



Pharmaceuticals Limited

*Registered & Corporate Office :*

Plot No. 72, H. No. 8-2-334/3 & 4, Road No. 5,  
Opp. SBI Executive Enclave, Banjara Hills,  
Hyderabad - 500 034, Telangana, INDIA.  
Tel : +91-40-2525 9999, Fax : +91-40-2525 9889  
CIN : L24239TG1987PLC008066  
Email: info@smspharma.com, www.smspharma.com

Date: 18<sup>th</sup> November, 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 10<sup>th</sup> November, 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 Friday, 10<sup>th</sup> November, 2023 for the second quarter and half year ended 30<sup>th</sup> September, 2023.

A copy of the said Transcript is being uploaded on the website of the Company [www.smspharma.com](http://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  
Q2 FY '24 Earnings Conference Call”

November 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 10<sup>th</sup> November 2023 will prevail



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

**Moderator:**

Ladies and gentlemen, good day and welcome to the SMS Pharmaceuticals Limited Q2 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 in the 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 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

We have with us on the call today, Mr. Vamsi Krishna Potluri, Executive Director, Mr. Lakshmi Narayana Tammineedi, Chief Financial Officer, 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:**

Thank you. Good morning, everyone. Thank you for joining the earnings conference call to discuss the financial performance for the quarter and half year ended 30th September 2023.

I hope everyone must have got an opportunity to go through our financial results in the investors' presentation which has been uploaded on the stock exchange as well as our company website.

I would like to begin by first wishing everyone a very happy Diwali and a prosperous new year.

We are delighted to report a robust operating performance in the second quarter for fiscal year 2024. The company recorded a year-on-year growth of 5% in revenue in Q2 FY24 amounting to INR167 crores, mainly attributable to the strong performance of the ARV segment. The increase in top-line revenue is primarily attributed to the substantial improvement in volume growth as few of our business lines witnessed a notable decline in price realisation due to prevailing market conditions.

Based on our analysis, we expect a positive volume growth to persist in the second half of fiscal year 2024. The gross profit margin for Q2 FY24 witnessed a slight decline in comparison to the precedent quarter primarily due to the increase in fuel and power costs. Also, there has been an increase in other expenses when comparing year-over-year figures. This was on account of increase in business development expenditure and surge in both freight and insurance premiums. The increase in employee costs can be primarily attributed to the expansion of our workforce in response to enhanced business prospects. In Q2 FY24, our operating profits experienced a significant surge of 105% to reach INR28 crores. The net profit for the current quarter stands at INR12 crores, marking a remarkable recovery from the loss experienced in the second quarter of last fiscal year.

**API segment highlights**

Q2 and first half of FY24 revenue for the API segment stood at INR162.9 crores and INR295.7 crores respectively. Q2 and first half of FY24 API segment contributed approximately 97.8% and 2.2% to the consolidated revenue respectively.

Within the API segment, 13% of the revenues came from domestic market, 87% from the export market including deemed exports for Q2 FY24. Within the therapeutic areas, anti-retroviral contributed to 21%, anti-diabetic contributed to 33%, anti-migraine contributed to around 11%, anti-ulcer 11%, anti-epileptic 1%, anti-ED around 8%, anti-inflammatory around 13% and the rest contributed to around 2% on the total sales for Q2 FY24.

#### **Segmental highlights**

The ARV segment has demonstrated a remarkable resurgence with sales of ARVs experiencing a commendable upswing. Additionally, the tendering activity in the ARV business has also gained momentum.

Ibuprofen has demonstrated a favourable month-on-month growth trend, signifying a consistent upsurge in the performance. Based on our analysis, the market landscape for Ibuprofen is likely to undergo a substantial transformation in the upcoming quarters. The company has also demonstrated a robust ability to leverage existing market gaps in the Ibuprofen market, thereby strategically positioning itself in a favourable manner.

Sitagliptin has demonstrated a healthy performance and is expected to sustain the positive momentum in the forthcoming quarters. Our company has significant foothold in the European market, with a substantial 40% market share for the API in this specific product.

The primary factor contributing to decline in revenue share generated by the anti-diabetic product line is price erosion. Nevertheless, it is imperative to acknowledge that the volume growth has showcased commendable resilience, consistently progressing in an upward manner. Furthermore, it is crucial to take into account the high base effect given the exceptional performance by this segment in Q2 FY23. It is also important to note that the anti-diabetic portfolio has demonstrated a sequential increase in its quarterly share. The company has also strategically implemented a backward integration strategy in order to safeguard and enhance the profitability of the diabetic product line.

