May 18, 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 Investor/Earning Call – Orchid Pharma Limited ("*the Company*")

Dear Sir/Madam,

This is in continuation of our earlier announcements dated May 08, 2023 and May 11, 2023.

In view of the above, Transcript of Investors Call/Earning Call held on Thursday, May 11, 2023 on the Audited Standalone and Consolidated Financial Results of the Company for the Quarter and Financial Year ended March 31, 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 record.

Thanking You,
For **Orchid Pharma Limited**

MARINA PETER
Digitally signed by MARINA PETER
Date: 2023.05.18 17:03:00 +05'30'

Marina Peter
Company Secretary & Compliance Officer
Encl. as above

“Orchid Pharma Limited

Q4 FY ‘23 Earnings Conference Call”

May 11, 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: Ladies and Gentlemen, good day and welcome to the Orchid Pharma Limited Q4 FY '23 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 the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manish Dhanuka, Managing Director. Thank you and over to you, sir.

Manish Dhanuka: Thank you very much. Good evening and welcome all of you to the annual results call of Orchid Pharma Ltd. I have with me, my Co-Director Mridul Dhanuka. We are happy to share the results for the financial year '22 -'23. The fourth quarter continues to be the largest quarter for the financial year as, we have seen over the last three years. We achieved a growth of 31%, over the last quarter and a growth of 16%, over the corresponding quarter last year.

With respect to the financial year, the year-on-year growth is 20%, in revenue and the growth on EBITDA is 55%. Although, we were able to turn around Orchids, within the first year itself, from the takeover on 31, March 2020 and turn the EBITDA positive, I am happy to report that, this year, we are having a positive PAT also.

The PAT for the full year before exceptional items is INR16 crores. It gives me a lot of satisfaction to announce that, our conceived plans as the acquisition to hive off the non-core assets are complete now, with the sale of corporate office and the term debt, which was INR427 crores, taken for the acquisition of the company, is now reduced to INR81 crores, despite an additional investment of INR31 crores, for capacity expansion.

This capacity expansion includes commissioning of a new sterile plant, which will add the fifth plant or maybe a 20% of the sterile capacity, would be added and we hope, this will give a significant boost to the sales, this year. With the reduction of debt and consolidation of the acquired business, we will now move towards our future, in a more confident way. The most important step in this direction is, the setting up of the 7-ACA plant, a step towards backward integration.

We have signed a technology agreement, with an international biotech company having expertise in fermentation technology and this company is basically supplying technology to even the Chinese manufacturers, so we feel that, we have got access to the state-of-art technology. We are making good progress in developing ANDAs to be filed in the US for the products that, are getting off patent, in the next three years. We will now take the questions, if any.

Moderator: Thank you. The first question is on the line of Himanshu Upadhyay from O3 PMS. Please go ahead.

Himanshu Upadhyay: Yes. Hi. Good afternoon. Congratulations on a good set of numbers and it seems that, on the cost side, we have done pretty or we are through the difficult phase. Now, the focus will be more

on revenue growth. So, my first question is, on the revenue side. See this whole traction of nearly INR450 crores to INR700 crores, of revenue, what we have achieved, which is quite remarkable.

Initially, we had three areas to focus on, to get revenue. One was to get newer clients, the second was new products and the third was more from the existing products. Can you elaborate on, where are we, in that trajectory and how many newer clients you would have added in, from FY '21 to now? And similarly, new products and how much, would be from existing clients section?

Mridul Dhanuka: Yes, Himanshu, it's a complicated question to answer. Unfortunately, customer number, we will not be able to comment. Also, what also happens is a lot of the customers, who would be the end user of our product, get their product contract manufactured at various sites. So, I will give an example of an Indian company. Let's say Cipla, wants to buy our end product, they might use three different custom manufacturing sites to actually procure the product in and then buy the product. So, our end customer remains Cipla, but that never reflects in our sales number.

But with CDMO, what our product might change every year. So, it's difficult to say, how many, we have gained in numbers, but we have added significant number of customers, in various markets. And when I mean customers, even the same product addition to the same customer, is also same amount of work in pharmaceuticals, as you would understand. So, I can't talk about numbers specifically, but definitely more than 15.

Himanshu Upadhyay: More than?

Mridul Dhanuka: More than 15.

Himanshu Upadhyay: And in the product basket, have we significantly changed means or the scope, on that side? Where are we seems? Newer products and what revenue contribution can be, till date, from those new products?

Manish Dhanuka: Yes, Himanshu, I must compliment you. It's a very, very intelligent question, I did not think it like this. Yes. So, Mridul has answered about, the number of customers. I'll try now address your question regarding the products.

So, what we have done is, we have definitely realigned our product mix and we have gone towards the products, which are giving a better value addition. And we have tried to reduce the products, which were less value added. So, there are three to four products, which we have added in our basket and where, I am happy to say that, we have been able to completely stop the Chinese imports also. So, that definitely helped us in the bottom line.

Himanshu Upadhyay: Okay. And one thing in geographical aspects, US, there were certain challenges, How to enter that market and because of historical reasons, where are, we in terms of negotiating and getting newer clients in America? Europe was already, always a strength for Orchid, but can you elaborate on, where are we on our journey to get more business from America, as a continent?

Manish Dhanuka: Yes. So, we hear a lot of news about the competition in the US market now. there is stress on a lot of pharma companies, who have been traditionally making large profits in the US market. But fortunately, it is different in our case, in the injectable case and more so, in the

Cephalosporins. As you can see, there are hardly any US FDA approved injectable plant, not just the API, even the formulation. So, we enjoy kind of, I would say, much less competition with only, I believe, two or three other players, who can supply to US market.

