Windlas Biotech Limited

Reg. Off.: 40/1, Mohabewala Industrial Area
Dehradun, Uttarakhand 248 110, India
Tel.:+91-135-6608000-30, Fax:+91-135-6608199

Corp. Off.: 705-706, Vatika Professional Point, Sector-66,
Golf Course Ext. Road, Gurgaon, Haryana 122 001, India
Tel.:+91-124-2821030

CIN-L74899UR2001PLC033407

May 11, 2023

To
Listing / Compliance Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

To
Listing / Compliance Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

**BSE CODE: 543329**

**NSE SYMBOL: WINDLAS**

Dear Sir/ Madam,

**Subject: Q4 FY23 Earnings Conference Call Transcript**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith Q4 FY23 Earnings Conference Call Transcript.

You are requested to take the same on record.

Thanking you,

Yours faithfully,

**For Windlas Biotech Limited**

ANANTA NARAYAN PANDA

Digitally signed by ANANTA NARAYAN PANDA
Date: 2023.05.11 16:23:11 +05'30'

Ananta Narayan Panda
**Company Secretary & Compliance Officer**

**Encl:** As above

"Windlas Biotech Limited

Q4 FY '23 Earnings Conference Call"

May 08, 2023

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**MANAGEMENT:** **MR. HITESH WINDLAS – MANAGING DIRECTOR – WINDLAS BIOTECH LIMITED**
**MS. KOMAL GUPTA – CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER – WINDLAS BIOTECH LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Windlas Biotech Limited Q4 FY '23 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 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hitesh Windlas, Managing Director at Windlas Biotech Limited. Thank you, and over to you, sir.

**Hitesh Windlas:** Thank you. Good morning, everyone, and thank you for joining us today for our financial results for quarter and full year ended March 31, 2023. We have uploaded the press release and investor presentation on our website as well as on the exchanges. I hope everybody must have gotten an opportunity to go through it. Initially, I would like to discuss the outlook and way forward for Windlas Biotech, followed by financial highlights for Q4 and FY23, which will be shared by our CEO and CFO, Ms. Komal Gupta.

The overall Indian pharma market grew at around 9.3% in FY23, while Windlas grew at a slightly faster pace, with revenues growing 10% for the fiscal. I am delighted to announce that the company continued to achieve growth across various operational and financial parameters, notwithstanding the challenging business environment of low IPM volume growth in most of the therapeutic areas.

The company's focus on operational excellence, strict cost management, and customer satisfaction has enabled it to maintain its profitability. In line with our goal of creating value for stakeholders, the company has successfully completed its share buyback, generated healthy operating cash flows, completely utilized IPO proceeds, paid a dividend, all while maintaining a healthy liquidity position.

We have utilized the complete proceeds raised for the injectable facility by March 23, and plant construction is in full swing. As mentioned in the Q3 earnings call, we expect to achieve mechanical completion by the end of Q2 of this fiscal year. As guided on multiple occasions in the past, the company is actively looking at prospective inorganic growth opportunities to obtain synergies, diversify its product line and achieve scale. The company has a healthy liquidity position and is well-placed to seize these opportunities.

Looking beyond the short-term challenges, which are transient in nature, we remain sanguine about the overall Indian pharma market landscape. We are witnessing multiple green shoots in all business verticals in which the company is present. Company's unique value proposition and strong customer connect makes the company well positioned to achieve its long-term goals sustainably. I will now request Ms. Komal Gupta, our CEO and CFO to discuss the strategic and financial performance highlights. Over to you, Komal.

**Komal Gupta:** Thank you, Hitesh. Good morning, everyone. The company delivered healthy operational and financial performance with its highest ever revenue and profitability quarter and year. We have recalibrated our focus on key strategic priorities with a renewed vigor. We will continue to take all the efforts for increased reach, profitability and efficiency across verticals.

The company remains committed to its predetermined strategic objectives for its generic formulation contract development and manufacturing organization segment, i.e., CDMO segment. The strategies involve the detection of products that are encountering an upsurge in demand and concurrent broadening of markets for the said product, procurement of novel customers and augmentation of revenue from the company's current customer base.

Financial highlights for CDMO vertical are for FY23 and Q4 FY23, revenue for CDMO vertical stood at INR398.3 crores and INR110.4 crores, up 5% and 14% YoY, respectively. CDMO vertical contributed approximately 78% for both FY23 and Q4 FY23 respectively to the consolidated revenue.

