“Piramal Pharma Limited Q4 Earnings Conference Call”

May 25, 2023

MANAGEMENT: MS. NANDINI PIRAMAL – CHAIRPERSON, PIRAMAL PHARMA LIMITED
MR. PETER DEYOUNG – CHIEF EXECUTIVE OFFICER, GLOBAL PHARMA, PIRAMAL PHARMA LIMITED
MR. VIVEK VALSARAJ – CHIEF FINANCIAL OFFICER, PIRAMAL PHARMA LIMITED
MR. GAGAN BORANA -- GENERAL MANAGER, INVESTOR RELATIONS AND SUSTAINABILITY, PIRAMAL PHARMA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Piramal Pharma Limited Q4 FY23 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 this conference is being recorded.

I now hand the conference over to Mr. Gagan Borana – General Manager, Investor Relations and Sustainability from Piramal Pharma Limited. Thank you, and over to you, sir.

Gagan Borana: Thank you, Bikram. Good evening, everyone. I welcome you all to our post results earnings conference call to discuss our Q4 and FY23 Results. Results Material have been uploaded on our website and you may like to download and refer them during our discussion.

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

Before I proceed with the call, I would like to update everyone that the Company has filed a DLOS for a rights issue with the SEBI for its approval. Given this event, we would have to abide by the statutory guidelines as issued by the regulator in regard to our disclosure and external communications. Hence, we would not be able to share any forward-looking statements, not disclose any further details on the proposed fund raise during the deal window period. Therefore, I would request everyone on this call to restrict today's discussion to FY23 and Q4 FY23 performance.

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 for our post results Q4 and FY23 Earnings Call.

I am going to start with the quarter's performance, starting with over the past few years, Q4 has always been the best quarter for the Company in terms of revenue contribution and EBITDAs margins. This year as well in Quarter 4, we registered a sequential revenue growth of 26% over last quarter with an EBITDA margin of 17% compared to 10% reported in Q3.

In terms of YoY growth for Quarter 4, we registered a revenue of Rs. 2164 crores, implying a growth of 2%. For the fully year we reported a YoY revenue growth of 8% with revenues of Rs. 7,082 crores. Our CDMO business grew by 7% YoY in FY23. The muted growth was due to an external perspective, slowdown in biotech funding, delayed decision making and muted demand in PNS vitamins and generic API.

From an internal perspective, the resolution of execution issues of some of our sites was an ongoing exercise throughout the year. The margin in CDMO business was impacted due to the muted growth and largely fixed cost base. However, the growth in our differentiated capabilities such as peptides, ADCs, HP, APIs, potent sterile injectables, hormonal products and on patent API developmental manufacturing was strong with a 19% growth between FY21 to FY23. Our CAPEX in FY23 was aligned to those areas.

We closed FY23 with a healthy order booking versus prior quarter. Our complex hospital generics grew by 28% and 14% respectively during the quarter in FY23. Our inhalation anesthesia sales, particularly sevoflurane where we are a market leader with a 39% market share in the US market continued its healthy growth momentum in the US and ROW markets with robust volume growth. Our India consumer healthcare on a like-to-like basis registered a growth of 5% and 16% during the quarter and fully year, mainly driven by power brands and strong sales traction in the D2C and e-commerce channel.

Our reported EBITDA margin for the year was 12%. However, adjusting for nonrecurring items such inventory margin on account of demerger of Rs. 68 crores, near expiry inventory provision of Rs. 92 crores on account of lower demand during COVID 19 pandemic, and provision for receivables of Rs. 32 crores from a biotech customer, adjusted like to like EBITDA margins at FY23 was higher at 15%.

Our EBITDA margins during the year were impacted by higher operating expenses including raw material costs, energy prices, wage inflation, marketing cost. We also saw some increase in OPEX as we expanded capacities at sites seeing high demand. We have already started taking intiatives towards cost optimization and improvement in operational efficiency to offset inflationary pressures and improve our profit margins. As mentioned earlier in terms of CAPEX investments during the year, we invested Rs. 965 crores mainly towards the expansion of facilities which are witnessing high demand such as Riverview, Grangemouth, Turbhe in Ahmedabad.

We believe in long term growth in our CDMO business would be driven by differentiated capabilities and integrated service offerings and have accordingly aligned our CAPEX investments. Also, for driving growth in our inhalation anesthesia business which is seeing significant demand. We are expanding our capacities including for key raw materials made in-house.

