Piramal
Pharma Limited

11th February, 2023

BSE Limited
P.J. Towers, Dalal Street, Fort,
Mumbai- 400 001
BSE scrip code: 543635

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE symbol: PPLPHARMA

Sub: SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 ('Listing Regulations') - Transcript of Conference Call with Investors/Analysts

Dear Sir / Madam,

In continuation of our letter dated 1st February, 2023 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Conference Call held on 9th February, 2023 to discuss the Q2 FY2023 Results of the Company

The transcript of the said conference call is also hosted on the website of the Company at https://www.piramal.com/investor/piramal-pharma-limited/financial-reports/investor-calls/

Kindly take the above on record.

Thanking you,

Yours truly,
For **Piramal Pharma Limited**

TANYA SANISH
Digitally signed by TANYA SANISH
Date: 2023.02.13 11:53:04 +05'30'

Tanya Sanish
Company Secretary

“Piramal Pharma Limited's Q3FY23 Earnings Conference Call”

February 09, 2023

MANAGEMENT: **MS. NANDINI PIRAMAL – CHAIRPERSON, PIRAMAL PHARMA LIMITED**
MR. PETER DEYOUNG – CHIEF EXECUTIVE OFFICER, GLOBAL PHARMA, PIRAMAL PHARMA LIMITED
MR. VIVEK VALSARAJ – CHIEF FINANCIAL OFFICER, PIRAMAL PHARMA LIMITED
MR. GAGAN BORANA – GENERAL MANAGER, INVESTOR RELATIONS & SUSTAINABILITY, PIRAMAL PHARMA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Q3FY23 Earnings Conference Call of Piramal Pharma Limited.

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

I now hand the conference over to Mr. Gagan Borana – General Manager, Investor Relations & Sustainability from Piramal Pharma Limited. Thank you. And over to you, sir.

Gagan Borana: Thank you, Yashashri. Good evening, everyone. I welcome you all to post-results Earning Conference Call to discuss our Q3 and Nine Months FY'23 Results. Our results material has been uploaded on our website and you may like to download and refer them during our discussion.

On the call today with us, we have Ms. Nandini Piramal – Chairperson, Piramal Pharma Limited; Mr. Peter DeYoung – CEO, Global Pharma and Mr. Vivek Valsaraj -- CFO of the Company.

Before I proceed with the call, I would like to update everyone that the board of directors of the Company has approved the recommendation to allot equity shares for an amount up to Rs.1,050 crores, subject to receipt of requisite regulatory approvals, market conditions and other considerations. Given this event, we would have to abide by the statutory guidelines as issued by the regulator in regards to our disclosures and external communications. Hence, we would not be able to answer any forward-looking statements, nor disclose any further details on the proposed fund raise during a deal window period. Therefore, I request everyone on this call to restrict your today's discussion to Q3 FY'23, and nine months FY'23 performance.

Further, since last evening, post declaring our quarterly results, we have received several investor queries and in alignment with the regulatory restrictions, we have drafted a response to these queries. We will share our responses to these queries first, and then open up the floor for any other questions that you may have.

With this, I would like to hand over the call to Ms. Nandini Piramal to Share her Thoughts.

Nandini Piramal: Good evening, everyone, and thank you for joining our call for Q3 and Nine Months FY'23.

Starting with the performance of the Company in Q3 and nine months FY'23, during the quarter, we registered a year-on-year revenue growth of 11% with revenues of Rs.1,716 crores, our year-on-year revenue growth of nine months was also 11%, and with revenues of Rs.4,918 crores.

Our CDMO business grew by 14% and 12% respectively during the quarter and the nine months, backed by a growth at our Turbhe, Grangemouth and North America facilities.

Our Complex Hospital Generics grew by 6% during the quarter and 9% for nine months for the financial year.

Inhalation Anesthesia sales continued its healthy momentum in the US with volume growth driving market share gains.

India Consumer Healthcare businesses registered a growth of 37% for the quarter, and 19% for the nine months of the financial year, driven by our power brands.

EBITDA margins during the quarter and nine months were 10%, impacted by higher operating margins, including raw material costs, energy prices, wage inflation and marketing costs.

Also, during the year, owing to the tight funding situation in the market, some of our CDMO customers delayed making payments against receivables due to us, and as per policy, we have made provisions for the same.

We maintained a high quality track record of zero OAI as we successfully cleared 29 regulatory inspections including the US FDA and 155 customer audits for the nine months.

Moving on to Business Specific Highlights. In our CDMO business, we're seeing healthy (RFPs) Requests for Proposals inflows, and increasing number of customer visits and audits. However, the delay in decision-making at the customer's end continues given the macro economic environment and prioritization of R&D pipeline due to limited capital availability.

We're also seeing some softer demand for our existing generic and API and vitamins portfolio while we a're working on developing new products.

We're seeing good demand in the niche areas of high potent API, peptides and antibody drug conjugates as we continue to invest to expand their capacities.

Our growth CAPEX planned over the next 12 to 18 months are well on track. Some of the important CAPEX that have gone live in the last few months, include a new In-Vitro lab at a Ahmedabad PDS site, capacity expansion at our peptide facility at Turbhe, and capacity addition at our Grangemouth facility in the US.