So, in that aspect, we've said in the last call also, we are gaining traction with few customers and one significant development is that, we have got approval for one of the products, for which commercial supplies also have started for the US market. For European market also, the competition is relatively less and Orchid enjoys a good reputation. So, we are definitely getting, a more share of the regulated market.

Mridul Dhanuka: Just to give another color, which will, you know, tie up your question, maybe able to answer it better. So, when you look at our regulated market versus ROW comparison, earlier, in the first two years of our operation, this number had swung more toward the ROW with the split going regulated versus ROW to 40% - 60%. This year, with our increased efforts in various other regulated markets, so this number is crept up slightly from this 40%-41% to roughly 44%-45%. So, we are making progress on that side.

Manish Dhanuka: One second compliment, Himanshu ji. You summarized our entire strategy in a single sentence. Much appreciated.

Himanshu Updhyay: Yes, thanks. See, one more thing. How large is the market for Ceftazidime Avibactam, which we launched in this quarter? And what can be, means a figure. So, we launched with four people, that API, formulators. Is there anybody who has launched without us? And what is the size of that market? And how successful has it been? And what complexity would be that product? And some idea on that?

Manish Dhanuka: Yes, so it's two things. It's a very complex product, number one. Number two, see, this is a life-saving drug. When all of the bacteria have resistance, this only works. So, we feel Orchid is in a leadership position in this product. In the Indian market, we launched on the first day. And we hope, we are planning now to file for the ANDA in the US market also. And we hope to be leader in the US as well.

Himanshu Updhyay: What is the size of the Indian market?

Mridul Dhanuka: So, global market is roughly $500 million. And Indian market, instead of value, the right way to look at it, because it's nascent and price discovery to consumers still happening. So, I'll give you in terms of buyers, roughly Pfizer, just before the patent, was selling roughly 25,000 vials or so. We believe the market total will expand by 4x to 5x in the next year or two.

Himanshu Updhyay: So, annually 1 lakh vials you are expecting?

Mridul Dhanuka: Yes, that is the minimum within the first year.

Himanshu Updhyay: Okay. And one last thing, the fifth line of sterile, which we were to start in June. So, next month, are we ready with the plant or further something is required for?

Manish Dhanuka: Yes, we are on schedule.

Himanshu Updhyay: Okay, thank you. I'll join back for further queries.

Moderator: Thank you. The next question is from the line of Rupesh Tatiya from IntelSense Capital. Please go ahead.

Rupesh Tatiya: Yes, congratulations, sir, on a fantastic set of numbers and significant margin improvement. My first set of questions are on Enmetazobactam. So, first, where are we on the commercialization in India and also in the global world market? How do you have kind of like some visibility of what Allecra is doing?

Mridul Dhanuka: Yes, sure. So, for the European market, we can see on the EMEA website that the new drug application has been filed with them sometime in the month of January or February. So, in Europe, it should be about a six months to eight months kind of approval. So, earlier, last time when we were talking, we were saying that, we don't know when the product might be launched because Allecra doesn't share much information with us.

But looking at the filing, which has been accepted by the European Medicine Agency, we believe definitely for Europe, the product will be launched this year. And similarly, our thoughts around Chinese and US launch should also happen this year. But unfortunately, we don't have much information on those. For the India market, actually, we were hoping that we might come with an announcement, but unfortunately, it's not happened. But maybe within this week, we'll be filing for clinical trials, our application, and then maybe another year for the product to launch.

Rupesh Tatiya: Okay. And we're expecting some royalty from China, right? So, is that linked to this kind of like approval?

Mridul Dhanuka: No. So, Chinese royalty will come when sales in China start. That has nothing to do with our clinical trials in India. That is only for the Indian market.

Rupesh Tatiya: No. So, in the Chinese market, is there only sales-related royalty or is there some milestone kind of like payment?

Mridul Dhanuka: Yes, Orchid for all the markets is only entitled to sales-related royalty. We don't have any milestone payments, etc. Those will go to Allecra.

Rupesh Tatiya: Even for Chinese markets?

Mridul Dhanuka: For all the markets.

Rupesh Tatiya: Okay. And maybe slightly more kind of technical questions. So, how do you think the performance of Enmetazobactam is versus, let's say, Avibactam, or I see some five or six innovators are also trying in these fields. Most of them are in phase 3. So, how do you feel, is the performance of Enmetazobactam versus Avibactam and some of these new products?

Mridul Dhanuka: So, for phase III products, it would be difficult to comment, unless the trials results are published. I can talk about Ceftazidime Avibactam. So, it's a completely different segment. Ceftazidime Avibactam, a very large product, like I just shared, $500 million global size. But Ceftazidime Avibactam is not the first line of treatment. So, once an infection happens, they don't give this

product as the first choice. It is only given when, with the normal antibiotic, the infection is not cured.

While Enmetazobactam is positioned to be the first line treatment, in case you are suffering from CUTI, instead of piperacillin tazobactam, which is the current standard of care, it is advised that Cefepime Enmetazobactam should be administered. So, they are completely different segments, therefore non-comparable. With respect to Piptaz, which is a very large product and the standard of care, against 59% efficacy, Cefepime Enmetazobactam has 79% efficacy.

Rupesh Tatiya: Okay. And sir, can you also talk about what indications it is approved for? Because somewhere I read that you also want to do phase 3 trials for complicated UTI and Pyelonephritis.

Mridul Dhanuka: Yes. So, both those indications it's approved for. Cefepime as a drug for Europe market is also approved for intra-abdominal infections in IAI. But for Cefepime Enmetazobactam combination for Europe market, the EMEA said that once you get approval as a new drug, it will be auto-approved for hospital-acquired and community-acquired pneumonia as well. In India, we have to see what the approval comes. The clinical trials will be only on CUTI. But basically, since the drug Cefepime works on all three largest indications, which is abdominal, pneumonia and UTI. So, we believe at the end, the usage might be triggered by all these factors.