Moving on to business specific highlights. For the CDMO, we witnessed a muted revenue growth in our CDMO business but are starting to see signs of recovering. Firstly, we are seeing continued client RFP slower with visible demand for integrated multi-site campaigns. We are also seeing healthy POs for recently approved on patent commercial products. This has translated into a significant pick up in order bookings in Q4 compared to the previous 3 quarters.

Secondly, our relationship with innovative pharma companies have strengthened. For FY23, revenue contribution for innovation related work was 45% of CDMO revenue. Some of our collaborations with innovative companies already in the public domain, which highlights our capabilities in the CDMO business.

Third, we continue to see good demand for our CDMO services in the niche areas of high potent API, peptides and antibody drug conjugates. Our recently expanded capacity at Riverview facility catering to high potent API has been seeing strong order inflows. We expect to go live with our expansion at our Grangemouth facility in the second half of this financial year which should help us in strengthening our position in the antibody drug conjugate segment.

Revenue contribution from our differentiated offerings has increased from 27% in FY21 to 37% today. In terms of development pipeline, we aim to continue discovering and developing new molecules for our customers and have development pipeline of molecules across various stages of development. We expect some of these phase 3 molecules to provide us with commercial manufacturing opportunities in the near term

And finally, we have maintained our quality track record. We have yet another successful year having cleared 36 regulatory inspections including 4 US FDA audits at Riverview, Lexington, Sellersville and Digwal. At Riverview and Digwal, we received zero observation, while at Lexington and Sellersville, we received EIR for the BAI observation. Further in the previous week, our Pithampur facility also underwent FDA inspection with zero observation and now NAI status, the five sites which have passed the audit and contribute more than half of the CDMO sales in FY23. Further, we did an increased number of customer audits in the year over the previous year which is also a leading indicator for improving customer engagement. We have taken specific actions to improve the facilities' performance.

We have added more people to our business development team to improve share of wallet of key customers and drive demand at strategic sites. Our COO, HerveBerdou who joined us last year is continuing to drive execution improvements of various sites. We've also made some site level and functional leadership changes to address execution issues where they are needed. At OPEX, we have reassessed the cost structure more prudently given the new demand environment and hope to grow the business with better profitability in the back of increasing demand visibility in our differentiated CDMO businesses.

Moving to our complex hospital generics business. Our inhaled anesthesia portfolio, particularly sevoflurane is witnessing high demand in the global market and we are expanding our capacities to meet the growing demand for our products in non-US markets. As per IQVIA Midas math moving annual total, September '22 data with leading player in sevoflurane in the US with a value market share for approximately 39%.

For inhalation anesthesia, we are vertically integrated and expanding our capacities to address the growing demand of our inhalation anesthesia products. Our intrathecal portfolio continues to command a leading market share in the US. as per IQVIA Midas math, September 22, we were at number 1 in the US market with baclofen prefilled syringe and vial with our brand Camylofin having approximately 78% market share. In the injectable pain management segment, our growth during the year was impacted by supply constraints at our CMO. We're working to improving these products with our CMO partners and have seen improved traction in production in Quarter 4 FY23.

The profitability of our CHG business for the full year was also impacted by near expiry provisions on account of low demand during the COVID 19 pandemic which we expect to normalize in FY24. We continue our focus to build the pipeline of injectable products and have 25 plus SKUs currently in the pipeline. During the year, we launched a few new products with multiple skills in the US and European markets.

Moving India consumer healthcare business. Our India consumer healthcare business had a good year in terms of revenue growth despite a high base of FY22. This growth was primarily driven by our power brands which witnessed growth of 37% in FY23. Our power brands contribute 42% to total healthcare sales during FY23. Our top brand grew over 50% in FY23 and lactocalamine grew by over 40% in FY23 powered by new launches and traction and e-commerce.

In line with our stated strategy, we have been investing our profits in the consumer business to support the growth of our power brand. During the year, we continued to spend on media and trade promotions which has yielded good results as reflected in the performance of our power brand. Further, we launched 26 new products and 37 new SKUs during FY23. New products launched 2 years now contribute 18% of the consumer products.

We have a strong presence in general trade and strengthening our presence in alternate channels of distribution including e-commerce, modern trade and our own website, Wellify.in**.** Currently, e-commerce contributes about 16% of our total consumer business sales and has been growing well.