We have also had a successful quarter in terms of regulatory inspections, with a successful US FDA inspection at our Riverview facility in the US. At the Sellersville and Lexington facilities, where the US FDA inspection concluded in the month of January, we received 483 with the VAI classification. We continue to maintain a zero OAI status across our sites in the last 12- years.

Navigating the current inflationary environment on account of high raw material, energy prices and wage inflation is an important challenge for us in hand. And we're trying to offset that through judicious price increases and working out several cost optimization and operational excellence measures.

Moving on to our Complex Hospital Generics Business: Our inhaled anesthesia portfolio continued its healthy performance in the US market. In the non-US market, we're seeing good demand from our products and accordingly increasing our capacities to service these markets.

Our Intrathecal portfolio in the US continues to command a leading market share.

In the Injectable Pain Management segment, our performance was impacted by supply constraints at our CMO. We're working towards improving the supply of these products and have seen improved traction in production in the past few months. We continue our focus on building a pipeline of injectable products and have 34 SKUs currently in the pipeline. We also launched two new products during the quarter.

Moving on to Indian Consumer Healthcare Business. Despite the high base of the previous year, we have delivered a healthy growth in Q3 and first nine months of FY'23. High growth in our power brands has been a key contributor to performance with 39% growth in the first nine months of FY'23. Our power brands contribute 41% to total consumer healthcare sales in the first nine months. Littles, a top brand grew 66% YoY and Lacto Calamine grew 44% over the last year and nine months, powered by new launches and traction and e-commerce. In line with our stated strategy, we're reinvesting our profits in the consumer business to grow our power brands. We spent about 15% of our revenue on media and trade promotion, which are yielding good results as reflected in the performance.

Further, we launched 21 new products, 25 new SKUs during nine months FY'23. New products launched over the last two years contributed about 17% of the consumer business sales.

We have a good reach in the general trade with access to over two lakh outlets. We're also strengthening our presence in alternate channels of distribution including e-commerce, modern trade and our own website. E-commerce currently contributes about 14% of our total consumer business sales, has been growing well.

To summarize, I'd like to say that basis our recent increase in customer engagements and continued flow of RFPs, we believe that demand for CDMO services especially for our differentiated offerings remain strong. Our Inhalation Anesthesia portfolio is also seeing a healthy demand. Further, our Indian consumer healthcare business is delivering high growth, driven by the power brands.

Our team of over 6,500 multicultural employees, 17 manufacturing facilities worldwide in the global distribution network in over 100 countries gives us a solid platform to build scale. We take pride in our quality track record and focus on a patient consumer centricity.

We believe in the potential of our businesses and in line with our aim to grow, the board has approved the recommendation to allot equity shares for an amount not exceeding Rs.1,050 crores subject to regular regulatory approvals, market conditions and other considerations.

Our focus over the next few months will be mainly on capturing demand, driving productivity through operational excellence and executing critical maintenance and planned growth CAPEX. We also aim to execute our products and batches as per customer demand.

And finally, we're also conscious of our responsibility towards the planet, society and all stakeholders, and hence, ESG aspects will always remain a key part of our DNA.

With this, I'd like to hand over the call to Vivek, our CFO, who will respond to the queries we've received since last evening. Post that, we will open the floor for any questions that you may have. Thank you.

Vivek Valsaraj: Thank you, Nandini, and good evening to all. Thanks to those who have already shared your questions. We have tried to provide responses for all of those. However, in case any of your questions have not been responded, please feel free to ask them after I finish.

The first question has been why has the management decided to raise money.

We believe in the potential of all our businesses. As Nandini mentioned, basis our recent increase in customer engagements and continued inflows of request for proposals, we believe that the demand for CDMO services, especially for our differentiated offerings, remain strong. Also, in our hospital generics business, we are witnessing a steady demand for inhalation anesthesia products and growth opportunities in our injectable pipeline. Our consumer healthcare business is also delivering consistent growth, backed by our power brands. So, in line with our aim to grow, the board has approved the recommendation to allot equity shares for an amount of Rs.1,050 crores subject to receipt of requisite regulatory approvals, market conditions and other considerations.

The next question was, we have mentioned about certain CAPEX coming on stream at a peptide facility in Turbhe, high potent API facility at Riverview and our discovery services facility at Ahmedabad. Can you please help provide some details on this?

With respect to our PDS facility, this is largely addition of a new lab with a new capability for In-Vitro testing. Our high potent API facility at Riverview, we have done an expansion of a bay with a 3 KL and a 4 KL reactor. This will meaningfully increase the capacity. And incidentally, we yesterday initiated our first batch for our customer. Our peptide facility at Turbhe, we have added a new 45 centimeter column which will meaningfully increase capacity.

The next question has been what were the reasons for slower growth in our CDMO business.

So, firstly, we believe the underlying demand for the CDMO business especially for a differentiated offering remains strong. As we mentioned, we are seeing improved traction in customer engagement and our RFP inflows remain stable. Also, some of the growth CAPEX backed by customer demand have also come on stream as I just mentioned, which will help drive growth going forward. However, during this period, our growth was impacted largely because of continued delay in decision-making by customers due to macroeconomic environment and pipeline prioritization based on the limited availability of capital. We've also seen a softer demand for generic API and the vitamins portfolio.