The anti-ulcer segment has proven to be one of the company's most robust since its inception and we are pleased to report that its growth remains strong in this particular segment. The segment is anticipated to maintain its growth momentum in the upcoming quarters.

#### **Now coming to the business outlook**

Broadly speaking, the major revenue contributors will continue to be anti-diabetic, ARV, anti-inflammatory, anti-migraine and anti-ulcer medications. The company's new product launch pipeline exhibits a strong and promising outlook. Our current capacity utilization is within the range of 50% to 60%. By end of FY25, we anticipate making a progress towards crossing the capacity utilization rate of around 75%.

Looking ahead for a full fiscal year, we anticipate maintaining the gross margins and EBITDA margins in a similar level as those achieved in the first half of FY24, assuming there are no significant escalations in geopolitical issues. Our products are strategically positioned to effectively cater to the escalating demand for the APIs and intermediates both in domestic markets and across international borders. We maintain steadfast in our dedication to the continuous development of innovative products and cutting-edge technologies, thereby ensuring our sustainable competitive advantage.

We have consistently demonstrated a steady improvement in operating performance since Q2 FY23 onwards and we maintain a prudent level of optimism regarding the potential continuation of this favourable trend in the upcoming quarters.

- Moderator:** The first question is from the line of Virat Shah from Shah Investment. Please go ahead.
- Virat Shah:** Hi, sir. Good morning. Congratulations on a good set of numbers. What are the primary factors that have led to the strong performance of the company in the second quarter? Could you throw some colour on that side?
- Vamsi Krishna Potluri:** Yes. I mean, as I was mentioning in the speech, I think major would be the ARV segment that has picked back up and also our Ibuprofen, which has been -- the volumes have been increasing month on month sequentially. Every month our production capacity has increased and our sales also have been increasing month on month. So, these are the two primary factors, major factors contributing to a higher Q2 numbers.
- Virat Shah:** Okay. And sir, does company intend to supply to pharmaceutical innovators or do we have any steps to enter -- and do we have any steps to enter contract research and manufacturing services in the short term?
- Vamsi Krishna Potluri:** See, at this point of time, we are majorly focused on the generic space -- the generic drugs. But definitely, I think down the line, that is the thought process, as I mentioned in the last call as well. I think we are definitely looking at some niche categories and niche segment CDMO opportunities as well. So, we are in discussions with a couple of customers, but nothing is finalized yet. But as on date, we are currently looking at major revenues coming from the generic APIs.
- Virat Shah:** I understood. And sir, one more question. Could you provide information on any upcoming projects or product launches or capex expansion that the company is planning?
- Vamsi Krishna Potluri:** So, there is no major capex expansion. Okay, there is small, regular capex expansion, but nothing major has planned. So, we just want to consolidate and consolidate because we just finished our major expansion of ibuprofen. So, we just want to consolidate and then maybe from there on, as I mentioned in my call, I think by FY25, we are expecting to have at least 75% occupancy. So, from there on, we would like to kick on from there. But Yes, so there is no major this thing. And product list is a continuous work and we have a good lineup of products coming. So, once they are closer to commercial, we will keep you informed.
- Virat Shah:** Okay, sir. Thank you. Thank you so much. That was helpful.

- Moderator:** The next question is in the line of Payal Shah from Billion Securities. Please go ahead.
- Payal Shah:** Good morning, sir. Thank you so much for the opportunity. I have a few questions. First question being, could you please provide a trajectory of the company's revenue growth and profitability for H2FY24 and FY25?
- Vamsi Krishna Potluri:** Yes, so we are anticipating a similar trend, actually, because there is severe pressure on the pricing, the factors that I have mentioned in my speech. So, there is severe price pressure. So, that's the reason margins compared to previous quarters have been a little little on the downside.
- But generally, in terms of top line and in terms of our projects being commercialized, I think we are in a good shape. And I think like a similar first half of FY24, we expect a similar trend in the top line going. And maybe definitely, I think we are expecting 10% to 15% growth also going forward.
- Payal Shah:** Okay, my next question is on like, what is your strategic vision for the company's goal over the next two, three financial years?
- Vamsi Krishna Potluri:** So, see, next two, three financial years, if this sort of trend continues, I think probably by this we will be doing our all time high sales in terms of revenue, SMS since its inception. So, so if this trend continues, we are planning to add more projects, more products. And definitely, I think, as explained to the previous caller, I think we are looking at CDMO opportunities with selected companies, and we are working on a few other select opportunities. And definitely, I think, adding new products and we anticipate a growth of around 15% year on year.
- Payal Shah:** Okay, my last question is like, could you please offer insights on what cost optimization measures as a company has been taken care of?
- Vamsi Krishna Potluri:** So, most of our R&D spend that we do is on backward integration. So, we do not, I mean, like obviously we develop new products, but you know, significant portion of our R&D spend is working on backward integration on some of the major products that we are currently in the market, where we are the market leaders, we work on optimization, how to save costs and things like that. So, that's where our major focus as a company is right now.
- Payal Shah:** Okay, so that's quite helpful. Thank you so much. Wishing you all a very happy Diwali.
- Moderator:** The next question is from the line of Aditi Sawant from ADM Advisors, please go ahead.
- Aditi Sawant:** Yes, hi, thank you so much for the opportunity. And a very good morning. So, my first question is I wanted to understand like, how is our approach towards addressing pricing pressure in the industry right now? And can you share some insight on our currency hedging strategy?
- Vamsi Krishna Potluri:** So, I think price pressure is a very broad term, actually. So, I think probably everyone, all the players in the industry are experiencing similar price pressure. Because I think till last year, China was shut down. So, there was limited competition, but now once the Chinese has opened up, so pricing pressure from domestic as well as companies from abroad, both I mean, like, it's

