November 10, 2023

National Stock Exchange of India Limited,
Exchange Plaza, Bandra Kurla Complex
Bandra (E), Mumbai-400051

Symbol: **ORCHPHARMA**

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort, Mumbai-400001

Scrip Code: **524372**

Subject: Transcript of Earning Call – Orchid Pharma Limited ("the Company")

Dear Sir/Madam,

This is in continuation to our earlier announcement dated November 02, 2023 and November 06, 2023.

In view of the above, Transcript of Earning Call held on Monday, November 06, 2023 on the financial performance of the Company for the Quarter ended September 30, 2023 is enclosed herewith.

Further, pursuant to Regulation 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the aforesaid transcript is available on the Company's website i.e. www.orchidpharma.com

You are requested to take the above on your record.

Thanking You,
For **Orchid Pharma Limited**

MARINA PETER
Digitally signed by MARINA PETER
Date: 2023.11.10 11:12:45 +05'30'

Marina Peter
Company Secretary & Compliance Officer
Encl. as above

“Orchid Pharma Limited's Q2 FY24 Earnings Conference Call”

November 06, 2023

MANAGEMENT: **MR. MANISH DHANUKA -MANAGING DIRECTOR, ORCHID PHARMA LIMITED**
MR. MRIDUL DHANUKA – WHOLE-TIME DIRECTOR, ORCHID PHARMA LIMITED
MR. SUNIL KUMAR GUPTA – CHIEF FINANCIAL OFFICER, ORCHID PHARMA LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to Orchid Pharma Limited Q2 FY24 Earnings Conference Call hosted by Systematix Institutional Equities.

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 touch tone phone. Please note that this conference is being recorded.

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

Vishal Manchanda: Thank you, Neerav. Good evening, everyone. On behalf of Systematix Institutional Equities, I welcome you to the Q2 FY24 Earnings Call of Orchid Pharma Limited. We thank the Orchid Pharma management for giving us an opportunity to host the call.

Today, we have with us the Senior Management of Orchid Pharma represented by Mr. Manish Dhanuka -- Managing Director; Mr. Mridul Dhanuka – Whole-Time Director; and Mr. Sunil Kumar Gupta -- Chief Financial officer.

I'll now hand over the call to the company management for opening remarks.

Manish Dhanuka: Thank you, Vishal. Good evening, ladies and gentlemen, and thank you for joining us today for this discussion on our Q2 Financial Results for the year 2023-24. I'm delighted to share the remarkable progress we've made over the last quarter and the first half of this fiscal year.

Let's begin with the numbers first. In Q2 of 2023-24, we achieved a revenue of Rs.199 crores, representing a substantial increase compared to Rs. 165.2 in the same quarter last year. This growth demonstrates teams dedication and hard work. Our EBITDA for the quarter stood at Rs.31 crores, a significant improvement from Rs.19 crores in '22-23, not only increased our profitability, also enhanced our operational efficiency. Even more exciting is that we have achieved a profit before tax of Rs.31 crores during this quarter, a remarkable turnaround from a loss of Rs.17 crores in the first half of '22-23. This reflects our commitment to financial sustainability and shareholder value.

Let us move to the operational highlights:

So, behind these results, the thing what we will attribute is to the substantial increase in sales whereas the expenses have not increased correspondingly. We have streamlined our processes, enhanced productivity and optimize cost to ensure that every rupee spent has a meaningful impact on our growth.

Our focus on cost optimization has been relentless as we've been speaking for the last three years. We've identified and implemented measures to eliminate inefficiencies across the

organization. These efforts have not only resulted in improved EBITDA, but also allowed us to allocate resources more strategically, ensuring that we maximize our return on investment.

One of the core pillars of our success has been our strategic initiatives. While our focus till now was on the stabilization of business and financial prudence, now that we have become debt-free, we are moving towards the new strategic initiatives. We are glad to share that we are moving forward with our vision to integrate our business fully.

While we are currently working on backward integration into the raw material supply chain by setting up the 7ACA plant, thereby not only securing our supply lines, but also opening up the opportunities for cost savings. This initiative will not only bolster our bottom line, but also make us more resilient with the fluctuations in the market. On the other end, we are now strategically going ahead with forward integration into the ethical business directly to the end consumer. We have constituted a team to start a new division for critical care products for distribution and sales of medicines to the hospital segment. The groundwork for this division is in progress and we will share more information at the appropriate time. We expect to launch this business in the first quarter of '24-25. This initiative will enable us to create more value for our customers and strengthen our brand presence. It will also pave the way for launching our new chemical entity Enmetazobactam in India once we get the approval for that.