The company's domestic trade generics and institutional vertical is experiencing rapid growth, which can be attributed to the company's strong distribution network. We continue to execute on our strategy of providing accessible, affordable and authentic medicine to underserved small towns and cities. The growth of the domestic trade generics market in India is expected to be propelled by government initiatives aimed at promoting the adoption and reliance on generic drugs.

The company's primary focus is on enhancing brand development, refining marketing strategies, exploring new distribution channels, introducing innovative products and expanding into unexplored territory. Financial highlights for trade generics vertical are for FY23 and Q4 FY23, revenue for this vertical stood at INR90.5 crores and INR22 crores, up 49% and 50% YoY, respectively.

Trade generics and institutional vertical contributed approximately 18% and 16% for FY23 and Q4 FY23 to consolidated revenue. The company continues to work towards exports verticals, such as filing of numerous dossiers and entry into newer semi-regulated markets. Financial highlights for exports vertical are for FY23 and Q4 FY23, revenue for exports stood at INR19.8 crores and INR7 crores, down 5% and 26% YoY, respectively. This vertical contributed approximately 4% and 5% for FY23 and Q4 FY23, to consolidated revenue.

Let's look at the consolidated financial highlights of the company. For FY23, consolidated revenue, EBITDA and PAT grew by 10%, 15%, and 12% to INR513.1 crores, INR60.2 crores, and INR42.6 crores, respectively. For Q4, FY23, the same stood at INR140.7 crores, INR16.4

crores, and INR11.4 crores, respectively. Gross margins for FY23 were INR160 bps higher YoY at 36.6% and EBITDA margins were up by INR50 bps at 11.7%

Gross margins for Q4, FY23 were INR191 bps higher YoY at 36.8% and comparable EBITDA margins were up by INR40 bps at Q4 FY23. EBITDA margin increased to 11.7% from 11.3% YoY in Q4 FY23. In line with our goal of creating long-term value for all our shareholders and stakeholders, the company announced a buyback for INR25 crores in Q3 FY23. I am pleased to inform you that the buyback has been completed.

Furthermore, a dividend payout of INR7.6 crores i.e. INR3.5 per share related to FY22 was disbursed to all the shareholders during the year. At the end of FY23 -- the company had a strong liquidity position, totaling INR138 crores and generated a healthy net cash flow from operations of INR61 crores. The company has also utilized the entire proceeds of INR165 crores obtained through IPO on the stated purposes that were outlined in the prospectus. That's all from our side, we can now begin the Q&A session, thank you.

**Moderator:** We have our first question from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

**Yogesh Tiwari:** My first question is on the upcoming injectable facility. We are expecting about 1.3 times, we have invested about INR50 crores and we would target about INR70, INR80 crores from this facility, 1.3 times asset turnover. What would be the timeline? Like by when can we achieve these numbers?

**Hitesh Windlas:** It's difficult to give an exact timeline, but I can tell you some actions that we are taking. We have already introduced some injectable products in our trade-generic vertical. We are growing those in volume. We believe that some part of that, when it comes in-house from our own unit, will add to that. As a new business, however, it will serve all our three verticals, the CDMO, where we will have to get it approved by each customer. Exports, where we will have to take dossiers once we have the WHO GMP.

My sense is that any new dosage form, starting from scratch like we are, probably a good timeframe is around two and a half to three years.

**Yogesh Tiwari:** Sir, from September onwards, when the mechanical work will be over, will the commercialization start or it will take some more time from September, the injectable facility?

**Hitesh Windlas:** Since the injectables are sterile products that are put into the body directly, there is a huge amount of qualification work that goes on after the injectable. This is called as media fill and validation. This can take anywhere from four to six months. If you are lucky and everything happens in the first shot, it can be four months or if it is outer side, I would say six months. This is where that activity we will be launching into. And thereafter, we are hoping that in this financial year, we are able to at least make the first commercial batches out of the plant.

**Yogesh Tiwari:** Sir, the initial part will be entirely for trade generics?

**Hitesh Windlas:** No. The injections that we manufacture, this facility will serve all the three verticals, the CDMO vertical, trade generics and institutional vertical and also the exports vertical.

**Yogesh Tiwari:** But currently, we have not received any approval or inspection from CDMO clients for the new injectable facility?

**Hitesh Windlas:** No, Yogeshji. The process of this is to finish the facility validation, then the customers will come and audit it, then the regulatory authority of different countries will submit the dossiers. It is a sequential process. Without having the facility ready, we cannot get the approval.

**Yogesh Tiwari:** Just for modeling purposes, the major revenue contribution would come from FY25 onwards from this facility? Am I correct?

