



Pharmaceuticals Limited

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Date: 17th August, 2023

To,
The Manager,
Corporate Filings Department,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
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 10th August, 2023.

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 Thursday, 10th August, 2023 for the first quarter ended 30th June, 2023.

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 FY '24 Earnings Conference Call”
August 10, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 10th August 2023 will prevail.



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

Moderator:

Ladies and gentlemen, good day and welcome to the SMS Pharmaceuticals Limited Q1 FY24 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 date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in 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. Today on the call we have Mr. Vamsi Krishna Potluri, Executive Director of SMS Pharmaceuticals Limited, Mr. Lakshmi Narayana Tammineedi, Chief Financial Officer of SMS Pharmaceuticals Limited, Mr. Thirumalesh Tumma, Company Secretary and Compliance Officer of SMS Pharmaceuticals Limited.

I now hand the conference over to Mr. Vamsi Krishna Potluri, Executive Director of SMS Pharmaceuticals Limited. Thank you and over to you, sir.

Vamsi Krishna:

Hello, good afternoon everyone. Thank you for joining the Earnings Conference Call to discuss the financial performance for the quarter ended 30th June 2023. I hope everyone must have got an opportunity to go through our financial results and investor presentation which has been uploaded on the Stock Exchange as well as our company website.

We are delighted to report a strong financial performance in the first quarter of fiscal year 2024, characterized by substantial year-on-year growth in both revenues and profit. These results align closely with the projections we communicated in the previous quarter, demonstrating our commitment to delivering on our promises. The company witnessed a robust surge in its revenue, recording a year-on-year growth of 110% amount to INR135 crores. The performance was propelled by the strong API business, which experienced substantial gains due to increased demand for its core offerings. In the first quarter of fiscal year 2024, our company achieved an operating profit of INR26 crores and a net profit of INR9 crores - with EBITDA margin and PAT margin coming at 19.4% and 6.5% respectively.

During the first quarter FY24, we observed a notable improvement in gross margins, which can be primarily attributed to a positive impact of an improved product mix. Simultaneously, it is noteworthy that the raw material prices have remained relatively stable and devoid of significant fluctuations. The enhanced product mix, characterized by a strategic blend of high margin offerings, played a pivotal role in bootstring the company's operating performance. Based on our analysis, it is anticipated that the company will be able to sustain its current operating margins in the foreseeable future.

The antidiabetic segment has demonstrated strong performance and our company has effectively established itself as a leading participant in the European market. The antiretroviral (ARV) segment is currently undergoing a steady and progressive recovery, with promising performance prospects anticipated in the upcoming quarters.

Ibuprofen, a widely used anti-inflammatory medication, has exhibited encouraging progress for us across all diverse markets. This can be attributed to the attainment of multiple regulatory approvals and a steady upward trajectory in sales and volumes on a monthly basis. Furthermore, for Ibuprofen, the company is strategically diversifying its customer base and pursuing expansion initiatives in the untapped regions, a process typically characterized by a timeframe of approximately 6 to 9 months. Based on our analysis, we expect to witness favourable momentum for our Ibuprofen product as we approach the conclusion of the fiscal year 2024.

Furthermore, our company has successfully cultivated a robust foothold in segments like anti-migraine, anti-ulcer, and anti-ED. These aforementioned segments have demonstrated remarkable stability and have successfully cultivated a devoted customer base. Our firm has been actively engaged in these particular segments for a period of over two decades.

Our primary objective for FY24 is to enhance profitability across all product categories. In order to drive cost optimization and enhance operational efficiency, we have charted a plan to allocate significant resources towards R&D initiatives throughout the current fiscal year. This proactive approach underscores the company's commitment to innovation and its determination to achieve sustainable growth. We also have strategic intent to pursue vertical integration for high-selected volume (to be read as selected high-volume) products, aiming to improve the overall margin profile in the foreseeable future.

Some API segment highlights I would like to highlight is Q1 FY24 revenue for the API segment stood at INR132.4 crores. In Q1 FY24, API segment contributed to around 97.8% of the consolidated revenue. Within the API segment, 15% of the revenues came from the domestic market, 85% from the export market for Q1 FY24. Within the therapeutic areas, ARVs contributed to around 10%, anti-diabetic contributed to 24%, anti-migraine to around 19%, anti-ulcer to 13%, anti-epileptic to 3%, ED (to be read as anti-ED) to around 4%, anti-inflammatory to around 18%, and the rest contributed around 9% to the total sales in Q1 FY24.