A similar question was, what were the reasons for slower growth in the consumer hospital generics business in Q3 FY'23.

In our inhalation anesthesia portfolio, the market demand outpaced supplies. We are addressing the current supply constraints through debottlenecking exercises and investing in new capacities. In our injectable pain management portfolio, we have scale up challenges at our new CMOs as we transitioned post-acquisition. This has now largely been addressed and we are seeing good ramp up in our production.

The next question has been, what is the reason for sharp decline in EBITDA margins in the quarter and year-to-date.

The primary reason for lower margin is lower revenues, which led to suboptimal absorption of our fixed overheads. Historically, you will see that as revenues go up, our margins have increased quarter-on-quarter. We've had higher sales promotion expenses in our consumer products business, higher operating expenses in terms of energy costs, wage inflation and raw material costs, and the tight funding situation in the market meant that CDMO Customers delayed making payments against receivables, we have as per policy made provisions for the same.

What are some of the remediation measures the Company is taking to address the muted growth and profitability?

So, firstly, on the demand front, we are focused on increasing productive selling capacity of our business development team, increasing the number of proposals velocity and win rate, targeting new customers, new markets in both our CDMO and CHG business. Capacity expansion to address the supply constraints in CDMO in some of the sites, and in our hospital generics business, both in the injectable pain and inhalation anesthesia portfolios. We are also focusing on improving costs, process optimization through operational excellence.

There was a question on what are the top five strategic priorities for the Company right now.

As some of these have already been mentioned, we are focused on capturing demand, executing as per customer expectation, driving productivity through operational excellence, executing on critical maintenance and strategic growth CAPEX and continued compliance on quality and safety.

There have been certain questions on costs. One of them has been why has your other expenses as seen in the P&L moved up in the sequential quarter and year-on-year.

So, firstly, on the sequential quarter, Q3 other expenses include the one-time provision for accounts receivable pertaining to a biotech customer who had a funding challenge. While the customer is in the process of seeking alternate funding options, we have as per our policy made provision for the receivables that were due. This quarter also saw an increased FX impact due to weakening of the INR against major currencies, and also increase in the spend for sales promotion and marketing activities. This expense is not therefore a representative of the quarter. On a year-to-day basis, on a comparable basis and excluding the impact of FOREX, the accounts receivable provision, the increase in other expenses is 15%. This was largely driven by higher sales promotion expenses in our consumer products business and marketing spend in our CDMO. Excluding this, the growth in other expenses is 11%.

There was also a question on why employee expenses are up both sequential and year-on-year quarter. So, in the sequential quarter, the increase was largely on account of FX ,because of the weakening of the INR versus key currencies. It also included an impact of higher average headcount recruited at our Riverview facility, where expansion has now gone live as I mentioned, and at our Grangemouth facility where capacity expansion is going to come stream later during this calendar year. On a year-to-date basis, if we compare on a like-for-like excluding the impact of FOREX, the year-on-year increase in employee cost for the nine months period is about 15%, and this largely includes impact of increments and realization of positions which were recruited midway through the previous year, and positions which were recruited for training in advance of commercialization of our capital expenditure projects.

There was a question on what is the current net debt in the books.

The current net debt is about Rs.4,800 crores.

We also had a question on the quantum of CAPEX spend during the nine month period.

It's about $100 million.

So, with this, we will open the floor for questions.

Moderator: We will now begin the question-and-answer session. We have our first question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: So, first one was on the debt, etc., You said it's growth CAPEX, but your debt is sitting at Rs.4,800 crores and that is net debt, not even gross. So, is there a thought with respect to reducing the debt?

Vivek Valsaraj: So, as you're aware that the entire fundraise process has now commenced, and obviously, the focus for us is to look at reducing the net debt as well.

Prakash Agarwal: We had a call in November, I think there was a statement made that, we're looking second half is usually stronger, and margins are at least mid-teens. Between November to December, you talked about costs being higher, some of the costs have come because of higher capacity, but capacity maybe has not been productive as of now. So, between November and December what has really gone wrong in terms of guidance.

Vivek Valsaraj: Prakash, the guidance has largely been for the second half and not specifically for a quarter. Secondly, having said that, as we mentioned that there has been a continued delay in decision-making in our CDMO business customers, due to which some of the orders did not transpire as expected. And we also saw a weakening or softer demand for our API generics and vitamins portfolio. As I've earlier alluded to, in our injectable pain portfolio, there were some sluggish receipts of products from the CMOs where the products were recently transitioned. All of this, of course, is being addressed through various initiatives across the organization.

Prakash Agarwal: So, you mentioned it's for second half, so Q3 is gone. So, is there any revision in guidance?

Vivek Valsaraj: Prakash, as you're aware, we are in a deal window period. So, it may not be appropriate to make a forward-looking statement now.

Prakash Agarwal: Just a clarification, you mentioned that some of the costs related to capacity addition has been made. So, I understand you can only charge it in the P&L once the revenue also start. So, has the corresponding revenue kick started, and if so, understand that the revenue portion would be much smaller versus the cost and when does it start reversing?