**Hitesh Windlas:** Yes, I would say major, you can assume FY25 onwards.

**Yogesh Tiwari:** The margins of injectables are higher, so what would be the premium if we have 11.5% EBITDA margin on a consolidated basis? What would be an approximate premium to this margin from an injectable facility?

**Hitesh Windlas:** My sense is that typical injectable businesses should give around 18%, 20% EBITDA, but that should happen at optimal capacity utilization. This is what we will be trying to reach towards as soon as the facility is ready to manufacture. But yes, the expected margin from injectables is significantly better than oral solids.

**Yogesh Tiwari:** Hence, this optimum utilization would be 80% approximately for injectables?

**Hitesh Windlas:** My sense is that anywhere between 55%, 60% optimum utilization.

**Yogesh Tiwari:** In terms of exports, what are the new dossiers which we are filing to expand the export market?

**Hitesh Windlas:** Yogeshji, we are not providing the product or market information due to competitive reasons. But the markets that we are present in, Southeast Asia, Africa, we are continuously adding products over there to increase our footprint and gain more mass in our exports.

**Yogesh Tiwari:** And then finally on the capex program. So apart from the injectable facility, any other major capex we are planning for rest of FY24 and FY25.

**Hitesh Windlas:** No, we are not planning anything major, but as I said, our current oral solids facility able to will support us to about INR600 crores of revenue. Beyond that, we will need one more expansion. So currently, my sense is that at least FY24, we should not need the expansion.

**Komal Gupta:** For FY24 sale, we might not need. At the end of the year, we might have to be ready for the next year.

**Yogesh Tiwari:** Sure, Sir. That's all from my side. Thank you very much.

**Moderator:** We have our next question from the line of Raghav Vedanarayanan from JM Financial. Please go ahead.

**Raghav Vedanarayanan:** Yes, hi, good morning. So a couple of questions from myself. So first is regarding the domestic business. Can we get some guidance and like a breakup for the CDMO and for the trade generic business ? And second question is, so your gross margins have been improving. So would this be a sustainable number or how should we look at this going ahead? Thank you.

**Komal Gupta:** Raghav, sorry, we did not understand first part of your question, the first question.

**Raghav Vedanarayanan:** Yes, so first question is if you can get some domestic guidance and also like a split of the CDMO business and the trade-genetic guidance for both of you?

**Hitesh Windlas:** So, Raghav, we are already providing the segment-wise revenue with the three verticals, right? You are asking for separate segment-wise guidance?

**Raghav Vedanarayanan:** Yes.

**Hitesh Windlas:** So, Raghav, we are not providing segment-wise yearly guidance. As a long-term goal, we have said, you know, that our idea is to double the trade-generics business, triple the, sorry, double the CDMO business, triple the trade-generics business, and quadruple the export business. In some cases, we are ahead of the curve. In some cases, we are a little behind. But that is the, you know, long-term guidance that we are still maintaining, you know, our efforts towards.

**Raghav Vedanarayanan:** Okay, so is there any timeline for this?

**Hitesh Windlas:** Sorry, could you repeat?

**Moderator:** Raghav, can you use your handset please?

**Raghav Vedanarayanan:** Is there a timeline that you have in mind for these targets?

**Komal Gupta:** Yes, so I think four years is what we are looking at from the current. In four years we are expecting to go there. The base of double, triple and quadruple was FY21 numbers. We were originally we were thinking of reaching there in five years. Now we think that we are a little behind by about a year.

**Raghav Vedanarayanan:** Okay and also the second question is regarding the gross margin. So there has been an uptick for this for this year so is there is this trend sustainable?

**Komal Gupta:** Yes, so the current EBITDA margins, they are also the material margins, they are sustainable ones. There can be some upward trends with the mix of the kind of sales happening like trade generics, exports, if we are able to increase them as a percentage of total sales and also with injectables in fusion, there can be an upward trend.

**Raghav Vedanarayanan:** Okay, thank you so much.

**Moderator:** Thank you. We have a next question from the line of Naman Bhansali from Perpetuity Ventures LLP. Please go ahead.

**Naman Bhansali:** Hi sir, just following up from the previous question, during the IPO we have guided about various verticals like doubling and quadrupling. So this implies almost doubling of the total revenues from a base of FY21.And as per your previous answer, you are telling that it is delayed by one year or so in terms of achieving the guidance. Now as per FY23 where we are standing today, this implies almost 17%-18% growth based on the four-year projections that we are taking. So where do we stand today on a company level basis? Are we able to confidently grow on that trajectory? That is my first question.

