SUPRIYA LIFESCIENCE LTD.
Creating true values that bind global health

Date: February 13, 2024

To,
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai – 400 001
Scrip Code: 543434

To,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051
Scrip Symbol: SUPRIYA

Dear Sir (s),

Subject: Transcript of the Earnings Call for the quarter and nine months ended December 31, 2023

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 we hereby enclose the transcript of the Earnings call held on Thursday, February 8, 2024 at 11.00 A.M. IST to discuss operational and financial performance of the Company for the quarter and nine months ended December 31, 2023.

This is for your information and records.

Thanking you,

Yours faithfully,
For Supriya Lifescience Limited

SHWETA SHIVDHARI SINGH
Digitally signed by SHWETA SHIVDHARI SINGH
Date: 2024.02.13 11:22:33 +05'30'

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“Supriya Lifescience Limited

Q3 and 9-Months FY24 Earnings Conference Call”

February 08, 2024

MANAGEMENT: **DR. SATISH WAGH -- CHAIRMAN AND MANAGING DIRECTOR -- SUPRIYA LIFESCIENCE LIMITED**
DR. SALONI WAGH -- WHOLE TIME DIRECTOR -- SUPRIYA LIFESCIENCE LIMITED
MR. KRISHNA RAGHUNATHAN -- CHIEF FINANCIAL OFFICER -- SUPRIYA LIFESCIENCE LIMITED

MODERATOR: **MR. IRFAN RAEEN – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9-Months FY24 Earnings Conference Call of Supriya Lifescience Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Irfan Raeen from Orient Capital. Thank you and over to you, sir.

Irfan Raeen: Thank you, Manuja. Good morning, everyone. On behalf of Supriya Lifescience Limited, I extend a very warm welcome to all participants on Q3 and nine-months FY24 financial discussion call.

Today on our call, we have Dr. Satish Wagh sir, Chairman and Managing Director, Dr. Saloni Wagh, Whole Time Director and Mr. Krishna Raghunathan, Chief Financial Officer. I hope everyone had the opportunity to go through our investor deck that we have uploaded on exchanges and on company's website.

Before we begin the call, I would like to give a short disclaimer. This call may contain some of the forward-looking statements which are completely based upon our belief, expectations as of today, these statements are not guaranteed of our future performance and involve unforeseen risks and uncertainties.

With this, I would like to hand over the call to Satish, sir for his opening remarks. Over to you, sir. Thank you.

Satish Wagh: Good morning and a warm welcome to all the participants. Thank you for joining us today to discuss the Q3 financial year '24 results of Supriya Lifescience Limited. To take us through the results and answer to your questions, along with me are Dr. Saloni Wagh, Whole Time Director, Mr. Krishna Raghunathan, Chief Financial Officer and our Investor Relations Department, Orient Capital.

I hope everyone got the opportunity to go through the financial results and investor's presentation which have been uploaded on the stock exchanges, as well as the company website. I am pleased to announce our manufacturing site in Lote Parshuram, has received a good manufacturing practice that is GMP certification from the Regulatory Authority of Brazil, ANVISA, which covers a maximum of seven to eight big countries in the Latin region.

The success of the rigorous GMP inspection understood Supriya's commitment to the highest quality standards. The clearance of this audit marked the successful registration of 8 APIs with CADIFA and will further enable smoother and faster registration of the company for the other APIs and will help us to acquire more customers in the Brazilian pharmaceutical market. These 8 APIs have 20* crores sales potential in the next three years.

In this quarter, we plan to file 3 CEP and 3 US drug master files for anti-gout, anaesthetic, where we are already strong for a couple of years, and anti-allergic products. During the quarter, the company aggregate sales increased by 33% compared with the corresponding quarter of the last year on account of the wider marketing footprints.

As you are aware, Supriya is the market leader for supplying some of the anaesthetic products and taking advantage of the world market presence and good track record on the regulatory front. Supriya has selected some life-saving drugs in the same therapeutic category. Supriya started the molecules development activity a year back and now this product is ready for commercial.

I would like to give a highlight on the market number in brief. The global market is valued at $300 million and is expected to exhibit a CAGR of 4.4% over the forecast period of 2023 to 2030. The growth drivers for the said products are the increasing number of surgeries, increasing the prevalence of chronic disorders like cancer and proven standards of surgical care.

This product market is spread across the globe with North America, Latin America, Brazil, Argentina, Mexico, and the rest of the Latin American region. Europe countries, Asia-Pacific, the Middle East, and the African market. Currently, the Indian industry depends in -- on China. India's Supriya unit is considered an import substitute to China under the Make in India. Supriya's API manufacturing facility is ready for manufacturing. Also, considering the forward integration, company is in the process of setting up the formulation plant with bottling capacity of about 5 million annually.

With this capacity, the company aims to have a business in the next three years to be around 10% to 12% of the global market with substantial EBITDA between the range of 26% to 30%. As you are aware, we also have our CAPEX plans made for the last -- next three years and around INR60 crores has been invested in our CDMO facility.

This facility also have our API and R&D. The site will be operational in the early quarter 1 of financial year '25 and will open phase-wise. Another four new products are in the pipeline for the financial year ‘25 launch. These are from the anti-diabetic, anti-anxiety, of course and anaesthetic categories.

With this, I hand over to our CFO, Mr. Krishna Raghunathan, to share the quarter 3 financial year '24 highlights with you. Over to you, Krishna.