Vivek Valsaraj: Prakash, this is not with respect to the capital expenditure, this is with respect to the workforce who have been hired, who will be the operators running the plant when it goes live. They are in the process of being trained for the eventual commercialization that will happen in the near future… whatever has recently happened.

Prakash Agarwal: But, I'm trying to understand that when the new capacity top line start covering the costs and actually be EBITDA-positive for this year?

Vivek Valsaraj: The commercialization has started, the revenues will start flowing in once the batches are released and eventually invoicing happens. The production facility, as I mentioned, has commenced yesterday.

Prakash Agarwal: Any other capacity commencement happening during this quarter?

Vivek Valsaraj: So, as I alluded, discovery services, In-Vitro labs have gone live, our peptide Turbhe facility has also gone live in Q3 of FY'23.

Moderator: We have our next question from the line of Vivek Ramakrishnan from DSP Investment Managers. Please go ahead.

Vivek Ramakrishnan: My question was on the net-debt EBITDA covenant on the bonds that you have just recently released. I mean, I understand that it has its business and transition and there are pressures, but is there any scope to decrease the net debt through working capital or delaying CapEx or creditors and so on so that you can meet the net debt to EBITDA guideline of 4.5? That's my only question.

Vivek Valsaraj: Vivek, we are looking at all measures to ensure that the net debt situation is taken care of and measures are underway.

Moderator: We have our next question from the line of Rahul Jain from IIFL Wealth. Please go ahead.

Rahul Jain: My question is regarding the loss-making plants which are in the US and UK. I mean, our US plants are continuously making loss like Lexington or maybe in the UK, Morpeth. I mean, at the standalone level we have net profit, which is I mean 0.84, but at the consolidated level, the losses are increasing continuously. What is the management's focus to make these plants profitable? And is there any plant to dispose of or what is the long-term vision?

Vivek Valsaraj: Rahul, firstly, as we have always been saying that it's a game of scale when every site and especially sites in the overseas where the cost tend to be relatively higher, fixed cost tentatively. As they get scaled, they will start making profits. The current challenge has obviously been a subdued demand in our CDMO facilities, which is why the margins currently have been under pressure and as the demand comes back on track and revenue start improving, the margins will automatically start increasing. As of now, we are not looking at in terms of any disposing of any of the sites right now. There is belief in the potential of what every site has to offer and we are working towards improving the demand situation.

Rahul Jain: Also, are there any India plants losing continuously currently at the plant level?

Vivek Valsaraj: No.

Moderator: We have our next question from the line of Subrata Sarkar from Mount Intra Finance Private Limited. Please go ahead.

Subrata Sarkar: So, Madam, this is a little bit like a longer time period question. So, your Company or as per the pharma sector, this particularly CDMO space, we are seeing an unprecedented kind of a situation. We understand the majority of your facilities based out of Europe, it's in a special situation, but if it is other players also, they are also seeing some pressure both in terms of like margin and in terms of top line. So, as per whatever my little understanding, this is an unprecedented situation. So, in this context can you throw some light on from the historical perspective, generally we all know since this kind of a business require upfront investment and then the return comes back. But still giving all those back, like is this normal or is this once in a decade kind of a situation?

Nandini Piramal: I think we believe in the medium-term potential because the underlying demand is there. There is R&D innovation happening and I think customers will still outsource. I think the overall potential is there. I do think that, I mean the next 6 months will be tough for everybody in the industry.

Subrata Sarkar: Madam, I am not even talking from a 6-month perspective. Like, as madam you commented, that CDMO is something which we have observed like, if you see the last decade also, so there is a steady growth, like there can be ups and downs but this is one of the irreversible trend for the big players, like big pharma players. So, I am talking from that perspective, madam. My only simple point is like what situation we are facing. Like is this once in a decade kind of situation or this kind of situation do arise frequently in CDMO space, although I don't see so? So, from that perspective, madam I am talking.

Nandini Piramal: I think I mean there is a cycle, so it is a cyclical industry to some extent, but overall, I think I mean as I said, the underlying demand is still strong. So, I think it will recover. The overall trend is up.

Subrata Sarkar: Madam, again from a business perspective, I am not asking very specifically, but what I mean to say madam, if there is a, let's say, X percentage of reduction in our margin, what I see is apart from the fixed cost component also, what I mean to say madam, are we facing more of a pricing pressure from like our partners? Or like is it because of elevated cost structure that's splitting more like reduction from a margin perspective?

Nandini Piramal: I think one of the things you said, we had seen over the past few months, there has been inflation in inputs and solvents as well as energy prices due to the Russia-Ukraine and other supply chain problems. So, that's also been part of the pressure and general inflation.

Subrata Sarkar: That's on the cost side, madam. But are we taking any pricing pressure in terms of the contract, are we facing some reduction?

Nandini Piramal: No, our win rate is the same as before.

Moderator: We have our next question from the line of Venkat from SBI. Please go ahead.

Venkat: Sir, my question is to the debt which we have in the balance sheet, around Rs. 4,8000. So, when we can expect to become a zero debt Company or what is the future plan?

Vivek Valsaraj: Sorry, Venkat, could you please repeat? I heard about asking the quantum of debt on the balance sheet and then what is the next part?

Venkat: We are asking debt now, so what is the future plan? When we can expect to reduce the debt and what is the plan?

