CAPEX in FY '24 and if you have some visibility in FY '25?

Harshil Dalal: I would say we can take a run rate of anywhere between CHF 35 million to CHF 40 million.

Giriraj Daga: CHF 35 million to CHF 40 million, right?

Harshil Dalal: That's correct.

Giriraj Daga: Consolidated number you're talking about.

Harshil Dalal: On a consolidated basis.

Giriraj Daga: So, that's roughly come about like Rs. 320 crores to Rs. 350 crores, Rs. 360 crores.

Harshil Dalal: That's correct.

Giriraj Daga: Second, when you look at the net debt, debt has gone up probably like I'm seeing Rs. 400 crores, it has gone up this year. And if you are talking about roughly this amount of CAPEX, probably we are looking at some amount of further increase in FY '24 also. Is this right?

Harshil Dalal: Well, I would say that Rs. 400 crores, you are looking at it in INR value, I guess, I mean, the debt has gone higher because all of these CAPEX projects were kind of front ended. So, we needed to finish these CAPEX projects as quickly as possible. But now what we can see is that we will start realizing the revenues and the profitability from the CAPEX projects which have been completed.

And these projects are going to help the company significantly. It's not like a short-term view. But even in the long term because we never had a capability to manufacture formulations for our customers, for example.

So, now with the new French facility, we will be able to offer this additional service of development at a larger scale and manufacturing at a larger scale of injectables. And that helps us at a group level in terms of getting more customers and obviously improve the visibility of the Carbogen Amcis group. And the same holds true for the ADC project as well as the ADC co-investment. So, these projects are going to help the company for the long run. Yes, there was CAPEX, and there was debt which was taken. But as the profits keep on coming and as the cash flows keep on generating, we would see the debt coming down in the future.

Giriraj Daga: The debt is probably peak now.

Harshil Dalal: I would say so. But I just want to make a point because the cost of debt for us is not that high, we would prefer to take that as compared to equity, which anyway would be much expensive.

Giriraj Daga: No, but my the idea is that is the working making to believe that there will be FCF negative, that's why you to take debt?

Harshil Dalal: Yes. Because as I mentioned, since the CAPEX was front-ended and that's the reason the FCF is negative.

Giriraj Daga: So, far it's okay. But going forward, do you feel there will be FCF negative that we need to take more debt?

Harshil Dalal: I don't think so. At least on a net debt basis, we don't see the debt increasing from here on in the local currencies.

Giriraj Daga: Second, just a very broad strategic part of the question. When you look at the financial, like let's say, whatever CAPEX we have done in until FY '23, you recently mentioned 2, 3 facilities where you have mentioned the CAPEX. What kind of revenue we can generate without doing any incremental new CAPEX? So, whatever you have invested so far, what kind of number it can give? Can it give Rs. 3,000 crores or Rs. 3,500 crores, Rs. 4,000 crores of revenue? Like any ballpark number?

Harshil Dalal: Well, I would say on the CAPEX that we have done, you can take asset turn of roughly about 1x. So, that would be a fair estimate.

Giriraj Daga: So, I was just working the number, like we did in FY ‘19, the revenue of Rs. 2,060 crore, okay? And post that, we have done a CAPEX of about Rs. 1,800 crores in 4 years. So, ideally the number should be Rs. 3,800 crore kind of a number. That's what you're indicating?

Harshil Dalal: I mean that would be at its peak.

Giriraj Daga: Yes, I'm not assuming next year or next to next year. But probably the next round of large part of CAPEX should only happen once we reach that kind of a number.

Harshil Dalal: Yes. So, as I mentioned, as of now, we don't have any major CAPEX programs, but we would have to keep on incurring the maintenance CAPEX, which will be close to about 4% to 5% of our gross block.

Giriraj Daga: And that would be a on a value wise?

Harshil Dalal: I mean, including the maintenance and the growth CAPEX. I think roughly about EUR 40 million should be a fair figure.

Giriraj Daga: The only worry was that why we require growth CAPEX when we have very large headway to grow?

Arpit Vyas: From the perspective of the rupee value depreciating in our following being in the Swiss brands and other foreign currencies, translation into rupees of foreign currency is not showing the correct picture of the debt. So, because our need to come to India, our revenue is also in the foreign currency. I mean the said currency in which the CAPEX is taken, the transformation which happened where broadly the CAPEX has been predominantly outside of India. The pure increase that we see even in the net debt of Rs. 400 crores, I would say that around 60% is just on pure cancellation leases. If you normalize it in the currency terms, that would provide a real picture.