Krishna Raghunathan: Thank you, sir. Hello, everyone, and good morning. I will now share the operational performance of the quarter and following which we will open the floor for questions and answers. Company reported a revenue from operations of INR140 crores in Q3 FY24 as against INR105 crores in Q3 FY23. EBITDA in Q3 FY24 stood at INR41 crores as against INR14 crores in Q3 FY23 and EBITDA margin stood at 29.6% for Q3 FY24 as against 13.4% in Q3 FY23.

Profit before tax was at INR40 crores for Q3 FY24 as against INR13 crores in Q3 FY23 and reported a growth of around 217%. Profit after tax stood at INR30 crores in Q3 FY24 as against INR9.5 crores in Q3 FY23. PAT margins stood at 21.6% compared with 9.1% in Q3 FY23.

Moving to nine months FY24 performance, revenue from operations stood at INR412 crores in nine months FY24 as against INR319 crores in nine months FY23 and reported a growth of around 29% with the previous year. EBITDA in nine months FY24 stood at INR117 crores as against INR74 crores in nine months FY23 and EBITDA margin stood at 28% for nine months FY24 as against 23% in nine months FY23.

Profit before tax was at INR113 crores for nine months FY24 as against INR70 crores in nine months FY23, registering a growth of around 60%. PAT stood at INR82 crores in nine months FY24 as against INR52 crores in nine months FY23. PAT margins stood at 59%.

There is a small correction in one of the Chairman's speech. The 8 APIs which he was talking about has a potential sale of INR200* crores and not INR20* crores as read out by him. That was a parallax error. I would like to put it, okay.

Now we can open the floor for questions and answers and thanks to all of you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nirali Shah from Ashika Stock Broking. Please go ahead.

Nirali Shah: Hi, congratulations on a good set of numbers. So I have two questions basically. My first question is we see a big jump in EBITDA and PAT margins this quarter. Can we attribute this to better pricing environment or is it the seasonality impact? Generally, H2 is better than H1. That is my first question. If H2 is better, can we expect a much better growth in the margins or the revenue front for 4Q as well? I will ask the second question then later.

Saloni Wagh: So, thanks Nirali for the question. I am Dr. Saloni Wagh and I would like to answer to this question. In the last couple of quarters, we have constantly been telling that our portfolio and our geographic reach has been changing.

That is one of the reasons why you will see more stable quarters as opposed to the H1, H2 concentration what we were seeing earlier. We are getting a lot of penetration into the more regulated market space. Even if you look at this quarter, our Europe sales have increased significantly from 26% to almost 42%.

We have seen a very good traction in anaesthetic products. The anaesthetic segment has actually gone up significantly from 21% to 49%. So the main reason why you are seeing the growth is because of better traction of the existing set of products like anaesthetic, vitamins in more regulated market space like Europe, North America.

And we have always maintained in the last couple of quarters that a sustainable EBITDA margin for us is between 28% to 30%. And that is what we would also like to guide for the future quarters.

Nirali Shah: Understood, understood. So, basically my next question was that if you could give a ballpark number in terms of revenue and margins from a three-year perspective, but as you mentioned

that 28% to 30% is a sustainable annualized margin guidance that you are mentioning. But just one simple question, is that on our conservative side? Should we expect something more?

Saloni Wagh: So there is always, because of the product portfolio that we have and because we operate mainly in the regulated market space, there is always a chance. And we have in the past also achieved higher numbers, which we have benchmarked ourselves against. So there is always a possibility for getting a higher number.

But 28% to 30% in our opinion would be a sustainable number that we can indicate. In terms of revenue growth, we have always maintained that year on year, you can expect upwards of 20% growth from our side. And that is still the number that we would like to maintain for the next three years.

Nirali Shah: Understood. So we have a INR140 crores run rate currently. Calculating that, will we be making something beyond INR570 crores on a full-year FY'24 basis?

Krishna Raghunathan: Krishna here, please don't put any words into the numbers. I think that could be a possibility. See, we have guided on our EBITDA and we have said that we would grow our top line by somewhere around 20% to 23%. It could be around that number. But we cannot be specific on any numbers like this.

Nirali Shah: Understood. Thank you. That's it.

Moderator: Thank you very much. The next question is from the line of Aashish from InvesQ Investment Advisors, Private Limited. Please go ahead.

Aashish: Yes. Thank you for the opportunity. So, margins seem to be recovering and you said that around 20 % growth on the top line is probably what we are looking at.

So, actually we came down from around INR550 crores a couple of years back to these numbers. So, just wanted to understand, there are so many things going on in terms of new geographies, new facilities that we have, plus existing portfolio of ours. There's been quite an up and down on the performance of a lot of molecule that we do.

So, it would be very helpful if you can guide us through the path for the next two years in terms of where all you see the business getting traction or even the negatives and try to build a scenario how you are taking this business forward because earlier I think we had decently big targets of around INR1,000 crores plus of top line. This was two years back after listing. So, it will help us investors in gauging how you are planning for the business and how much is doable actually on the ground.

Saloni Wagh: Okay. So, definitely the guidance what we have given in the past, that INR1,000 crores in the next three years still stands. Growth for us will come in three buckets. The first one is, you know, of course, the top three products which the company sells.

Those molecules are also growing year on year because of getting repurposed in different therapies. So, there is definitely a growth in the top three molecules. Then there is a basket of about 8-12 molecules which we have said in the past that we are trying to scale up in the regulated market space for which we have now started getting the approval.