Vivek Valsaraj: So, as you are aware, the initiatives have already begun, it has got its own timeframe and as soon as the procedures for this entire activity is completed, we will move towards reducing the debt. So, it will take us some time. We have to complete the entire process as per regulatory guidelines.

Venkat: But how long it may take? So, what is the timeline to any future plan?

Nandini Piramal: See, it might be Q2 of FY24.

Venkat: Q2 FY24. Sir, one more thing. We have in Phase-3, we have around 36 molecules to be commercialize. So, what's the plan? When can we expect the commercialization? And out of 36, how many molecules we can expect to commercialize in near future?

Vivek Valsaraj: See, the historical trend of Phase-3 is typically 50% success rate. That's what it is. So, as and when it happens it will happen. But definitely our focus is to ensure that we capture more of the Phase-3 pipeline, which will ensure stickiness of commercial revenues for the future.

Venkat: Within the next 2 quarters, how many molecules we will commercialize?

Peter DeYoung: So, we can't give forward guidance as to the specific commercialization timelines of our clients' clinical programs, but we do expect that most of our clients typically would contract us for at least one of their major markets. And so, we would expect that whatever we are describing in our Phase-3 program, these would be meaningful.

Moderator: We have our next question from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, with respect to this commercialization of peptide and Riverview facility, what sort of employee cost increase can be expected and even the other expenses? That's my first question.

Vivek Valsaraj: So, Tushar, that's like a forward-looking statement. We would refrain from making a specific guidance on future.

Tushar Manudhane: What's the current capacity utilization excluding these 2 new facilities?

Vivek Valsaraj: So, for Turbhe, we had reached peak capacity utilization which is why this entire 45 cm column was put in and that will meaningfully expand capacity for the site. Likewise, for Riverview as well, we had reached peak capacity utilization and we expect meaningful release of capacity with the new block which has gone live.

Tushar Manudhane: I mean to ask the overall capacity utilization including all the facilities?

Vivek Valsaraj: So, that is very difficult to give one number Tushar because every facility, every line is different and we have got formulation, API, development commercial to give one number of capacity utilization is practically not correct.

Tushar Manudhane: And what kind of asset turn can we expected for the new facilities for peptide as well as the new Riverview facility?

Vivek Valsaraj: See it could go up to 2.5.

Tushar Manudhane: And lastly if you could just breakdown CDMO business into generic API, vitamins and the business for innovator?

Nandini Piramal: It is about a third for Big pharma, a third for biotech and third for generic pharma customers.

Moderator: Thank you. We have a next question from the line of Chintan Shah from JM Financial. Please go ahead.

Chintan Shah: I just have couple of questions in your opening remarks you mentioned that we have initiated various cost saving measures, so if you can just highlight what exactly those measures are and what impact do you foresee from them?

Nandini Piramal: It is cost saving measures?

Chintan Shah: Yes that is right?

Nandini Piramal: I think we are looking at lot of operational improvement across the sites as well as procurement and even energy saving measures can try that.

Chintan Shah: In terms of employees, I just wanted to understand the increase is broadly on back of the new capacities that we face little back is fully reflected in the current quarter numbers or could we see more impact from the same?

Vivek Valsaraj: It is fairly represented here in terms of the overall increase here Chintan.

Chintan Shah: And just one last question from my side so in the presentation if I see you have mentioned that we are looking at inorganic opportunities, so looking at the current debt scenario I just wanted to understand the thought process, are we actively looking or just like more from the long term target basically?

Nandini Piramal: I think as a Company we have always we have historically looked at acquisitions, but obviously in the last few months valuations have been very expensive. So, I would say in the next few months our focus will be more on what I talked about earlier in the strategic priorities, which is catering demand and executing on current plans.

Chintan Shah: So, what debt levels would be comfortable for you to pursue inorganic opportunity?

Nandini Piramal: I think we will have to see.

Vivek Valsaraj: That again forward looking Chintan.

Chintan Shah: I am not asking what number would be I am just saying as a strategy what you would be comfortable with to actually pursue those opportunities?

Nandini Piramal: I think it is a mix of things, but right now I think the focus is on executing what we have.

Moderator: Thank you. We have our next question from the line of Alok Dalal from Jefferies India Private Limited. Please go ahead.

Alok Dalal: Sir quickly price increase is on cost optimization measures have already been undertaken or that would be undertaken now?

Nandini Piramal: It is a mix and we are doing both.

Alok Dalal: So, when do you expect that these two flow through?

Nandini Piramal: I think some things have started and some things will take a while sort of, but we should see it over the next year.

Alok Dalal: And what is the mix of generics and non-generic to revenue for CBMO for the quarter and 9 month?

Vivek Valsaraj: It is predominantly generics actually. Non generic is relatively a smaller portion.

Alok Dalal: In the past the mix for CDMO used to be 60-40 in favor of generics Vivek what will be the mix this quarter and 9 months?

Vivek Valsaraj: It will be on similar lines.

Moderator: Thank you. We have a next question from the line of Suresh an Individual Investor. Please go ahead.

Suresh: In consolidate financial results I have seen that in expenses purchase of stock in trade there was 150% increase in year-on-year, can you give some color on it and that's the only question I have?

