"Piramal Pharma Limited Q3FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Piramal Pharma Limited Q3 FY'24 Earnings Conference call.

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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gagan Borana from Piramal Pharma Limited. Thank you and over to you, sir.

Gagan Borana: Thank you, Seema. Good evening, everyone. I welcome you all to our Post Results Earning Conference Call to discuss our Q3 & Nine Months FY'24 Results.

Our Results Material have been uploaded on our website and you may like to download them and refer them during our discussion. The discussion today may include some forward-looking statements, and these must be viewed in conjunction with the risks that our business faces.

On the call today, we have with us, Ms. Nandini Piramal, Chairperson, Piramal Pharma Limited; Mr. Peter DeYoung, CEO, Global Pharma; and Mr. Vivek Valsaraj, CFO of our company.

With that, I would like to hand over to Ms. Nandini Piramal to share her thoughts.

Nandini Piramal: Good day, everyone, and thank you for joining us on our Post Results Earning Call.

We have started FY'24 on a positive note with healthy order inflows specifically in Commercial Manufacturing of On-Patent Molecules in our CDMO vertical, and a steady growth in our Complex Hospital Generics and India Consumer Healthcare business.

We are pleased to share that we have continued the momentum in Q3 as well with 14% year-on-year revenue growth, EBITDA growth of 94% and about 700 basis points year-on-year improvements in EBITDA margin.

Further, adjusting for an exceptional item of 32 crores related to a product recall initiated by our third-party supplier, we have delivered a PAT of Rs.35 crores during the quarter compared to a net loss of Rs.90 crores in Q3 FY'23.

It is also satisfying to note this performance has been broad-based, with our CDMO business growing at about mid teen rate during the year, and the CHG business and India consumer business delivering steady double-digit growth. All the businesses have seen year-on-year improvement in their profitability, driven by operating leverage, normalization of raw material and energy costs, better product and market mix and efforts of our cost optimization and operational excellence team.

And given that a large part of our expenses in the CDMO business are fixed, the resumption of a mid-teen growth in this business has helped us deliver an improvement in EBITDA margin during the year.

In terms of our debt position, we have seen an improvement in our net debt-to-EBITDA ratio. Currently, it stands at about 3.4x compared to 5.6x at the start of the financial year. We have used the major part of our proceeds from the rights issue to pay down our debt and are looking forward to further improve our leverage position.

On the sustainability front, we have taken a target to reduce our Scope-1 and Scope-2 greenhouse gas emissions by 42% by FY'30 compared to FY'23, which is in accordance with the 1.5 deg. trajectory suggested by SBTi. Further, we have also taken the target to reduce our scope 3 emissions by 25% by FY'30.

We are working diligently to minimize our resource consumption, provide a safe workplace for all our employees, deliver quality products and services, promote diversity and inclusion in our workforce, and enhance the quality of life of the communities around us.

Moving on to “Business Specific Highlights,” starting with the CDMO business:

We continue to see good momentum and order inflows during Q3 FY'24. The new developments and commercial orders excluding the existing multi-year manufacturing relationships grew by 60% in the nine months FY'24 compared to the nine months FY'23. These recent order inflows have high content of innovation related work, especially for commercial orders for on-patent molecules.

During the quarter, we successfully integrated Antibody Drug Conjugate, involving Monoclonal Antibodies. This order involves three sides Yapan Bio, Grangemouth for Conjugation and Lexington Fill/Finish.

Given the pickup in the CDMO business, we are seeing an improvement in profitability, driven by operating leverage, favorable revenue mix, normalization of raw material cost and cost optimization initiatives.

In terms of regulatory compliance:

All our recently audited facilities by the US FDA have an EIR. We have also successfully closed over 140 customer audits in the nine months of FY'24. We are also scheduled to have the UK

MHRA inspection of our newly commissioned multi-purpose state-of-the-art ADC manufacturing facility at Grangemouth in February 2024.

In terms of key challenges for our CDMO business:

Incomplete recovery in the biotech funding environment impacting the pace of order inflows especially in the early stages of discovery and development is a key thing to watch out for. Also, clinical and regulatory attrition of our customers products is a material challenge in the CDMO business.

Moving on to the "Complex Hospital business," we continue to deliver steady double-digit growth during the quarter and nine months of FY'24, mainly driven by our inhalation anesthesia portfolio. We are seeing good volume growth in our inhalation anesthesia portfolio in the US market, which is partially being offset by lower market prices due to increased competition. We continue to maintain our leading position in the US. Sevoflurane had significant market share gains in the last three years.

In the non-US markets such as the UK, France, Vietnam, Thailand, etc., we have seen increased traction for inhalation and seizure products.

Given the healthy demand for our inhalation anesthesia products, our three inhalation anesthesia facilities in India and the US, are operating at capacity with a focus on operational efficiency and timely execution of the planned capacity expansion.