Giriraj Daga: No, I understood that part. My only submission was that since, obviously, we are having a very large headroom to grow in the existing current base, can we just for 2 years just spend maintenance CAPEX and then just pay down our debt and deleverage our balance sheet to an extent. And then probably, once we reach, let's say, Rs. 3,500 crores kind of revenue or maybe Rs. 3,200 crore, Rs. 3,300 crores revenue, which will take maybe about 2 to 3 years, then we can think of a growth CAPEX again. That was a simple humble suggestion from my side.

Arpit Vyas: No, that is point well taken. The only thing is that in our business, as a company, we like to use debt as a financial tool rather than use our own cash flows that we would like to invest. And then as a strategic viewpoint is something that we would like to take. But your point was well taken and for sure, going forward, we see a reduction from the net debt basis. But debt is something that we would like to keep in our books.

Giriraj Daga: No, I will just add here. Even I'm also okaying with the debt since obviously, it gives the leverage and it gives the ROE benefit to the existing shareholders. But rather than investing growth, let's say, you can use it for the dividend or the buyback.

Arpit Vyas: That is also an option, yes, for sure. That can be evaluated.

Moderator: Our next question is from the line of Nishid Shah from Ambika Fincap. Please go ahead.

Nishid Shah: My question is relating to the related party loan that we had given. Now has that been repaid? Or is it still to be repaid?

Harshil Dalal: No. So, part of the loan has already been repaid.

Nishid Shah: No, no. That we know. Harshil, that is known. What I'm asking is the balance amount. How much is the balance amount that is still to be repaid?

Harshil Dalal: No, I was just talking about the balance amounts. Of the balance amount, part of it has been repaid, but that happened post the 31st of March. So, that was close to about Rs. 19 crores.

Nishid Shah: And how much is remaining now the balance?

Harshil Dalal: So, that would be, I would say, roughly about Rs. 45 crores to Rs. 50 crores.

Nishid Shah: Rs. 45 crores to Rs. 50 crores. Now at what terms this has been given. Are we recovering any interest since we are having such a large borrowing and we are paying cost. So, I'm just asking how much is the rate we are charging for these loans?

Harshil Dalal: So, this loan has been given at arm's length and it was given in foreign currency and the foreign currency rate of interest is being paid.

Nishid Shah: I didn't get it. I'm just trying to. I thought it was given in India. So, there is no question of foreign currency involved in this case. Am I right?

Harshil Dalal: This was a loan from Netherlands to Dishman Infrastructure Limited. And that particular loan was given in euros, and the rate of interest charges is linked to the euro LIBOR.

Nishid Shah: So, basically, we are recovering what we are paying to the bankers. Is that correct?

Harshil Dalal: Yes, absolutely.

Arpit Vyas: I think because then at that time, it is over 65 and now it is 9. So, already that is also bit high. The return to us is quite high.

Nishid Shah: But don't you think that as a good corporate governance, this should be paid off immediately and get it off since already, we are on our Rs. 1,400-odd crores of collective debt on the books. Don't you think this should be paid off?

Arpit Vyas: Yes. This will be paid off as and when cash becomes available for paying off. Of course, this was a business plan where the expansion of the Netherlands facility was to be done in the SEZ. But unfortunately, the SEZ itself did not take it serious and the benefits were taken away. So, this expansion plan was put on hold until it was known what would happen in case of this leverage. Right now, we look forward to the viewpoint and so that plan got kind of in the backburner. And then eventually, we decided to start the unit off without and I should have mentioned that it was at arm's length and there was not much but also needs to be paying back before time, but we have guided internally that we will pay it back.

Nishid Shah: I appreciate that part. Where I'm coming is now that we have a substantial debt. In fact, if we sell that land, I think a lot of the debt that is on the books of the Dishman can be paid off. Isn't it? But that is not the case anyway. But what I'm saying is, I mean, we're just trying to avoid the related party issues. So, that's why my suggestion that if you can clear it off, that is much better.

Arpit Vyas: Yes, we will clear it off and everything in that be at arm's length and even if it is related party consideration has been given in a true and fair manner.