actually taking a toll, but is expected to ease a little once their existing stocks have been liquidated, and is expected to ease a little, maybe going into FY25.

So, for now, I think, our major focus is to protect our customers and make sure that we service them at the highest level and make sure that the customer satisfaction is there. And though there probably could be a short term price pressure, but we think that eventually it will ease up. But we wouldn't, I mean, the main target is to probably to protect the customers, protect our customers to make sure that we service them.

**Aditi Sawant:** Okay, okay, got it. And are we taking any initiatives to, expand into value-added product segments?

**Vamsi Krishna Potluri:** Yes, definitely. I think company is definitely, like, see, we are not only into commodity products like ibuprofen or ARVs, but we are into a very niche segment also, like the anti-migrant segment. So, there the market share in the U.S. in some of our products is more than 60%. So, we are already present in some of the niche segments. So, we are trying to strike a balance between both commodity and the niche segment.

And definitely, I think, there are some good products in our pipeline that cater to this segment as well, where the volumes are very small, like a few kgs in a year, but the realization will be much bigger. So, we are trying to strike a balance between both of them.

**Aditi Sawant:** Okay, got it. That was helpful, sir. Thank you so much and wish you all a very happy Diwali.

**Moderator:** The next question is from the line of Kushal Parekh from Mehta Investments. Please go ahead.

**Kushal Parekh:** Yes, Yes, I just have a few questions. You all have mentioned INR1,000 crores revenue by FY28 per [pence]. So, how do we plan that?

**Moderator:** Kaushal, can you please repeat the question? Your voice was not very clear. Hello, Kushal, are you there on the line?

It seems there is no response on the line. We will move to the next participant. The next question is from the line of Yug Mehta from AP Capital. Please go ahead.

**Yug Mehta:** Yes, how does the company strategize its supply chain operations in response to challenges imposed by global disruptions and uncertainties?

**Vamsi Krishna Potluri:** So, see, I think at this point of time, like, there is no, like, there is obviously price pressure. But apart from that, I don't think there is any disruption at this point of time with respect to raw materials and, any disruption in the supply chain. So, we are comfortably able to negotiate a good pricing and for some of our key products, we are -- we have already logged in our supply for the next one full year.

So, I think more or less we are sort of covered going forward. And, I mean, right now, we do not anticipate any major disruption in the market with respect to the supply chain. But if there is any major changes in any geopolitical situation, I think we will take the required course of action.

But at this point of time, I think we are -- I mean, our team is in a good position negotiating good cost for the company.

**Yug Mehta:** How does the company distinguish itself from its competitors with regards to its product offering and market positioning?

**Vamsi Krishna Potluri:** So, product offering, typically, see, product offering, the company is, I mean, see, first thing, the company is a very old company, it has a very good database of customers who have been with us since, who have traveled with us since many years. They know SMS, the quality of product that SMS offers in the market. And obviously, the prices that SMS offers also, because I think we are one of the leading players in almost like five, six categories. We are one of the largest in five, six products in the world.

So, people know that, where SMS is really strong, some of these volume products that, we can really get a good cost and structure, be it Ranitidine, be it Ibuprofen, and that's where we are right now. So, people actually realize SMS is a very strong competitor in some of these projects.

So, I mean, we have a very strong established customer database that has been achieved over the last 35 years. So that's probably our advantage, I would say, that it's not a new company that where we have to find immediate customer base. But these are the customers and we're present in more than 80 countries across the world. And we've got a very, very decent and loyal customer base. So, I think that's where our advantage is.