In the Intrathecal segment, we continue to command the leading market share in the US. Our brand Gablofen continues to be the #1 ranking Baclofen in prefilled syringe and bio brand in the US.

In the other injectable segment:

We launched three new products in the US and the European markets during the quarter. We are also building a pipeline of 25 injectable products which are in different stages of development. The current addressable market size of these products is about $2 billion.

In terms of key challenges for this business:

Geopolitical risk and associated supply chain challenges are a key issue to watch out for apart from adverse cross currency movements as we sell products in over 100 countries.

Moving to our "India Consumer Healthcare Business":

During the quarter and nine months, our ICH business delivered a steady double-digit YoY revenue growth, driven by new product launches and growth in our power brands. We have also seen an improvement in our profitability as planned on account of operating leverage as we get closer to a Rs.1,000 crores of annualized revenue. We continue to invest in media and trade spends to drive growth in our power brands. Promotional spends during nine months in FY'24 was 13% of our ICH revenues. Our power brands grew at 12% during the nine months and contributed 41% to our total consumer healthcare sales. Our key brands such as Little's and Lacto Calamine grew at about 18% in the nine months. However, growth in Tetmosol was impacted due to unseasonal rains and erratic weather patterns in the summer.

Over the last three years, we have launched 100 new products in the market with a reasonable success rate. During Q3 FY'24, we launched six new products and three new SKUs. New products launched in the last 24 months contributed 13% of our consumer business sales.

Our sales on e-commerce platforms are growing well and complement our presence in general trade. e-commerce sales are about 16% of ICH revenue and we have a presence across more than 20 e-commerce platforms and also have our own direct-to-customer website, wellify.in.

To Summarize:

I would like to say we have so far delivered a healthy performance in the first nine months of the financial year. Our CDMO business is growing at about a mid-teen rate, while our CHG business and India consumer business delivering steady double-digit growth. All of our businesses are showing year-on-year improvement in their profitability. We continue to maintain our best-in-class quality record and are taking multiple initiatives to integrate sustainability into our operations. Q4 is historically the strongest quotes of trust in the financial year and we expect to continue this momentum subject to a stable macro environment and access to logistics and distributions given the current geopolitical situation. We'd also like to reiterate our earlier guidance of high-teen year-on-year revenue growth in H2 FY'24 accompanying a meaningful margin expansion.

With this, I would like to open the floor to a Q&A.

Moderator: We will now begin with the question-and-answer session. We take the first question from the line of Niharika Agarwal from Incred Research. Please go ahead.

Niharika Agarwal: My question was that, could you provide some revenue guidance for the ADC unit?

Nandini Piramal: I do not think we provide that level of guidance at such a level. Because I think it's only one of our sites.

Peter DeYoung: However, qualitatively, we would like to state that we see that the overall market demand for ADC as an offering remains strong. And if you look at the current deal activity going on in the innovator side, it suggests that a lot of innovation money is going into this segment. And that is part of what led us to go forward with the expansion at the Grangemouth facility, which we believe should be able to demonstrate increased order flow, win rates and subsequently revenue growth in the coming quarters and years.

Niharika Agarwal: What capacity utilization are you expecting for the new Grangemouth facility?

Vivek Valsaraj: We have just done the expansion, Niharika, and what we have added is two new suites to the facility, we had three initially. So, it's a meaningful expansion in capacity and you have to see how the capacity expansion picks up.

Niharika Agarwal: What market share do you have for this area right now, and are you expecting the market share to pick up as well?

Peter DeYoung: I do not think we disclose technology level market shares. However, I would like to tell that we were one of the earlier entrants into the conjugation space through the Grangemouth facility, and therefore, we have a long track record, and we think that we are well positioned versus our competition to continue to win our fair share, but we do not publish specific individual technology market shares.

Moderator: The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead, sir.

Akash: This is Akash here. My first question is, any timeline for commencement of ADC contract? Can you please share that?

Nandini Piramal: We have multiple ADC contracts. The work with the one that we have mentioned I think has already started.

Peter DeYoung: Correct. The work has already been done for the one that we mentioned.

Nandini Piramal: It's already started.

Akash: How many molecules are under Phase-III clinical trials which can support the growth prospects for the company?

Gagan Borana: So, there are about 35 as we updated as on FY'23. We update this number annually. So, in the next quarterly call, we'll be updating the pipeline. So, the last updated one is 35 molecules in Phase-III

Akash: So, the next question would be how much cost optimization can be expected over the next 12 to 24 months, if possible to quantify the reduction in OPEX from current run rate?

Vivek Valsaraj: So, We are not specifically calling out a number of absolute values of cost optimization, Tushar, but what we can assure you is that the cost optimization programs which we began at the beginning of the financial year are all holding in good stead as you can see from the margin expansion that has happened and it will continue through the next year as well.