Rupesh Tatiya: Okay. And final question, sir. So, based on whatever I have read, this is the only product which has phase 3 cleared and we're very close to getting an ANDA. And in one of your older presentations, you had indicated a really large market size. So, obviously, you didn't start this product, Orchid old management started this product. But how confident are you that Allecra is the right partner, whichever Chinese partner is the right partner, they have the right focus, they have the right kind of like velocity to go commercialize this product and make it successful?

Mridul Dhanuka: Yes. So, the first thing to see is, Allecra is a private equity funded company largely by, not excellent players, they are large global players. One of the partners is Boehringer Ingelheim, the large German pharmaceutical company, and there are the Rothschilds and people like that. So, they're very smart people to actually choose the right partners in various countries.

Secondly, coming to Shanghai Haini Pharmaceutical, again, it's a very large, I think top five pharma companies of China. Now, they're paid 80 million upfront, I don't think without looking at the potential of the product and the possibility to generate profits out of that, they would have invested in it. So, all these things give us the right indication. But at the end, the proof of the pudding is in eating it. So, once the royalty flow starts, we'll have more information and validation of our thoughts.

Rupesh Tatiya: So, you feel that there is enough focus and kind of velocity to make things happen in a better way?

Mridul Dhanuka: Yes. So, one thing which has moved from the last call forward is the filing of the European application. The US application, unfortunately, we can't see in public domain. But my belief is that it should also have been filed, but we don't have information.

Manish Dhanuka: You see, antimicrobial resistance is a very big menace right now that mankind is facing. If you go to WHO website, they mentioned that antimicrobial resistance could be the next pandemic. So, and unfortunately, not many new molecules in antibiotics are coming. So, we feel that an antibiotic which can work on different bacterial strains, resistant strains is very much need of the hour. And we feel, this molecule is not just going to be financially good for Orchid, but it is very much required for the healthcare safety of the world.

Rupesh Tatiya: Yes, sir. I have read all the literature. It's truly exciting. And we are really close to commercialization also. It's really remarkable. Yes.

Manish Dhanuka: Yes. So, we have actually requested DCGI for a waiver of clinical trial also. In case, we are able to get the waiver, then the launch could be earlier also. But we have made the protocol as well. So, we will go as per the advice of the drug controller.

Rupesh Tatiya: Okay. So, my next kind a like area of question is in new products. So can you give some indication about, what was the contribution of Ceftazidime Avibactum at come in Q4? And was that primary driver for margin improvement?

Mridul Dhanuka: Unfortunately, we can't give product wise information. Sorry for that. Yes, from zero to, the number is significantly high. And the gross margins I can share, the gross margins are also better than the overall blended gross margins that, we have.

Rupesh Tatiya: Okay.

Moderator: Thank you. The next question is from the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: Hi, good evening. Thanks for the opportunity. I have three, four questions. The first one is, can you break the revenue growth in Q4, into various components, maybe size, volume, by geography, new customers, new products, etcetera. And also, is it sustainable or does it include any one-off supplies, any one-off contracts that, will taper off in future quarter?

Mridul Dhanuka: Yes, Thanks for that. Unfortunately, quarter-wise breakup, I won't be able to provide. Our annual breakup continues to remain same on oral versus sterile, which is 1/3, 2/3. 1/3 towards sterile and 2/3 towards oral. This long-term trend would continue. In terms of regulated versus ROW, last financial year ending, regulated was roughly 40%, 41%, and ROW was roughly 59%, 60%. This year, ending is roughly regulated 45%, and ROW business is roughly 55%. So, that also led to some of the margin improvement that is there.

And going forward, when you look at EBITDA margins, so if you see, what is going to happen, and we have talked about it earlier, our sales will increase more and expenses, will increase as a percentage less because we'll be sweating and leveraging our assets more. Like this year, the sales has overall increased by roughly 20%, while the expenses have increased by loads, double digits. So, that's what, margin expansion is going to contribute going forward as well.

Nitesh Dutt: Got it. Can you break up the sales growth into price and volume? So, if we compare Q4 and Q3, the 31% jump, will we be able to break it up by volume and price?

Mridul Dhanuka: No, that wouldn't make sense, with the wide range of product Orchid makes. We make almost 35 products and some of the capacity is fungible specifically, in sterile products. So, to ensure that, we are fully utilized in terms of capacity, we change based on orders from 'A' product to 'B' product. So, suddenly, the volume comparison is also not possible. One product is $100, the other is, let's say, $2,000, a kilogram. So, there cannot be any comparison with respect to that.

Nitesh Dutt: Understood. My next question is on Enmetazobactum. So, the value of loyalty is estimated as $16 million to $25 million, in previous presentations. So, assuming filings happen within the next year, can we assume that, this will start flowing by FY '25 or at least partly by FY '25, I need color on that…?

Mridul Dhanuka: Yes. So, unfortunately, due to the QIP process starting, I can't make many forward-looking statements. But if the filing happens, immediately the customer launch should happen. That is what my assumption would be. And every quarter, we are new that royalty. So, as soon as the sales start happening, the royalty would start flowing in. And if looking at the trends of the filing in Europe, we believe definitely, the royalty should start flowing in, within this year.

Nitesh Dutt: Understood. My last question is on price erosion. This is both for your existing set of molecules plus, as well as ACA, the PLI one. So, are you still facing steep price competition, especially from Chinese players? This is for existing molecules. And for 7-ACA also, will you be competitive, with the current suppliers in the market?