To summarize I would like to say while our CDMO business has had muted growth in FY23, we are witnessing green shoots of recovery in Q4 including a pickup in our order book, increased mix of innovative business, increasing demand for differentiated capabilities and continued standards of quality and compliance with 5 successful US FDA audits in the last 6 months. We have taken efforts to reallocate resources and OPEX and CAPEX towards a higher demand side. Our inhalation anesthesia portfolio continues to see a healthy demand in the US where we are the leading player in sevoflurane. In the view of increased demand, we are expanding our capacities at our Indian and US facilities.

Further, our India consumer healthcare business is delivering high growth of power brands. Our multicultural and multinational team with over 6200 employees, 17 manufacturing facilities worldwide and a global distribution network in over 100 countries give us a robust platform to build scale. We take pride in our quality, right track record and focus in patient customer and consumer centricity. We are also conscious of our responsibility towards our planet, society and all the stake holders and are making steady progress in the areas of greenhouse gas emissions, water stewardship and waste management. We believe in the potential of our business and our main focus over the next few months would be capturing demand, driving productivity through operational excellence and executing critical maintenance and growth CAPEX.

With this I would like to hand over the call to Vivek, our CFO, who will respond to queries we have received since last evening. Post that, we will open the floor for any questions that you might have.

Vivek Valsaraj: thank you, Nandini. Good day to all and thank you to those who shared your questions in advance. We will try and answer them now and then take up any other additional questions that you may have.

The first question was what is the status of the rights issue. We have filed the DLOS with SEBI on 28th of March this year. Post that, we have received and replied to the queries from the regulator. Currently, it is under review with SEBI and we are awaiting approval.

The next question was, at what price will the rights issue be priced? The pricing will be decided closer to the launch of the issue.

What are the reasons for the muted growth in the CDMO revenues for the quarter and then year? For a full year basis, we saw 1% growth year-on-year in a tough macro environment. Current quarter revenue growth was affected primarily due to the effect of those factors that have impacted the business in the prior quarters like softer demand for our generic API and vitamins portfolio, relatively low order book during the first 9 months of the year due to a delay in decision making by customers on account of macroeconomic environment and pipeline privatization. Some execution issues at the start of the year at a few of our facilities which have been addressed during the course of the year through operational excellence initiatives and appropriate interventions across site and business leadership team. We have seen a good pick up of order booking in the month of March which will reflect in H2 FY24. Also, our recent operationalized expansion at site offering differentiated capabilities like high potent APIs and peptides which went live in H2 of FY23 has witnessed a good customer demand.

The next questions was what was the significant year-on-year and quarter-on-quarter growth in CAG business during the quarter? What has driven this growth? The main reasons have been healthy demand for our inhalation anesthesia product, sevoflurane where we continue to be

market leaders in the key US market with a 39% market share and improvement in supplies from our CMO from our injectable pain management product. There was also a question on reasons for a muted performance in our consumer products business during Quarter 4.

On a full year basis, our consumer products grew by 16%. Quarterly revenue year-on-year growth appears to be lower as the prior Quarter 4 included sales of COVID detection kit which was discontinued this year. Excluding this, the Quarter 4 growth was 15% and full year growth was 19%.

We also received a question to explain the differences between the reported and the like-to-like EBITDA seen on Slide 24 of the investor relations presentation. Just to clarify, the scheme of demerger of the pharma business which is Piramal Pharma from PEL and amalgamation of PPL's wholly owned subsidiaries namely Hemmo Pharmaceuticals and Convergence chemicals into PPL was effective from the appointed date of 1st of April 2022. To the extent of non-common controlled transactions, the financial results are not comparable with corresponding previous year periods, that is the like-to-like financials eliminate the impact of Intercompany transactions between PEL and PPL during the prior periods. Accordingly, all the closing inventory as on 31st March '22 at PEL in respect of such transactions including a margin element which was charged by PPL to PEL on an arm's length basis. Since the demerger is effective 1st of April, the opening inventory transferred to PPL at fair value as per Ind AS included the margin element and the same has been charged to the P&L during the first quarter of PPLs financial statements on sale of such products, the onetime nonrecurring impact of EBITDA of this inventory margin in quarter 1 was Rs. 68 crores.