Akash: Any impact on logistic cost due to Red Sea issue?

Peter DeYoung: Currently, there are constraints. At the same time, our supply chain and logistics teams are working to ensure that We are carrying adequate inventory or shipping in advance to ensure that the shipments reach the customers on time. The situation is a little fluid right now and we are evaluating it and of course our attempt will be to try and push out the consignments as required on time.

Akash: How much tax rate do you expect in FY'25?

Vivek Valsaraj: While we are not making a forward guidance right now for FY'25, the effective tax rates for the peak are 25% for India and US which are the largest in terms of our profit share.

Moderator: We take the next question from the line of Praveen Rathi from Praveen Rathi and Associates. Please go ahead, sir.

Praveen Rathi: I have two questions. Are we actively participating in the bidding process of HLL Lifecare? If yes, then how that will be managed? And the second one, are we commercially manufacturing SGLT2 Dapagliflozin?

Nandini Piramal: So, one is, I think our focus right now we have said is on organic revenue growth, operational excellence and cost management and reduction of debt. So, I think that is the focus of the company right now. In terms of Dapagliflozin, yes, we are manufacturing it.

Praveen Rathi: We are not bidding for it with this new spend by the government?

Nandini Piramal: I think right now our focus is on, as I said, organic growth.

Moderator: The next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

A Puranwala: Just a couple of questions from my end. To start with, on the gross margin front, so for this quarter, if you see, your gross margins were slightly lower as compared to what you have done in Q2. So, the top line was largely identical. What explains this dip in the gross margins on a sequential basis?

Vivek Valsaraj: We had called this out last time that we had a significant increase in inventory and that led to an overhead credit in the COGS, which we had said would unwind in H2. So, this is basically the timing thing. Our standard gross margins are between 64% and 65% and that is what it will remain at.

A Puranwala: So, this number should largely sustain in Q4 and for next year FY'25?

Vivek Valsaraj: We are not making a guidance for FY'25, but for FY'24, that is right.

A Puranwala: Secondly, the break up what you provide on the revenue side, so possible to provide a split of your CDMO business between what is innovation for the quarter and what is for the generics including the API business?

Peter DeYoung: I think our plan is to give that on an annual basis because we see that there can be within quarter abnormalities than we find it probably more salient to give once a year along with our pipeline update that I think Gagan mentioned earlier in the call.

A Puranwala: Just to then better understand your CDMO growth of this 11% or the 13.5% to what you have recorded in the first half, first some ballpark color as to where the growth is coming from, is it coming from the new molecules which are getting added in the clinical trials or it's more led by the 18 commercial molecules on the innovation side or is it the generic piece which is pulling that?

Peter DeYoung: It's a fair question and We are actually quite excited that a lot of the growth is happening in the recently launched commercial innovative molecules that We are supporting and I think this is consistent with the messages we shared with our year-end numbers where we saw an increased order flow in that category and We are seeing that now flowing through into the revenues, and so, we would expect that to be a relevant contributor to our growth.

A Puranwala: In the previous con calls, we have highlighted the business as a potential of achieving EBITDA margins at least in a range of say 16% to 18%. So, how soon do you think this kind of an EBITDA margin is achievable? Is it a long term aspiration or something which you can achieve in the next two, three years?

Vivek Valsaraj: So, as we mentioned, We are not making a forward guidance at this point, and we do not really give a segment level margin split and we'll cover that later when we make a specific guidance for the future.

A Puranwala: No, I was not looking for any specific segment link, but on an overall basis, your consol EBITDA margin, how should we figure in, in terms of the way to look at it, is it this 13%, 14% what you reported in the last two quarters quite sustainable, or you see a meaningful increase to happen in the next coming year?.

Vivek Valsaraj: As we have guided that we will see a meaningful increase in the EBITDA margins over the previous year and we stand by that guidance, and you will see an improvement overall at the end of the financial year as well.

Nandini Piramal: I think also going forward we should see improvements in EBITDA margins as we get more operating leverage through revenue growth. So, I think in the future, we should see higher EBITDA margins.

A Puranwala: In terms of our aspiration, so where do we see that leverage landing up in say another two to three years, would it be close to say like 2x or 3x the EBITDA what you do in the next couple of years or any ballpark color on that would be again helpful?

Vivek Valsaraj: So, as you would have seen this consistently improved the overall leverage; we were at 5.6 when we began the year, we are now down to 3.4. As a first step, we are targeting to bring it down to less than three in the immediate term. So, let's start from there and that is the target that we have to bring down to less than three.

Gagan Borana: Just for the benefit of all, last quarter we gave a guidance for H2. For the guidance on FY'25, we'll have to wait till the next quarter till we get some clarity on the order inflow. So, we are not making any forward-looking guidance for FY'25 in this call, but maybe in Q4 we will be giving more clarity on FY'25 outlook or the guidance.