Mridul Dhanuka: Yes, I'll answer the second question first, which is about 7-ACA. So, like Mr. Manish alluded in his opening speech, our technology partner is the same person, who supplied technology to other Chinese companies. So, we believe, we are going to get access to the best technology in the world. So, I don't see any disadvantage with respect to China, on that front. The PLI related benefits and our choice location of Jammu are going to help us only, in ensuring that, the initial hiccups of scale-up, at that time, we are able to sell and still make some money.

So, on 7-ACA, we are fairly confident that, we won't have any disadvantage against China. On the first part, when you said, price competition from China that, will always be there in emerging markets. But like I said, Orchid, large part of the business, a significantly large chunk is regulated market, where price does not play the primary role, the quality and approvals play the primary role. Yet, at the same time, the pricing pressure is always there. But fortunately, cephalosporin technology, India is much ahead than China.

And specifically for the oral product, if you look, India should be 2x or 3x, the capacity of the Chinese companies. For sterile products, ceftriaxone is the largest sterile product, in cephalosporin in the world, where China has much larger capacity. But Orchid's contribution largely comes from, other sterile products, which are very niche, small volume products. Orchid is probably, the only one or maybe the only two players of the world, who's making these products. So that's where, the price competition is lesser.

Nitesh Dutt: Thanks. Understood. Just one more question. So I understand, you have two important new molecules, ceftaroline and ceftazidime, other or Enmetazobactum, which you talked about slightly earlier. So these two molecules, how much can they contribute, let's say three years, five

years down the line? What percentage of your top line might come from these two molecules? Any ballpark figures on that?

Mridul Dhanuka: Unfortunately, this is a forward-looking statement. But I can give you some color with respect to market size and our thought around that. So ceftaroline largest contribution will come from the US, which is a $150 million, $160 million kind of market. So with generic products coming in the market, the price would slightly fall, the volume would increase. And we should be able to get, being the two players or three players in the market, a 20%, 25% kind of market share.

So that's our thought around ceftaroline. And on ceftazidime, Avibactam, like I said, for India, this product has the potential to be a very large product like India has shown. And a similar kind of market size of the overall market, specifically for the US, where we are targeting a para-IV filing, those benefits would accrued once.

Moderator: Thank you. The next question is on the line of Sajal Kapoor, an individual investor. Please go ahead.

Sajal Kapoor: Yes, thanks for taking my question. Congratulations on good results and solid execution. Well done. I have a couple of questions. First up, culture and chemistry go hand-in-hand, right? So how has the culture been transformed since Dhanuka Group took over? What concrete steps have been taken? That's one.

And then the second question would be, don't you think that, many generic antibiotics are kind of a sunset sector due to older therapies and drug resistance, etcetera. And then, within antibiotics, the SAT score is too small. So opportunity size is perhaps not great, if we look five years about so. What steps are we taking on the R&D capability technology side today, so that, we can be worthwhile and relevant five years out? Thank you.

Manish Dhanuka: Yes, interesting question. So first, I'd like to compliment the Orchid team with respect to the culture, what you mentioned. Orchid Pharma had an excellent team, very capable. And, it's been a good experience working with them. The scientists out there are quite extraordinary. All we needed to do was, infuse some energy and motivation. And we hope, we have been able to do that.

And your next question regarding antibiotics. It gives a general impression in pharma industry that antibiotic is an old molecule base, and there's not much of a growth. But on the contrary, antibiotics are one class of molecules, which will always continue to grow because whatever happens, the infections are going to be there. And not just infections, any surgery, any procedure, you need an antibiotic whether you have an infection or not as a prophylactic itself.

And more particularly, Cephalosporin is the largest class of antibiotics. So Cephalosporin is not going anywhere. And in Cephalosporin also, Orchid is the only company which commercially manufactures 25 out of 30 approved antibiotics, be it oral or sterile. So I think Orchid has the largest range of Cephalosporin antibiotics, not just in India, probably in the world.

So I think Orchid has a good opportunity to grow. And with respect to our growth plans, we are trying to cover the foundation by going for backward integration and increasing our capacity.

So we can leverage the overall strength of Orchid in a better way. And at the same time, we are going up the value chain by filing ANDAs in the US market, where we can get a better valuation, better realization as well. Hope I could answer your question.

Sajal Kapoor: And how fungible are our capacities across both oral and sterile?

Mridul Dhanuka: Yes, Sajal, for sterile, the capacities are pretty fungible. We can divide the product into two broad categories of crystalline and lyophilized products. So between these two, it is not fungible. But bulk, maybe 90% of the products, or even 95% of the products are crystalline. And out of our, now five blocks, four are for crystalline, one is for lyophilized products. So between those four blocks, it's pretty fungible.

At the same time, some customers are very specific with respect to which plant they would buy from, they would come and audit only that plant. So with respect to that particular customer, it may not be that fungible. But in general, for product markets, it is pretty fungible. On the oral side, because the volumes are very-very large, now what we are making, we have set up dedicated capacity for the largest product, which theoretically being fungible, but we don't need to change, we are practically using them fully. There are some blocks which are more multi-purpose where we make smaller niche products.

Sajal Kapoor: Absolutely. And some of the Japanese customers, they are very stringent, not just at the plant level, but the block level. And they just go at the reactor level. And you can't even change the reactor, so fully appreciate that. And what really needs to happen to generate a lot of cash this year and next, because I see there is some debt on our books as well. So I would like to see us to be reducing that debt, it's not completely debt free. So what really needs to happen to generate a lot of cash this year and next? Thank you.