There has also been a question on expenses and on the reasons for the increase in OPEX, employee cost up by 19%, and other operating expenses being up by 18% and how many employees were added during the course of the year. As explained the financials were not strictly comparable due to the demerger-related accounting. On a comparable basis, employee expenses for the full year increased by 17% and net of FOREX the impact is 14%. During the year, we added about net 650 people to fill up the open positions and operate new capacities recently opened or planning to commercial in the coming few months which are witnessing high demand. The commensurate revenue from this expansion in account in yet to come through. The year-on-year increase in employee cost also includes the impact of increments and annualization of cost of positions recruited big way through previous year where attrition was higher. In terms of other expenses, the comparable basis, the operating expenses have grown 13% and net of FOREX is 11%. Primarily coming from marketing spend in the consumer product business, this is a strategic choice which was made to increase market share in the fast-growing segment, increase in OPEX related to additional capacities which came in online, we are seeing good demand traction and expect a good efficiency of the cost base and provision for receivables in quarter 3 due to funding uncertainty of a certain biotech customer. Having said that, the Company has been taking measures to contains cost through operational excellence, better

procurement, energy efficacy initiatives, lowering discretionary spends through a Companywide initiative.

There was also a question on reasons for lower operating income and higher tax in Quarter 4. With respect to other income, it was basically low in this quarter as compared to the prior quarters due to a decline in FOREX gain. In terms of tax, the tax liability was higher in Quarter 4 asd tax included tax paid on divided received during eth quarter from our joint venture Company against which section 80 of the income tax benefits were not available as Piramal Pharma has not declared any divided. Likewise on a full-year basis, all divided received from the joint venture Company and returned by PEL as a part of the demerger process have been offered for tax. This has caused a one-time increase in the tax liability by about Rs. 43 crores during the full year. As information, the consolidated accounts divided is not shown as an income but it is knocked off against investments whereas tax components reside in the tax slide causing this anomaly.

The next question was how much of the net debt resides overseas. So, of the Rs. 4800 crores of net debt about 69% resides overseas.

There was also a question on the rate of borrowing for the Company and when do we expect to bring the debt down using the proceeds of the rights issue. The rate of borrowing ranges between 6.5% to 8.5% between overseas and India. And subject to regulatory approvals, we are expecting the proceeds of the rights issue to flow in by the end of quarter2 FY 24.

There was a question on the quantum of the CAPEX expenses in FY23 and plan for the future of FY24 and '25. The CAPEX spends during FY 23 was about 965 crores which was largely spend on differentiated sites which witnessed high growth during the course of the year. For example, we expanded our capacities at Riverview and Turbhe during the year. With respect to CAPEX in FY 24 and 25, at this point we cannot make any forward-looking statements during the deal window.

There was a question on other than the receivables provisions which was made in quarter 3, were there any other atypical provisions in FY23. The EBITDA for the full year included near expiry inventory provision of about 92 crores in the CHE segment on account of lower demand of non-COVID products during the pandemic and besides that was one-off provision on receivable that I mentioned. Adjusting for these and the one-time inventory margin on the stocks taken back of PEL of Rs. 68 crores the like-to-like EBITDA for fy23 was Rs. 1047 crores and EBITDA margin of 15%.

So, those were the few questions that came upfront but we will be happy to take up any additional questions.

Moderator: We will now begin the question-and-answer session. We take our first question from the line of Kunal Khudania from DSP Asset Managers. Please go ahead.

Kunal Khudania: I have couple of questions. So, first one was on the order book, like you mentioned, there is a good amount of order book built up. And you also talked about the cost optimization measures that are being undertaken. So, if you look at the global macro environment, the uncertainty still continues. So, is Company taking any further efforts to rationalize the cost and more so if you look at the sequential employee expenses as well as the other expenses that have marginally declined on a sequential basis. So, What are the exact cost optimization measures that the Company is undertaking? And the second one was like you mentioned most of the process for rights issuance will go towards debt repayment. So, is the Company confident of meeting its CAPEX requirements through internal accruals or how can we see the debt level panning out in the near term? Those 2 were the questions.

Vivek Valsaraj: Thank you, Kunal. Overall, in terms of the debt, as you rightly mentioned, the intent is to pay down that debt with the proceeds of the rights issue significantly. Also, we are looking at the overall business performance in FY24 and are aligning our CAPEX requirements accordingly with respect to what we are going to spend, so the CAPEX is getting prioritized. And as of now, we believe that we'll be able to meet the immediate requirements both through a mix of what comes in through the rights issue and the CAPEX requirements through internal accruals as well.

Nandini Piramal: In terms of employee expenses, I think we have, as we said, hired new employees to actually fulfill and operate the new capacities that some of which have gone live and some of which will come in later on. So, we actually think that overall, the rise in actually sales will actually compensate for the employee expense. In terms of cost cutting, we're looking across the board. We are doing procurement costs. We're doing operational excellence. We're actually looking at efficiency and where, if we are hiring, we look very, very carefully at saying that only revenue generating hires are being hired currently.