**Hitesh Windlas:** So I think, Naman, a couple of things. In the past, if I look at the past data, there have been years where we have grown in single digits, and there have been years where we have grown 20% also. And I m not just talking about COVID past. I'm talking about almost, let's say, 10 years history. So I think its important to understand what are the underpinning factors, external factors that influence growth. On the domestic CDMO side, the volume growth of the overall pharma market is a representation of how much our customers are going to buy from us in terms of volume, right? So thats an important number. And I believe that there is signs of recovery happening. If you look at the last couple of quarters, the volume growth almost across therapeutic areas has improved.

First two quarters was very poor if you left antibiotics out. So there is, my sense is that if overall Indian pharma market volume grows, we will be able to utilize that momentum and do better. In terms of new products associated growth, again in CDMO vertical we are launching several new products. You know, a number of DCGI permissions that we are getting has increased significantly from, you know, what it used to be last year or even before that. So, these are all the ways of driving faster implementation, greater customer connect and improving product match with customers.

So, CDMO is driven by that. Now, as a small company, we are trying to see how we can outperform the market and grow faster. So, that is definitely the mandate of the whole team. In the trade generic space, you can see a different trend. We grew almost by 50%, although it was a smaller base. But that growth is coming from our execution and our engagement with our distribution channels, our umbrella branding that we are doing for Windlas Generics across the space, and our much better execution because of our unique distribution structure where we dont have large distributors as intermediaries.

We are working with almost 600-700 stockists directly across India. And we are able to do it because of the way we have built our IT system. So, this is something that we are looking to capitalize and see how fast we can go. If you look at my four-year guidance on trade generics, which is to triple that number from FY21, we are most likely going to exceed that if we are able to maintain this kind of momentum.

And I see no reason to not have a strong momentum in this vertical. On the export side, this is where we have some work to cut out for us in terms of bringing in launches for dossiers that are already approved or have recently been approved, and also initiate new countries. This is a slightly longer or back-ended kind of a growth that you will not see in every year. But we are hoping that it will line up by our fourth year. That is what we are aiming for.

The commentary that I can provide is that each of these three verticals have a different path to getting there. And a straight-line path may not be there. Some are more driven by volume and some are in trade generics. We are participating in both price increase as well as volume increase. So, we are getting a better benefit there and so on and so forth. I hope I have been able to answer your question.

**Komal Gupta:** And also just to add, in case we are able to catch up through trade generics and export verticals for the overall number that we are talking about for four years, we would be happier in that sense because they are better profitability and better control verticals for us.

**Naman Bhansali:** Got it. Second question is regarding, we have seen a sharp jump in the other expenses this quarter. So, where exactly are we seeing the increases coming in from? And what is the base which we can assume going forward these other expenses can grow at?

**Komal Gupta:** So, the expenses were higher in the other expenses. There was a higher research and development expense, power and fuel. Because of a very high sales quarter, there were also increase in selling and distribution expenses, production and testing related lab testing expenses. These are the various expenses that were on higher side in this quarter. Not necessarily all the expenses are quarterly equally distributed and there are a few which are linked to the higher sale. So, in terms of trend for going forward, it is better to look at the year number instead of a quarter specific number.

**Naman Bhansali:** That's it from my side. Thank you.

**Komal Gupta:** All right. Thank you.

**Moderator:** Thank you. We have our next question from the line of Gaurav Gandhi from Glorytail Capital Management. Please go ahead.

**Gaurav Gandhi:** Hi, sir. Congratulations on the good set of numbers. Sir, how do you look at the export market in the coming year?

**Hitesh Windlas:** So, Gauravji, thank you. I know I am very bullish about exports from India to ROW especially. We have seen that the developed markets across the board are facing very, very high customer consolidation and erosion of margins. And some companies in the developed space are doing better by launching new products, difficult to manufacture products and so on and so forth. The ROW space is a different space. And in the rest of the world, which between Southeast Asia, Africa, CIS, Middle East and so on, this space does not have very large batch sizes. And the number of SKUs required to serve a country with small batch sizes is very high. So, it has a natural advantage for a CMO player like us, which are used to manufacturing a very large variety of SKUs. And that internal competence is built into our DNA. So, we are really looking at it from this perspective. Although it is slow to build, but better EBITDA better exposure and such.

So, if you ask in terms of my subjective assessment, I think this is definitely a very good area for the company.

**Gaurav Gandhi:** And sir, we are focusing on semi-regulated markets. So, what if the regulations become more stricter? Will it be a risk for us to grow our exports in that area?

**Hitesh Windlas:** Yes. So, that's an excellent question, Gauravji. We are actually looking at the semi-regulated markets from our facility, which is UGMP approved. So, in some sense, I can say that we are already serving these markets from a high-quality facility. And we should not face a sudden risk of that type.