The company product portfolio is strategically positioned to capitalize on increasing market demand for APIs and intermediates, both in India and international markets. Our steadfast dedication lies in the continuous development of innovative products and implementation of cutting-edge technologies. These strategic approaches ensure our ability to sustain a competitive advantage over the long run.

We have consistently demonstrated a steady improvement in operating performances since Q2 FY23 onwards, and we are cautiously optimistic that this positive trend will persist in the upcoming quarters as well. We are pleased to announce that we are strategically expanding our product portfolio and bolstering our capacity, a move that will undoubtedly fuel our future growth. Finally, I would like to underscore that our unwavering commitment to sustainable

growth and delivering value to all the stakeholders is of utmost importance. We can begin the Q&A session.

Moderator: Thank you very much. We have a first question from the line of Priyanka Singh from Atidhan Securities. Please go ahead. We have lost her connection. We will take our next question from the line of Parth Vasani from KK Advisors. Please go ahead. Mr. Parth Vasani your line is unmated please go ahead with your question.

Parth Vasani: Sir, just had one question on competitive landscape. So, if you can just share what are the strategies you intend to employ in order to establish a unique position in this highly competitive industry?

Vamsi Krishna: Correct. Just to give you a brief, we do not have too many APIs. We hardly have around 35 to 40 APIs. But most of the APIs, we are very strong and vertically integrated in most of the APIs. So, that typically has been our strength and it will be our strength going forward. So, I think around 70% of our R&D budget is dedicated to cost and process improvements of our existing products and towards backward integration of our existing high volume products and only around 30%, 35% we are looking at new product development. So, significant portion of our R&D spend is also towards cost development and cost improvement.

So, that probably will be our strategy going forward because definitely as you go, every day there will be a price pressure and obviously, if we are reliant on outside factors, I mean, outside parties to get some raw materials, so the price fluctuations will always be there. So, if you manufacture it in-house, those can be limited to a certain extent. So that's our strategy going forward.

Parth Vasani: Okay, okay. All right. That sounds good. Sir, my next question was just on if you can just throw some light on your long-term growth plan?

Vamsi Krishna: So again, so right now I think we have gotten a few projects that are coming up. I think our ibuprofen, our immediate plan is to make our ibuprofen one of the largest in the world. So, that's our immediate growth plan and definitely we will be adding more products and we are exploring different other markets as well to increase the revenue and bottom line and profitability for the company.

Parth Vasani: All right, sir. That was helpful. That's it from my side for now. I will join back the queue.

Vamsi Krishna: Thank you.

Moderator: Thank you. We'll take our next question from the line of Jiya Shah from Wealth Securities. Please go ahead.

Jiya Shah: Thank you for the opportunity. Could you kindly tell me, like provide additional information regarding the specific factors that contributed to the improvement in our operating margin during Q1?

- Vamsi Krishna:** Sure. So, it is mostly the product mix, new products coming in and obviously few products we are vertically integrated. We have developed our own in-house intermediates for some products, where profitability has increased in that direction. And new products coming in, product mix is one of the key reasons. And obviously our betterment of profits on our ibuprofen also is one of our key areas that resulted in a better profitability.
- Jiya Shah:** Okay. And in the operating margin, do you feel that it is sustainable for the forthcoming quarters as well?
- Vamsi Krishna:** Yes, definitely. They will be within in line with the present one.
- Jiya Shah:** Okay. All right. Thank you so much.
- Moderator:** Thank you. We have our next question from the line of Yash Mehta from AP Capital. Please go ahead.
- Yash Mehta:** Thank you for the opportunity. I would like to ask a couple of questions. What are your capex plans and can you throw some color on the same?
- Vamsi Krishna:** Sure. There are no immediate major capex plan or Greenfield projects at this point of time. We want to probably consolidate and look at mostly backward integration of most of our critical products and critical APIs, high volume APIs. So, that probably I think basic capex. I don't think there is any major capex envisioned for this year at this point of time.
- Yash Mehta:** Are there any major risks you see on the raw material side which could severely impact margins going forward, any other risks which you foresee?
- Vamsi Krishna:** I am sorry. Could you repeat your question?
- Yash Mehta:** Are there any major risks you see on the raw material side which could severely impact margins going forward?
- Vamsi Krishna:** No. At this point of time, again, it is definitely based on market fluctuations. But at this point of time -- also China completely opening up from COVID also has sort of stabilized the prices as well. So, definitely there is some pressure on the solvent prices which keep varying based because of the war that is still continuing. But apart from that, the regular normal raw material prices are always stable.
- Yash Mehta:** Okay. And my last question would be what are your revenues and profit growth expectations for FY24?
- Vamsi Krishna:** So again, as already committed, we are expecting 15% to 20% growth than our previous FY'23 in FY24 both in top and bottom lines.
- Yash Mehta:** Okay. Okay. Thank you. That's all from my side.
- Moderator:** Thank you. We have a question from the line of Priyanka Singh from Atidhan Securities. Please go ahead.