Nishid Shah: Anyway, let's hope this year, you will hope to get it off the balance sheet.

Arpit Vyas: Yes. That is the plan before the completion of the fiscal year, we should be able to return it.

Moderator: Our next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: I just wanted to check what was the gross debt in CHF as on 31st March '21, '22, '23 and the corresponding net debt?

Harshil Dalal: Tarang, that is something that we'll have to speak offline because I don't have the data in front of me.

Tarang Agarwal: No worries.

Harshil Dalal: But what I can tell you is that the debt has increased in the last financial year, even in Swiss franc term largely because of the expansion projects that I had mentioned earlier.

Tarang Agarwal: The second question, Harshil, I mean, in the presentation, you've spoken about additional provision for onerous contracts of about Rs. 42 crores for FY '23, about a Rs. 50 crore additional loss, FOREX loss in FY '23 and about Rs. 19 crores of additional power and fuel expenses for FY '23. Have I gotten it currently?

Harshil Dalal: That's correct.

Tarang Agarwal: So, what is this provision for onerous contract exactly?

Harshil Dalal: Basically, what we do is that especially on the development side, we have these contracts that we get from the customers and the way the pricing of the contracts happen is based upon our budgeted number of man-hours. So, at any point during the progress of the project, if there is a belief that the total number of hours to be incurred on that particular project could be higher than what has been estimated then the incremental cost of all the hours that are estimated to be higher than what was budgeted is expensed to the P&L as a provision.

So, then as we move ahead in terms of the project, say, for example, if you are closer to 80%, 90% of the project completion. And at that point, we see that what we had estimated as the extra hours are not actually going to be incurred. At that point, we would reverse this provision into the P&L. So, this is more on a principle of conservatism that we would book this provision into the P&L whenever we estimate that there could be an increase in the overall budget.

Tarang Agarwal: Harshil, just digging a little more on this. I mean, typically, given the way the contracts might have been structured, if there is any manner escalation that goes into these contracts, which is higher than initially envisaged, would you not have the right to build it to your customer? And if that is the case, then the requirement for this provision is not there, right?

Harshil Dalal: No, you're right, Tarang. So, I mean, obviously, not all of the man-hours would be straightaway billed to the customers, there would have to be a dialogue with the customer and basis the discussion with the customer we do see that in most of the cases, the customer will pay for the increased man-hours. But till the time it is established that yes, the customer is going to pay for these additional man-hours, we keep that provision in the books. It is only when we get confirmation from the customer, that's the point where we would reverse this.

Tarang Agarwal: And so, this Rs. 42 crores is net addition to that provision versus what it was on March '22, correct?

Harshil Dalal: That's correct. That's absolutely right.

Tarang Agarwal: And what would be the outstanding amount as on 31 March '23.

Harshil Dalal: So, that would be, I think, roughly about Rs. 55 crores.

Tarang Agarwal: And historically, how does it work? I mean, in your conversations, I mean, clearly, you've provided for this Rs. 55 crores in your P&L, but historically, how does that roll over? I mean, have you witnessed write-backs coming into the P&L? Or it eventually gets written off?

Harshil Dalal: No. So, we have seen the write-backs coming into the P&L. It is just the timing, which is, so to say, not in our control. But yes, I mean, we have seen write-backs in many cases because in most of the cases, as long as we are able to showcase these are all development projects. So, you can estimate the man hours, but there are a lot of chances of those going wrong as the project progresses. So, in most of the cases, the customer would be okay, reimbursing for extra man hours. So, unless and until something is attributed to us in terms of us not performing properly and we actually being responsible for that extra cost, there will be no reason why this should be expensed in the P&L.

Tarang Agarwal: And Harshil, the Rs. 50 crore FOREX loss my understanding is, I mean, is it because the CHF moved much more in our favor than we had anticipated and that's why we're getting a Rs. 50 crore loss?

Harshil Dalal: No. So, this Rs. 50 crores is mainly on account in Switzerland, we get these payments from the customers in U.S. dollars. So, at the cutoff figures, the U.S. dollars get converted into Swiss franc. So, whatever is the mark-to-market loss on that gets booked into the Swiss P&L? And then the Swiss francs again get converted into INR when we do the reporting at a consolidated level in India. So, effectively, it's so to say, a double whammy on the same balance, while actually, I don't have a risk, but it is something that we have to provide for.

