



Pharmaceuticals Limited

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Date: 12th August, 2024

To,
The Manager,
Corporate Filings Department,
BSE Limited,
Phiroze Jeejeebhoy Towers,
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Mumbai- 400 001

The Manager,
Listing Compliance Department,
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051.

Security Code: 532815

Symbol: SMSPHARMA

Dear Sir/Madam,

Sub: Transcript of the Conference Call held on 07th August, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find the attached transcript of the Conference Call held on Wednesday, 07th August, 2024 for the quarter ended 30th June, 2024.

A copy of the said Transcript is being uploaded on the website of the Company www.smspharma.com

Kindly take the same on record and disseminate on your website.

Thanking you

Yours Faithfully

For SMS Pharmaceuticals Limited

Thirumalesh Tumma
Company Secretary



“SMS Pharmaceuticals Limited Q1 FY25 Earnings Conference Call”

August 07, 2024

Disclaimer: E&OE - This transcript is edited for factual errors and clarity. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 7th August 2024 will prevail.



**MANAGEMENT: MR. VAMSI KRISHNA POTLURI – EXECUTIVE
DIRECTOR
MR. LAKSHMI NARAYANA TAMMINEEDI – CHIEF
FINANCIAL OFFICER
MR. THIRUMALESH TUMMA – COMPANY SECRETARY
& COMPLIANCE OFFICER**

Moderator: Ladies and gentlemen, good day, and welcome to SMS Pharmaceuticals Limited Q1 FY25 Earnings Conference Call.

This Conference Call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

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, please signal an operator by pressing “*” then “0” on your touch-tone phone. Please note that this conference is being recorded.

Today, we have with us, Mr. Vamsi Krishna Potluri – Executive Director, Mr. Lakshmi Narayana Tammineedi – Chief Financial Officer and Mr. Thirumalesh Tumma – Company Secretary and Compliance Officer.

I now hand the conference over to Mr. Vamsi Krishna Potluri – Executive Director. Thank you and over to you, sir.

Vamsi Krishna Potluri: Good morning, ladies and gentlemen. Welcome to our 1st Quarter FY25 Conference Call.

It is a great pleasure to have you all here and I hope you and your families, and your loved ones are all in good health. I hope everyone must have gotten an opportunity to go through our Financial Results and the Investor Presentation which has been uploaded on the Stock Exchange as well as our Company Website.

I am proud to report that SMS Pharma began the Financial Year on a strong footing, marked by a healthy demand for our products and growing market opportunities. We have capitalized on new opportunities to fuel growth and our diverse portfolio of high volume and high value products is performing well. With increased healthy demand for our products and off-patent opportunities in the short term, we anticipate multiple growth opportunities over the next 3 to 5 years.

Regarding our Financial Performance in Q1FY25:

I am pleased to announce that our revenue from operations has increased by 22% year-on-year, to reach Rs. 164.45 crores due to higher volume growth of our key APIs. Sequentially, revenue from operations was lower by 33% due to seasonality. Notably, our gross margins remained strong at 35%, up yearly and sequentially, which can be primarily attributed to lower raw material prices and improved product mix. This coupled with operational efficiency translated into an EBITDA margin of 20%, up by 104 bps from a year ago and 670 bps higher sequentially.

This reaffirms the long-term strategy we have in place, and it is noteworthy that our margins have returned to pre-COVID levels.

PAT for the Quarter was Rs. 16.48 crores, up by 76% year-on-year, primarily due to higher EBITDA and lower financial costs, which resulted in a PAT margin improving to 10% in Q1 FY25 versus 7% in Q1 FY24.

Now coming to our Segmental Highlights:

Our Revenue Growth was led by robust growth in anti-diabetic and ibuprofen segments. Sales of ibuprofens have shown continuous growth supported by stable raw material prices and expanding customer base, increasing traction with our existing customers and optimized production.

Our anti-diabetic segment portfolio has positioned us as one of the largest suppliers of one of our anti-diabetic products in Europe with over 50% market share. We witnessed strong growth in our anti-epileptic and anti-ED products, which we expect to continue.

Our other therapeutic categories continue to do well, characterized by our consistent influx of new customers. Our strategic focus on backward integration is progressing as planned. The Company is poised to capitalize on the Rs. 150 crore CAPEX plan announced in the last Quarter. We are on track to complete the backward integration of key intermediates by first half of FY25 and increase our production capacity by end of Q4FY25. This will help us increase the production of existing and new products.