Moderator: We take the next question from the line of Hitesh Agarwal from Fair Value Capital. Please go ahead.

Hitesh Agarwal: Yes. My first question is on the Indian Consumer Healthcare segment. So, we have grown the revenues to around Rs. 860 crores at present. What will be our road map for the next three to four years? When can we expect the segment to start contributing to the bottom line?

Nandini Piramal: So, I think we've said this in public that once we cross over Rs. 1000 crores, we'll start doing a gradual increase in profitability.

Hitesh Agarwal: And what has been the revenue and profitability contribution from Allergen in FY23?

Vivek Valsaraj: As you're aware that Allergan, as a joint venture, is picked up as a one-line item of associate income and that is not adding to the top line, but from a share of profit is about Rs. 54 crores for the full year.

Hitesh Agarwal: My second question is on the intangibles for the overall business, in the presentation, it is mentioned we have total intangibles of around Rs. 4400 crores which includes goodwill of Rs. 1100 crores. So, could you throw more light on these intangibles what do this consist off?

Vivek Valsaraj: So, primarily, the major component of this intangible includes the brands that we acquired. As you may recall, we had acquired brands for our consumer products business and also for our complex hospital generics business, which includes the intrathecal brands and the pain management brands. So, those are big components of intangibles. It also includes a certain component of the pipeline of DMS, which we have developed for our generics business.

Hitesh Agarwal: Are we anticipating any impairment on these intangibles in the coming years as such?

Vivek Valsaraj: No, nothing of that sort. We don't see any indicators for impairment.

Hitesh Agarwal: My last question would be on how many new products have been commercialized in FY23 and what would be your target for FY24 in the CDMO space?

Nandini Piramal: Would these be unpatented products or would these be for phase 3 going to commercialization? Is that the question in CDMO?

Hitesh Agarwal: Yes.

Peter DeYoung: I don't think we're in a position. I think that's limited in our filing requirements about sharing that information. I would just point you to I think we may have done our press release with one of our customers that allowed us to share. That would be one example you could go to and look on our website. But beyond that, we're limited in what we can say on that.

Moderator: We take a next question from the line of Niteen Dharmawat from ORAM Capital. Please go ahead.

Niteen Dharmawat: So, you mentioned about 600 people that we added. So, how many of them are in India and how many outside India?

Nandini Piramal: I don't have a breakup at the moment.

Vivek Valsraj: I'll get back to you on. If you can just drop me a mail, I'll respond to it.

Niteen Dharmawat: I'll do that. Thank you so much.

Peter DeYoung: But the more were inside India and fewer were outside of India because significant amount of addition was in our Ahmedabad Discovery Services Group, which is an FTE based model. But we can give you the breakup.

Moderator: We take a next question from the line of Chintan Shah from JM Financial. Please go ahead.

Chintan Shah: A few questions. The first one is, can you help us understand the margins of CDMO business better? So, what I'm trying to understand is we have an innovative part and we have a generic part. So, can you just help us understand what would be the differential probably on a normalized basis if not specifically for FY23?

Peter DeYoung: So, we don't actually provide segment level profitability, but what we could guide is that the reason why we share and discuss the percentage of revenue from differentiated offerings and also our share from what we call innovative offerings is because it's more lucrative materially than the alternate offerings. And so the reason why we try and share those revenue transitions in the different ways we communicate are because they are financially, materially more beneficial.

Chintan Shah: And secondly, good guidance that we have a healthy mix of innovative portfolio in the bookings. So, I just want to understand when you say healthy, what would that be ideally more than the mix that we have in FY23 or how should we understand that?

Nandini Piramal: I don't think we can actually give the breakup actually for next year.

Vivek Valsaraj: Not at this point, Chintan. We can't make forward-looking statements. So, please bear with us for some time.

Chintan Shah: Sure. No problem. And another thing. In your RHP, you mentioned few of the products on the generic side. So, just want to get an understanding with strategy here. So, is it in terms of market size, et cetera, if you can give some guidance basically about this place?

Nandini Piramal: Which products do you want?

Chintan Shah: So, you mentioned 4 products, basically, diltiazem, hydrochloride, ketoconazole, trazodone hydrochloride and those 3, 4 products that you mentioned. So, I'm assuming this would be the major product. So, could give some sense in terms of what's the position in the market, the market size and probably how much would they be contributing to our revenue?