Moderator: We take the next question from the line of Ankit Shah from Canara Robeco AMC. Please go ahead, sir.

Ankit Shah: To start with, I wanted a bit more granularity on the demand front. I understand that right now biotech funding environment is weak, but are you seeing any kind of traction in the RFPs or enquiries? And secondly, you said you you're seeing good traction on the commercial molecules. So, does that give a more longer-term visibility now with more commercial molecules under execution, so some color on that?

Peter DeYoung: The second part first, which is that a large part of our strategy of pivoting to innovative work on the development side, integrated projects on the development side and differentiated offerings in those integrated projects on the development side, is all a mix shift towards what we believe to be more attractive, stickier business. And as these clinical programs mature and become commercial, the predictability of the once-launched commercial programs is higher than the development programs which are subject to binary risk. So, overall, this is we think seeing some of the lagging indicators of our strategy and so, we think it's a good thing. If you look at our order intake and the RFP inflow that We are seeing, we have seen through this difficult period strong continued inflows from the large pharma client base, which have more stable balance sheets. For the emerging biopharma, which would be in the area that would have to tap the funding markets, it has been a difficult period for them over the last, let's say, 24-months and while some with good data and more advanced programs have been able to get funding over the period and funding has occurred. It has not rebounded to date to a higher level than what it has been, let's say, over the last two years. And so, we look forward to it improving in the future, but we can't predict exactly when that will be. And so, for the near-term, We are expecting more of the same in terms of the funding environment and any improvement over that in our mind would be an improvement in our outlook.

Ankit Shah: So, related to that, I understand it's early days yet, but recently there was a proposed BIOSECURE Act which looks dealing with China. So, what are your initial thoughts on that? Would it stand to benefit Piramal's business?

Peter DeYoung: We see the geopolitical and geographic preferences of our customers being complex and varied. We see some clients who would like more onshore production and for them their shores may vary, but it would largely be in the US or Europe. We see other clients for whom they have larger volumes and cost of goods is important and then they want to derisk from China and then we see increased inflows for customers with that profile. And we see other customers who continue to be comfortable with China as a place to source from. And so we see the entire mix. And our go-to-market strategy is not to try and convince the client to go to a particular place because what we found is they typically know where they want to go and then we provide an offer from the location that they want at a price that is competitive and a technology level is competitive, then a service level is competitive for that geography. And so, we see demand actually in both our overseas and our Indian offerings at the moment.

Ankit Shah: Secondly, can you tell me what was the net working capital where it stands at the end of December? And has there been any inventory buildup ahead of Q4 dispatches?

Vivek Valsaraj: So, yes, as we mentioned that there is a significant increase in inventories, because we have a high Q4. Net working capital is roughly about Rs.2,400 crores at the end of December, it's almost similar to what it was in the earlier quarter in September.

Ankit Shah: On the cost side, so I see that your costs have come down significantly, the other expenses. You mentioned some of the reasons, but should we expect this run rate to continue going forward or any cost that can increase due to new facilities wrapping up or anything, can the current run rate in other expenses continue going forward?

Vivek Valsaraj: To the extent of costs which are variable and linked to production, they will obviously vary depending upon the quantum of production and operations that happens during the quarter. Otherwise, we are trying to do our best to keep cost at the optimum levels and therefore all the operational excellence initiatives and cost optimization initiatives are running in parallel and we will continue. If you are referring to a decrease in the other expenses for the quarter, I just want to highlight that last year in Q3, we did have a provision for a receivable which was one-off, so that may not be a correct comparison, but otherwise the current expense that you see is more or less in line with what we want to operate at.

Moderator: The next question is from the line of Vinod Jain from W F Advisors. Please go ahead.

Vinod Jain: Even in a benign environment and even with all the operational excellence achieved overall, the profitability of the company is a constraint. I mean, if you take the one-time charge into account, the profitability is almost nil. That leaves nothing for the shareholders. So, my indication is whether it is the cost reduction, which is the answer to the question wherein IT could be a key driver and the administrative costs and the overhead in the other expenses could be curtailed further. I would like to have some thoughts of the management on this.

Vivek Valsaraj: So, firstly, in terms of the subdued profitability, as you would see that we are making good progress quarter-on-quarter in terms of improving the revenues, improving the capacity utilization and optimizing the cost, which is leading to that improvement in margin. Obviously, this can't happen overnight and has to go through the process. As the revenues increase year after, we will see further improvement in margin and therefore improvement in overall profitability. The point that you refer to with respect to admin and other expenses, all of them of course are being looked at and those are continuous programs that we are running to optimize cost across the organization and those will continue.

Vinod Jain: Whether IT could be a key driver?

Vivek Valsaraj: Of course. We are working on digitization wherever possible and that is a continuously running program across all our businesses.

Moderator: The next question is from the line of Gaurav Arora from Equirus. Please go ahead, sir.