**Moderator:** The next question is from the line of Neelam Punjabi from Perpetuity. Please go ahead.

**Neelam Punjabi:** Yes, thanks for the opportunity. I have a couple of questions on Ibuprofen business. So, could you highlight what's the current capacity that we are running at and what's the capacity utilization of Ibuprofen?

**Vamsi Krishna Potluri:** So, right now, our current installed capacity is around 750 metric tons per month.

**Neelam Punjabi:** And what's the utilization as of now?

**Vamsi Krishna Potluri:** Right now, I think we are currently doing around 250 to 300 tons per month.

**Neelam Punjabi:** Got it.

**Vamsi Krishna Potluri:** Almost around 40% -- 44%.

**Neelam Punjabi:** Understood. And what's the target for the capacity utilization over the next couple of years?

**Vamsi Krishna Potluri:** So, I think our target is, I think we will be hitting the 600 ton mark maybe in a year or so from now. I think less than a year, I think we should probably be hitting in maybe in two or three quarters. I think we should be hitting the 600 ton, 650 ton range actually. So, then we will try and see how are we positioned based on the market dynamics and try to see if we want to increase the capacity going forward.

**Neelam Punjabi:** Got it. And are we selling Ibuprofen in the domestic market or are we also exporting it?



**Vamsi Krishna Potluri:** No, no, we're doing both. We're doing both. Our customers in the US, Europe have started getting approvals. We've already started commercial sales in the US. We've already started commercial sales in Europe. We've already started sales in ROW markets. We've already started selling in countries like Thailand, Afghanistan, and some African countries.

And obviously, domestic market is a very big market for us, obviously, because it was dominating our current, until we had approvals from the US and Europe, I think our major push was in the domestic market. So, we still retain that domestic market and these are all additional businesses coming in.

**Neelam Punjabi:** Understood. Okay. And so, lastly, you had mentioned a couple of quarters back that the Ibuprofen realization for us is at about INR700 a kg. So, is it largely stable at that level?

**Vamsi Krishna Potluri:** Yes, more or less. More or less, it is stable at that level. INR10, INR20 here and there, but Yes, more or less around that range.

**Neelam Punjabi:** Thank you.

**Moderator:** The next question is from the line of Parth Vasani from KK Advisors. Please go ahead.

**Parth Vasani:** Yes. Hi. Thank you for the opportunity. Sir, I had a few questions on Ibuprofen, which some of them just got answered related to the capacity and everything. So, just kind of one follow-up question. Were the margins lower on a sequential basis because of an increase in Ibuprofen sales volume?

**Vamsi Krishna Potluri:** No, we do not believe so. Actually, the margins have been increasing on a monthly basis because some of the key materials, we are already looking at backward integration on Ibuprofen. So, we are looking at better process optimization. And actually, to be honest with you, I think as we go month on month, quarter on quarter, actually, our margins are improving on Ibuprofen.

**Moderator:** The next question is from the line of Viraj Shah from Shah Investments. Also, participants, please press star and one to ask questions.

**Virat Shah:** Yes. Thank you for the follow-up. Sir, what are the reasons behind the sharp fall in the revenues from anti-diabetic segment?

**Vamsi Krishna Potluri:** So, there is no sharp fall in revenues. Definitely, I think volume has picked up. But obviously, I think as I am mentioning, there is a lot of price pressure on anti-diabetic. So, there is no fall in the volume as such. And we still hold around 40% market share in US, in Europe on that particular product. But it is like the revenues have fallen on that particular category is because of a pricing pressure, that our partner wanted to make sure that we retain that market share. So, it is mostly on the pricing pressure that we are doing it, but definitely not in terms of the volumes.

**Virat Shah:** Okay. I understood. Thank you.

**Moderator:** The next question is in the line of Jigar Shah from AK Securities. Please go ahead.

**Jigar Shah:** Hi. Sir, I have a couple of questions. First one is on the ARV division. So, ARV division has significantly contributed to the total revenue. So, is this growth sustainable? And could you provide more details regarding the strategies and endeavors that you intend to implement in order to support the growth and progress of this particular segment?

**Vamsi Krishna Potluri:** Definitely. See, I think ARV space is something very special to us because I think there are two, three products where we are really very strong in the ARV space. And because of COVID and a few other reasons, the tendering process got delayed. But I think now the tendering process is completed. So, we hope that it is a steady, stable sales and stable orders that we are receiving from our customers. And till March and beyond also, we have visibility at this point of time.