Our R&D efforts also focused on high growth therapeutic area, ensure a robust pipeline to drive future growth. The Board of Directors has principally approved our decision to set up a subsidiary company in India for Contract Research Organization (CRO) services for peptides, which we believe shows high growth potential. As we finalize our plans, we will provide an update on this new venture.

We anticipate sustained growth in our key market segments, particularly in ARVs, anti-diabetic products and ibuprofen supported by stable raw material prices and an expanding customer base for the rest of the year. Our current capacity utilization is within the range of 70% and by end of FY25, we anticipate crossing a utilization rate of around 80%.

Looking ahead, SMS Pharma remains committed to enhancing its portfolio and meeting its customer evolving needs. The Company reiterates its guidance on achieving revenue growth of 20% and an EBITDA margin of 20% in FY25.

Thank you. We are now ready to answer any questions.

- Moderator:** Thank you very much, Sir. We will now begin the question-and-answer session. The first question is from the line of Pradeep Rawat from Yogya Capital. Please go ahead.
- Pradeep Rawat:** Sir my first question is regarding the ibuprofen business. So, who are our major competitors and where are they located, and can you quantify as to how much cost competitive can we be against the competition?
- Vamsi Krishna Potluri:** Thanks for your question. But I mean I cannot take the names of other companies, but there are two major competitors operating out of India and one is from South India, and another is from Northern part of India and in terms of competitiveness, definitely I think we are improving our cost on our particular product and we will be one of the most cost competitive products in the market in the next 1-2 quarters.
- Pradeep Rawat:** We are doing 150 crores CAPEX backward integration. So, can you quantify how much gain in EBITDA can we see from this CAPEX?
- Vamsi Krishna Potluri:** Again, so our growth of EBITDA that we were anticipating the growth in EBITDA margins by 20%, this is mostly attributed for this Backward Integration Project itself. Because our sale prices are remaining stable and once we reduce our raw materials, once we vertically integrate, this margin will be directly adding to our EBITDA, which will be around 20% as compared to the previous year.
- Pradeep Rawat:** Yes. So, what was that sustainable model margins earlier?
- Vamsi Krishna Potluri:** Last year it was 17%, EBITDA margin.
- Pradeep Rawat:** Like 3% margin increase would be primarily attributed to this CAPEX.
- Vamsi Krishna Potluri:** Yes.
- Pradeep Rawat:** And how much CAPEX are we doing for the CRO subsidiary?
- Vamsi Krishna Potluri:** So, it is not emphasized yet. It will be a smaller one. It is not going to be a major investment upfront. It will be a smaller this thing, but due details will be given in later course of time. It is at a very-very preliminary stage right now. So, more details will be given subsequently.
- Pradeep Rawat:** So, we have an associate company as VKT Pharma and we sell API to them for making formulation, right?
- Vamsi Krishna Potluri:** Correct.
- Pradeep Rawat:** Any plan to merge this associate company with our company?

- Vamsi Krishna Potluri:** No, there are no plans of merging.
- Moderator:** Thank you. The next question is from the line of Surbhi from NV Alpha. Please go ahead.
- Surbhi:** I wanted to know what is our ibuprofen and non-ibuprofen mix in the Vizag Facility, if I am not wrong we have around 4000 kiloliters of which around 1000-1500 would be ibuprofen?
- Vamsi Krishna Potluri:** Yes, that is right approximately around that, yes.
- Surbhi:** Sir, then from the non-ibuprofen mix what is the key therapy areas that we do in the Vizag Facility?
- Vamsi Krishna Potluri:** Anti-diabetic is one of our key therapeutic areas apart from ibuprofen and anti-ARV products, anti-retroviral products are key areas.
- Surbhi:** And what is the margin differential between, say ibuprofen versus an anti-diabetic?
- Vamsi Krishna Potluri:** You cannot compare margins because they are two different therapeutic categories. Within the therapeutic category probably it will be a better indicator, but definitely ibuprofen margins will be on the low side because being a commoditized product, it will be definitely much lower and again, even anti-retroviral also it is CMO based. So, margins there also will be quite thin.
- Surbhi:** So, will it be like mid-teen margins in like some of the key anti-diabetic API?
- Vamsi Krishna Potluri:** Yes, I think you can say, mid to lower teens actually.
- Surbhi:** And secondly, I had a question in terms of the current CAPEX that we are doing, it is going towards, sorry I missed that.
- Vamsi Krishna Potluri:** The current CAPEX is towards capacity expansion and backward integration of some of our key products.
- Surbhi:** What percentage was US from the regulated market in this quarter? In the geographical diversification, what percentage was US from the regulated market, because I think we have shifted from US to Europe in terms of the regulated market like it was 57-60% coming from the US regulated markets, which I think now is going largely towards Europe, if I am correct.
- Vamsi Krishna Potluri:** Correct. Yes. This quarter, majority of our sales were in anti-diabetic and yes, it is mostly being dominated by Europe because we are one of the largest in anti-diabetic in Europe, so major sales have come from that segment this quarter.
- Surbhi:** So, do we expect it to go back to US or like we are comfortable with Europe regulated market?