So, overall, it will be a mix of things from different facilities, different markets. But in all our facilities also, we are upgrading. We are bringing the electronic systems, EQMS, EDMS, e-learning management systems across the board. And we are building this capability and competency at the ground level to look at the future. Not only in exports, but also within India. And we are leading a quality-recognized name for everything that we manufacture.

**Gaurav Gandhi:** Right. But there won't be any sudden risk, right? If the regulations increase or something like that. So, will there be a sudden risk to our company? Can you tell us something like that? If the regulations increase in a country where we export semi-regulated markets, and there are some sudden regulations, can there be a sudden risk to our export sales in this case?

**Hitesh Windlas:** See, as far as I understand, Gaurav ji, we are not expecting any such sudden risk. This is as per my understanding.

**Gaurav Gandhi:** Okay. And so, can it be the case that because we are not in the API manufacturing process, clients might prefer some other leading players who provide CDMO-plus API?

**Hitesh Windlas:** Sir, even the largest manufacturers in our space are unable to achieve perfect vertical integration. Because of so many molecules, so many dosage forms, and such a very wide variety of SKUs. So, my sense is that, and that's why Windlas is also not chasing the biggest volume contributors. We are chasing value which is between very small and very large molecules, somewhere in the middle. That's how we are looking at building our portfolio. So, my sense is that vertical integration will have only marginal benefits in the business type view.

**Gaurav Gandhi:** All right, sir. And the last question is, sir, what is your vision for the company, or say, where do you see this company 10 years, 15 years from now? Where do you want to take it?

**Hitesh Windlas:** So, in a long-term vision perspective, we want to be a very large player in India, having our own production, our own generic sales force, being present in all the institutions, both in various dosage forms. Currently, we are only doing oral solids and liquids, injectables will come, and many other dosage forms are there. We want to be a player whose sort of three values of authenticity, affordability, and accessibility are seen by all our patients as well as customers who we work with. That is one of our very important aspirations.

We will continue to serve our B2B customers and grow with them, and we will have one of the most modern facilities that are able to serve the increasing requirements of quality in this space, and we want to be a supplier of choice. So, most of what I am saying is, taking our efforts and objectives and growing in scale. So, that scale is very important while maintaining quality for us. So, that's how we look at the next 10 years or so timeframe.

**Gaurav Gandhi:** That's great, sir. All the best for the future. Thank you very much.

**Hitesh Windlas:** Thank you.

**Moderator:** Thank you. We have our next question from the line of Dipti Kothari from Kothari Securities. Please go ahead.

**Dipti Kothari:** Thank you for the opportunity, sir. Sir, my first question was that do we have any updates on inorganic opportunities front?

**Hitesh Windlas:** So, Dipti ji, we have been evaluating several opportunities, and in some cases, we did not move forward because of the quality of the plant or the quality of the business. We have been very selective because we know that as a company which has very strong operating cash flows as well as a good liquidity position, we are in space to do a good thing. And so, we are being selective. So, there is no immediate something that I can say, is happening, but we are evaluating many ideas and many opportunities.

**Dipti Kothari:** Okay, sir. And so, what is the current market share in the domestic CDMO space of Windlas?

**Hitesh Windlas:** My sense is that we would be somewhere in the range of -- I mean, I think we did the study at the time of the DRHP, where the market share evaluated by the external consultant at that time was somewhere in the range of 1%. Because it is a very highly fragmented market after the first two players. But I do not think anything would have changed drastically from then.

**Dipti Kothari:** Okay. Thank you, sir.

**Moderator:** Thank you. We have a next question from the line of Akash Mehta from Capaz Investments. Please go ahead.

**Akash Mehta:** Hi. Good morning, sir. My questions were around the export business. So, I just wanted to know what are the key reasons for the decline in the exports vertical and how do we anticipate this outlook for the segment in the coming years?

**Hitesh Windlas:** So, I think the base that we currently have, which is about INR18 crores to INR20 crores of sales, is too small to say, whether there is an uptick or downtick on this right now. Some of our exports, we could not ship because the customer was unable to renew their import permit in Myanmar and some countries. Last year, we also had some challenge. We stopped some sales to Sri Lanka when Sri Lanka went into the foreign currency crisis.

So, some of those things are like that, but I think the growth we are looking for is going to come from not just existing markets, but also new markets that we are trying to open. And eventually in the next couple of years' time frame, injectables will also play a very important role in bringing us access to these ROW markets because almost most of these ROW markets don't have any local manufacturing in injectables.