Gaurav Arora: A couple of questions. First is on the CDMO business. So, how much of your CDMO business would be from the small biotech firms and how much would it have shifted from small biotech to let's say larger firms or generic pharma over the last few quarters?

Vivek Valsaraj: So, roughly about 33% of our business comes from biotech. It's almost like an equal spread. Large pharma is 33, biotech is 33, and the other balance is the mid-sized pharma.

Peter DeYoung: I think we give those demographics annually.

Vivek Valsaraj: That is right.

Peter DeYoung: And within the year, I think we have probably had a bit higher growth in the large pharma this year than the emerging biopharma for the reasons we mentioned in the demand discussion earlier. And that will probably reflect when we give the updated annual numbers for the categories.

Gagan Borana: So, in the next quarter, we will be putting out all the pipeline details and the FY24 customer breakups, so you'll get the answer there. But yes, directionally it's one third, one third, one third.

Gaurav Arora: The next question is related to the CAPEX. So, we have just completed the large CAPEX of $157-odd million over the last couple of years. So, how much would you need to invest further for growing the business and have the CAPEX plans for FY'25 been fixed?

Vivek Valsaraj: So, We are not making our forward guidance on FY'25 CAPEX yet. For the current year, we have spent about 60 million, and we expect maybe another 20, 25 million to happen in Q4. So, that is what we see as the current set of investment.

Gaurav Arora: But, should we expect the CAPEX intensity to reduce a bit in FY25 or should it, I mean be -?

Vivek Valsaraj: The large part of the growth CAPEX which we wanted to do, we have done. So, there will be some reduction, but we'll give you more specific guidance on that later.

Gaurav Arora: Last question is on the ICH. So, with the annualized run rate now surpassing Rs.1,000 crores, would it be fair to assume that ICH business would have low to mid-single digit margins now, and would it be fair to assume that it will keep improving here on or would you keep investing in ad spends on new product launches and prioritize growth over margins there?

Nandini Piramal: It has a single digit margin right now, and as we gain scale, I think we like to focus on improving profitability as well as growth… where profitability is first.

Moderator: Next question is from the line of Bharat Gupta from India Insight. Please go ahead Sir.

Bharat Gupta: So, a couple of questions. One, on the order book space. So, can you quantify like what kind of order book we are maintaining in the CDMO space? And if possible, can you bifurcate it across the API and the innovation space?

Gagan Borana: So, we do not give a quantitative number. In terms of API and formulation split, it is more in favor of API, maybe 60% API, 40% formulation. And in terms of the split between innovation and generic, as the last reported one, 45% of our CDMO revenue comes from innovation-related services and 55% is on generic. So, when I say 45%, it includes discovery, development and commercial manufacturing of on-patent molecules.

Peter DeYoung: And our overall multi-year trend is I think we have communicated in our prior materials has been that the innovation mix has been increasing and we would anticipate with the current performance that when we next update that should show movement in that direction again. So, we would see that We are growing faster in that category.

Bharat Gupta: I believe there has been some sort of a supply constraint with one of our peers closing down their couple of their sites. So, do you believe that the supply constraints are benefiting us in terms of gaining market share?

Nandini Piramal: I think overall in CDMO, there is actually quite a lot of capacity, and the market share doesn't move that easily.

Peter DeYoung: I think customers obviously have choices and we need to win our business and we feel that we do win more than our fair share of business that comes up, but they do have choices. And on any given project there will be a long list and short list and then finally between three to five players and everything goes out to bid and we win more than our fair share we think. But I do not think that there's a shortage of capacity and choices.

Bharat Gupta: Like my question was particularly with respect to the capability which we have, particularly if we can try to compare it with the peer. So, are we at par or we might have to incur and bring out new platforms so as to be at par with them in order to take the market share from them?

Peter DeYoung: We continue to look at where we need to make investments in our CAPEX. I think the first priority remains on maintenance and compliance CAPEX and then the next thing would be on capacity and capabilities. As mentioned earlier on the CAPEX discussion, we just completed some major expansions across our network and at this stage We are looking to try and maximize the benefit utilization of those, and that is why you see a more muted CAPEX number for the year overall. We obviously look side-to-side and look for gaps to address, but we do feel, and I'll reiterate that our win rates as we see them when We are on the short list are reasonably good versus our competition, and we think that We are winning more than our fair share, which is showing up in our order book and in our revenue growth.

Bharat Gupta: My last question pertains to the Indian healthcare space. I can see in the presentation that there has been a reduction in respect to the advertisement spends and particularly with respect to the last nine months, it has been close to 13%. So, are we expecting an increase over Q4 FY'24 or this is a sustainable level and we can focus more on the profitability side currently?

Nandini Piramal: I think Q4 will see a little more higher advertisement spend, especially it's a seasonal time for some of our products.