Mridul Dhanuka: Yes. So our trajectory should continue the way it has. And what will happen next year is our depreciation will go down significantly. And we have plans of raising primary capital. Once that comes in, a lot of the debt will be settled by that. But at the same time, the company has a lot of capex plans. So to fund that capex, for example, the 7-ACA project is of roughly INR500 crores to INR600 crores investment. So to fund that, we are going to have to take a fresh debt as well.

So what positive you will be able to see is the old debt would continue to be retired. And for the new capacity, a fresh debt would be taken. Just like when we had acquired Orchid, we had taken a debt of INR427 crores. That debt is down to INR50 crores now. And for the new sterile block, which we are commissioning, we had taken a debt of that number stands today at INR32 crores, maybe INR10 crores odd, we will need more to finish that before we start. So that trend will continue to happen. We will make fresh investment, take some fresh debt for that, old will get continued to retire.

Sajal Kapoor: Sure. So debt for growth capex is absolutely fine as long as our return...

Moderator: Sir, may we request that you return to the...

Sajal Kapoor: Sorry, last question. This was the last question.

Moderator: Okay, sir.

Sajal Kapoor: Yes. So debt is fine for growth capex as long as our target return on capital is far superior than the cost of capital. So do we work with, and I'm sure we must be having a framework and what sort of target return on capital do we say, let's say three years to five years out when the capacities are fully up and running because there is always a gestation period in our business. Do you guys work with some sort of a framework? I'm sure you do, right?

Mridul Dhanuka: So there are two kinds of return on capital when you say, we can talk about. One is that typical ROC number that you look at. The problem with Orchid numbers are, because of the past things that we carry in our balance sheet. When you calculate the ROC just like that, that doesn't give a right number because of the large asset base and low capacity utilization. But going forward, obviously, our intention for acquiring the business is that the number should match the best in class, or at least the norm median numbers, let me not say best in class. So it should be a profitable business.

And if we are able to generate, like you said, cash like we have been generating now and we have paid the loans by some of the non-core assets and by cash as well. So both these things will continue to happen in the forward as well. If we don't see a payback period, normally whenever we invest within the next three years to four years, then we don't invest the capital. That's the thought process behind the management.

Sajal Kapoor: Wonderful. Thank you. All the best.

Mridul Dhanuka: Thanks.

Moderator: The next question is on the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Yes. Hi. Good evening and congratulations on a good set of numbers and all appreciation to the team for a great work since 2018. Just two-three questions. One is whether you mentioned that the improvement in the profitability is more driven by the mix of business moving towards regulated versus non-reg. But on a secondary side, if you look at the last whole of the year, most API companies were facing issues with higher RM price base and freight costs and power and fuel. How much of it is still in the P&L at a higher base where you would believe that the costs are going down or on the cost side, you believe largely whatever normalization had to happen has happened?

Mridul Dhanuka: Yes. Thanks for the compliment. There are two, three factors at play here. I talked about that the regulated market business has improved. But if you look at the gross margin level overall, in spite of that improving a little, we have fallen from roughly 44% to 42%. So the pricing pressure and the raw material cost increase factors are there.

What we have done to manage that is specifically, if you remember earlier calls, we talked about the large energy cost, which is on our book. So for that, the investment in solar plant has worked well for us. That investment has paid off already for itself and that roughly INR5 crores we had invested. So these kind of things on energy conservation and other ideas and changing of product mix, this is what is going to continue to drive it going forward despite the price increase.

Whatever price increase happens, especially in emerging markets, is quickly passed on to the customer, maybe with a smaller lag. It is more difficult to pass it on to regulated market customers. But at the same time, the converse also works well with them. When the price falls, that much more money we make at that time. So now the prices are rationalizing in China where we source a lot of our raw materials. So those will benefit, the benefits will come to us going forward.

Nikhil: Okay. And just adding to that, if we remember last two-three calls and our utilization in sterile and oral dosage. On sterile, I think we were at optimum utilization and that's why we were putting the capacities. But in oral, the utilization was still low. So, by year end, for this financial year, what would be the utilization on the oral dosage side and how has it moved over FY '22?

Mridul Dhanuka: Yes, so last year we are roughly at 60%. This year we would be roughly at 70%. You understand a lot of this also depends on what product we make in the plant. So this would again improve by a few percentage points next year. And so on the sterile side, we were at roughly 90%-95%. And with the new plant added and commissioned, we would endeavor to run it at full utilization from the word go.

Nikhil: And this sterile new plant is adding 25% more to the capacity, right?

Mridul Dhanuka: Yes. 25% on the sterile side, yes.

Nikhil: Okay. And last question on the US ANDAs. So in our previous call, we had mentioned that, there were 11 ANDAs in the name of Orchid, which we were looking at probably commercializing or, and we had shared also, the market sizes. So are those opportunities still relevant? Or would you say that, they are no more relevant and only new findings would be meaningful?

Mridul Dhanuka: Yes. So the challenge with the old ANDAs is, finding an FDF site, which is US FDA approved. Like Mr. Manish explained earlier, there are not many sites, which are US FDA approved, to make the product. Orchid is still looking for oral sites, all those ANDAs are on the oral space, to make these products. Some of the products are still relevant. So we have retained out of those 11, five ANDAs. And we have sold, a few of those ANDAs as well, which we thought, were not relevant for our portfolio.

The new filings, all are the patents, which are going off, are all in the sterile space. So, first the revenue would start coming from there. We are still looking for contract manufacturing companies, who can US FDA approved, who can make this product for us. So five ANDAs still relevant, but first phase will come from the new sterile product.

Nikhil: Sure, I'll come back in the queue.