So, as I mentioned earlier also, the procedure is a little lengthy one. You apply, you take the batches, you generate the data, the dossiers, then you apply to the regulatory authorities, and it takes about one and a half to two years for approval of each product, and then you start the business. So, that's why we feel that, this is going to be a fag -ended vertical in terms of growth appearing on the top line.

We are also looking at potential ways to accelerate this through inorganic because it takes a long time to build internally. So, this is also another area specifically within our inorganic search that we are trying to see if there are opportunities to do that. So, that's sort of the general commentary I can give on this.

**Akash Mehta:** Got it. Now, in terms of the new markets, just a sense on what is the proportion of the export market in terms of the regulated and semi-regulated markets, if you have any insight, and what is the anticipated ratio, if we can say, in the future?

**Hitesh Windlas:** So, currently, we are almost 100% semi-regulated, and in the near future, once our South African starts, so, that will start contributing to a SRA, one of the SRA kind of a market. And as our facility is EU-approved, so we are also evaluating various projects for that geography. So, I think that some of these proportions will shift as we go forward. It's hard to give a ratio or a number right now.

**Akash Mehta:** Got it. My last question was on the South African exports. So, you had said in a Q3 call that you would be commencing that. So, any updates on that front?

**Hitesh Windlas:** So, we have been calling with our customer also, and they have been saying, one or two weeks, one or two weeks for the launches. So, we are just also waiting for that. Their launch, so no further update. Other than that, what we have heard from our customer.

**Akash Mehta:** Got it. Thanks a lot.

**Moderator:** Thank you. We have our next question from the line of Keshav Garg from Counter-Cyclical PMS. Please go ahead.

**Keshav Garg:** So, many congratulations for excellent set of numbers, and also thanks for healthy dividend on top of a share buyback. Sir, I wanted to get your view that in your judgment for the current financial year '24. Sir, what kind of growth are we looking at?

**Komal Gupta:** We continue to work and put all our efforts to give the growth. But year-on-year growth, we do not really share any future looking statements in that sense.

**Keshav Garg:** Sure, sir. One more thing that, sir, our injectable facility is expected to come on stream, I think, in the second quarter of this financial year. So, till the time that facility is able to ramp-up for the initial few quarters, sir, should the shareholders be expecting any losses? Also, when exactly will this break even?

**Hitesh Windlas:** So, one thing that we are thinking of doing is once that facility becomes operational, we will try to separately provide the EBITDA that is being affected by the losses from that facility. For sure. Anytime we start a new facility, there will be a period of small operating loss. At the same time, we are also working to tie up that capacity and see how can we minimize that period. But we will try to give visibility as soon as that number starts to become part of P&L, so that there is clarity and all shareholders are able to transparently see everything.

**Keshav Garg:** Sure, so much appreciated. Thank you very much and best of luck.

**Hitesh Windlas:** Thank you.

**Moderator:** Thank you. We have a follow-up question from the line of Naman Bhansali from Perpetuity Ventures LLP. Please go ahead.

**Naman Bhansali:** Hi, thanks for the opportunity. So, just one question on the slide 23, the client concentration side. So, is it as a percentage of the overall revenue or as a percentage of some CDMO revenue?

**Komal Gupta:** Overall. It is as a percentage of overall revenue, yes. We have been -- so, all the comparable numbers are as a percentage of total revenue.

**Naman Bhansali:** Okay. And we see that in 2023, there is a very sharp decline in these percentages. So, would you like to speak anything about what sort of customers are being added incrementally and this concentration risk going down? And secondly, I think on the above slide, on slide 21, there have been a sharp increase in 2023 in the number of generic formulation CDMO products too. So, would you like to speak on these two points?

**Hitesh Windlas:** Okay. So, let me take the question on slide 21 that you mentioned. The sharp increase. See, anytime we add an SKU or a customer, the customer doesn't give us the largest of their brand or the most important of their SKUs, right? We engage and then, they try us out for a few SKUs and as we deliver the right supplies at the right price with the right service, then we begin to grow.

So, this process of adding new brand is like a nucleation and growth process. So, we add that and then we look to improve volumes on those that we have added and on those accounts where we can find traction, we then increase, look to get the larger brands from those accounts. So, this is a sort of a nucleating phase to increase the footprint and then adding harvesting phase to get the business on. So, that's how this business moves. So, the growth in SKUs is essentially a representation of that.

And what was your first question, Naman?