Moderator: Next question is from the line of Chintan Shah from JM Financial. Please go ahead.

Chintan Shah: So, if I look at the interest cost in the financial, so QoQ that is still around at similar levels of say Rs.105-odd crores, but the net debt if we see at the end of previous quarter, reduced to Rs.3,800 crores. So, can you just explain what has happened here?

Management: Chintan, it's largely rate driven. As you're aware, almost 78% of our debt resides outside of India and our debt is actually benchmarked against all the benchmark reference rates, so, whether it's the LIBOR, the SOFR, or the Fed rates, and all of these, if you look at between March and December have increased in a range of anywhere between 9% to 17%. Also in India, if you see, whether it's the treasury bill or the bank reference rates, MCLR have also increased between 3% to 7%. So, for the interest cost to go down, these benchmark reference rate need to come down first, and that will help reduce the overall interest cost.

Chintan Shah: If you can just also highlight what's the gross debt number as of December and what proportion would be overseas and are we like targeting that with the cash flows we'll be reducing that first, what's the strategy?

Vivek Valsaraj: So, as I mentioned, nearly 78% of our debt resides outside. Those are dollar-denominated debt which is serviced locally. And our gross debt is roughly about Rs.4,500 crores. And the idea as I mentioned is through internal accruals given the fact that the EBITDA is improving, the overall CAPEX spend is also now reducing, we will see internal accruals for being able to retire debt. Our target would be to bring down the debt-to-EBITDA ratio from the current levels of 3.4 to about 3 to begin with and then reduce thereafter.

Moderator: The next question is from the line of Shubham Shukla from Voyager Capital. Please go ahead, sir.

Shubham Shukla: Just like this on funding scenario in US biotech firms, is it like bottoming out, is it better than last quarter, can we expect a bounce in the next one to two quarters?

Peter DeYoung: So, we track this monthly and there are different reports you could look at from analysts that track this category. But, I would say that the funding has continued at a subdued rate over much of last year. And while there's always discussion about whether next month will be the month that it ticks up, I wouldn't say that there's been any material improvement in the overall funding. And when we look at funding, we look at across the private funding, the IPOs, the follow-ons in the pipes and I would say across that aggregate funding for our customer base, it has continued at a meaningful level, but significantly below the peak and it hasn't really rebounded. Obviously, everyone's checking January and there's been some notable IPOs in the US, but two good IPOs do not a trend to make, and at this stage, We are assuming more of the same until we get enough data points to say there's a signal.

Shubham Shukla: These exceptional items we had like 32 crores this quarter, if like there's some more colors like in detail, what was in that?

Vivek Valsaraj: Yes, Shubham. So, during the quarter, one of our suppliers for our complex hospital generics business had reported that there is a certain quality issues with respect to their product and the supplier had triggered a recall of those products. As per our agreement, we were entitled to indemnity for the cost with respect to the recall and the unsold products and other associated costs. Our subsidiary had given ample opportunities to the supplier to pay for those. And since the supplier was not able to pay for those, we instituted a formal insolvency proceeding against them, and accordingly, the claim which we had made against them, we have made a provision for that in the books which has been classified as an exceptional item.

Moderator: Next question is from the line of Alok Dalal from Jefferies India Private Limited. Please go ahead.

Alok Dalal: Peter, on this new integrated order for ADC, so can you tell us which stage is this order -- is it stage-III or NDA filing or commercial?

Peter DeYoung: This is an early stage filing. What we have seen generally is that as the ADC sector has become much more attractive as a destination for innovation work, we have seen a meaningful uptick in emerging biopharma or smaller companies targeting these assets. And for those companies, the integrated offering and the speed and the simplicity, we can offer them is very important, but these would be on the earlier stage in terms of the development cycle, they would not be late stage, this would be on the early side. And we expect as a market when a particular technology area becomes hot, you get a little bit more private funding into that category, more single asset startups or single digit number asset startups targeting that category, we think We are well suited to meet those needs, because they want the virtual simpler, faster offering which we can provide.

Alok Dalal: Peter, the company has over the years built multiple capabilities. ADC is one, there is Hypo APIs, peptides, control substances. So, which are the areas that excite you, where is Piramal differentiated has an edge over others and that can be a significant growth driver for CDMO say over the next three, five years?