Vivek Valsaraj: If you are comparing the overall stock increase, you will have to actually combine all the three items of COGS which is cost of material, purchase and changes in inventory for a meaningful comparison. If you compare it versus the December quarter it may not be fully comparable because we have certain transactions as we had mentioned in the earlier investor call with PEL on account of certain government tenders as well as a CFA network. If you actually compare it with the sequential quarter, you will find that the overall material cost as a percentage of sales is actually nearly the same or in fact slightly lower.

Moderator: We have a next question from the line of Yasser Lakdawala from M3 Investments.

Yasser Lakdawala: My first question was regarding the commercial products on the patent that we supply. I think our revenue was about 56 million last year. Are we the primary source of supply or are we the second source of supply in those 18 odd products? If you would give us an idea there.

Peter DeYoung: It's a mix. I think it's a set of products and some of which we are one of multiple sources and then others where we are the only source. That's all we can probably say at that level.

Yasser Lakdawala: Among those 18 odd products that we have commercialized, could you give us a better understanding of do these involve newer modalities like ADCs or are they more traditional small molecules?

Peter DeYoung: We haven't historically given a technology or our therapeutic area cut to this. We have described how that pipeline in the past across different dimensions has grown. That's been our explanation as to the future is to look at the past trend. I would just continue to look at that overall trajectory in the past.

Yasser Lakdawala: Continuing on the CDMO side, as you said that 50% of our Phase-3 tend to go towards commercialization. What is the feedback we got from customers, are those 50% about 17 odd molecules? Have they been interest of pursuing potential commercialization with us or will we just be partners with them during the discovery and development phase?

Peter DeYoung: Our understanding of the business model is that if someone decides to pursue the clinical work registration with us, their intention and our intention is to be their commercial partner on successful approval and launch. The cost involved for a customer to qualify a Company for development and registration and then not later make an order after that would be a very poor investment decision for them because they would have invested a lot of money to qualify us as their CDMO and then not to use that would be a rare if not almost improbable outcome. The most likely course of a general contract of which we've had many in the past is that we do the registration work with them, they get the approval and then we provide the supplies for that. That's the most frequent for not just us but the overall industry.

Yasser Lakdawala: I think in the last call there was some directional guidance given that we are as a consolidated entity we are looking at achieving EBITDA margins of 24% to 26% in the next 3 to 5 years. Considering the fact that I think in the generic's data for CDMO our probably margins a lot lower than some of the large-scale peers in India, how do you see a mix of the innovator, NLEP, CDMO and generics business changing? Because that will have to have a meaningful change over the next 3 to 5 years for us to achieve our margin guidance. If you could help me understand that?

Vivek Valsaraj: So, we are somewhat restricted in the forward-looking comments. What we could try maybe point to is that in many of our communication, we discussed a lot of effort to try and onboard innovative portfolio and progress that pipeline along with our clients and then lead that to commercialization. I think that is probably the past action you can look to guide for the future direction in terms of the mix.

Yasser Lakdawala: Just the last question just to add to that. You know, I just wanted to set some direction of CAPEX should be more towards supporting the innovator led initiatives versus being in the traditional generis space.

Peter DeYoung: If you look at the locations where the significant CAPEX has been deployed we made public commitments CAPEX even in places like Aurora, Riverview, Grangemouth, these are all places that have received or receiving significant CAPEX. These are also locations that are operating near or at capacity before the CAPEX went in, and these are all facilities that predominantly serve on-patented clients whether it would be development or later commercial. So, these are all facilities that we would describe as being in a differentiated category. These are all facilities that are generally capacity constrained, and these are all facilities that generally serve on-patented client work.

Moderator: Thank you. We have a question from the line of Sumit Khimani from Subij Enterprise. Please go ahead.

Sumit Khimani: My question is more or less related to the macro levels. Is it a wrong time when we demerged the Company? And my second question is why Mr. Ajay Piramal and Dr. Swati Piramal are not on the Board of Piramal Pharma who drove the Company right from the 98th rank to the 4th rank in the Indian pharmaceutical industry, and that mentors are not with us? So, is it a wrong time when we merged the Company? The market, when is the Company in a way that it erodes all the values that we create?

Nandini Piramal: I will say that, I think, they are very much with us, and they are as shareholders, active shareholders, and do guide the strategy of the Company. And unfortunately, we can't control the markets, and we will leave it at that.

Sumit Khimani: When we split, demerged the Company entity, and I am the investor since it was Sumitra Pharmaceuticals as you see, and later on its Piramal Enterprise, I mean, say, Nicholas Piramal, then Piramal Pharma. I don't understand what was the purpose behind demerging the Company. I mean, the pharmaceutical which has immense value over there, and after the demerging, it just vanished all the values. Even the performance of the Company is diminishing quarter-on-quarter.

Nandini Piramal: Well, I hope you can keep faith with us. I think we believe in the potential of the Company.

Sumit Khimani: It is from the investor community at large fraternity humble request to bring them back on the Board. That's it from my side.

Moderator: Thank you. We have our next question from the line of Vinod Jain from W F Advisors. Please go ahead.