**Komal Gupta:** Lowering client concentration.

**Hitesh Windlas:** You want to take that?

**Komal Gupta:** Yes. So, we have been consciously working to lower the client concentration from Top 10 customers and this is more by increasing the number of customers, revenue coming in from the new customers. And, yes, so with a conscious effort, this year the results are there. So, while we have been increasing the number of new customers, we have been able to increase the revenue from the new customers increased in last couple of years to such a level that Top 10 percentage has gone down below 50%.

So, it is not as specific like Hitesh was mentioning in terms of products mining. It's similar in terms of customers mining. While there will be customers added in last two years, three years and also in FY '23, the revenue, it takes time to increase from that customer. They first introduce one product, they get the comfort and slowly we are able to increase the product portfolio. That is how we have been able to really see the growth also that we were able to deliver.

**Hitesh Windlas:** But it is very healthy for us to have lower dependence on the top client. And, in fact, we look at it as a health metric as to how much concentration of revenue is there in any vertical by the top customer. And it allows us the flexibility and reduces the mutual dependence. It also allows us to make sure that our resources in business development, product development are not just getting concentrated in one bucket or one basket.

**Naman Bhansali:** There is a small question that over the last year, do we see any meaningful customer being added which can contribute significantly to our CDMO revenue or the overall revenue which we can expect?

**Hitesh Windlas:** We are working with seven of the top 10 pharma companies in India. The next 20 and the next 30 companies is where we are looking to add more customers. And, yes, there have been additions. We have not been specifically calling out either customer names or product names as a matter of competitive listing. But, yes, there have been additions. And those are the basis of what we are thinking about the growth in the coming years.

**Moderator:** Thank you. We have our next question from the line of Miten Lathia from Fractal Capital Investments. Please go ahead.

**Miten Lathia:** Good afternoon. We've sort of seen very good traction on the trade-generic side. I thought that we sort of see our trade-generic piece in five years' time. Given what seems to be working for us, A, if you could sort of get more granular about what is working for us, and B, we want to now be more aggressive and say this can be a much bigger piece going forward for us versus our earlier?

**Hitesh Windlas:** Right. So, Mitenji, for sure... So, let me first give some context on what seems to be working for us. We are actually doing trade generics in a different way. We do not have large distributors as intermediary, and we work directly with stockists in every zip code that we are working in. So, what it does is it frees up some margin that we then share with both the distributor, the stockist, as well as ourselves. And it also makes us visible, gives us the visibility, understanding what product is selling, how that party is working, what is its credit worthiness, what kind of product is able to liquidate, how fast, and what kind of other opportunities of adding new products is available in that geography, in that space.

So, this is very valuable, and that's how we are driving our growth. The second part is that we are not, again, different to most trade-generic companies. We are actually doing umbrella-level branding of Windlas generics. So, in selected places. So, for example, if you were in Bihar and you were looking at a cinema hall, you will see some advertisements of some products and Windlas generics coming on that cinema screen. And these are some things that we are doing. There are some other things that we are planning. And our goal is to sort of be an umbrella brand over there. And over the long run, we want to build it.

Now, going back to your first question about whether it looks like we will exceed our aspirational goal of 3x on trade generics. And I am absolutely sure that we will exceed that. And how to take it further? It has to, definitely grow in scale. Even at, INR90 crores that we did last year, we are a very small fraction of what the largest player in this space is. So, easily, there are companies operating at INR1,500 crores, INR2,000 crores in trade generics. So, there is a huge amount of growth available here. And that is what we will be gunning for.

**Miten Lathia:** In terms of, management bandwidth itself, given that exports is longer station, slightly difficult, versus trade generics being, something that we have already figured out, already giving us, growth and cash flow. Would we not then sort of be better off, sort of, focusing our resources on that? Or do you think both are possible?

**Hitesh Windlas:** So, both are possible, Miteshji, because, just like, the bandwidth is also not very continuous or high demand in case of exports. You know, you take the batches and you file the dossiers and there is a waiting period. And it's a different set of resources, the technical people who are doing that. On the trade generics, it is more the business team which has to execute. So, it is not a competing in demand on the management bandwidth. And, in some sense, it is like, allows us to build for long term as well as build for, medium term.

In the trade generics, one has to be very on the, very much on top of your receivables and inventory. And that requires management bandwidth. And so, we are deploying our bandwidth as well as our capital appropriately, making sure that both these are not, sort of, none of them is lacking for attention or capital, so as to say

**Moderator:** Thank you. We have our next question from the line of Yogesh Tiwari from Arihant Capital. Please go ahead.