- Vamsi Krishna Potluri:** It will be a combination of both. See for us both US and Europe, both are regulated markets. So, we do not categorize, US and Europe separately. Both US and Europe are regulated markets for us but yes, it will be one quarter probably US will be higher, depends on the demand that is coming in.
- Surbhi:** Okay and one last question, how many of our products are backward integrated to the key KSM level? Say I think we have around 35 products. How many of these products are backward integrated to the KSM stage?
- Vamsi Krishna Potluri:** Around 5 to 6 products.
- Moderator:** Thank you. The next question is from the line of P. Srihari from PCS Securities. Please go ahead.
- P. Srihari:** My first question for Ibuprofen if you can indicate the volume shift sequentially and for your backward integration projects, while one is for IBP, can you please tell about the other project on the backward integration front?
- Vamsi Krishna Potluri:** So, Q4, I think we are right now doing close to 350 tons per month as of date.
- P. Srihari:** Yes. I mean, what is the delta, was there a growth?
- Vamsi Krishna Potluri:** I think delta we were doing 150 to 200 range before, so we almost increased 100 tons a month.
- P. Srihari:** On the backward integration project, which are the other projects apart from IBP?
- Vamsi Krishna Potluri:** So, our other projects are mostly related to Sitagliptin and Tenofovir.
- P. Srihari:** Okay, TDF.
- Vamsi Krishna Potluri:** Yes.
- Moderator:** Thank you. The next question is from the line of Karan from Invexa Capital. Please go ahead.
- Karan:** Sir in one of the slides, Slide #15 where you have mentioned that you aim toward 8 to 10 products in next 12 to 18 months. So, can you give a brief about what sort of therapeutic areas these products will be?
- Vamsi Krishna Potluri:** So, we will let you know it is a little confidential information because we do not put out the names of the products before it is developed, right because of confidentiality. On these calls, we do not give out the names of the products that are on the pipeline or under discussion. But you will probably know shortly once we commercialize them.
- Karan:** Those products being the same existing therapies which we are or it will be in the new therapies.

- Vamsi Krishna Potluri:** Most of them are existing therapies, yes.
- Karan:** Okay and sir, with these new products which we would add in the next 1 to 2 years, so all these products commercialized over a period of time, can we say next 3 years we can double our top line from the 700 to almost 1400 crores or near about that?
- Vamsi Krishna Potluri:** It again it depends, because all these products patents might not expire by that time, because we typically work on products where patent expires 10 years down the line or 7-8 years down the line. So, you cannot attribute all the growth to this but definitely I think year-on-year our target is to improve at least a minimum of 20% to 25%. So, that is what we have done last year to this year, and I think going forward that is our target, at least grow by a minimum of 20% year-on-year.
- Karan:** And sir on the 150 crores CAPEX which you have said that is mix of backward integration plus new capacity is getting added. So, can you give a breakup between how much is for new capacities and how much is for backward integration?
- Vamsi Krishna Potluri:** So, that we cannot give a finer breakdown, probably percentage wise I think maybe 70% will be for backward integration and I think around 30% for capacity expansion for the existing products.
- Karan:** Okay and sir in one of the slides again, which I think slide #13, you have said that under anti-diabetic category you plan to commercialize the production under the JV with Chemo. So, is this the same 30% which is getting utilized there?
- Vamsi Krishna Potluri:** Correct.
- Karan:** So, this 30%, which you said will go into new existing products, but new capacity. So, does that correlate with the same Chemo JV?
- Vamsi Krishna Potluri:** Yes. It is part of that only.
- Karan:** Okay and one last final question. So, we have incorporated a new CRO subsidiary, and we already do CMO for ARV products. So, over the next 2 to 3 years, are there any plans of the Company to enter into the CDMO segment where we get fully be integrated from CRO to CDMO?
- Vamsi Krishna Potluri:** Yes, that is the eventual plan, but CDMO and CRO are very fancy terms that lot of companies are throwing it out, but definitely that is even into our consideration, but at this point of time we want to take it slow and maybe in future yes, if the opportunity arises, definitely we will be there, but that is not a very active area of interest for now. but for sure, definitely we will keep an eye open and if definitely some projects come in, we will definitely look into those.