So, the recent ANVISA approval where the eight products are registered, that has a potential of about INR200* crores in the next three years. Similarly, multiple CEP, US DMF, Japan DMF are getting registered. So, those 8-10 products will definitely give a large scale up and their contribution to the portfolio in terms of top line as well as bottom line will increase.

So, this is the second basket. So, basically the API portfolio what we currently have will grow inherently in the next three years. Other than this, we have large CMO, CDMO opportunities in our hand.

Those will also scale up in the next three years. So, that will be another growth area for us. What we have announced today, the CMO, CDMO opportunity for an anaesthetic product which is an import substitute and which has a very large global market of over $300 million.

Products like this which we are now newly adding into the basket. So, this year, for next year we have four products planned for the launch. So, new products also will add.

So, basically the growth in the existing product basket, the new CDMO opportunities that we have plus the new products what we are launching all put together will help us to achieve that INR1,000 crores mark, in fact, higher than INR1,000 crores mark in the next three years or so.

Aashish: Okay. So, the current product basket that you mentioned, especially the three top products that we have, the growth rates can be assumed at what rates? I mean, what would be a fair assumption to take over there?

Saloni Wagh: So, it is completely product dependent. Certain products in the portfolio are growing at about 8% to 10% while certain products are growing at about 5% to 7%. So, it is very, very product specific.

Aashish: Okay. So, that's around 10%. And rest of the growth is expected from CDMO and CMO projects plus the APIs that we are going to.

So, basically, you are expecting maybe a couple of INR100 crores plus of contribution over the next two, three years from these lines that you are opening up. Is that right? .

Saloni Wagh: Yes. In fact, the contribution from the CMO, CDMO opportunities can be higher. So, this announcement that we have made today itself, the anaesthetic product, if you look at the global market and if we even assume conservatively a 10% market share, that itself is a very large number.

So, you can imagine that the CMO, CDMO opportunities, what we currently have could be even higher. I mean, the number what we have said is very conservative.

Aashish: Okay. And is this pretty competitive or we think that this 30% or 28%-30% margin that we have, we will be able to get in the newer APIs plus the CMO, CDMO? Is that possible?

Saloni Wagh: Yes, everything put together. Yes, yes. So, whenever we talk about a sustainable 28%-30% margin that is considered while taking on any new projects, may it be a CMO, may it be a new product development, may it be the existing portfolio, all together blended 28%-30% is a number that we are extremely confident of maintaining because as a core to Supriya backward integration is a very, very important aspect. For any product that we launch, we aim to have a completely backward integrated product which helps us with the best cost of the product in the market and plus the capacity is what we have set up with the new module E coming in.

We are adding another 350 KL of capacity. So, we will be at 1000 KL capacity, so sort of doubling the capacity. So, the large production scale plus the backward integrated business model ensures that whatever new products also we are taking, we have the best cost available for that product in the market. So, all this put together, we are very confident that 28%-30% we will be able to maintain.

Aashish: Okay, lastly, is there anything to worry because you are largely an export dependent company, so all these issues on the Red Sea and stuff, is that affecting us anywhere and should we expect any surprises on the numbers maybe in the near term or is it all okay right now?

Saloni Wagh: So, nothing specific, you know, as such I would say that is a threat or any negative surprise that you can expect in the next couple of quarters. Nothing like that. I mean, there is always a regulatory challenge which is there because we operate in a highly regulated environment.

But to even counter that, we are in a constant CGMP mode. If you look at our last audit, which is the ANVISA Brazil audit, which is extremely complicated and one of the most difficult audits to pass, we have cleared with zero observations. So, that speaks volumes of the company's compliance status.

So, as such, I wouldn't say that any foreseeable threats or negative surprises.

Aashish: Okay. So, from all the discussions that we had till now, it seems that we are on a recovery path and probably there is some firmness in the way you guys are talking and there is some level of confidence that I can see. So, is it fair to assume that we are done with the issues that we had faced? Is the market more, I mean, more conducive to kind of expecting sustainability and we won't have any jerks right now, right? I mean, the way we saw earlier in 2022.

Saloni Wagh: Yes, absolutely. I think we have said it in the past also, the company's aim in the last four, five quarters has been to stabilize the product portfolio to reduce dependence on any one particular product or one particular geography to make the product portfolio more robust. And that is what we have been constantly doing in terms of R&D for our new products, for the new CMO project that we are taking, for the new therapies that we are including in the basket.

A lot of effort has gone in the last four, five quarters and those results are being seen. We have had a consistent performance in the last three quarters and that will continue. I think we have worked really hard to sort of diverse any risk what was there in the portfolio. So, I think that is now showing and that trend will continue going forward.

Aashish: Okay. And the capex is basically kind of over. I mean, no major investments will be there, I guess. I mean, whatever we have.

Krishna Raghunathan: I think we have just now announced, no?

Saloni Wagh: We just announced this morning that we anticipate a further INR60 crores capex. So, we have a site in Ambernath, which is a 5000 square meter plot, which we have had for some time now. And we already have the environment clearance for this particular plot. Because it is classified under zero discharge, we were thinking of multiple CMO, CDMO opportunities to do here. And because we have a lot of strength in the anaesthetic segment, we have decided to launch a new anaesthetic product.