And definitely, we think this will be a good segment for SMS because we are not into finished formulation on this particular ARV space. So, we are in a very niche segment where our size of company on ARV APIs, I think we are the only company that is handling just API sales, not having any formulation sales, just the API sales on ARV space. So, we have a niche.

So, definitely, I think we are working with a lot of other companies as well to try and see if we can push some of these products into there products.

**Jigar Shah:** Correct. Got it. And just a follow up question on this, and what kind of margins do you expect for this segment?

**Vamsi Krishna Potluri:** Mostly, see here, we are looking few products in sales, few products in CMO. So, CMO, it is hardly like the margin is very limited. But because of the volume and it is more of a commodity rather than high margin product.

So, probably, doing that, we have a good stable top line on this product and we will be able to get cover some good overheads and fair margins. So, you cannot expect big margins like some of our own products. But this is in the CMO, this will be a decent margin for us.

**Jigar Shah:** Got it. And lastly, do we intend to increase the percentage of API revenue derived from domestic markets in the coming years?

**Vamsi Krishna Potluri:** I think we have always been, when we say domestic market, I think right now, I think, just to give some clarity, this thing, revenues are like almost 87 percent from exports, including deemed exports actually. So, technically, out of that, I think 87 percent major is to India, but end market will be US. So, technically speaking, we are selling in India, but it will be re-exported, the formulation will be done and re-exported to US or Europe or any other regulated countries.

But we would like to, we are keeping it this way because all our plans are USA FDA approved and WHO-GMP approved and good regulation, definitely. And if there is a good opportunity in the domestic market, we have good sales in some of the products that we are doing. Like Ibuprofen, we have good sales in the domestic market. Product by product, we will decide based on margins, based on which product that we will be able to offer in the domestic market.

**Moderator:** The next question is from the line of Kushal Parekh from Meta Investments. Please go ahead.

- Kushal Parekh:** Yes. So, thanks for giving me the opportunity. I have a few questions. So, firstly, what are present pricing trends for Ibuprofen and what are the projected market perspectives for this product?
- Vamsi Krishna Potluri:** So, pricing pressure, especially on commodity products, definitely always exists because there is some change in the market that will quickly react. So, for sure, it will be there, market pressure. But as I was mentioning to a previous caller that our aim is to try and see how best we can backward integrate and try and see how better to improve our margins, parallelly while we see how best we can try to capture a significant market share in Ibuprofen.
- Kushal Parekh:** Okay. Fair enough. And secondly, as per my knowledge, the company's current operational structure does not exhibit a significant degree of backward integration in relation to the production of Ibuprofen. So, do we have any plans to undertake the same? And how will it impact our cost effectiveness?
- Vamsi Krishna Potluri:** I'm sorry, could you repeat?
- Kushal Parekh:** As per my knowledge, the company's current operational structure does not exhibit a significant degree of backward integration in relation to the production of Ibuprofen. So, do we have any plans to undertake the same? And how will it impact our cost effectiveness?
- Vamsi Krishna Potluri:** I've already mentioned to the previous caller that we are looking at backward integration on Ibuprofen as well. So, we have plans devised and plans in place to make sure that we increase our margins going forward on Ibuprofen. So, in quarter on quarter, we are already doing that and we'll continue to do that on Ibuprofen.
- Kushal Parekh:** Okay. Fair enough. And next one is, given that Ibuprofen currently accounts for the majority of the sales volume, how do you intend to mitigate the risk from the same?
- Vamsi Krishna Potluri:** Yes, could you please repeat that question again?
- Kushal Parekh:** Yes, given that Ibuprofen currently accounts for the majority of the sales volume. So, how do you intend to mitigate this?
- Vamsi Krishna Potluri:** No, it is not the major contributor still. It is one of the top four performing products of SMS. It is definitely not the top product. But I mean it's a commodity product and definitely, I mean, like, it's a good product. Probably there will not be any risk mitigation on some of our top products. Only this thing is with respect to territories, we are trying to see if we can get into as many territories as possible to mitigate the risk in the product. But definitely, we definitely will not be able to replace Ibuprofen with something else.
- Moderator:** Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Vamsi Krishna Potluri for closing comments. Thank you and over to you, sir.
- Vamsi Krishna Potluri:** Thank you everyone for joining this call. We see strong growth potential in both domestic and international markets and we are well positioned to capitalize on these opportunities. We are also committed in investing in our business to ensure that we continue to innovate and grow.



*SMS Pharmaceuticals Limited*  
*November 10, 2023*

Please reach out to our IR consultants, SGA, or us directly should you have any further queries.  
Thank you again for your time.

**Moderator:**

Thank you very much. Ladies and gentlemen, on behalf of SMS Pharmaceuticals Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.