“Neuland Laboratories Limited's Q3 FY22 Earnings Conference Call”

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MANAGEMENT: **MR. SUCHETH DAVULURI - VICE CHAIRMAN & CEO, NEULAND LABORATORIES LIMITED**
MR. SAHARSH DAVULURI – VICE CHAIRMAN & MANAGING DIRECTOR, NEULAND LABORATORIES LIMITED
MR. DEEPAK GUPTA – CFO, NEULAND LABORATORIES LIMITED
MR. SAJEEV EMMANUEL MEDIKONDA – HEAD, CORPORATE PLANNING & STRATEGY, NEULAND LABORATORIES LIMITED

Ravi Udeshi: Good evening friends. We welcome you to the Q3 FY22 earnings call of Neuland Laboratories Limited. To take us through the results and to answer your questions, we have with us the top management from Neuland, represented by Mr. Sucheth Davuluri – Vice Chairman and CEO; Mr. Saharsh Davuluri – Vice Chairman and Managing Director; Mr. Deepak Gupta – CFO and Mr. Sajeev Emmanuel Medikonda - Head, Corporate Planning and Strategy.

We will start the call with brief overview of the financials by Deepak, then Saharsh will give broad highlight of the business trends and what he is observing in the market and then will open the floor to Q&A. With that the standard safe harbor clause applies as we start the call. With that said I am handing it over to Deepak Gupta. Over to you Deepak.

Deepak Gupta: Thanks Ravi. Good evening friends and very warm welcome to all of you to our Q3 FY22 earnings call. I hope all of you are doing safe and are healthy as of now. I think that you must have seen that presentation which Ravi was mentioning, it was put on our site, as well as it is uploaded on both the servers of BSE as well as NSE exchanges. As always, any comments on the content of this presentation which we have sent will be highly appreciated, and we will do our best to give additional data points wherever required. It will be helpful for you all to analyze the future performance of the company.

I will briefly update you on the financials, the total income for this quarter is Rs 238.4 crores as against Rs 245.6 crores in Q3 FY21. Our EBITDA for this quarter was Rs 34.2 crores with the EBITDA margins of 14.3% which is a decrease of 4.7% on yearly basis and 240 points decrease on a sequential basis. I would also like to give you some context of the decrease in our EBITDA margins. So similar to last quarter, we are seeing shipping costs are high and logistic cost are also moving up, and supply chain delays are happening because of raw material volatility that you've seen for some of the key ingredients that we buy. In addition to this, we were also benefited in the past couple of quarters due to raw material hedging that we did for key materials that we buy. As stated in our previous call some of these contracts expired in Q2 FY22 hence there was margin volatility. We continue to maintain high inventory due to the fact that we are keeping some inventory for the future possible disruptions. In addition to this, similar to Q2 part of our impact on the profitability was on accounts of high employee costs due to new recruitment that has happened, as we always continue to invest for the future. In addition to this, we expect that more volumes will come from Unit III going forward. Profit after tax was seen Rs 12.7

crores as compared to Rs 26.7 crores last year, due to the reasons as stated above and also due to the high depreciation which is coming on from Unit III commercialization. This quarter EPS is Rs.9.9.

On 9 months basis our total income stands at Rs 699.4 crores which is an increase of 0.8% from the same period last year. With regards to EBITDA is Rs 104.9 crores as against Rs 122.5 crores in the 9M FY21. The EBITDA margin is at 15% as compared to 17.7% the year earlier for the reasons as stated above. Cash and cash equivalent as on the date of the balance sheet which is December end is at Rs 21.2 crores. We continue to make investment in the future and the capex of around Rs 75 crores has been done in this financial year for the nine months period. Our capex plan is on track and with greater commercial prospects on the horizon we expect that our CMS segment will perform well and it will improve our future realization as well. I would like to mention that even though we have made substantial capex till date, our net gearing ratio continues to be low. So as of now it stands at 0.2x. With that, I would like to head over the call to Mr. Saharsh for his remarks and thank you very much.

Saharsh Davuluri: Thanks, Deepak. Good evening, friends, and thank you for joining this call. Maybe I'll just add a few comments on top of what Deepak has already said. And then we can open it up for Q&A. In terms of the prime business, we did have a very muted quarter, although we've done well in products like Labetalol. There were a couple of products which been historically doing well like Levetiracetam and Mirtazapine that didn't perform to our expectations. This is largely owing to lower customer off take and hopefully we should be back to that with the next few quarters.