The API will be manufactured at the Lote Parshuram site. Currently,for the API globally, there is a dependence on China. So we are really a boost for that 'Make in India' kind of a movement and it would be an import substitute. And the same product, there will be a forward integration. So, we are setting up a bottling line in Ambernath for about 5 million bottles a year.

So, we will be utilizing the Ambernath site very soon. The site is expected to be operational by quarter one of FY25. So, we will need additional capex for this activity, which we have assumed at about INR60-odd crores in the next two years. So, that is where the capex is.

Aashish: Anything to share on the inventory? Because we had a decently big inventory in terms of the sales that we have. So, what is the status now in terms of inventory days? Is it possible to bring that down?

Krishna Raghunathan: Like I had told earlier, I think, see, even in the last quarter, I was saying that there could be chances of us reducing by around another INR10 crores. So, I think that has been already achieved. I think somewhere around the inventory days are also in a, what do you call, in a very, very controlled number as of now.

So, I do not see any challenges on inventory building up from now on, unless and until there is going to be one more round of COVID or something. I do not think we will be our inventory ranges should be somewhere between INR80 to INR85 crores to around INR100 crores. I think that is the number which we are looking at, at this stage.

Satish Wagh: I want to add, Krishna, just a minute. I want to add to the participants. See, people have not come in a serious way that Latin America, there is a massive change in the regulatory system in Latin America for the last two years. Please understand, last 40 years, China was supplying all over the globe. But this time, the ANVISA, which is the highest regulatory authority for Latin America for Brazil, has come with their own regulatory system.

They have communicated to the formulators that whoever is supplying currently to Brazil and other countries should have a CGMP, GMP certification done by the ANVISA or the regulatory authorities like USFDA or EU, like that. If the supplier doesn't give any documents, he will be closed by 2024 March. That's his ultimate loss. And whoever comes with the audit and the GMP certification before the ANVISA, he will continue as the second source and a permanent source.

There's a massive change now.

Aashish: Okay. So, like the last call also, I think you highlighted this point that you have been traveling extensively…

Satish Wagh: Sometimes people know, sometimes it's very difficult to understand. That's why I have to highlight -- The opportunities for the newcomer is very big way they can come. So, India has a very good opportunity now.

Aashish: So, sir, in your talks, I mean, you said that Supriya actually has been making efforts over there. So, what kind of opportunity you see for yourself? And is the shift from China, I mean, that is pretty likely because as you are saying that they wouldn't be as compliant in terms of meeting those standards.

Moderator: So, sorry to interrupt, Aashish. Can you please re-join the queue for your follow-up question?

Aashish: Yes. Thank you.

Moderator: Thank you. Thank you. The next question is from the line of A.N. Lodha from Samarthi Consultants. Please go ahead.

A N Lodha: Ma'am, I have got three questions, madam. One is about the expansion in Lote Parshuram and Ambernath. When can we expect this expansion is to be completed?

Saloni Wagh: So, both the expansion, so we are having two expansions currently. The Lote side, we are setting up a new module, which we call it a module E. This is a dedicated production block, which will have around 350 KL of capacity. So, this will go on stream early quarter one of FY25. And then in Ambernath, we already had a site, like I mentioned before. And this site now we have refurbished for our bottling activity.

Plus, we are also setting up an API R&D over there. This will also be operational around the same time, which is quarter one of FY25.

A N Lodha: Because I am a little bit confused. Because in your presentation, this Lote Parshuram site has been quoted as quarter three of FY24.

Saloni Wagh: Correct.

A N Lodha: It has been mentioned quarter three of FY24. Therefore, I got the confusion. So, quarter three has already been over and the company could have notified for the commercial production. Yes, they started production. But anyway, you have clarified everything.

Satish Wagh: Sir, you are right. It is quarter '24 March. It will go into production. But validation batches will start because the pharma industry totally is not a regulated industry. You just cannot take a batch and go for sale. Three batches were validated. And then, essentially, you have to go for bigger batches.

A N Lodha: Okay, sir. My second question is related to our technical tie-up or arrangement with Kalinga Technology Institute. Regarding oral cancer detection kit and there are two products. One is scar free gel. Can you put some -- what is the development over there, sir?

Satish Wagh: See, currently, both the products we are evaluating for the clinical trials. What are required for the commercialization. The clinical trials, etc already are on. Some products might take some time. But some other products will be commercialized soon by '25 December end or first quarter of '26. So, this is the situation because you have to follow the guidelines of the Indian FDA. And we have to do certain things. And then only we will submit the file to them.

A N Lodha: Okay, sir. I agree. But we are on track.

Satish Wagh: We are on track. Because that is a $48 billion project. That's why I was wondering. I am working very hard on that.

A N Lodha: That's why I was wondering that the company is doing very nice in the current operation.

Satish Wagh: Sir, today one of the products which is taken. The competitor is selling at INR32,000 for one single man. I am trying to give it at a very cheaper price to common man can afford. And another product is of a similar way. It is also roughly around about INR28,000, INR30,000. I want to give it at a cheaper price to the Indian community. Of course, export is my major target. But Indian community has to be also safeguarded. So, we are working very hard…

A N Lodha: That's why, sir, we are very encouraged. Because of the business of market share of the product. If the company can succeed, then the company can go a long way in the pharma industry.

Satish Wagh: Sir, we are already there 39 years. And we will continue forever.

A N Lodha: My last question is, sir, the capex. How much capex company's expected to incur this year and as well as in financial year FY'25?