Vinod Jain: My question again relates to the operating expenses which have increased very significantly over the quarter, but the turnover has not increased commensurately. It has just increased by 11%. Now does it mean that the higher replacement cost of employees due to attrition is one of the components. Or what is the real reason for the increases being so significantly higher that the profitability of the Company has diminished so significantly, sir?

Vivek Valsaraj: Mr. Jain, as I responded in my question earlier, if you look at the other expenses on a YTD basis, it had a one-time impact of certain receivables that was provided as per Company policy. It also has an impact of a very volatile Forex with INR weakening against key currencies. And of course, the numbers are not strictly comparable because post demerger, some of the prior period items are not aligned with the way currently the accounting for the same has been done.

Having said that, if we were to exclude these and make the numbers on a like-for-like basis, our overall expense has increased by 15%, and if we were to exclude the impact of the higher sales promotion and the marketing expenses, our increase in expense was 11% in line with the top line growth. So, that's how it is. I understand that the statements to read as they are right now challenging, and therefore, probably, it can mislead if you see on the face of it.

Vinod Jain: Very well. My next question relates to the pricing of the rights issue. Whether any comment can be made as to what the discount or what could be the pricing you are looking at in this difficult time to go ahead with the rights issue?

Vivek Valsaraj: Not yet Mr. Vinod. As you can imagine, certain procedures need to be followed. Appropriate time, all of those will be disclosed.

Moderator: Thank you. We have our next question from the line of Ranvir Singh from Nuvama. Please go ahead.

Ranvir Singh: Sir, just two things I wanted to understand. You know, basically in historical perspective and now what we see for the last few quarters, so, especially in CDMO side, what exactly, you know, why we are struggling here in terms of margin? And basically, what I wanted to understand that 157 million we are going to invest. The current fixed asset turnover is less than 1%, .7 times something. So, I wanted to understand whether the utilization even for a, you know, newer CAPEX also same asset turnover ratio is likely to happen? Or why it could not, you know, have been done that in an existing facility the better value products would have been substituted? Or is there any disconnect in my understanding that you have some dedicated block there which you cannot change? So, what is actually happening in the CDMO side? And why we are not able to improve the asset turnover ratio? Because I compare with the other peer players, they all have a much, much better turnover ratio there. So, just if you could highlight something here?

Vivek Valsaraj: Sure, Mr. Singh. So, firstly, the question with respect to the CDMO business and margin, the current reason why the margins, overall margins for Piramal Pharma have been suppressed basically because of a lower scale of turnover. And as we have alluded in CDMO business, because customers are taking time to make decisions and issue orders and slowdown in the generic and the vitamins portfolio is where we are seeing slowdown in terms of order inflow for the business per se. There was also an impact of an increase in cost, inflationary impact as you are aware, increase in the price of raw materials, the utilities, which led to margin compression.

As far as site specific asset turnover ratios are concerned, as you know, we are present across 15 sites globally. Each of the site has its own distinct capabilities and offerings for the customer, and they are not necessarily fungible. So, while there can be a small amount of fungibility that may happen within an API, within a formulation site, predominantly, these are dedicated sites, so having dedicated needs of customers, and having very differentiated capabilities. And therefore, you cannot pile up all the incoming demand into one particular site and optimize the revenues from that site. Every site has got its own level of operating cost and own level of turnover to be able to enhance margins. So, I hope that helps to answer your question.

Ranvir Singh: Yes. So, I think, in last call, we mentioned that there was some inventory built up also from customer side that that was also the reason. But I think it's not quite a few quarters now, because these reasons, you know, we can understand for two, three quarters or four quarters. I can understand the last year or during COVID period everybody was struggling. Then I think for two or three quarters there were some inventory built up with the customers. Gradually, that got liquidated, and the people started showing some improvement in there.

So, my question is that even if we have a dedicated block, and if our block is giving a turnover ratio much, much lower at .5 or .7, isn't it possible to have a better value products there or substitute the customers there, or it is a long-term contractor we are constrained here?

Peter DeYoung: This actually gets back to the question from one of the earlier callers where one of our strategies has been and continues to be to add innovative products to our offerings and have clients place their innovative business at our locations. And it relates to the point that was made earlier about some of the slowdown in decision-making and the subsequent prioritization of those clients of new projects that will use up the capacity that as you described not fully used.

And so, our big push has been and is to execute on the innovative business growth so that we can utilize the capacity in the best way possible, and those do take time to develop and also transfer in, and that is the major focus of our customer acquisition strategy. And we believe that as that executes, the elements you described will obviously become more favorable for us.

Ranvir Singh: And the last one, I see that inventory turnover has increased significantly on Q-on-Q basis also. So, last quarter it is 181 days. From there, it has increased to 205 days. Last year it was 151 days. So, that inventory is something, is it in a finished side product inventory or this is a raw material side inventory?

Vivek Valsaraj: So, inventory is both the semi-finished goods as well as the raw material inventory predominantly, and you would have historically seen that our quarter four tends to be higher in terms of revenues, which is why the inventory as on the end of quarter three is normally higher to be able to cater to the demand for quarter four.

Moderator: Thank you. We have our next question from the line of Nitin Gandhi from Kifs Trade Capital Pvt Ltd. Please go ahead.