On the speciality side we've done really well in a product like Ezetimibe and on the CMS side the business really well, we've clocked close to about Rs 100 crores, which I believe is the highest we've done for CMS in a quarter. We see this as a crucial mark of gaining size as well as scale. Again, this quarter we did see product development revenues coming in from the CMS side. It also gives us a healthy indicator of the molecules that we have in our pipeline and the kind of business potential that we have as they gear up towards commercialization in the near future. Therefore, I'd like to re emphasize that CMS revenues could look lumpy on a quarter to quarter basis, but on an annualized basis they are fairly steady and we expect them to give us growth on an ongoing basis.

Unit III another update I would like to give is fully operational now and we continue to spend higher expenses at unit III given that the plant is fully operational. This has

led to higher costs in terms of manpower and other operating expenses that is also one of the reasons why we are incurring higher operating expenses this quarter compared to the same quarter last year. But I would also like to reiterate as the Deepak did that we will not compromise on spending in the short run in order to build a sustainable business for the long term. So, even as we invest for the future, we are looking towards cost effectiveness through process improvement programs for all our products and also trying to improve operational efficiencies.

In terms of other updates, we filed three DMFs this quarter Vilanterol, Aripiprazole and Tafamidis these are three products which we are excited about and could have an important role to play in the future of the GDS growth. We continue to see good traction with both CMS and GDS customers that could help us drive growth in the medium to long term. The potential of the CMS projects especially in phase III, Development and Commercial, which have been evident in the revenues this quarter as well as the Speciality GDS business and strategic Prime products gives us confidence that the long term business outlook remains intact. With the ramping up of Unit III and the increase utilization of Unit III in the months and years to come we should see profitability trajectory also go up. These are the few remarks I'd like to make as part of the opening comments. Maybe Diwakar we can open it up for Q&A.

Diwakar Pingle: Thanks Saharsh. So we'll open up the Q&A. Anyone who wishes to ask a question can put their hand up and we'll unmute your line and you can go ahead. The first question comes in the line of Sajal Kapoor.

Sajal Kapoor: Good afternoon everyone and thanks for the opportunity. Just a couple of questions. So as a business, our core focus and strengths over the years has been in the area of respiratory, cardiovascular and of course CNS disorders. But when I see our performance over the last few quarters and not just this quarter, even previously, the narrative and the opportunity landscape as I see is not quite matching with our performance because there has to be stronger traction in the areas like CNS, respiratory and cardiovascular but somehow our sales are not matching that narrative. So what exactly has gone wrong? Have we lost any customer, any contract what's exactly going on, if you could share some, some light on that. Thank you.

Saharsh Davuluri: I will just add a few comments and then ask Sucheth to add some of his thoughts as well. I think it is true that a lot of our products fall into these three categories and they have been a significant part of our growth over the years. From our pipeline perspective, if you look at CMS as well as GDS, that continues to still hold true. In

terms of GDS, if you look at products like Levetiracetam which is the CNS category that has been the prime pro growth driver for Neuland. I think in terms of CMS, also we have several molecules in the CNS space. While we look at our growth trajectory, we don't necessarily track growth at a therapeutic level because at the end of the day, we are an API company and we look at chemistry and technology as a means of tracking our growth. We do recognize that there are synergies in being in certain therapeutic areas. So for example, if you are able to offer one respiratory be it Salmeterol, then the customers who are in that space tend to buy other respiratory API's from yours. So for example, one of our new products which I was mentioning in our updates is Vilanterol is a respiratory product and one of the reasons why we develop that product is because there has been traction from customers in the respiratory space. So I would think that we are focusing on synergies both in the CMS and GDS and we have been steadily adding customers. There has not been any significant attrition or loss of customers per se to respond to your direct question. There are always situations as I had explained in the opening remarks that for some products, either for a quarter or for a year we might see a dip in sales, either because of stocking up of the customers of certain products or maybe for other reasons but there that haven't been specified. . So I think that's kind of broad remark I would make. Sucheth is there anything that you want to add or clarify?