Krishna Raghunathan: Sir, this year we will close somewhere around INR105 crores to INR110 crores. This will be majorly, modularly and some bit of Ambernath. And next year we are planning somewhere around a similar number. Out of which, there will be -- a major part of it will be for refurbishment of module ABC, which are all pretty old modules. And of course, the major part for next year would be Ambernath, sir. So, that is how the split will also happen.

A N Lodha: Okay, sir. Thank you very much. Wish you very best of luck. Thank you very much, sir.

Moderator: Thank you very much. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: Thanks for the opportunity and congratulations on the new win that you talked about earlier. My first question is about the revenue target of INR1,000 crores plus that you were discussing earlier. Is that expected to be reached in fiscal '26 or fiscal '27?

Krishna Raghunathan: Sorry, Rajesh. Couldn't get you. There is some background noise coming from your side. Can you please repeat the question, please?

V.P. Rajesh: Yes. My question was regarding the revenue target of INR1,000 crores plus that you mentioned. When is it likely to be achieved? Is it fiscal '26 or fiscal '27?

Krishna Raghunathan: Fiscal '27.

V.P. Rajesh: Fiscal '27. Okay. And then secondly, in this CDMO and CMO business that you were talking about, is it fair to assume that your EBITDA margin will be higher than this 28%-30% range that you have discussed earlier?

Saloni Wagh: So, for the CMO opportunities, yes, while in some projects the margin range would be slightly higher, but the guidance what we are giving is a blended because we already have an API portfolio plus some of the new product launches. And whenever we launch a new product, they will first move into the semi-regulated market. And then eventually they will mature to the regulated market.

By then, you know, new products will again be infused. So that cycle will be constant. So keeping that in mind, 28% to 30% is something which will be there on the overall portfolio. While some products, some projects individually might have a higher margin, but on the blended portfolio, it would be about 28% to 30%.

V.P. Rajesh: Understood. Thank you. And my last question is when we think about this INR1,000 crores revenue, how much of that business will be coming from API versus the CDMO-CMO business?

Saloni Wagh: So the CMO-CDMO opportunities also what we currently have are mainly in the API-Advanced Intermediate space. Some of the new opportunities what we have announced today in the morning, they would be slightly over and above that INR1,000 crores projection. So if you ask me the INR1,000 crores, almost 70% to 80% of it would be API and Advanced Intermediate.

V.P. Rajesh: Okay. Thank you so much and all the best.

Saloni Wagh: Thank you very much, sir.

Krishna Raghunathan: Thank you.

Moderator: Thank you very much. The next question is from the line of Sidharth from Darsh Capital. Please go ahead.

Sidharth: Hi. Thanks for the opportunity. I just wanted to know that revenues have been relatively flat in the Latin and North American regions from the past year. So is there any particular reason for this as to why they have been flat? Because major growth has come from Europe. I get that. But what are your thoughts on this?

Saloni Wagh: So one of the reasons you feel it is flat is because like we said, we were in the process of getting the products registered. It is now that the products are registered and the audit is cleared because whenever you put it for CADIFA registration, the audit is triggered. So we had the audit in the month of January and we have cleared that with zero observations.

So now in the next couple of quarters, you will see that region really picking up. With North America, a lot of the USDMFs currently are still under filing, which we expect to happen in the next couple of quarters. So if you look at probably a year down the line, you will see significant contribution coming in from North America and Latin American markets.

Sidharth: Okay. And one follow-up question. In the previous quarter, we faced challenges in China. Now that we have diversified, where has the additional revenue in the Asia region come from? Because margins have also improved and like you mentioned, you have only been servicing the minimum quantities required from China and that was your higher margin business, right? So if you can throw some light as to where is the additional revenue in the Asia region come from and how have you been able to improve margins in that front?

Saloni Wagh: So in Asia, our business remains stable. For the new products, of course, yes, you will see a good contribution coming in as and when we launch the products because they will be first launched in the semi-regulated markets, which is the Asian market. If you look at the major shift, what we have seen is that we are getting better traction in regulated markets like Europe.

As I explained earlier also, the Europe sales have shot up from 26% to 42% and that's one of the reasons and that's where we are getting the larger revenue from. Because for the existing portfolio, better traction in anaesthetic segment, in vitamin segments, we have seen from the European region.

Sidharth: Okay. And one more question, just the last one. What are the kind of asset turns that you expect from this capex this year and next year?

Krishna Raghunathan: The asset turns you would look at somewhere around 2.5x and above, sir. I think that is something which we are targeting in future.

Sidharth: Okay. Thank you so much. That will be all from my side.

Moderator: Thank you very much. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Thanks for the opportunity and congratulations to management for a good set of numbers. So first, I just want to understand what is the status on the existing CMO contracts, one with the DSM Firmenich and there was one on the protein side? Where are we in terms of the status on execution? I have a couple of more questions. But first on this.

Saloni Wagh: So in terms of the CMO, CDMO opportunities, specifically the DSM Firmenich contract that you mentioned. So the contract, we have said it in the past also, at its full capacity, has about INR60 crores-INR70 crores of potential. And we have already done the CEP filing, the USDMF filing.

We have already received our first commercial order from DSM Firmenich. And we already have a good forecast available for next financial year as well. So that project is moving really well. In fact, some part of the capex, what Krishna mentioned for the refurbishment of the older blocks, we will also refurbish the vitamin block to accommodate the larger quantities, what we are anticipating from them in the next couple of years?