Moderator: Thank you. The next question is in the line of Rucheeta Kadge from iWealth. Please go ahead. Rucheeta, your line is in the talk mode. Please go ahead. As there's no response from the current participant, we'll move on to the next. That is in the line of Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen: Yes. So I just wanted to understand, if this could be a basic question, but I just wanted to understand, if the present revenue and EBITDA is sustainable for the coming year. And since, we are doing the capex, can you please let me know, what's the scale of capex that, you're doing?

Mridul Dhanuka: Yes. So in terms of scale, you asked scale of capex, right?

Aditya Sen: Yes.

Mridul Dhanuka: Yes. So roughly INR30 crores odd, we've already spent. And before the plant is commissioned, INR10 crores more will need to be spent. This will add roughly 25% capacity, to our sterile products. The sterile products are today roughly 1/3 of the revenue. And we expect a good growth coming from this, within this year, after commissioning. So the trajectory of revenue, I can't make a forward-looking statement, but whatever we have said in the past, that should continue.

Aditya Sen: Okay. So if I can ask any aspirational figure that, we are aiming towards, in the coming three years, four years, five years?

Mridul Dhanuka: Sorry, any what?

Aditya Sen: Any aspirational target, that we might have.

Mridul Dhanuka: No, unfortunately, sorry, I can't make forward-looking statements due to the QIP process going on. Sorry.

Aditya Sen: Okay. No issues. Thank you.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Hi, good evening, and congratulations for an extremely strong set of numbers. A couple of questions for me, sir. One, if I look at the NCE, right, of which product is the NCE likely to replace if it were to come through?

Mridul Dhanuka: You're talking about Enmetazobactum. So replacement, it will take away market share from three different type of products. I'll give a color on the India market and the numbers are available on our presentation earlier. So first is Piperacilin Tazobactum. That is the standard of care of UTI today. So it will take share from that. That's roughly INR1,000 crores.

And second product is Ceftriaxone, which is the largest selling antibiotic in India. The first product to be administered generally, it will take away share from that. And because of resistance against these two existing products, Carbapenems are used, largely Meropenem, again, a very large product for the country. So during this, this will take away share from that as well.

Tarang Agrawal: Okay. What is the second product you said? Ceftriaxone Sulfate, is it?

Mridul Dhanuka: No, Ceftriaxone. Second product is Ceftriaxone.

Tarang Agrawal: Okay. So the same trend would perhaps follow in the regulated market as well, as and when, you get approvals there, correct?

Mridul Dhanuka: Yes, so regulated market, yes. Every country has a different antibiogram, which means, they have a different profile of which bacteria affect, for a particular disease. So, it would depend on market to market. But Piperacilin Tazobactum, especially in areas, where doctor decides more judiciously, like in India, typically, let's say, a daily wage worker goes to a doctor and says, I want to go to my job tomorrow, you give me a shot.

So doctor might do that. In US or something, they might first test, which bacteria you are suffering from, only then they will give the antibiotic. So there, the replacement antibiotic could be different. But Piperacilin Tazobactum is definitely going to be the primary product of replacement.

Tarang Agrawal: Okay, got it. Second, sir, on Zavicefta, my sense is, it's currently at about INR5,000 per injection. So how does it work?, When you said INR25,000 vials would perhaps go to INR1,00,000 vials. This particular each injection or if you could just give us some colors and how would the API value be here, a broad threshold, not looking at exact numbers?

Mridul Dhanuka: Yes, sure. So, I am not sure of the market price of the product, it should have fallen after genericization. But I don't think, the generic companies because it's just three months since the generic product became generic. So INR25,000 vials, when I meant per month, I meant each individual vial only. And, I will not be able to disclose the API price, in this particular product right now.

Tarang Agrawal: I understand. And the third question is, if you could just give us a broad brush on how your GCs would differ between regulated and other markets? And how your GCs would be between a sterile product and an oral product?

Mridul Dhanuka: Great question, Tarang. But again, a complicated one. Sorry for a convoluted answer, you're going to hear but depends on, in general, if I say, sterile products have higher gross margins than oral products, right? But the oral product, some of the products in regulated market have very different kinds of margin profiles, largely due to, who's the end customer. So in one oral product, where we have tie up with the innovator, there the gross margins are very, very high.

But some of the other products, where we are one of the two or three people selling, there is no exclusivity in the gross margins are lower. So the similar pattern continues, in sterile products. So some of the products like, one of the new products we are making, will be priced at, let's say $40,000 per kilogram. Here gross margins will be very, very high. But at the end, if you look at product wise net margin, the quantity would be so small that, the overhead unit on this product would be higher. Have I been able to answer your question?

Tarang Agrawal: Quite convoluted, but I understand the limitations of the forum. Thank you so much.

Mridul Dhanuka: Yes. Thank you.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Yes, thank you for the opportunity. So most of my questions have been answered. They were around capacity utilizations and products. Some of them, you have answered, some I understand you can't answer, so openly. Sir, I have a basic question on, how this company will move forward. So, as of now, you're operating with close to full utilization and you have a new plant with respect to the backward integration for 7-ACA and you're raising money, right? So is this the model that, will be following that every time, we need, we'll go for large projects and raise a lot of capital or this is a one-off thing? How often do you think, we need to dilute?

Mridul Dhanuka: So, I wish, I have so many projects of investment of INR500 crores, INR600 crores in the near future. And so, if that is there, we definitely will have to come to the market. But once, the 7-ACA project will come into play, that will generate a lot of cash for the company and small business as usual expansions will be internally funded and we won't need to come to the market for that.

Tarang Agrawal: Great. And sir this 7-ACA plant, what is the total capex that you'll be undertaking? And can I apply the usual rule of thumb of what a fermentation trunk looks like with respect to asset turnovers and margins to 7-ACA or is it something different?

Mridul Dhanuka: Yes. So the capex is INR500 crores to INR600 crores, but about the margins, I won't be able to talk right now because of the limitations of QIP process. Sorry on that.