Sucheth Davuluri: I think Sajal, you've been following the company for a while, so you may agree one thing where there is a valid point is that in the area of respiratory diseases, some of the approvals that we originally anticipated didn't materialize from a timing perspective. Some of the approvals that we expected in 2018, 201919 are actually happening now as we speak. So we definitely expect to see that part of the business will kick in. So we're still very confident about the business model like you rightly put it our focus on certain type of molecules and the margins from those molecules, the timing did not pan out for sure like we anticipated, but that doesn't mean that the long term potential of the product has been altered. Having said that, there are also products like broad spectrum antibiotics, such as Ciprofloxacin, Levofloxacin which are also degrowing. So we're constantly working in the prime segment to increase volumes of our other products where there's a lot more potential to substitute the volumes of these products which are continuing to degrow, in some cases much faster than the market or we expected. That's the only additional insight that I'd like to add.

Sajal Kapoor: Thank you for that. And secondly, when I read your Press Release, you mentioned that you have been impacted by customer issues on the market share and the inventory front so can you just add a bit more color around you know what those issues are and what you actually mean by market share and inventory front for two key products.

Saharsh Davuluri: I think clearly speaking, as I had mentioned in my opening remarks, products like Mirtazapine, and Levetiracetam were have been traditionally doing well and we have very healthy market share, especially in the regulated markets where we are strong in. We have seen dip in shipments for these two products and the commentary that was mentioned is referring to reasons why we did not ship as much product this quarter. And that could be because customers are holding on to inventory from the orders that they may have placed in the past or it's just that they don't have production campaign or a need right now. Either ways we also think that's something that could be a short term issue, because in terms of our understanding given the few number of players in these API's and the fact that we are registered long term suppliers for these customers, we are fairly confident that business should get back on track.

Sajal Kapoor: Sure, so basically, this is kind of a delay in the off take, not a loss of sales. So this should hopefully get reflected in the next fiscal if not Q4.

Saharsh Davuluri: Yes or no, because in one way there's been a delay it has impacted say the performance of the current quarter and the fact that we've not lost the business gives us the confidence that we will continue to do well going forward. So it's not that what we lost, we will get back totally. It's just that we have lost, maybe certain orders, we are likely to get those orders back in the coming quarters. So it's maybe a right shifting of business, I would say.

Sajal Kapoor: Thank you all the very best I'll rejoin the queue.

Diwakar Pingle: Next question comes from the likes of Keshav Kumar. Keshav I have unmuted your line please go ahead.

Keshav Kumar: Firstly, it's great to see us doing well with the CMS basket both in Clinical and Development. Great performance, despite headwinds the industry has been facing so congrats to you guys and the team. My first question is, I have sort of a scientific doubt regarding peptides. So we know that there's quite a lot of work that's has been

happening in genomics. The cost of sequencing has been coming down at a rapid pace, which has helped create avenues in the entire biobased landscape. Now parallel focus has been there on proteomics and it holds the potential to create huge value going forward, for example, mRNA display technology so to reduce the protein characterization to a gene sequencing problem, which can be dealt with NDS in high throughput way. So do you think that it could also solve a lot of issues and complexity involved in manufacturing of biologics, like peptides, like what gene sequencing and parallel technologies such as CRISPR are doing to the gene therapy space with decent databases to tap into. So could these advancements in proteomics space lead to synthetic peptides better able to be synthesized using these DNA mRNA libraries or that these molecules can't be synthesized ribosomal at all?

Saharsh Davuluri: So, Keshav I think in terms of the synthetic peptide space, which is really where we operated we use essentially traditional technologies for making these peptides and these building blocks. What you're referring to, could possibly have an impact in terms of how you're making peptides using biological processes, at the moment, we don't see any kind of impact for us. What we look at is how we can effectively make peptides either using liquid phase or solid phase, but I think the kind of breakthroughs we're seeing now in genomics and proteomics, I think for a company like us to tap into those technologies, we will probably have to get into fragments of mRNA and probably work with other biologic companies to supply to them. But I guess the short answer is we're not really seeing any direct impact of these developments in our industry, at least for now.

Keshav Kumar: Sure sir. So secondly, I wanted to understand the role of peptide synthesizers for automation in high throughput peptide production. So is it an enabler for somebody like us to get stronger in manufacturing capabilities or does it make it easier for others to manufacture peptides and bridge the gap? For example, there is CS Bio which has peptide synthesizer offerings, so I wanted to have your view on that.