Further, on the subject of strategic initiatives, I'm extremely proud to announce that Orchid has been selected through a global tender for manufacturing a very important molecule called Cefidorocol, which is still under patent. We have signed a sublicensing agreement with Shionogi, Japan through GARDP who did license the product from Shionogi. The purpose of this agreement is to give Orchid rights to manufacture this patented product for 135 countries of low- and middle-income group. The technology for this highly complex product shall be transferred directly by Shionogi to Orchid. It is a philanthropic initiative of Shionogi to provide access to the population of low-income countries to address the growing problem of antimicrobial resistance.

Cefidorocol is a very effective antibiotic against some of the most resistant bacteria and it is likely to save many lives which succumb to this menace.

It is a matter of pride for us that we were selected through a gruelling process of thorough financial due diligence, ESG audit, GMP audit and technical capability assessment in competition with the best of the companies in the world.

Looking ahead, we remain optimistic. We are committed to maintaining our growth trajectory with continued investment in capacity expansion, newer technologies and newer marketing avenues, while ensuring the stability of our business.

Thank you, ladies and gentlemen. That's all from my side. I'd like to open the floor for questions now.

Moderator: We'll now begin the question-and-answer session. First question is the line of Jainil Shah from JM Financial. Please go ahead.

Jainil Shah: My first question is on the NPE. What is the update on clinical trials in India?

Mridul Dhanuka: So, we had filed the application a few months back and the DCGI came up with certain queries which have now been addressed and it has been filed back to the DCGI. We are waiting for the final understanding on our proposal.

Jainil Shah: So, we are still not sure if the clinical trials have to be done or not?

Mridul Dhanuka: So, what we have done is, yes, we have applied for a waiver also, as you know I spoke in my speech also, there's a lot of focus on antimicrobial resistant. So, we will definitely request the government to allow us for at least an emergency use or give us the waiver with phase-4 with the condition of phase-4 trials. At the same time, we have also prepared the protocol so that our overall application does not get delayed. But, to some extent in the last few months the progress in DCGI was a bit slow, but we're expecting in the next few months it will improve.

Jainil Shah: On the new agreement related to Cefidorocol, so what is the investment that is required and when do we see these revenues coming in?

Mridul Dhanuka: So here there are two parts we would be manufacturing the finished dose itself. We will be making the injection vial. For the API, the investment is not so significant. We will use the existing facility, and for the finished dose formulations new plant is going to be set up which will be around 80 to 100 crore?

Manish Dhanuka: And the timeline for launch would be some time towards second half of 2026.

Jainil Shah: Just one more on you know PLI downstream products. So, do we have any manufacturing experience with such products or does it require any new technical expertise, how are we thinking about it and what would be the required investment in our capacities for that?

Mridul Dhanuka: So, for PLI downstream product, already has the technology, in fact we can make those products and compete with anywhere in the world with any company. It's just that we don't have large enough capacity. So, technical capability is not a problem and experience are also not a problem, Orchid makes those products for its own consumption. I explained earlier that downstream products are purchased from Chinese companies by other Indian companies and they make the final API in India. Orchid starts from the key raw material and makes the final API in India. So, technology know-how is available with Orchid. Coming to the investment, this would be close to around Rs.100 crores for the downstream process.

Moderator: Next question is from the Viraj Parekh from Carnelian Asset Advisors. Please go ahead.

Viraj Parekh: So, just a few questions. First is we saw a sharp increase in other income during this quarter of approximately Rs.6 crores quarter-on-quarter. So, if you could just explain as to where the

increases come from? And the second question is, I mean, we've been guiding high teens growth on a yearly basis. But in the H1 of FY24, we already at 29% year-on-year growth. So, could we see an upward revision in your top line guidance for this?

Manish Dhanuka: On the other income front, basically the cash that is sitting in after QIP which we received during the last week of June, the interest on that is a large part, out of roughly 8 crores of other income, 5 crores is interest and rest is the foreign exchange gain that we always have due to the rupee depreciation against the dollar with 80% to 90% of our sales export. That's on the other income part. And your other question was regarding the guidance on the top line. We maintain our guidance of long term, if you look three years from today, look back the sale growth should be in the range of 20% to 25%.

Viraj Parekh: So, any royalty has been received or is in the pipeline or near term, you see any royalty coming in from the Enmetasobactam sales worldwide, any clarity on that?

Mridul Dhanuka: So Viraj, the only source of information is what we get from Allegra and based on our discussion recently, they were hoping that the deadline for USFDA to approve is February, and we are hoping that will probably turn out to be the first commercialization. But I think that's the only source of information we have. The Europe has already been applied somehow and then Chinese happened first but it's getting delayed.