So that one I would say is already at a commercial stage where we have received the first commercial orders. The whey protein one, we recently completed the installation of the equipment at our site. This happened last month. And we have already taken the trial batches and the samples have been supplied to all the large distributors of whey protein across India. We in fact are evaluating opportunity for exports also of this particular product in Southeast Asian market.

We anticipate that in the next quarter, we will at least be having 20 to 30 metric tons of trial quantities from all the major distributors in India. And then next financial year, definitely we are anticipating good volumes. Next financial year, it will commercialize. Let's say quarter 2 of FY'25 is where we will see some significant volumes coming in.

Tushar Bohra: Ma'am, what is the addressable tonnage equivalent for us for this product, whey protein?

Saloni Wagh: So for next financial year, the potential could be about 100,000 tons.

Tushar Bhora: 100,000 tons?

Saloni Wagh: 100 tons. 100,000 kgs, 100 metric tons.

Tushar Bhora: What is the size of market for this product? Just if you have any ballpark.

Saloni Wagh: So in the next 2-3 years, we anticipate that we will be able to go to about 800-900 metric tons.

Tushar Bhora: Ma'am, also on the existing APIs, some of the new products like Dextromethorphan, allopurinol, bisoprolol etc. If you can just highlight the path to regulated markets where we are vis-a-vis different markets for the 4 or 5 critical opportunities you think, outside of the current top 3?

Saloni Wagh: So for a product like bisoprolol fumarate, in terms of, Europe is one of the largest markets. So CEP is already applied for and it is expected in quarter 1 of FY '25. So very soon we will get the CEP that will open up the complete Europe market for us.

Then other products like tramadol hydrochloride, we have applied for the CEP in the last quarter. So that we will expect in another 9-12 months' time. Again, very large market in Europe for this particular product. US DMF we will file in another one month time. Then products like dextromethorphan, we already have the US DMF available. CEP we will be filing in the quarter 1 of FY '25.

Allopurinol, we are filing the CEP and the US DMF before this financial year ends. So February end is actually when we are planning to file both for the CEP and the US DMF. So these are some of the larger opportunities.

One more product I would like to mention is cetirizine Di hydrochloride. For which we have already applied for US DMF. We just received the US DMF number 2 days back. And CEP will be filed end of this month. So this product again has a very large market in Europe and US. So these are some of the top 4-5 molecules and their regulatory filing status.

Tushar Bhora: Ma'am, do you have sense on a stable basis once they are fully scaled up, maybe 2-3 years down the line, what kind of potential exists for this basket of 4-5 products from regulated markets?

Saloni Wagh: So for these 4-5 products, I mean individually the numbers are very large because these products have a global market which is very large. What I can say is that in the next 3 years, today the top 3 products, their contribution to the revenue is around 45%-50%. And the rest of the product contribution is very low.

But in the next 3 years, the situation would be that the contribution of the top 3 products would be around somewhere 20%-25%. And the balance contribution would come from the other set of products including some of the new products.

Tushar Bhora: Okay. Thank you so much, I'll join back in queue

Saloni Wagh: Thank you.

Moderator: Thank you. The next question is from the line of Ashish from InvesQ Investment Advisors Pvt. Ltd. Please go ahead.

Aashish: Yes. Thank you for the opportunity again. So as you mentioned, the seasonality in the business and the ups and downs on the quarterly profitability, all these things are kind of flattening because I think we are moving towards a mix where things could be kind of quarter on quarter better.

So Q4 historically has been a very high margin business for us. I think if I look at last Q4, '23 and '22, these have been the highest margin quarters for us. So would you say that these kind of margins of ~40% EBITDA and gross margins have been pretty high?

That would remain? Or do you think that Q4 also has that kind sort of mix change where we will have lower margins?

Saloni Wagh: So if you have been following us for the last more than 4-5 quarters, we have been indicating that the stabilized sustainable margin for the company is 28%-30%, which we have sort of maintained in the last 3 quarters as well, overall on an annualized basis. The 40% margin which we were able to achieve the year before that was because of certain dependency on certain geography and certain niche business, which we have already indicated, you know, although the volumes have stabilized, there is an erosion in the pricing which we don't expect to stabilize. So for us, a sustainable margin would be 28%-30%.

You can expect a higher revenue in Q4, but in terms of margin, even if the margins are slightly better on an annualized basis, 28%-30% is the only margin indication that we would like to give.

Aashish: Okay, so you are talking about the China portion that we had, that was contributing to the higher margins earlier?

Saloni Wagh: Yes, correct. So like we have mentioned in the past also, the volume we have gained back, but there is a price erosion. So we have secured ourselves in terms of volume for the next couple of years. We already have a contract in place. And that will go. But because of the price erosion, the margins have been impacted.

Like what we are trying to do now is trying to make the product portfolio more robust and have a more stable margin profile across all quarters and have the product spread across more geographies, how the new products can also scale up in the more regulated markets. So we are more focusing on that. We don't anticipate or we are not even expecting that the Chinese business would go back to where it was. I think whatever is the current situation is the long-term situation that it will be.

Aashish: Okay, so the buyer in China that was there which was giving us much higher margins, the buyers are different now, is it? It is not the same?

Saloni Wagh: So the buyer is still the same. I mean, of course, the agent has changed. The end customers still remain the same because our product is registered in China for many, many years. And we have an NMPA certified site. But because of the situation, there is slight demand drop of the product plus one or two local competitors coming in that particular product. The price erosion is there on that one.