Saharsh Davuluri: Typically, these CS bio types of peptide in sizes are used for really small scale peptization and these are employed effectively for drug discovery related work in peptides. Most of the Neuland's peptide projects and projects elsewhere are all where the drug candidates are already identified and we are working in the clinical stage. And usually in these stages, the scale of that manufacturing is higher and while it may still be conceivable to use peptide synthesizers, and we do have a peptide synthesizer in Neuland. We believe we add value when we do it without automation, because in many ways peptide synthesis is considered to be more of an art than an

automated function. And most of the projects we make, especially the ones that require GMP controls, we typically make them in a non automated way. But you could use peptide synthesizers, but not at the kind of scale that Neuland deals.

Keshav Kumar: Thank you. I will rejoin the queue .

Diwakar Pingle: Thank you Keshav. The next question comes from the line of Rakesh Kumar. Rakesh please go ahead.

Rakesh Kumar: Good evening gentlemen. My question relates to the supply chain in the world because a senior management from one of the largest CDMO's mentioned in an interview that they are rethinking of the API supply chains from China and India to European Union and then to US. So how big is the possibility with this kind of impact would be on our company and what early signs you are seeing already if any. Thank you.

Sucheth Davuluri: Rakesh you're saying that you've heard someone else talk about people shifting their supply chain from China to other parts of the world to make it more reliable. Is that correct?

Rakesh Kumar: Yes.

Sucheth Davuluri: We followed a similar strategy Rakesh over the past several years, even much before the pandemic. Just to give you an idea, there was a point in our history, where almost 50% to 60% of our raw materials were coming from China. Today, less than 10% of our raw materials actually come from China and we're actively working to reduce that to close to zero. I don't think it'll ever be possible, to be able to source nothing from China. But not withstanding that, and to give you a further level of clarity, it doesn't mean that our total procurement value is less than 10% from China, it only means that for less than 10% of our materials were actually dependent on China. So everywhere else, we've actually qualified sources from India, from Europe, from US so that we have multiple sources and we can continue to maintain that sustainability in our supply chain. So it's a very similar strategy we have followed, I would say, over the past decade where systematically we've created alternate options for our supply chain.

Rakesh Kumar: You don't see the efforts by big players of shifting for complete chain of manufacturing to US or European Union?

Sucheth Davuluri: When you say complete chain I'm not quite sure what that means Rakesh, but China's still supplies lot of basic raw materials globally. That means that somewhere intermediate or more advanced chemicals may be come in from USA or Europe, but what all of us must understand is that their basic inputs to a large extent, are still coming from China. So, whether companies acknowledge it or not, the entire economy is indirectly dependent for a lot of materials from China. However, what Neuland has done is create multiple options so that if there was any disruption from China, we are able to quickly fall back on our second or third option to continue sourcing to maintain our continuity in supply chain.

Rakesh Kumar: Alright thank you.

Diwakar Pingle: Thank you Rakesh the next question comes from the line of Swarnashish Chatterjee. Please go ahead..

Swarnashish Chatterjee: Sir, could you please give some more color on your developmental project basket, the CMS segment in an earlier calls, you have talked about almost six molecules getting commercial in next two years, and maybe a few of them can be blockbuster. Any more color you can add.

Saharsh Davuluri: Just to compare the progress that we've made over the last 12 months, we've actually seen that today in terms of Development, we have about 18 molecules and in terms of Commercial we have about 18 molecules. The kind of progress we made in the last year or so is that we've seen one phase three molecule getting a step closer to commercialization. In addition to that we've seen in the last quarter of this Financial Year 1 Development molecule get into commercialization. What we now also saying is that our phase II pipeline has been fairly active. As I mentioned earlier, in the comments, we have projects which are in CNS as well as COPD, and those projects seem to be advancing quite well. And all in all, we expect maybe, and this is just a guesstimate at this point, that in the next 24 months we should have at least two more molecules add to our commercial pipeline. So what is that 18 today with 7 API's, we expect to have maybe 9 API's in the next 24 months out there. So this is just kind of a rough guesstimate. I think in terms of because of the nature of CMS business, we cannot disclose the names of these molecules, but we've seen fairly steady progress and also we are happy to note that so far, we have not had any iteration or failures, the phase three and upwards. projects.

Swarnashish Chatterjee: Thank you. I will join the queue.

Diwakar Pingle: Thank you Swarnashish. Next question comes in from line of Nitesh Avanthkar. Nitesh please go ahead.

Nitesh Avanthkar: Thank you. Congratulations on a good set of numbers. Can you explain how we could see Neuland, in say maybe next three or five years where do you see the company growing? Thank you.