Moderator: Next question is from the line of Kunal Randeria from Nuvama. Please go ahead.

Kunal Randeria: Sir, if you want to share some more details around the Cefidorocol deal -- so, how many companies have got this license and how does it work actually, do you have to enter into partnerships in these countries or you supply to the innovator? I'm not quite sure how this works.

Manish Dhanuka: Some of the details of the agreement are confidential, but I can share some ideas with you. The idea for Shionogi to share this license with us is on a charitable purpose out of the 135 low- and middle-income countries. In all the low-income countries, there is no royalty. India and the largest market happen to fall in the category of low income where Shionogi will not get any royalty on the sale. So, the license is divided into two parts; one is the manufacturing license. As you would have seen our press release right now, we have signed the manufacturing license, which is on cost plus basis. The idea is to provide accessibility of this medicine to people who cannot afford it. So, our margins are protected, and the target that we will have will be to reduce this cost from the innovator to 80% to 90%, but that we will be able to figure out after the technology transfer, etc., is complete. There would be a second piece of license which GARDP and Shionogi together will sign with various people across the world to sell this product in those countries. Orchid may or may not have a share in those.

Kunal Randeria: Secondly, if I heard it correctly, you plan to go into formulations manufacturing, right, of these injectables. I don't think you have never given that -

Kunal Randeria: I don't think you have shared in the past that you want to do formulations manufacturing. Just wondering what has changed that you are now going to manufacture in-house and why not use a CMO?

Mridul Dhanuka: So, Kunal, I think two quarters back we did mention that we are exploring the idea of going into formulations. So, we were working on a plan. Now, the plan is in place and now we are putting this put together a team and we do wish to launch this. See, the idea behind that is because we will have two proprietary molecules; one is Enmatasobactam and one is Cefidorocol coming up in next one to two years, and we want to have a network of our own so that we can distribute and maximize the gains from these molecules in the market, which would be almost exclusive to us. And with respect to the manufacturing, as of today, our plan is to manufacture Cefidorocol, which is the lyophilization-based injection. But for the powder filling type of injection we would be using the CMOs which are very much available in India and we have an excess capacity.

Kunal Randeria: As far as the cost of some raw materials go, how has it been or any indications going up, down, some color would be helpful?

Mridul Dhanuka: So, Kunal, honestly with so much of Chinese input, we really don't want to comment, but in the immediate we found that the raw material prices have come down, but you can't take it on the face value, there are so many fluctuations when it comes to raw materials. So, I would not suggest anybody to take that into consideration. We just follow the trend and we just try to be prudent so that we can manage ahead of the cycle.

Manish Dhanuka: And also, with respect to assuming your follow-up question on gross margins with respect to that, so basically in all our emerging markets customers are very smart, they want the Chinese prices. And the moment those prices fall, the ATA prices will be in emerging markets also. I've explained earlier that these are small market businesses and our gross margin profile would remain similar to where we are.

Kunal Randeria: Just maybe on this only, so like the regiment you mentioned the prices are falling or has fallen, is it like a normal fluctuation or more like something out?

Moderator: Kunal, sorry again, we are losing your audio.

Mridul Dhanuka: It is cyclical, mostly demand and supply based. I don't think we can read too much into that.

Moderator: Next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Two questions. One is recently we had a press release that we had increased our capacity on sterile. So now with this, what is the overall increase in the sterile capacity which we have done? Secondly, if you can share the revenue breakup between regulated markets and non-drug and similarly revenue breakup between injectables and oral dosage? And one clarification. On the regulated market, how much would be US for us?

Manish Dhanuka: The first one is the regulated versus emerging market split. So, regulated is roughly 40% and emerging markets are roughly 60%. That's been the trend for the past and we expect this will continue in the future as well. On the second question you asked is the oral versus sterile split. So, since this block was commissioned till that time, our oral versus sterile split is around 70% oral and 30% sterile. Normally, tends to be around one-third, two-third, and with the commissioning of this new sterile block, we expected to climb back up to the one-third, two third from where it has slightly fallen. And on the last question is, roughly you said how much capacity, so that will be added, it's 50 to 75 tons. And as I've explained earlier on this forum that the capacity cannot be defined in Kg actually because it is fungible across all our 30-40 products; so, some products can come 5 tons in the same plant in the same time and some products can come only 500 Kg in the same plant in the same time. So, talking about that number does not mean much value.

Nikhil: So, one is what would be the revenue contribution from US for us?