Aashish: Got it. One last question. On the existing basket, what is the overall runrate except for the new addition that we are doing? The product basket that was existing till FY '23, what is the potential for those products to grow on their own till when you think? Because I think you mentioned around 10% is a fair assumption on the growth that we can take.

But I think we have fair market shares in those geographies for those products. So any idea that you can give? Just trying to understand where are we on that basket and the additions can be from new products.

Saloni Wagh: So because we have recently invested a lot in R&D at the Lote site plus we are also investing in R&D at the Ambernath site. In terms of new product addition every year, I think four to five products is something that we will keep adding into the product basket. Each product because we are now also entering into newer therapies.

So of course we are expanding on the anaesthetic line like our chairman said in his speech because that's our area of expertise. We are also adding a lot of new therapies like anti-diabetic, anti-anxiety. So it would be very difficult because different therapies, completely different products, completely different global market sizes.

It would be difficult to indicate one such lump sum figure that you are looking for. But definitely all the products that we are looking at are in terms of volume 1000 metric tons plus globally and which have a very large global volume as well as value. So if we consider even 10% of that on a conservative basis because whenever we start a product, we go in with a complete backward integrated business model and very large capacity.

So 10% is actually very conservative. We can definitely achieve much higher than that. But the exact number and all, I think we would be in a better position to give in the coming few quarters when we have formally launched these products.

Aashish: Okay. Okay. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Thanks for the follow-up. Ma'am, this anaesthetic product which has been mentioned, the new opportunity, while you highlighted it a couple of times in the call already, but just to understand, we can't see a filing on the exchange for this. What exactly is the opportunity? Is it a CDMO opportunity or a new product development? What is it exactly?

Saloni Wagh: So actually, this is a new product development. What we started was on the API front because we have a very strong position in anaesthetic APIs. We considered manufacturing the API first.

Today, the entire globe is dependent on China for sourcing of this particular API. So we thought of it as an import substitution. A lot of it is getting imported also in India with only dependence on China.

So we took up the development of the API first. And then we saw that there is a very large opportunity for the bottling of the said API also. We reached out to a lot of large multinationals where they were very interested on doing CMO, CDMO tie-up for the finished product, which is the bottled product.

And that's why we decided to explore both the opportunities. So currently, we have developed the API. It is put in stability. Validation batches have been done already. And this API will be manufactured at the Lote site. And then the bottling, we will be doing it in the Ambernath site, which we have already refurbished.

We have set up a bottling line of around 5 million bottles a year. On the finished formulation front, this product is extremely large. It is the most widely used anaesthetic globally.

The current market value of the product is around USD300 million. And it is growing very, very strongly. It is expected to grow at a 4.4% CAGR year on year. So you can imagine how large the market size is going to be. And because we will have full control of the API with us, we will have an extremely good control at the finished formulation level as well. This will further build on our CMO, CDMO skill.

It will give us better utilization of the Ambernath site. And it is a very niche technology, where you need a lot of manufacturing expertise, which we have. You need a large capacity, which we will have post the Module E. So all put together, this could be potentially a very large product and a game changer for us.

Tushar Bohra: Thanks. Second, ma'am, in terms of guidance overall, so just to quote from one of the earlier quarters, or earlier communications, when we had got this product from DSM-Firmenich, the CDMO product, I think you had mentioned that it will take a couple of years for commercialization. And full scale-up will happen only by FY '27, if I recall correctly.

But now what we are able to gather from this call is that we already have the first commercial order available with us. So clearly we are tracking ahead in terms of actual execution to guidance for this project. Is that understanding correct?

And second, in light of this, and the overall conservative stance of management to maintain at 28% to 30%, despite a lot of your products moving into regulated markets in the next two years, is it fair to say that the EBITDA margin guidance that we are giving, the internal target for companies should be much higher? Or are you going to target only 28% to 30% margin in your new project? Or is it that you are targeting higher but the communication is 28% to 30% and hopefully we expect a positive surprise as execution matches up to commentary?

Saloni Wagh: Thanks. So to answer to your first question on the DSM-Firmenich, the numbers what we have indicated, the INR60 crores-INR70-odd crores, it would still be, I mean the full potential would only be reached in '27. Although we have started getting the commercial order, DSM-Firmenich operates in a highly regulated market for this product.

Their focus is on pharma customers, wherein the CEP, USDMF and Japan DMF is extremely critical, which we have already applied for. Some of the trial orders what they are taking are for their food customers. So the volume actually will increase only post we get the CEP, USDMF and the Japan DMF.

So that is why in the third year, you know in that '26-'27, where we will see the volume sort of jumping, and then that full potential will be still achieved in that year only, the INR60 crores-INR70 crores what we have spoken about.

In terms of the margin guidance, like I said earlier also, there are multiple opportunities and products where the margin profile is much higher than 30%. But when we indicated 28%-30% is on a blended basket of multiple products, multiple CMO opportunities, multiple new product infusions into the basket.

Of course, there is a potential that we can achieve much higher margins, and of course, the management is always trying to get the maximum possible margins. But this is just a very conservative guidance in terms of the overall blended basket, I would say.

Tushar Bohra: And on the top three products, are we seeing any increasing competition or any rising pressures across the basket of products in any of the major markets?

Saloni Wagh: No, we are not seeing. For us, the top three products are stable. In fact, two of the products are even growing products. Because of the niche technology and because of having a complicated process, and you need to have a complete backward integration to have a leadership position for the top three molecules. Because of all these things, we still don't see much competition.