Saharsh Davuluri: Thanks for the question. I think in terms of three to five years, we definitely expect the CMS business to grow on the basis of these pipeline projects. I think, as I was answering the gentlemen before, we do have a fairly healthy pipeline of phase III and Development projects which are not yet commercialized. And many of these molecules although still they are not commercial for Neuland they have the potential of being game changers for the Company. So one thing that we would expect is that at least we have a couple of these molecules becoming commercial and becoming successful and that could drive a lot of the CMS growth. In addition to that, we expect to see consolidation in our GDS prime business. We've been talking at length about products like Levetiracetam, Mirtazapine, Labetalol etc. We would like to continue on our path of trying to achieve a sort of a dominating market share for those products, which would again help us to leverage economies of scale and also try to improve our profitability. And of course, I think there has been continued traction on new products. I think somewhere two years ago, three years ago, we had lost a little bit of momentum in terms of our development of new GDS products. But as given in the update today, I think we are back on track over there we have some exciting new DMF's also that we are filing and we expect some of the commercialization to happen as well. But I think in summary, we would expect ourselves continued to be an API specialist, catering to both CMS as well as GDS businesses, but we would be a lot more selective in terms of what kind of GDS products we will be playing. And we will be very strategic in terms of at a product level on whether we want to backward integrate or we don't want to backward integrate, whether we want to continue a product or we don't want to continue a product I think there will be a lot more thought on that. So I think those are some of my thoughts. Sucheth anything you'd like to add.

Sucheth Davuluri: No, its good.

Diwakar Pingle: Thank you Nitesh. We take the next question from the line of Varun Mohanraj. Varun please go ahead.

Varun Mohanraj: Thank you for the opportunity. I have two questions from my side. So the first question is on the gross margin front, so I don't want an absolute figure on the gross margin, but can you share some details on the comparative gross margin on y-o-y basis just a comparison not the absolute number, if you could share.

Deepak Gupta: You are talking about the quarterly number or the 9 months.

Varun Mohanraj: Quarterly or nine months anything is okay.

Deepak Gupta: So there is Rs 10 crores change overall in gross margin. So mainly it is because of the reason that we have unit III which is commercialized in this year compared to the previous year and also we are building the capability for the future. So we are investing in new resources in this year.

Sucheth Davuluri: Varun we will get back to you before the end of the call on the exact numbers. Do you have follow on questions?.

Varun Mohanraj: I just one more on the unit III. So I think in one of the previous call you mentioned that we have six blocks on the unit III. So do we have a dedicated facility between the API's and the CDMO or all these reactors are fungible between themselves? And if I could follow up one more, I think you mentioned in one of the previous questions that we do expect that 2 of our molecules to get into commercialization and if they become a blockbuster molecule are our capacities in unit III are sufficient for next 24 months or should we look beyond Q3 in the next 24 months.

Sucheth Davuluri: So first question Varun, the capacities are fungible, since we make APIs both with GDS and CMS. I think for the second question, we have allocated capacity, I think whether the molecules that have become commercial or will become commercial, whether they will be blockbuster or not that only time will tell we are in no position to predict that.

Saharsh Davuluri: What we normally do is we do a probability based simulation of these capacities and we only plan for what is obvious in terms of the customer outlook, but if there is an outlier and if something was expected to be 10 tonnes and then suddenly it's going to 150 tonnes, and obviously that kind of capacity would not exist, and we would have to plan for it. But then realistically, we won't have the time to plan for it. So it's something that would be a good problem to have, frankly speaking.

Sucheth Davuluri: So, unit III is where the growth is going to come from in terms of volumes in the future. That's where we also see an increase in our operating expenses so that we are ready for any anticipated increase in volume.

Varun Mohanraj: If I could have one last question. So in the previous call you mentioned that we have maybe an internal target to have a utilization level of 40 to 50% by the end of this financial year in unit III, so do we retain that stance?

Sucheth Davuluri: Yes, but we also have to keep in mind that 40 to 50% would have been for that current capacity of unit III. But as the company expands and grows that capacity in unit III will also increase. So what 50% means today will be different to what 50% will be two years down the line.

Varun Mohanraj: Okay.

Diwakar Pingle: Thank you, Varun. The next question comes from line of Badri Vishal. Badri please go ahead.