Manish Dhanuka: Revenue contribution from US right now is negligible. Orchid is building the US business and in the future, we hope to see this number climb significantly.

Nikhil: The reason to ask for this oral and sterile is because see, we've seen a gross margin of around 39%, 40%, and what I understand is that as the mix between oral and sterile changes, that will also have some impact on the gross margin. So, once we come back to that 65%, 35% sequentially, this gross margin should see some improvement. Is it a right understanding?

Manish Dhanuka: It may or may not Nikhil, although fundamentally will steriles have a higher margin than oral products, but all depends at that time the product market means how it is working out for us. So, it may come and it will be good for us, but I do not want to guide on that. I would prefer that the gross margin profile stays similar to where we are plus/minus 1%, 2%.

Moderator: Next question is from line of Himanshu Upadhyay from o3 Portfolio. Please go ahead.

Himanshu Upadhyay: My first question was, for the injectables, the new plant which came up are all regulatory approvals with us or it will take some more time for all the regulatory approvals to come for the injectable new plant, which we have?

Manish Dhanuka: So, injectable regulated market capacity is not a constraint for Orchid. So, any regulated market businesses service first from the existing capacity, this was set up largely with looking at the new para-IV filings that we are doing in the US and the new product going to come off patent in the future. So, the regulated market approvals for this plant will take time as and when the agencies come for inspection. So, we are doing validation process here product-by-product and we hope to see approval of this facility when the auditors come here.

Himanshu Upadhyay: Secondly, there is a lot of volatility in the API and raw material prices, okay. But if we look at our numbers have turned good; one is obviously your efforts and efficiency. But can you also give how much is the change or improvement because of product mix or increase in volumes,

some thoughts on that will be helpful and will give us more clarity on the things which are happening in the industry because not many players are listed and who depend on this particular product very heavily, so some idea will be helpful?

Manish Dhanuka: So, basically our strategy is looking at our fungibility of capacities. We try and evaluate which product will give us highest gross margin for the time spent in the facility. So, those are the products we pick first and on a rank order basis go down to the lowest one. So, there is no set pattern with respect to what is going to be the product market mix change. It all depends on what the customer is demanding and a lot of that depends on what tender he has won this year. So, it's extremely variable and unfortunately, we've not been able to identify any patterns into that. But overall, if you see on a consolidated level, it works out well for us where you don't see much variability in our number.

Himanshu Upadhyay: The CAPEX which we were to do, have we finalized the land and are the approvals, etc., we have got and have we given the orders for capital goods?

Manish Dhanuka: So, the land acquisition, unfortunately, is slightly delayed in Jammu. So that's going on, hopefully by end of this calendar year, we should be able to complete that. Progress on other fronts is good. The technology transfer right now, our team is in the technology partners facilities taking the transfer, our pilot facilities are ready and the engineering design is nearer to completion. So, the equipment order placement time would come towards end of next quarter.

Himanshu Upadhyay: We had stated that our focus would be to gain back few of the customers which Orchid historically lost, okay, in both US and Europe. What is the progress on that and have we been able to get back almost all or it is still work-in progress and a lot more can be done, so some thoughts on that will be helpful?

Manish Dhanuka: For US, it's going to take them some time and it's like a seesaw… I'll just explain what I mean. So, we had converted one customer and received a pretty large order, almost $10 million and bought some materials for that. And that customer got a USFDA 483 and their facility is shut down now. So, this is going to be like up, down seesaw. What we had stated in our first presentation of gaining back the share, I would say, the bulk of the work in Europe has been done. But, there are still opportunities in fact, we have just developed a new product and we'll be filing a DMF for that in Europe exclusively for one customer. Unfortunately, I can't name the product due to confidentiality right now. At the right time, we'll be able to talk more about that product. So, progress is happening on those. It's just that the progress speed is slow because as you understand for a new product once we develop, we have to do stability and file the DMF that takes time and based on our product, customer has to take batches and file their ANDA or the market access documents in the respective countries which takes years. So, it's several years project, will take some time.

Moderator: Next question is from the line of Sajal Kapoor, independent investor. Please go ahead.

Sajal Kapoor: Taking the questions, so the annual report suggests that we have invested Rs.6 crores last fiscal in R&D. What's typically included in in an R&D investment -- is it the scientist salary or something else or the consumables?

Manish Dhanuka: So, what happens is, for example, one of the products for which we are preparing new product filing in the US market, for that product, we have to buy a lot of raw materials, etc., and the research goes on to that, and those chemicals are extremely expensive so that the facilities cost, consumable cost, that's classified as a separate cost center, and I think the R&D team salary is also part of that.