Tarang Agrawal: No problem. So is it very similar to other fermentation products or is it completely, is the economics very-very different?

Mridul Dhanuka: No, it's a normal fermentation product. If you talk about other pharmaceutical companies, which they make, they're niche products and smaller volumes. Our product will be a 1,000 metric ton scale and the margins would not be, I'm assuming the margins of, let's say, biosimilars are very, very high. This will not be towards that number.

Tarang Agrawal: No, I'm not comparing it with biosimilars. I'm looking at just any other non-biosimilar fermentation plant that we see in China, right? That would be power intensive, at full utilization, probably two times asset turnovers and at best taste without government support, 17% to 18% margins. Those are the kinds of projects that I've seen. I'm pretty sure there will be others, but ballpark, are we looking at a significantly different economics in this plant or will it be similar?

Mridul Dhanuka: So our assumption is, if you're comparing to China, our supplier of technology is the same person. We believe the economics should be similar.

Tarang Agrawal: Okay. And so this backward integration, so this will help you in making all the 24, 25 odd Cephalosporins that you make, right? This is not meant for just one or two. This is like 7-ACA goes in everything, right?

Mridul Dhanuka: Yes. So all Cephalosporin antibiotics are made from two key starting materials, penicillin and 7-ACA. So all our sterile products, except two, all the sterile products are made from 7-ACA

and two oral products are also made from 7-ACA. Some of our products are starting from the penicillin route as well. So yes, more than 50% are 7-ACA.

Tarang Agrawal: And this will, can you give some ballpark understanding of what percentage requirement of your 7-ACA will be catered by this project?

Mridul Dhanuka: Yes. So 100% of our requirements will be catered by this project. And the idea of setting up was one backward integration. And second, a lot of import replacement also of products which are currently coming from China.

Tarang Agrawal: Yes, I got it sir. Great. And one final question, sir, in terms of capacity additions, future capacity additions, excluding large projects like 7-ACA, will you need a new plant down the line or there will be incremental capex? You will keep on adding blocks. To what extent can you add capacity at your current location?

Mridul Dhanuka: Yes. So at our current location, we roughly have 60 acres of land out of which roughly 20 acres of land is free. So there is significant headroom to grow within this facility.

Tarang Agrawal: And sir, how much are the utilities taking out of this 40 acres, which is getting used? So production blocks are occupying what? Half the space?

Mridul Dhanuka: Yes. 30% utility, 30% recovery, 40% manufacturing. Just a ballpark. I never thought about it like that.

Tarang Agrawal: Sure, So basically the 20 acre can probably give you not double, but very close to like probably 70% additional production blocks.

Mridul Dhanuka: I'm not sure how you are doing your math, but yes, I would say for the next five years, definitely we don't need another site.

Tarang Agrawal: Okay. Yes, I got my answer. So thank you very much and all the best.

Mridul Dhanuka: Thank you so much.

Moderator: Thank you. The next question is in the line of Rupesh Tatiya from IntelSense Capital. Please go ahead.

Rupesh Tatiya: Hello, sir. Thank you for the follow-up. My first question, sir, is if you can give the status of, whether DMF is filed or ANDA is filed for Cefovecin and Ceftaroline.

Mridul Dhanuka: Yes. So, Cefovecin ANDA, we won't be filing. It would be filed by our customer. DMF filing paperwork is going on. It is not filed. Similarly, for Ceftaroline, DMF filing document preparation is going on and we won't be filing the ANDA. The customer would be.

Rupesh Tatiya: Okay. But for Ceftazidime Avibactam, we will file ANDA.

Mridul Dhanuka: Yes. Correct.

Rupesh Tatiya: Okay. And then, sir, in capex, you had talked about, reconfiguring the oral capacity, phasing out of, I don't know, Gen 1, Gen 2 or some low margin products. Can you update some progress on that?

Mridul Dhanuka: Yes. So that's at design stage right now. Once the sterile product block is finished, that's when we will take up the execution of that. Our target to commission that is within last quarter of this financial year. So it will start generating money from next year.

Rupesh Tatiya: So, roughly can you give maybe 30% of the capacity is used for low margin products and then it will be reconfigured to, use new, better generation product?

Mridul Dhanuka: Yes. So basically, roughly there was Orchid had 300 tons to 400 tons capacity of making Cephalexin, that is Gen 1 product. So that would be decommissioned. And roughly 100 tons to 200 tons of various product capacities would come up, which would be Gen 3 products largely.

Rupesh Tatiya: Okay. And this you are saying, it will be commissioned in Q4.

Mridul Dhanuka: Yes.

Rupesh Tatiya: Okay. And also, can you give some capex numbers for FY '24, how much we'll spend and then other than 7-ACA and then maybe also FY '25, let we say, how we will get it?

Mridul Dhanuka: Yes. So for this year, the number should be short of INR50 crores only. This includes our maintenance capex and this reconfiguration. And for next year, unless we announce some plans and share in public domain, I don't see a large number coming forward. Once our plans are more crystallized, we will be able to share a number.

Rupesh Tatiya: Okay. And then, sir, we see a really large inventory number in March '23 balance sheet. Can you split it into raw material inventory and finished goods inventory?

Mridul Dhanuka: Yes. Can you give me a second to get that number out? So in terms of increase, I can probably say faster. So what has happened is due to various factors and, China having their New Year, etcetera, what is happening is if I see my numbers correctly, our finished good number is roughly INR60 crores-INR65 crores and WIP is roughly INR70 crores to INR80 crores. And raw material is INR70 crores to INR80 crores again.