Badri Vishal: Good evening, sir. Based on the Q1 FY 22, and Q2 FY22 the results that were published and we achieved it was a confidence that this year FY22 we'll be crossing around four digit means Rs 1000 crores revenue comfortably. But till now what we have discuss on Q3 FY22 that because of inventory front difficulties and some customer issues, we could not get the required revenue generation and it was a difficult quarter for you I believe and still you have overcome and for the unit III you're increasing the capacities and turnovers for the revenue generation. But now Q4 is still pending, do I expect as an investor that we can cross Rs 1000 crores revenue generation this FY22?

Saharsh Davuluri: So in terms of business so far, I think Badri Vishal you have analyzed the situation fairly accurately. I think we've been hit both on the revenue front with certain market uncertainties like the ones we've talked about. And on the expense front with unit III expenditure as well as the challenges on the raw material costs, etc we faced challenges this year, and although to some extent for the first half of the financial year, our contracts with our raw material suppliers have helped us overcome some of the margin related challenges we did experience some of them in this third quarter. As an organization we've typically never given any sort of guidance in terms of what we expect to do. That's just purely because the nature of the business. In terms of the answer to your question why we would not be able to give any sort of guidance on

what we expect to do in Q4 and whether we would expect to cross the certain number, we think that the performance of Q4 as it stands today is likely to be better than what we have experienced in Q3. But beyond that, I would not really make any comment to your question.

Sucheth Davuluri: So, other thing I would add to what Saharsh said is that, our preference and our focus, especially over the last several orders, given the volatility of the situation with COVID, with the Chinese situation has been margins and focus on the protection of margins now as well as in the future. Therefore when it comes to certain kind of business, which will drive the top line growth but not really contribute to our margins or border bottom line, because consciously stayed away from the business as well. So, our focus will continue to be on the margins, on profitability, and to respond the best we can to the market situation, rather than just the top line growth.

Badri Vishal: Yeah, I appreciate your response because you cannot predict but already we are in midway, already one month is over, and you have put all your confidence level on revenue generation as well as a customer issue, and I hope that you will keep up on take to new high other than Q1 and Q2 and even that half year turnover, that is what is the confidence I see in you. All the best.

Diwakar Pingle: Thank you Badri. The next question comes in the line of Aman Vij from Astute Investment. Aman please go ahead.

Aman Vij: Good evening sir. My first question is on the CMS side, on the Commercial side if you see 9 months to 9 months revenue, we see a sharp dip. If you can talk about the same, is it because some of our customers have lost some market share in some of their products. Is it because they are now using multiple sources versus only relying on Neuland, if you can talk about the same.

Saharsh Davuluri: Aman so I think the answer to that question is that one of the older molecules that we had started working on I think over 10 years ago, is actually facing patent expiry is in various markets and as a result of that there has been considerable reduction in volumes. That has actually been the single factor that has created that drop in Commercial revenues. But having said that, we also expect that some of these Development molecules which we talked about are going to get into commercialization which would actually more than compensate for whatever dip we are experiencing right now on the Commercial front.

Aman Vij: That is good to hear sir. So, on the Commercial front if you remove that molecule, apart from that, what is the average growth of the remaining molecules?

Saharsh Davuluri: If we were to neutralize that particular molecule, the remaining molecules would be growing at a considerable size, maybe about 20-25% or so I don't have the exact number with me. But if we look at the commercial pipeline of the CMS molecules we are typically seeing anywhere from 10 to 30-40% growth in these volumes of these products and that growth could continue for 5 to 7 years and then it's expected that there will be decline as patents expire. Our CMS business is not old enough for us to have a very clear number on that but notwithstanding this one particular molecule, we actually think that the base CMS business has grown quite well but I don't have the exact number right now.

Aman Vij: Sure that helps. So, out of the remaining molecules, which are the bigger ones. Are there any molecule which is up for these kinds of issues like patent expiry in the next 1-2 years?

Saharsh Davuluri: Nothing right now that is close to patent expiry. I think we have maybe about 5 active molecules other than this one and CMS pipeline, one other than this one, there's been another one which has already expired, but that continues to be at a steady volume because it's from the Japanese market. And as you may know, in the Japanese market, even after patent expiry the innovator continues to hold market. So these are the only two ones which are actually close to patent expiry. So top of my head, I don't think there's anything else for the next 3 years at least.