- Priyanka Singh:** Yes. Thank you for the opportunity. I have a couple of questions. Firstly, I wanted to understand what is your outlook on the overall performance of pharma industry for this fiscal?
- Vamsi Krishna:** Yes. Thank you. Thanks for your question. So, I think it's slowly, I mean, I wouldn't say that, it's totally come back to the pre-COVID levels. But I think slowly we are getting there. I think probably it will take another couple of quarters for the entire pharma industry to completely bounce back. But you could see most of the companies are having good results and that you could see from the market that obviously everything is not totally out of the woods, but slowly we are moving in a very, very positive direction. I think it will take a couple more quarters to completely come out of that COVID, this thing that was there. But I think it's moving in a very positive direction.
- Priyanka Singh:** Okay. And talking about our company, so do we plan to enhance the proportion of API revenue from the domestic market?
- Vamsi Krishna:** Definitely, definitely. But our major focus will be on regulated markets because most of our facilities are US FDA and UGMP approved facilities. So our major, that's where, the profitability is also more higher. So our major focus would be export markets. But definitely I think with our high volume products like, ibuprofen and cetagliptin, definitely I think the contribution from the domestic market will also be quite high.
- Priyanka Singh:** And any existing plans on vertical integration?
- Vamsi Krishna:** Yes, I think we've already chalked out plans for our big products, our top five products, six products. I think we've already chalked out plans for vertical integration and they're already underway in terms of development and each product is at various different stages at this point of time.
- Priyanka Singh:** Okay. And lastly, can we expect a 17%, 18% ROCE for this fiscal?
- Vamsi Krishna:** I'm sorry, could you repeat it?
- Priyanka Singh:** So can we expect a 17% to 18% ROCE by the end of this fiscal?
- Vamsi Krishna:** Yes, I think, yes, it will be in the same range because I think this quarter I think is around 18%, right? 18%-plus. So I think it will be around that 18%, 19% range for the entire fiscal year.
- Priyanka Singh:** Okay, got it. Thank you so much.
- Moderator:** Thank you. We'll take our next question from the line of Rishabh Shah from Alpha Wealth Advisors.
- Rishabh Shah:** I have a couple of questions. Thanks for the opportunity. So the first question is what is our current capacity utilization and how are we looking at this utilization going forward? What kind of ramp up are we looking at?
- Vamsi Krishna:** So right now our current capacity utilization is around 50% to 55% actually at this point of time. So currently there is no immediate requirement of any major capex expansion at this

point of time. So our idea is to fill it up to around 75% to 80% before looking at any fresh greenfield projects or major expansion that we want to take up.

Rishabh Shah: Understood. Next is the company has implemented an operational approach to diversify its current offerings and it's aiming to strengthen its position and capitalize on potential avenues for growth. So could you provide additional details pertaining to the recent product launches like any understanding on that?

Vamsi Krishna: So are you asking about any information about the recent product launches?

Rishabh Shah: Yes.

Vamsi Krishna: So recently we have not launched any product in this particular quarter but all our existing products have been doing quite well. So we are getting a good traction and some ARV business that was not present in the last financial year has slowly started witnessing an uptake again from the first quarter and we expect it to be in a decent phase for the next couple of quarters at least. So it's all about tender. It's a tender based business. So I mean that's the only new addition but we have not launched any new product as such in this particular quarter.

Rishabh Shah: Okay. One last question is are there any new therapeutic products that we plan to bring in the marketplace going forward?

Vamsi Krishna: So I mean we are very strong in certain therapeutic categories like anti-migraine, anti-ulcer we are very strong and HIV space we are pretty strong. So I mean we are focusing on developing of more products in these therapeutic categories, that we are very strong in, so that it will be a complement to our existing portfolio.