Tarang Agarwal: And last, I mean, on the SaaS project, you spent about Rs. 18 crores in '22, about Rs. 10 crores expensed in '23. How should we see this line item because you did mention something to an earlier participant's question that going forward in '24, your CAPEX will also include implementation cost of SAP. But my point is you are already expensing a part of it on the P&L, right? So, that gets captured. So, why would there be an additional line item in your cash flow?

Harshil Dalal: No. So, basically, now there is IFRIC interpretation, which came out, which says that if the software that you are purchasing, you are using it as a service in the sense that there is annual subscription to it, then all of the implementation costs of that particular software, including the principal cost of the software needs to be expensed out in the P&L. So, this SaaS IT costs that you see are not related to SAP but these are in relation to the Microsoft D365 projects, which we had implemented in France.

The SAP sells the licenses on a perpetual basis. So, we should be able to capitalize the cost of implementation of SAP along with the cost of the licenses rather than expensing that out in the P&L. What will go in the P&L for SAP would be costs like training costs for some of the employees, which is not allowed by the accounting standard to capitalize or maybe certain other incidental expenses. And otherwise, the major portion, which is the implementation cost that will be capitalized.

Tarang Agarwal: So, how much more of these P&L line items should we see? I mean, the Rs. 18 crores that we saw in Rs. 22 and Rs. 10 crores that we see in '23?

Harshil Dalal: Yes, I would say now the D365 is already implemented. I mean, we don't expect any major costs coming out of that. The only annual subscription, we would have a few licenses, which are on an annual subscription basis, which also get bundled with the SAP but we don't think so that should be a substantial amount going forward. So, maybe FY '24 onwards, we don't expect that to be a higher number.

Tarang Agarwal: And just the last 2 questions from my end. The Rs. 70 crores runrate that we saw on Bavla despite EDQM not coming around, is this something that we believe will continue pending EDQM coming in and visiting our facilities or there is an element of seasonality associated to it.

Harshil Dalal: No. So, we do expect that in the Bavla revenue for the current financial year should be much higher than what we did in the last financial year. Obviously, there is no seasonality. It's just that in Q4, the revenue is much higher as compared to what you see in Q3, historically, largely because most of our revenue comes from exports. And most of our customers, they don't want their shipments post 15 December because of the Christmas.

So, that is the reason we see Q4 to be extremely strong in terms of revenue. But otherwise, I would say Rs. 70 crores kind of revenue run rate should be very much doable. I mean it has to be higher than that.

Sanjay Majmudar: Moderator, if there are no more questions, we can close the call.

Moderator: Our next question is from the line of Prasad Yadavalli, who is an investor. Please go ahead.

Prasad Yadavalli: Quick question. Does the book value remain the same? When we look at the numbers on the websites compared to the share value, the book value is obviously 3x more. Does that remain the same?

Sanjay Majmudar: Sorry, I mean what are you trying to ask the book value versus share value?

Prasad Yadavalli: Yes.

Sanjay Majmudar: So, I'm very clear that as a company, we will discuss about all our plans and what were the problems and how now we feel that we are out of the boots, and we should see a much positive outcome from operations standpoint. Having said that, market is something that we frankly don't want to look at or discuss. It is a perception of investors and our endeavor will always be to ensure that now the company moves in the right trajectory and whatever shareholder wealth can get created, that's a function of our performance.

Prasad Yadavalli: I understand that. The question is what I'm trying to find out is, even if we ignore the share value, which is a perception, the book value, does it remain the same as it would have been assessed previously.

Sanjay Majmudar: Harshil, can you understand and try to answer this question.

Harshil Dalal: Yes. So, the book value is determined by dividing the book net worth by the number of shares outstanding. So, as the networth keeps on increasing or decreasing, the book value change.

Moderator: Our next question is from the line of Satish Bhatt from Anvil Share and Stock Broking. Please go ahead.

Satish Bhatt: I just wanted to know what is the risk we are anticipating for that 12% to 15% top line and 20% EBITDA growth. Because I have been seeing this company for maybe the last 10, 15 years. And I think every 2 to 3 years, we start having some problems. So, we are back to where we are maybe 3 years back. So, what makes you confident that the next phase of growth will be there and we will have sustainable growth? So, what type of risk can come? We had EDQM risk, it has taken more than 2 years. Some of the products are taking more than 2, 3 years. So, what is the risk you are inbuilding in your modeling. So, where are we going wrong every 3 to 4 years.