Largest increase is actually in raw materials. So this is largely because of price increase of some of the materials. And second is some shipments would have come, just before 31, March, which are intended for April. Maybe they arrived early. I'm not sure. But that maybe a one-off number for increase in raw materials.

Rupesh Tatiya: Okay. I see. And my final question is on industry structure. So let us say whatever Cephalosporins get sold in India plus exported out of India, my understanding is there are kind of like three large players, you and then Dhanuka Group Company, Nectar Life Sciences, and then there is a Hyderabad-based one company. And then there are big pharma like Lupin and Aurobindo. So between let's say five of you, maybe 70%-80% of the market is covered. Would that be a fair understanding?

Mridul Dhanuka: You mean exports out of India?

Rupesh Tatiya: Total. Whatever is sold in-- Productions and let us say whatever is produced in India, India production, whether it's for domestic or export.

Mridul Dhanuka: Yes, I think these companies that you mentioned is 95% of the production.

Rupesh Tatiya: Okay. And then I also see some small, small companies kind of like putting this Cephalosporin capacity. So would it be fair that maybe all of you guys are kind of, moving to newer generation products and this Gen 1, Gen 2 kind of like products, some smaller players are looking at that as an opportunity?

Mridul Dhanuka: No, I think once you are a Cephalosporin facility, you can't make any other product in that. I don't think personally, and it's my personal opinion, that setting up a facility, small facility for a small Gen 1 product, I think it's going to be very, very difficult to make any money.

Rupesh Tatiya: Okay. I see. And then sir this last question?

Moderator: Sorry to interrupt. Mr. Rupesh, may we request that you return to the question queue? There are participants waiting for the answer.

Mridul Dhanuka: Yes. Okay. Sure.

Moderator: Thank you. We'll move on to the next question. That is in the line of Nitesh Dutt from Burman Capital. Please go ahead.

Nitesh Dutt: Hi, I have a question on your existing set of products. So the 28 to 30 existing products. Can you just give some color on, how you see market growth? So I just want to understand, how will growth come from, for you? Will it be because of market expansion, market size increase? Or are you planning to capture market share from existing other players?

Mridul Dhanuka: Yes, good question, actually. So both the things will work in our favor. If you look at international reports of market research, you would see surplus foreign market overall increases by about 3% to 4% every year. But if you look at, what happens is, there is a price erosion in the most expensive products in the regulated market slightly. But more than that, there is a high volume increase in markets, which are underserved, largely Asia and Africa, where population is increasing. And also incomes are increasing, where they can have access to medicine.

So in terms of if you look at large volume growth, that's going to come from these markets. And that growth, everybody would like to capture. When it comes specifically to Orchid, our growth will be driven by these. At the same time, it will be driven by our availability of capacity because Orchid is the company of choice because of its quality credentials, US FDA, Europe, Japan, approvals from everywhere in the world. So customers trust our capacity and would like to buy from us. So we will be able to take some share also away from other customers. So both these things will work in our favor.

Nitesh Dutt: Understood. And sir one more last question is on the PLI for 7-ACA. When do you see a top line impact happening? So if I'm not wrong, the total market estimated for 1,000 metric ton was

roughly $65 million. So can we expect by FY '26, that the entire utilization of the plant will happen and roughly $65 million, $70 million, whatever the number is, will start flowing into your top line?

Mridul Dhanuka: That's what our intention is.

Moderator: Thank you. Ladies and Gentlemen, we'll be taking the last question, that is on the line of Nikhil from SIMPL. Please go ahead.

Nikhil: Yes, hi. Good evening and thanks for giving the opportunity. Just two questions. One is on the US FDA plant inspection. So is there anything because our plants were last inspected in 2019. So have we heard anything or has there been any inspection being done?

Mridul Dhanuka: No, inspection has happened, but we are ready. They can come anytime. Orchid always has one or two inspections, almost every week from some customer or the other. So they can come anytime, we are fully ready. That's not a problem, we see.

Nikhil: Okay. And last question is that, if you look at this 30 products under the Cephalosporins family, if you have to understand our focus incrementally, would it be that, we would aim to move ourselves in the higher pricing of probably higher value, low volume kind of products? Incrementally, the capacity would be diverted towards that? Or would you say that, even the volume products are necessary to fulfill the basket? So how should we understand over the next three years, five years, our investments in the plants and all?

Mridul Dhanuka: Yes. So my answer would be both. On the sterile product, the intention would be to go for because we are already at 100% capacity. So the intention would be to grab more of the higher value products, but maybe lower volume. But on the overall side, since we have fair capacity available, there is no need to give up the existing products, which are maybe contributing lesser in terms of value add, but still contributing overall to the bottom line. There is no need to phase them out. So that's what, I would say.

Nikhil: So my question was mainly on the oral side, because there the margins are lower as compared to sterile. So currently, we are at 70, but in a year or two, if we reach something like 80, 90, would you say, we would be looking for a new block or we would be looking for more of reorganization in future?

Mridul Dhanuka: Yes. The 80, 90 would be of the existing blocks that, would happen. And I answered a previous question, which was about repurposing the capacity of Gen 1 products. So that is already in plan, and that should be finished within this year. So that would allow us to run for another few years with the oral product. But yes, reduced capacity on Gen 1 and more capacity on Gen 3 on oral products.

Nikhil: Okay, fine. Thanks a lot.

Mridul Dhanuka: Thank you.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Manish Dhanuka for the closing comments.

Manish Dhanuka: Thank you, Gentlemen, for your interest in our company. We got some really interesting questions and we look forward to your pertinence. Thanks a lot.

Mridul Dhanuka: Thank you. Have a good evening, everyone. Bye-bye.

Moderator: Thank you, members of the management team. Ladies and Gentlemen, on behalf of Orchid Pharma Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.