Diwakar Pingle: The next question is from line Sameer Dosani from Carnelian Asset Advisors. Sameer please go ahead.

Sameer Dosani: So thank you for the opportunity. Can you give some insights about the competitive intensity and what is the opportunity size of the 3 DMFs we filed and what is the expected timeline this will start flowing in our revenue.

Sajeev Medikonda: So, if we look at the three DMFs we have file, the first one is Aripiprazole for the injectable where the patent is expected to go off in year 2025 onwards, but what we also need to keep in mind is the fact that the landscape is also now quite dynamic. But overall, this is quite an exciting molecule and the competition is quite limited because of the fact that it requires sterilization. So that is one molecule which is quite interesting. And the other molecule is Vilanterol which is again in the respiratory

space. There the patent timelines are a little away but we expect to see significant volumes and revenue even during the development phase. And the third molecule is Tafamidis Meglumine which again is a small volume, high value kind of a product with limited competition where we see the patent expiry first in Europe and later in US and other markets. And again, this is with limited competition but again, low volume but high in terms of value per kg.

Sameer Dosani: So, any indication on the market size of this molecules.

Sajeev Medikonda: So most of them would be in the range of 20 million with very few competitors in them.

Sameer Dosani: So $20 million.

Sajeev Medikonda: $20 million of the API value.

Diwakar Pingle: The next question comes in the line of Praful Lall. Praful please go ahead.

Praful Lall: Hi, thanks for taking my question. I only have one question, it's on the presentation it was a mention about green chemistry being used to combat the high solvent prices. So can you elaborate a bit more about that is it getting used for new molecules or even for existing products.

Saharsh Davuluri: We actually tend to use it for both Praful. So I think some of our old molecules are the ones which actually tend to consume the most solvents. But then for the older products, there are more challenges in changing the processes given the regulatory restrictions, and also for new products where we are able to design the process from scratch. We are able to factor in green chemistry and try to do things innovatively. I think as part of that pursuit one we have a team of technical people in R&D who are focusing exclusively on green chemistry, but notwithstanding that we're also looking at technical collaborations with other institutions to explore ways of bringing in green chemistry as well.

Praful Lall: Okay, thank you so much.

Ravi Udeshi: We have a follow on question from Keshav Kumar. Keshav please go ahead.

Keshav Kumar: So in reference to the biologics CDM space, I've been reading more and more about end to end solutions in housing of clinical manufacture fields finish and few of bigger

bigger players are consolidating the value chain and that would definitely be a big plus for the customer. So in reference to our peptide business, as well as the small molecule side are we seeing any similar trend like with a broader capability inhouse, rather than segregated functions for both API, formulation and the drug substance part.

Saharsh Davuluri: Keshav, I cannot comment on what's happening on the biologics, you probably know much better. But I think in the peptides front, what we have observed is that the technologies for making peptides are very different from the technologies involved in formulating a peptide or packaging a peptide or doing any of the other ancillary activities and therefore, its seen as a very exclusive competence. And therefore, what we are observing is that a lot of pharmaceutical companies whether they are generic or innovators, they tend to gravitate towards the peptide API specialist. And even within that, they are very clear segments within that. So, if there are fermentation based peptides then there are specialists who are there in that area and Neuland is not in that category. If it is solid phase peptide then there are certain companies who are very good, there are liquid phase or there is hybrid phase. So I believe pharmaceutical companies requiring peptides will prefer specialists because what they need is very specific and it may not really bode well with the integrated approach. That's kind of what we've seen, that's what we've heard our customers tell us in multiple projects.

Keshav Kumar: Awesome. Second, is that do you think of peptide vaccines as a space to be in, what do you think of it and if we have the capabilities and if we are looking in that direction?

Saharsh Davuluri: Again, can't say that I'm an expert over there, but we've heard of the concept of peptide vaccines, not really examine that space closely. Again, peptidesis a very vast space Keshav, there are peptides which you can extract out of DNA, there are peptides that you make in a fermented process, even drug like insulin is a peptide technically speaking. Newland has a very specialized focus in peptides which is the synthetic peptides and we have also gone as far as working with biologic companies which require a peptide linker to be tagged to an mRNA. So we worked on a lot of exciting projects, but the key is, do they need a synthetic peptide? So the answer is if there is a peptide vaccine that is a synthetic peptide and I believe we will have a role to play over there. But it's not like we've seen any specific opportunities in that area.