**Yogesh Tiwari:** Thank you, sir, for the follow up. So, my question is basically around the inorganic opportunity. So, given the cash flow we had, we had about INR60 crores in FY '23 cash flow from operations. And given our balance sheet size, if you can share some more color on what sort of inorganic opportunity you will be looking at, in terms of what would be the size like, and any specific segment like CDMO or API, anything on those lines?

**Komal Gupta:** In terms of size, really, we do not have a restriction, because we, as you rightly mentioned, we have generated INR60 crores. And in spite of making payment on buyback, dividend, and the capex money that we spent, in spite of that, at the year-end, we have solid liquidity position in place.

In addition to that, we have zero debt, and there is obviously a debt-generating capacity. So, in terms of the size, really, we are flexible. The kind of opportunities that we are generating are manifold. We are open for acquisition in any segment for the right kind of opportunity. However, it has to be a synergic fit, and we do not want to fix many issues. We want to really have a good addition, and we are okay being patient to wait for the right kind of opportunity.

**Hitesh Windlas:** And just to add to what Komal said, at least I have always believed that the business that we are in, trade generics and the space of formulations that we are in, including CDMO, is not a cyclical business as such. Even through the uptick in COVID and downturn after COVID in pharma, we have continued to sustainably maintain our margins and perform. So, API is a very different animal. You mentioned API, so I am just responding that definitely that is not a space that we are looking for.

We are looking to do things where if we can get a shot in the arm by something on exports or something on dosage forms, which are not with us. Injectable we decided to build from scratch on our own because we had to build something for the future, and a modern plant is needed for that. So, that is how we are looking at things. Other dosage forms are always there, and that is how we are being very, very careful that we do not adopt somebody's problem. It is good to adopt a challenge, but not a problem. So, that is how we are thinking about the Inorganic .

**Yogesh Tiwari:** And just to continue on that, what would be any metrics, what would be any targeted ROC from the acquisition or any other metrics you would look at before the acquisition or any valuation?

**Komal Gupta:** Really, it depends. So, we would like to have strong ROCs in place, but it depends on the kind of opportunity. Honestly, we are also acquiring something that in the long term is building something for us, is a great strategic and synergy fit. So, there is no particular formula that we are chasing. It depends on the kind of opportunity you wish.

**Yogesh Tiwari:** Yes, and since we mentioned about injectables, so if we take about a three-year view, or maybe a three to five-year view, what would be the proportion of injectables to the overall revenue? Any target we have for this?

**Hitesh Windlas:** See, the injectable facility that we have built, typically in injectables, the asset turn of 1.2 to 1.3 is achievable. So, in terms of a full -- and we have space on the second floor in this plant to increase capacity in the next phase. So, my sense is that, currently, what we have installed or what we are installing is going to take us to somewhere around INR65 crores to INR75 crores. And then, by augmenting capacity, we should be able to cross about INR110 crores, INR120 crores, finally, from this facility.

**Yogesh Tiwari:** Sure, sir. And one question on the CDMO space, since that is the major space we have. So, just to understand a little bit on the industry, are you seeing any rising pressure when you negotiate with clients because it is a very fragmented industry? So, are you seeing any things of that sort happening in the CDMO business?

**Hitesh Windlas:** So, what we are seeing is pressure in terms of quality demand. The regulator has begun to really seriously enforce the very strong, whatever the drug act was originally meant to say, the new regulator is also there, DCGI, new DCGI is there. He's very known in the industry for that. We are seeing actions against defaulting firms becoming very, very strict.

So, clients are also demanding much better quality standards and it is actually, in some sense, playing out what we expected to play out a couple of years ago when we talked about quality standards going up and potentially an opportunity for good players to outperform. So, we see that and that is mirroring in our efforts. We are getting some advantage also from that and we continue to invest in our facilities to make them the best-in-class. So, that is something that we are also continuing to do.

**Yogesh Tiwari:** And, sir, since in the CDMO space, the normal contract would be like between 2 to 5 years, any major contract which is coming for renewal in the CDMO space?

**Hitesh Windlas:** No, Yogeshji. I have spoken in the past about this. Typically, we have a contract which is a master services agreement and, in most cases, it is a 5 to 7 year agreement and it keeps getting renewed. In some cases, there is no end date and we have actually never lost a customer. In the last 21 years history of the company in CDMO, we might have said no to a customer because it doesn't work for us, it doesn't meet our ability to support them. But, we have never lost a customer.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Ms. Komal Gupta for closing comments. Over to you, ma'am.

**Komal Gupta:** Thank you very much, everyone, for taking out time and to discuss the financial results of the company. I wish you a great day ahead. Thank you.

**Hitesh Windlas:** Thank you.

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