Moderator: Thank you. The next question is from the line of RVG Krishna from Sri Venkateshwara Enterprises. Please go ahead.

RVG Krishna: Can you just explain about the primary drivers of the revenue growth which are about to happen next quarter and also how do you plan to manage the rising cost and improve your profit margins going forward?

Vamsi Krishna Potluri: So, the major revenue drivers currently are with respect to our existing products like anti-diabetic segment which has grown significantly for us and anti-ARV products also have grown and also ibuprofen we have added more customers and different geographic areas we are adding more customers, new registrations are being done as we speak. Many more registrations are happening and slowly one by one, month-on-month we add new customers to those. So, the growth is definitely our existing products where we are adding more customers accordingly and coming to the margins as we mentioned, I think 150 crores of CAPEX, 70 crores is being done on backward integration. So, we are trying to see where we reduce our dependency on some Chinese customers, and we want to bring these products in-house. Apart from captive consumption, we have plans to offer some of these KSMs also to Indian manufacturers, API manufacturers. So, this way we want to increase the EBITDA margins going forward.

Moderator: Thank you. The next question is from the line of P. Srihari from PCS Securities. Please go ahead.

P. Srihari: In regard to Sitagliptin and TDF backward integration, How many steps are you backward integrating for the two products and what is the commercial benefit?

Vamsi Krishna Potluri: Again, as I mentioned, I think in the past we were only doing maybe two stages. Right now, we are planning to do around 8 stages in-house for Sitagliptin. So, definitely there will be, I cannot give you a number of what is the benefit we will be getting. But definitely I think going forward that will sort of help us to grow our EBITDA margins.

P. Srihari So, basically you are backward integrating by 6 steps in Sitagliptin?

Vamsi Krishna Potluri: Yes.

P. Srihari and what is the case with the TDF?

Vamsi Krishna Potluri: So, Tenofovir also I think 1 or 2 stages, we would like to backward integrate. Mostly see it is apart from EBITDA increase, again we are looking at opportunities where we reduce our dependency on China and other countries where we are bringing in some of these intermediates and we want to put them in house because of the geopolitical situation and you know few other aspects.

P. Srihari: Okay, when I said commercial benefit, I meant if you can just give an example from that.

Vamsi Krishna Potluri: See, I cannot put out numbers with respect to commercial benefit. I cannot tell you numbers that we will be able to make. I cannot quantify this number.

P. Srihari: No, I mean let us say from the market price point of view, the intermediate #2 and intermediate #8, you can tell the price differential between the two.

Vamsi Krishna Potluri: So, definitely there will be a price differential because largely see make versus buy, right. So, when we are obviously making it in-house rather than buying it from outside, definitely there is an improvement in the margins. For sure there will be in addition in margins I think which we are anticipating an EBITDA growth of 20% going forward. See when my selling price remains same and even might depreciate a little also based on the current market scenario. But still we are able to achieve those margins, trying to see what best we can do by backward integrating.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Vamsi Krishna Potluri for closing comments. Over to you, Sir.

Vamsi Krishna Potluri: Thank you everyone for joining on this call. As we continue to focus on delivering value to our customers, driving innovation, we are confident that our strategic approach will continue to yield positive outcome and contribute to overall success of our Company and ensuring that we deliver superior value to our stakeholders while upholding our commitment to sustainability. Please reach out to our IR consultant, EQSPONENT Partners or us directly should you have any further queries. Thank you again for your time today. Thank you.

Moderator: Thank you very much. On behalf of SMS Pharmaceuticals Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.