Of course, the antihistamine product in China, because of some local manufacturers, that market is impacted. But other than that, all the other markets and all the other geographies still are very stable. We don't see any price erosion happening.

Tushar Bohra: Ma'am, one last question quickly. This formulation, the bottling that we intend to do for this new project, does this open us up for more formulation projects, CMO and even generate formulation business? Or are we going to be more measured about how we build this part of the business? What is your thought process on branching out from your core APIs?

Saloni Wagh: So definitely, once we set up this facility and we move forward, there is always an opportunity which is there for taking on more such CMO, CDMO opportunities in the finished formulation area. Because we are already setting up the plant and we operate in a highly regulated environment.

So this particular site will also eventually have all the regulatory approvals, such as the USFDA, European authorities, ANVISA Brazil. So that is what we are aiming at. So yes, we are definitely open for further opportunities in the finished formulation space with the Ambernath site.

Tushar Bohra: But are we going to actively target in the existing product basket going to formulations?

Saloni Wagh: So not on our own. We don't want to compete for any of our own products as such. But there are some discussions which we are getting from some customers in the U.S. and Europe where they are interested in buying certain finished formulations that they were getting manufactured in Europe.

But due to the price pressures and all the non-favourable environment in Europe for production, they want to move it to our site. So some such discussions are going on, but they are at a very, very premature stage.

Tushar Bohra: Thank you so much for the follow up. Wish you all the best.

Saloni Wagh: Thank you.

Moderator: Thank you very much. We will take the last question for today from Pritesh Chheda from Lucky Investment Managers Private Limited. Please go ahead.

Pritesh Chheda: Thank you, ma'am. Just a clarification. So currently, the 600 scale that we have is basically at Parshuram Lote. And on this INR400 crores block, what is the maximum revenue possible on this block or what is the capacity utilization that you are running today? Either way, you want to answer.

Krishna Raghunathan: As of now, since it's a multi-product block, the capacities would be somewhere around 70% to 75%. That would be the best utilization ever possible. And see, the plans are on to have the existing INR1,000 crores from the existing blocks itself.

So that is why when we are saying that we are going to expand further into module E, Module E can even take our revenues around beyond INR1,000-plus-crores also. So that would be the additional advantage which we will have with module E.

Pritesh Chheda: Okay. And the Ambernath unit, which is supposed to come, which is a greenfield is meant for CDMO, CMO, right?

Krishna Raghunathan: Correct.

Saloni Wagh: Correct.

Pritesh Chheda: And this unit which was supposed to come at the end of Q4 FY'24, what is the status there?

Saloni Wagh: So it will now come in Q1 FY'25. So just a couple of months, I mean one or two months delay in the timeline.

Pritesh Chheda: And what will be the utilization ramp up there? Do we have the necessary CDMO, CMO orders and how will this capacity be utilized?

Saloni Wagh: So currently we don't have concrete orders but there are a lot of advanced level discussions which are happening for the bottling of the anaesthetic product that we mentioned before. I think it will take us at least two years to have a good utilization because we will have to trigger a lot of regulatory inspections. So for the first year, the capacity utilization might not be very high. But I think towards the second and the third year, the capacity utilization would be far, far greater.

Krishna Raghunathan: And Pritesh, adding to what Dr. Saloni has said, see we also had -- my Chairman has already said in his speech that this plant would be, what do you call, commissioned phase wise. So as and when we will have our utilization, we will expand it further. That is how it would be. It will be modular and it will not be a linear sort of a stuff.

Pritesh Chheda: And for the module E at the Parshuram plant, when is this supposed to come and what is the capex that you are putting here?

Krishna Raghunathan: It would be around Q1 FY'25 and this module would be somewhere around INR100 crores to INR120 crores. That would be the capex and these are mostly funded out of our IPO proceeds.

Pritesh Chheda: The INR1,000 crores revenue which you mentioned on the current block, ex of module E, right, INR1,000 crores revenue ex of module E…

Krishna Raghunathan: Might be some, what do you call, some cleanroom facility of module E might need to be used here.

Saloni Wagh: That is just the one correction I would like to make. While we will not be using the intermediate capacity of module E, we are running short on the cleanroom, the final processing areas. So some part of module E, the cleanroom areas will be needed for achieving this INR1,000 crores mark.

Pritesh Chheda: So this INR1,000 crores revenue, the question was how many years do you think you should reach the INR1,000 crores based on whatever products you have in pipeline, based on the existing 50%-60% of your portfolio, three products brought from there and the new products. So this INR1,000 crores revenue potential, what should be the number of years to achieve it?

Saloni Wagh: So we have always maintained that by FY'27 we should be in a position to achieve this number.

Pritesh Chheda: Thank you very much.

Saloni Wagh: Thank you.

Moderator: Thank you very much. In interest of time, we will end the call. I would now like to hand the conference over to Ms. Saloni Wagh for closing comments.

Saloni Wagh: I would like to thank everyone for joining us to discuss the quarterly development. Our development of new products and the impact of revenues derived from successful DMF filings and corresponding product launches should prove supplementary.

Besides the launch of our CDMO business should enhance revenues further by laying the ground for an attractively sustainable future that enhances value for all our stakeholders. Thank you everyone for joining. Have a good day.

Moderator: On behalf of Supriya Lifescience Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.