Keshav Kumar: Alright, thanks a lot.

Ravi Udeshi: Thank you Keshav. The next question we have from is from the line of Sachin Jain. Sachin please go ahead.

Sachin Jain: Hi, Saharsh, congrats for good performance in CMS. My question is, if I see the last two years there has not been a meaningful addition to project pipeline in CMS vertical. But now if I read your commentary, you specifically mentioned that you are seeing a very good traction in new opportunities in CMS. Can you just give more color on this?

Saharsh Davuluri: So I think if you look at the numbers per se, your observation is reasonable that the number of new projects added to our pipeline over the last two years are not as high as they were perhaps for the year before and this is something which is also consistent with the commentary we've made that our rate of adding new projects over the last 12-18 months has slowed down to an extent. It's not really a cause of concern, I think that's how the reality is because of COVID, biotech companies, pharmaceutical companies are not encouraged to come and audit new CMO's, they are not able to select new partners and therefore they tend to work with who they are comfortable with, and therefore it's been challenging for us also to add new projects. But what has been very important about the last two years is that the quality of projects that we've added to our pipeline are very exciting. And every quarter we've been adding projects which are either in phase II or phase III. The rate at which we have added phase III projects in the last 3 years is far higher than what we added in the first 10 or 12 years that we started CMS business. The potential of each of these molecules is also very high. We've seen a lot of molecules which have potential blockbuster status adding to our pipelines, but we are being very careful in projecting too much from them because these drugs are still under investigation. Also bear in mind that over the last 18-24 months, we've also dropped projects, projects which have either failed in clinic or for whatever reasons the drug has not been advanced. So net net our pipeline number has increased, not significantly, that's also because we've been in removing the molecules from our pipeline which are no longer active. So that's kind of how I would look at this pipeline. And I would again, reiterate that the quality of the pipeline in terms of the potential for commercialization and driving growth for CMS is very strong.

Sachin Jain: Saharsh do you see next couple of years as you expect now, the traction of ignition should accelerate further because maybe COVID was the reason largely, but now as thing improves from here, you expect now based on addition in pipeline should further accelerate from here.

Saharsh Davuluri: What I would expect is the phase II, phase III opportunity should increase considerably. I think as a strategy, we are not really looking at maximizing the number of projects for the company. What we are trying to do is find the right kind of projects where commercialization support is needed for innovators. Typically Neuland strength is we go work with biotech companies who have a drug in phase II, but don't have a supplier who can supply commercial scale so we tend to work with those biotech's really well. And even if we are able to add 2 such companies in a year that would actually be a remarkable addition to our pipeline because if these drugs since then in phase II, the chance of getting commercial is very high and then the quality of revenue addition would be very strong. So I think we're not really going after big numbers in terms of pipeline addition, but we are focusing more on phase II, phase III kind of opportunities.

Ravi Udeshi: In the context of time, people to request you and that since we are on the hour mark, we would request you to limit your questions. In case there are any follow on questions, then you can always reach out to us. Thank you. I would now hand it over to the Neuland management to deliver the closing comments.

Sucheth Davuluri: Once again, really appreciate all of you being here and continuing your trust and faith in Neuland's performance. I think we got a lot of good questions today and we hope that we've answered and clarified most of the questions not withstanding that we are always available for your follow up questions and your interest in the organization. I think as far as the quarter performance is concerned, it was clarified that the performance was impacted by a decline in the prime segment of GDS business, the volatility in raw material prices and obviously keeping our unit III ready for a future growth in terms of incurring those expenses. I think not withstanding that the Neuland business model for the long term is intact in terms of its focus on building and consolidating our position in the CMS business, focusing on fewer but high quality API's in terms of market share, protecting its margins and continuing supply for the customers who trusted and that business model is intact and we continue to be excited. Nonetheless, obviously we're not in a position to influence what the outcome of a specific molecule will be in terms of growth, whether it will be blockbuster or not. But where we are in a position to influence is the number of DMFs that we file, the number of molecules we develop and the number of projects that we execute on the CMS side for our customers and that is where our focus is and will continue to be. Having said that, once again, thanks for being here. Thank you for taking the time and we look forward to hearing from you in the future.

Ravi Udeshi: Thank you Sucheth. Thank you participants for participating in this call. In case you have any further questions please do write to us and we'll try our best to answer your questions. With that this call concludes. Thank you to everybody and have a nice day.