Sajal Kapoor: Do we get any reimbursement from the customer for the consumables or is it all our investment?

Manish Dhanuka: So, we don't do CRAMS wherein we would get reimbursement. All the IPs are owned by orchid. So, we don't get any reimbursement. It is linked with the price to the customer.

Sajal Kapoor: Secondly, regarding the product and the customer concentration, would you be able to share how much revenue wise we are making from the top product and top customer and the top three products and the top three customers and where this number was when you bought this business a couple of years back?

Manish Dhanuka: So, on the top three products, I have the numbers at hand. On top customers, I'll have to check and come back. So, top three products contribute to roughly three-fourths of our sales and that has been the case since the time we have taken over the business. So, these top three products are the three largest products across the world for cephalosporin antibiotics and I've named them in the past, so I can talk to you about them; they are Cefixime**,** Cefuroxime Axetil and Cefdinir. These three are the largest products for Orchid.

Sajal Kapoor: For any of these products, is there any sort of exclusivity with a single customer or is it kind of widely shared across multiple customers or is it a single customer in a single geography that kind of relationship?

Manish Dhanuka: Those kinds of things are not there. They are widely distributed.

Sajal Kapoor: I was interested in asking about, is there any sort of concentration risk because we have got the three products, are we supplying these three products to three or four large customers, is that the kind of scenario we have here?

Manish Dhanuka: So, out of these three products, for one product we have tied up with the innovator of the product. So, they buy exclusively for us for their respected market. But we are free to sell to everyone else in the world and our sales mix is a healthy mix of both.

Moderator: Next question is from Vishal Manchanda from Systematix. Please go ahead.

Vishal Manchanda: With respect to the new NCE molecule that's going to be launched in the regulated market, would you be eligible for a milestone payment apart from royalties, so whenever an approval comes in Europe or the US, will there be a milestone payment around this?

Manish Dhanuka: No, there will be no milestone payment, there is only a royalty, but the royalty is based on the end consumer sales. So, Allecra cannot take more payment upfront and shortchange us on our royalty.

Vishal Manchanda: Second one is related to this trial in India. Whether you would be doing the trial only for urinary tract infection or you would also do it for pneumonia as well?

Mridul Dhanuka: No, the trials will be done only for UTI.

Vishal Manchanda: But the opportunity is also for pneumonia if it is tested and proven?

Manish Dhanuka: Yes. So, I think Cefepime is already approved for pneumonia, stomach infection and UTI.

Vishal Manchanda: So, you would eventually develop these for the other indications also?

Manish Dhanuka: I think so, although I'm not sure of the regulatory requirements with respect to that as of now.

Vishal Manchanda: Sir, was there any seasonality in the number during the quarter tend to be higher?

Manish Dhanuka: No, historically for Orchid first half has been 40% and second half has been 60%. But we've tried to work a lot on our H1 numbers. So maybe this year the skew toward H2 would be slightly lesser.

Vishal Manchanda: I'm not sure whether you've answered this earlier, but if you could give a number as to what is the total value of imports that India makes from China or other markets for all Cephalosporin products, whether it is final formulation, API or intermediates related to Cephalosporin?

Manish Dhanuka: In terms of value, I don't have the number off hand, but if you include all the starting materials, so practically 100% comes from China, so that's a pretty large value. Maybe you could drop me an e-mail and I can check this number and come back to you. But, in terms of API, there is very little which comes from China to India as the API. Advanced intermediates, yes. But India makes for its own consumption. In fact, in oral products, India exports to China and worldwide and we have much larger capacities than China on oral products.

Vishal Manchanda: Why is it that they don't have enough capacities on the oral front?

Manish Dhanuka: I think somehow Chinese till they are get ensured, they don't feel they have gone to the doctor. So, traditionally Chinese has been a much stronger injectable market rather than oral.

Vishal Manchanda: So, do we have a cost advantage as well because of the scale that we have in oral?

Manish Dhanuka: Definitely, that might be there and the only indicator I have with respect to cost is that we're able to compete with them wherever they want to sell in the oral market. So as a country, I think, we are doing quite well.

Moderator: As there are no further questions, I will now hand the conference now to the management for closing comments.

Manish Dhanuka: Thank you, everyone. I would like to express my gratitude to all of you. We value your insights, and your questions make us more vigilant. Your trust and support are fundamental to our success, and we are dedicated to creating long-term value for all our shareholders and stakeholders and excited about the opportunities that lie ahead. Thank you for your time and we look forward to your continued journey of growth and prosperity together.

Moderator: With this, we conclude today's conference call. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.