Rishabh Shah: Understood. So if I could squeeze one last question. So how does the company intend to expand into new geographical areas and the company also began its operation in the geography area. So what is the contribution of the first quarter?

Vamsi Krishna: So it will take time obviously because registration of products and this thing will take time. And again, we have launched some new volume products recently. So previously we didn't have any huge volume products. Now we have launched new volume products. So we are exploring definitely different geographies and establishing customer base in some of these geographies.

Definitely registration and all will take time and it's a long process but definitely the company is proceeding in the right direction. I mean as you already heard in my speech, I think probably by end of this fiscal year we could definitely have some -- it's an incremental thing. You could definitely see some windfalls coming in by end of this year.

Rishabh Shah: Understood. Thank you and all the best.

Management: Thank you.

Moderator: Thank you. We'll take our next question from the line of Dipti Kothari from Kothari Securities. Please go ahead.

Dipti Kothari: So thank you sir for the opportunity. So my first question is how did Ibuprofen perform in the first quarter of fiscal year 2024? And what is the current pricing of Ibuprofen? And what is the market outlook for the same?

Vamsi Krishna: So Ibuprofen contribution is close to around 18% actually. 18% in our first quarter and definitely quarter-over-quarter, month-over-month is definitely improving. And as mentioned in my speech I think we are getting new approvals as we go on along the way. I think we are getting new markets that we are opening up and new approvals from different-different territories where customers are pulling in our product right now.

So definitely I think to exactly assess the situation maybe by end of this financial year, you will have a clear, very clear picture because by that time we will have all the approvals coming in and commercial product going in. So I think you will have to wait for end of this year to have a complete picture on Ibuprofen. And again it's a process, it's a very age old molecule, where it's not very easy to penetrate into various markets where we are trying our level best to push it with the resources that we currently have.

Dipti Kothari: Okay. And so furthermore could you kindly offer insights into your present Ibuprofen production capabilities and strategies for expansion, pricing dynamics and anticipated growth in terms of volume?

Vamsi Krishna: So current Ibuprofen pricing dynamics is that like, our current volume right now is around 700 metric tons is what we have the capacity for at this point of time and definitely expandable to 1,200 metric tons per month is our, I mean we have the facility to expand it to around that range. But until we reach around 80%, 85% of our existing capacity, we will not obviously go for a major expansion. So we are anticipating it to come in the time to achieve around 85%. So that's why in this financial year we are not envisioning any major expansions at this point of time.

Dipti Kothari: Okay. And sir, what could be our projected market share in both the export and domestic sectors for Ibuprofen only I am talking about?

Vamsi Krishna: So it is difficult to answer that question because export and domestic markets our approvals totally have not come in as I was saying. So by the end of this year will be a good time frame to assess at the position that we are in right now. See this is all, at this point of time sending samples, getting approval phase right now. So once the approvals have come in, the commercials will kick in very shortly. So we are at that launch take-off phase right now. So maybe seven, eight months I think will give us a good realistic picture.

Dipti Kothari: Okay. And sir the anti-diabetic segment revenue share has been witnessing considerable increase throughout recent quarters. So sir can you provide the anticipated goals for this segment in terms of value and volume?

Vamsi Krishna: So I think the segment will be pretty stable because it is a JV product with our partner Chemo. So they have significant market share that has been captured in Europe. So we are one of the largest manufacturers that is exporting to Europe. So we feel that, this is very sustainable and

we are collaborating in a very good way and this should probably continue for the next few quarters as well.

Moderator: Thank you. We have a question from the line of Karan Mehra from Vellore Advisory. Please go ahead.

Karan Mehra: So a couple of questions on the ARV segment. So in the quarter gone by, this segment has made a valuable contribution to our overall revenue. So, if you could possibly elaborate further on the specific tactics and initiatives you have in mind, to facilitate the expansion and development of this business vertical. And also, like, is it possible for the ARV segment to attain a level of scalability comparable to its historical state?

Vamsi Krishna: Yes, so just to give you a quick, this thing about the ARV space, so it's not our product directly. So we are doing a contract manufacturing for some of the big MNCs at this point of time. So we are just a contract manufacturing player. So definitely it is very much dependent on the tenders that our partners win. So based on that we get good business.

So I mean so the tenders have been awarded to some companies and definitely I think we were fortunate to be one of the partners with the companies that got these tenders. So we've been getting good business and it's very difficult for us to you know envision how it's going to be in the next two - three years. But as of date it's the company for the next couple of quarters, I think we are envisioning good volumes on the ARV space as well.