Peter DeYoung: So, I would say, there's several that We are excited about. I think the onshore Hypo API offering remains a strong offering for us and we think it will be a meaningful growth driver in the medium term as you said. I would say that, if you look at our containment-oriented fill-finish offering in the US, that is also an area where we think we have some distinctive capabilities and we continue to get strong order inflow. You mentioned ADCs both on a standalone conjugation basis where we have a long history, and then for a more medium period of time, we were doing that combined with fill-finish. And as I mentioned earlier, more recently with the Mab, so now we can offer all three and even in other cases We are offering linker payload. So, we can now offer the fully integrated offering there in the ADC category. As we shift to India, I think, We are quite excited with our peptide capability. This used to have more of a generic orientation, but we have been repositioning that and we expect in the future to have a services innovation angle and we think the peptides not a lot of CDMOs would be offering. Obviously, there's some credible much larger competitors that we have some capabilities that put us at the table. And I wouldn't also underplay that there are not a lot of innovative oriented CMOs in the Indian delivery market with a combination of signs, track record and efficiency profile that we can offer, and that is actually driving a lot of our growth this year. So, the innovation offering in the India market with these signs and quality and track record also. So, I gave you a bit of a long answer, but what part of what excites us is it's not just one thing, we have several engine to grow with and if we think that they collectively will allow us to serve more innovators, more integrated projects and with these differentiated offerings.

Alok Dalal: Also, I think, so if we take three to five years, then the current mix of CDMO is 55, generic 45, innovation driven. Is there a target in mind that the company has about a change in CDMO mix which can then provide investors with more sustainable revenue and a much better margin profile?

Peter DeYoung: So, I mean, the obvious next milestone that we would like to achieve would be more than 50%. We can't give you a specific timeframe as to when that would happen, but it's just a mathematical number, but it's a meaningful tipping point we'd like to be able to demonstrate to the market. We are not at the point where we can say that we have achieved it, but obviously we'd want to do that. But I would say that overall, we would expect our mixed shift to continue to move upwards on the innovation side. And as you mentioned, we think that while we obviously still will benefit from selling in the off-patent area and that will always be a meaningful part of our offering because of certain other benefits which we have discussed before, we would anticipate continuing to aim to have a sequential improvement in the innovative mix with all the benefits you described.

Moderator: The next question is from the line of Aagam from Flute Aura. Please go ahead.

Aagam: My question is regarding the seasonality bias in our business. We are expecting better numbers on the absolute numbers on the top line and EBITDA this quarter. Just wondering if there's some spillover residual billing that is going to happen in Q4 given the numbers are quite flat in Q2 and Q3. Could you throw some light on that, please?

Vivek Valsaraj: So, historically for us, Q4 is the biggest quarter and even when we gave out a guidance in Q2, we had specifically called out that it is within H2, it is Q4, which is specifically the biggest quarter. So, for us, the seasonality within H2 is also more skewed towards Q4. So, yes, you will see a bigger number in Q4 in terms of revenue.

Moderator: The next question is from the line of Pawan Bhatia from Nuvama. Please go ahead.

Pawan Bhatia: I had two questions actually. One is, has there been any restatement in the segmental break up, because if I see the CDMO revenues right now show about 1,010 crores versus in the Q3 of FY'23 it showed 1,021 crores?

Vivek Valsaraj: No specific restatement. At the most, there might be an FX related movement. We will separately provide you the detail of this if you can send us a query, Pawan.

Pawan Bhatia: Second question is, is there going to be any price trend in inhalers, are you going to change in the subsequent quarters?

Gagan Borana: You mean to say inhalation anesthesia?

Pawan Bhatia: Yes.

Nandini Piramal: I mean it is a generic market where there is price pressure and there is competition in the market. So, yes, I mean, pricing is -

Peter DeYoung: Generally, if you look over a multi-year trend, pricing in this particular market has a modest annual degrowth or reduction. One of the benefits we have in this business segment that you just asked about is that We are vertically integrated, and we have a multi-year cost program that has allowed us to maintain over a long time horizon despite price decreases, reasonably attractive gross margin or contribution margin. And so that countervailing component allows us to maintain the necessary profitability and we anticipate working with these levers to continue that in the future.

Moderator: The next question is from the line of Omkar Kamtekar from Bonanza Portfolio. Please go ahead.

Omkar Kamtekar: So, firstly, what I wanted to ask was with respect to the consumer healthcare business, Power brands approximately contribute 41% of our revenues for the nine months FY'24, it's been steady. How do you see these numbers going to meaningfully move ahead and higher, what is the outlook there?

Nandini Piramal: I think overall, yes. I think that is the idea. I think just this year for one of our brands, we had some unseasonal rains which kind of impacted it during the season. But I think in general the trend is for us to put media and advertising and investment behind the power brands and we should see higher growth.

Omkar Kamtekar: So, any of the non-other brands that could migrate into the power brands, is there something like that could happen over the medium term, near term, could that be, could that be also a case?

Nandini Piramal: Right now, the focus is on our five current power brands. I think we want to get them to significant sizes and there's some way to go yet.

Omkar Kamtekar: The consumer business itself is also now closing in on 1,000 crores growth of revenue. Would that be something sustainable over a period of time, say, ahead or would this also maybe be little volatile because the competition in the OTC market with the other peer, how are we sharing that, and do we see any challenges in any segment as such?