I think that's quite a long time and most of the business cycles take place in 3 to 4, maybe 7 years. We are where we were I think 5 to 6 years back.

So, one incident comes, suddenly we are back to where we are in 2019 or maybe something comes in '22, we are back in 2015, '16 levels. So, what makes the management confident of delivering the things in terms of the manufacturing things have been done, the marketing has been done, the R&D has been done, sometimes the erroneous contracts come. So, it is a way I think we build our contracts. So, something is wrong at the, maybe, say at the company level, which is always preventing us to grow from some level. Does the Board discuss this any time?

Arpit Vyas: Thank you for that question Satish Bhai. One thing that mostly understood and considered feels that as you rightly said, the company was falling into a cyclic issue, and it was not able to come out of an eventual challenge was due to the fact that what will be necessary to be done, which we are doing right now, where we had to take the time cost for sale and get things sorted out in terms of the quality of equipment, the quality of manpower, the way things were done previously and then not changing according to the time. All of that caused a lot of physical issues in terms of facilities that we had.

So, if it hasn't been done, what we are doing now and what we have done 5 years ago, then we will not be having this conversation today. Nevertheless, we will not and we had to take a very brave call, I would say, because it is not that easy to see to keep spending money in the company for 3 to 4 years and not being able to see any income generated from it, right?

So, it was a big call, it was assessed during that point in time as well but this is what would be required. And fortunately, we had the team that is capable who were courageous to take this call and see this entire thing through for which reason we are able to now confidently say that, yes, we will see a very bright future over the next 2 decades at the very least.

Why is that confidence is because in this field there is a huge gap. There is a constant need, right? There are not many people who do what we are doing, what service we are providing and it is very difficult to get into the business and to get to this level in this field. It is rare. You would see yourself that it would be a rare occurrence, where a contract research or contract manufacturing company would come in this day stage to become successful, right? So, the need is always going to be there. The will, of course, is that all of a sudden if companies decide to start doing little research, then the need for contract research and manufacturing die off completely, that is the risk of course. But before that time comes, there would be indications and I think we have a pretty smart headwind on our shoulder to see that coming, and we will be taking a different strategic view for the company and the business as well. So, as of now, we don't see that happening. In fact, we are investing in the value chain where the cells facility has been in profit as a greenfield project. And the call seems to be the correct one because just post the launch a few months back, we were already still doing 50% of the target, which was of the second year to be achieved as a revenue as an order book.

Satish Bhatt: So, my basic thing is we have good manufacturing facilities in Swiss. We have good customers. We have good technology on the ADC side. We have a very good pipeline in the anticancer. But some of the things doesn't get delivered. So, that is my concern.

Maybe last 5 years, I can give, come on it's gone. But what my worry is something should come in. Just after 2 years we have the same reason by something happened. So, that is my concern. I've been tracking this company the day it was listed. So, I think I've seen the entire 5 cycles of your company. So, the delivery of the pipeline is not happening. Somehow that is the worry for me.

Arpit Vyas: The reason is known to us all as well as it was known to the customers. And it was made public by the EDQM, right? Even EDQM is not updated or the customers was not updated, right, thing that would go hand in hand. EDQM does not happen overnight. So, it has to happen over a long period of time and customers are not saying that they will be able to see this. They are actually worse than that. So, when the customer should attract their supply chain, the position of a new product or a larger supply chain is always going to be highly enlightened unless it is a pure cash and a price play.

Moderator: That was the last question of our question-and-answer session. As there are no further questions, I would like to hand the conference over to Mr. Arpit Vyas for closing comments.

Arpit Vyas: Thank you, moderator, and thank you all for joining the call. It has been a tough year. Thank you for all your questions. As always, give us ideas for developing strategic viewpoint for the future. So, we do get them keep coming.

We are very confident of the future of this company as already mentioned and this year, we are excited to see what the efforts that everyone has put in, how that is going to be seen in building the company. So, this year is an impressive one. And for sure we will discuss it very soon. Thank you all and have a good evening.

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