Karan Mehra: Sir, So any projected margins for this financial year for this segment, if you can give some highlights on that front?

Vamsi Krishna: So on the top line, it is going to contribute close to around 10% to 15% on the top line. So this was one of the product which used to contribute to around 40% a couple of years or three years back for us. But you know, we've diversified into multiple other segments at this point of time.

So even at a peak stage, probably the contribution will be around 15%, 15% to 20% at the max. It's not that we are reducing our top line, but since we've diversified, the contribution of the ARV portfolio has reduced in our portfolio.

Karan Mehra: Understood. Sir, my last question. Sir, so in this quarter, I believe we have, year-on-year, we have doubled our revenues. So congratulations on that trend. So sir, any plans to sustain this growth in the coming quarters?

Vamsi Krishna: Yes, definitely. I think as I was mentioning. So this is very sustainable and we are envisioning a good few quarters as well. I mean, as things stand, I think we are not, forcing any major hurdles and we've got good traction from the market. The market is responding quite well, the API as well. So it's going to be a, it definitely should be good quarters, I mean good few quarters as well.

Moderator: Thank you. We have a question from the line of Dhiraj Sachdev from Roha Asset Managers. Please go ahead.

- Dhiraj Sachdev:** Yes, I just wanted to ask and clarify, you spoke earlier about 17% ROCE. When do you think that we will be achieving that in about INR700 crores of capital that is employed now?
- Vamsi Krishna:** Sorry, could you repeat your question please?
- Dhiraj Sachdev:** I think you guessed, I guess you mentioned about 17% return on capital employed that we will achieve. So how far are we away, given that we have about INR700 crores of capital that is employed in the business?
- Lakshmi Narayana:** The capital of the gross block of INR600 plus crores, but the capital employed ROCE what you are expecting 17% correct?
- Dhiraj Sachdev:** No, no you told about 17%. So how far are we away? When is the likely to...
- Lakshmi Narayana:** EBITDA we have already delivered 18% to 19%, 19.4% is the current quarter and before last year is about 20 plus percentage.
- Dhiraj Sachdev:** No, no I am not talking about EBITDA, I'm talking about return on capital employed?
- Lakshmi Narayana:** Yes, the capital employed, it will take time, this year we are expecting to stabilize to across 10% to 12%.
- Dhiraj Sachdev:** Return on capital employed, you're saying, right?
- Lakshmi Narayana:** Yes.
- Dhiraj Sachdev:** Yes, so 10% to 12%. So if I take 12%, it'll be about INR80 odd crores of EBIT number, earnings before interest tax, after depreciation right?
- Vamsi Krishna:** That's right.
- Dhiraj Sachdev:** Okay, okay fine. So currently we did about INR19 crores of EBIT right? I mean this quarter.
- Lakshminarayana:** Yes.
- Dhiraj Sachdev:** Okay, so that's what I'm saying this is 10% to 12% but how far are we away to achieve that 17% number?
- Vamsi Krishna:** So it'll take time again, as I mentioned, right? So by end of this year, I think we will be in a very, very good position because that's when our major products will take off in a very good phase. So I think by end of Q4, I think we will be in a good position to get around 15% to 17% approximately.
- Dhiraj Sachdev:** Okay, so you're saying that for the full year it will be 10%-12% by Q4 you should be able to achieve 15% ROCE right?
- Vamsi Krishna:** Yes, that's right.

- Dhiraj Sachdev:** And then next year again the trend could be if you are maintaining 15%-17% ROC for the full year.
- Vamsi Krishna:** Yes, we will definitely maintain going forward.
- Dhiraj Sachdev:** Okay, and what will drive that number? Is it the utilization, is it the pricing or the product mix which is going to be better? What is going to drive that number?
- Vamsi Krishna:** It is definitely the product mix and our good products like moving quite well, like the volumes moving quite well of our big products.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the call over to Mr. Vamsi Krishna Potluri for closing comments. Over to you, sir.
- Vamsi Krishna:** Thank you, sir. Thank you everyone for joining on this call. Please reach out to our IR consultants, Strategic Growth Advisors or us directly should you have any further queries. Thank you very much. We can now close the call. Thank you.
- Moderator:** Thank you, sir. On behalf of SMS Pharmaceuticals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.