Nandini Piramal: I agree there is competition in the market, but it is a sustainable business we have been investing with a kind of distribution and feet-on-street in chemists and stores and modern trade across India. And so, overall, I think we see this is a sustainable business.

Omkar Kamtekar: Could you just share the market share number for the generic business, is there disclosable number that we have?

Management: I think we disclosed it in the last quarter. So, in Sevoflurane, we have about 44% market share in the US and in intrathecal Baclofen we have 78% market share in the US. So, these are two significant products we have, and we have disclosed this.

Omkar Kamtekar: How is the pricing environment in the US with respect to our products? Are we seeing any headwinds there or maybe reservation of the headwinds, so that the outlook becomes better over a period of time, is there any color on that, can you please share?

Nandini Piramal: I think overall as we said in a generic market, there is year-on-year price declines and We are trying to manage overall margin improvement through vertical integration first.

Omkar Kamtekar: So, our gross block as of the last reported number of the FY'23 number is 3,500-odd crores, and this facility that will be coming on, how much of that would be capitalized in the books, so the gross block, what will be the number now?

Management: So, while we have not published a balance sheet for December and the next one you will see in March, significant part of the increase in the gross block has come in on account of the CAPEX that we have incurred at Grangemouth, CAPEX which we closed at Riverview, the CAPEX which we did at Turbhe and in vitro capability that we did at discovery services, those were the four big ones which we have done over the last year, which has led to an increase in the gross block. CAPEX we expect is anywhere between 80 to 85 million for the year.

Omkar Kamtekar: So, what would be the asset turns that we can see for FY'24, yes, but on a continued basis, what will be the fixed gross block asset turns that we can expect? So, it's currently in the range of 1, 1.1, but will it be sustained at these levels head also or would it improve?

Management: It obviously has to improve, and the target will be to take it to 2, 2.5%. Of course, that will vary by sight, but the asset turns will improve.

Omkar Kamtekar: So, you are targeting 2% to 2.5%, but we are not putting any timeline?

Management: Yes. So, over the next couple of years, the target will be to move in that direction.

Moderator: The next question is from the line of Kunal Tokil from Fair Value. Please go ahead.

Kunal Tokil: Most of my questions have been answered. I just had one left. You mentioned that in the ICH vertical, the contribution of the products launched in the last two years is 13% to the top line. So, do you expect this ratio to improve or stay the same going forward?

Nandini Piramal: I think we expected to be around the same because as the products scale and grow older and effect they move into our existing products basket.

Moderator: We take the next question from the line of Rucheeta from iWealth. Please go ahead.

Rucheeta: So, my question was mainly on the side of margins. So, when you're saying that, obviously, there is a part of operating leverage that would play out if my sales increase. But is there a chance that my gross profit margins would improve further from here because of a better product mix or do we see that this 64%, 65% of margin should only be sustainable?

Vivek Valsaraj: So, while there are different factors that impact the gross margin, as you rightly mentioned, product mix can play an impact, at the same time yield improvement, the backward integration, cost optimization initiatives can also help improve the overall gross margin, and sometimes just the depreciation of the rupee can also play an impact on the gross margin. So, there are multiple factors that can play out and obviously our attempt will be to move in the direction of improving gross margins, will work towards it. But, as we mentioned, there are certain businesses where there could be pricing challenges, there could be impact, so it might even balance out. So, that is possible.

Rucheeta: But is there any target you would like to reach in terms of your EBITDA margins or gross margins, if you could just give a little sense in that?

Vivek Valsaraj: No specific target, I mean obviously we will try to improve it as much as we can, but we can't put a number to it, because it completely depends upon the kind of product mix, the kind of orders we get, it depends upon the customer mix. So, all of that. There are variables that will be beyond our control as well.

Rucheeta: Sir, when you talk about this high teen sales growth, do we also include the other income in it or is it just -?

Vivek Valsaraj: This is just the revenue number including the other income.

Rucheeta: Because right now we have been growing at the lower end of it like low teens basically. So, how do we see this improving because there's just one quarter left, so where do you see the growth coming from?

Vivek Valsaraj: As we said, Q4 for us is the biggest quarter. So, a large part of sales does happen in Q4 and there the growth rate will be higher, which should take us to closer to where we have said we will be.

Rucheeta: High teens?

Vivek Valsaraj: Yes.

Rucheeta: And this high teens growth, do we see this in the next 3-4 years as well, like what the next year immediately I'm talking about, but on a longer term trajectory if I want to see the company?

Vivek Valsaraj: We are not making a forward guidance at this point in time. We will come back on that.

Moderator: Ladies and gentlemen, we take that as the last question for the day. I would now like to hand the conference over to Mr. Gagan for closing comments.

Gagan Borana: Well, thank you everyone. We hope that we were able to answer most of your questions. In case you have any follow up questions or any clarification, please feel free to reach out to me and I'll be happy to respond. Thank you and have a good day.

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