Nitin Gandhi: I have two questions. The plants which have gone live operational, what were the CAPEX on that? And when do you see the optimal capacity utilization happening? I understand you said 2.5 the potential of this asset turnover.

And the second question is related to fundraising. Now, when do you think we should be able to finish the rights issue? In one or quarters or you think it could be little more.

Vivek Valsaraj: So, the overall investments across the three CAPEXs that have gone live is roughly about 42 million. I won't comment on in terms of when they go live because that's forward-looking statements. And as far as the rights is concerned, as we mentioned, based on the timelines that we expect, and it all depends on regulatory approval coming in place. It could be somewhere around quarter two of FY '24.

Nitin Gandhi: Sorry to continue. I have asked for the capacities which has gone live, not the one which are yet to come out of 42 million.

Vivek Valsaraj: Correct. So, the capacity I was referring to the same. The capacities which have gone live, the revenues for those have started, but when they reach peak, I cannot give a specific period for that at this point in time because of the deal window.

Nitin Gandhi: And any breakeven possibility, not if the peak?

Peter DeYoung: I guess, the only point is that we only are putting CAPEX on the growth side in the locations where there were capacity constrained before with the assumption that there is demand for those. That's why we put the CAPEX in.

Nitin Gandhi: So, that's why we are seeking based on the time when you plan when the current scenario, do you think that the breakeven could be deferred by another year or so? Or whether it will be same like what you initially planned and it could be within 18 months?

Nandini Piramal: I think, right now we and some of these are growth CAPEXs. So, we will expect and they are on track right now for expectations, but we can't tell you expectations.

Moderator: Thank you. We have our next question from the line of Shashi Ranjan, an individual investor. Please go ahead.

Shashi Ranjan: Can you please help me with the past acquisition that has been done, like Hemmo Pharmaceuticals, CCPL and **Yapan**, how these are going to synergize into or complement the existing operations and the products that we have?

Peter DeYoung: So, CCPL was the JV where we were making a critical input into one of our lead products for the Complex Hospital Generics business. And the places one can get that input on the market are limited, and by taking control of that JV we can backward reintegrate and assure supply to allow us to meet the growing demand. And so that one is the synergy is about margin enhancement and also revenue surety in a place where we are growing volumes.

In the case of the Turbhe facility or in the Hemmo Pharmaceuticals, this is an area that is considered more attractive than traditional molecules. There are limited people who can provide it. It is a high margin business with significant historical growth. I can't make forward-looking comments for growth, but we obviously made assumptions in that area. And also, we see synergies with our current customers who we were approaching with other business, and they would be interested to say, well, can you also offer us peptides? And I think, finally, one can fill the peptide in our injectable facility, and we have actually a situation where even at the time the diligence we had a customer that was giving the peptide made and filling it at our Kentucky facility, and so there are an innovative products synergies you see there.

And I think your last question was on the Sellersville acquisition, I believe. And in that case, we have a number of customers who are increasingly post the pandemic would like to have an onshore offering for drug product, particularly for innovative business. You see a significant demand for that offering, and the absent of that demand meant that we would be providing them a drug substance work at one of our North American facilities, and it would be handing off to a competitor. We got the product work and now they are being able to offer innovative package. We don't have to introduce the competitor into our hot relationship, and we can provide either standalone or integrated services in a geography where there is currently very high interest for that offering. So, I think those are the three, I think, you asked about and the rationales behind each of them.

Shashi Ranjan: Just a follow up on that. In case we are going for any further acquisition, will you be moving to CDMO space, the Complex Hospital Generics or in consumer healthcare?

Nandini Piramal: I think that will depend on the opportunities. I think we take each opportunity as it comes, but I think the near-term focus is on maximizing our current assets.

Moderator: Thank you. We will take a last question from the line of Avinash Kumar, an individual investor. Please go ahead, sir.

Avinash Kumar: There is two questions from my side. One is, what is planned CAPEX? I am searching, but it is not concrete given anywhere, total planned CAPEX for FY '24 or how much?

Vivek Valsaraj: So, Avinash, we can't make a forward-statement in terms of what will be the spends in the future. The past for this particular financial year, our CAPEX has been about 100 million.

Avinash Kumar: $100 million?

Vivek Valsaraj: Yes.

Avinash Kumar: And second question is, out of this CAPEX already done, how much revenue visibility is there?

Vivek Valsaraj: So, each of our growth CAPEX had obviously been done in anticipation of potential demand that we see in the areas in which we have invested in, and as we have mentioned, we have invested in high-growth areas in the differentiated offerings that we have, whether it's in high potent API, whether it's in peptides, or whether it is at our Discovery Services facilities, all of which have gone live now. So, there is good visibility that each of these facilities have.

Avinash Kumar: Expected growth percentage, in percentage term can you say?

Vivek Valsaraj: No, that's a forward-looking statement again, Avinash. Please excuse us. We won't be able to --

Avinash Kumar: No issues.

Moderator: Thank you. I now hand the conference over to Mr. Gagan Borana for closing comments. Over to you, sir.

Gagan Borana: Thank you everyone. In case you have any follow-up questions, please feel free to reach out to me. Thank you once again. Have a good day.

Moderator: Thank you. On behalf of Piramal Pharma Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.