Nandini Piramal: So, one is, Chintan, our generics products, they're 2 types. One is where we make generics for our customers also. So, that's a kind of make to order. So, some of our big customers would be using our generics. We also have our own DMS, which is the API generics business, which makes those five kind of products. So, it's a mix. It's how I will put it.

Chintan Shah: But on trade generics if you can throw some light. I mean, it would be really helpful.

Nandini Piramal: So, on the API generics, I don't think we can give outlook at the moment, right?

Chintan Shah: What basically is the market size?

Peter DeYoung: The market size is whatever we provided in the DL is what we can provide because of the nature of the data sharing.

Peter DeYoung: I'm sorry.

Nandini Piramal: Sorry about that.

Chintan Shah: No problem. And lastly, on the India consumer side, if I see the growth, what you've mentioned is the power brands in Q4 have grown by 31%. And what you mentioned in your opening remarks is if you exclude that COVID case, the growth would have been higher at around 15%. So, what I want to understand, since power brands contribute around 40% to 43%. So, the balance portfolio what is happening with that is that growing or what? If you can throw some more light.

Nandini Piramal: See, I think one is not just we had a whole COVID hand sanitizers and things like that, as well as the COVID testing kit, which has obviously now become much smaller. So, I think that has degrown. Overall, the rest of the non-power brand portfolio is growing slightly, but not as fast as the others.

Chintan Shah: Would that degrow this quarter?

Vivek Valsaraj: There is no degrowth.

Nandini Piramal: It is not degrowth**.** But it's just mostly they're growing slowly because we're not putting promotion money behind it.

Peter DeYoung: It's more trade lag.

Chintan Shah: And in terms of margins, I know right now we are making losses, but just to get a sense is power brand, they be a higher margin products versus other brands or how should we understand this?

Nandini Piramal: So, we're not making losses. We're breaking even. So, first is we are very much fair to the business that anything that they spend on gross margin they can, we spend on promotion. The power brands are actually the potential of scale and that's what we're looking at. So, from a product perspective, there are mix in terms of gross margin, but we think they're in bigger

markets and have the potential to be much bigger. So, on an absolute level, they will be profitable once you get to a certain scale.

Moderator: We take our next question from the line up Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just trying to understand the Q-on-Q recovery in the fourth quarter. So, is it also a function of new capacity starting to play out already or it is yet to play out? And if capacity is not the reason, then what laid out because you've been saying that you know the order book for the start of the year has been soft, customers are delaying decision, et cetera. So, what really led to that growth recovery?

Nandini Piramal: So, Prakash, Quarter 4 is always the biggest quarter. That's one of the things because the way a lot of our customers do, they want to run down inventories at the end of the calendar year and then begin reorder in the fourth quarter of our financial year, so first quarter. That's actually one. Two is there has been some capacity. So, at Riverview and at Turbhe which opened during the quarter and we were able to get revenues out. So, I think those would be the 2.

Prakash Agarwal: Which would build up, right? So, there is a view as well as they would have a full quarter impact going forward. And it should be up, right?

Nandini Piramal: Yes.

Prakash Agarwal: And from margin levers perspective, what are the key margin levers you have for what you have played out already in or you already taken action in fiscal '23 especially in second half of Fiscal '23, would cutting some promotion cost at the consumer business would be one of them or what are the other levers that you are playing?

Nandini Piramal: No. We've actually continued to spend on the consumer products business because for us, we believe that continued promotion will get us higher growth than not doing it. So, that's not it, but we've actually restrained costs. We cut down on CAPEX and deferred CAPEX, which was not growth on maintenance led CAPEX and we've seen also the benefit of higher revenues, which in a fixed cost business gives you a lot more I guess operating leverage.

Prakash Agarwal: No, I meant what are the initiatives you've already taken in know last three, six months given that you were foreseeing slowish, weakfish growth. What are the steps you have already taken in the last six months? We heard you in the last call that you have done some replacement hiring in the CDMO business globally. So, that would have added to cost, then the power, fuel, freight, et cetera you had talked about. But seeing the cost increase and this quarter, the cost has not gone up. So, I'm just trying to understand, are there any measures in the Company we have taken which has started to play out and which will play out also in future?

Peter DeYoung: So, first I want to tackle the demand portion and we'll cover CDMO first. And if that's sufficient, we can stop there or you can guide if you want to hear about CHG. But the first thing on demand is we took a number of actions to increase the number of shots on goals, speed the decision making, make decision making faster, make it easier for clients to decide faster on smaller projects, on smaller slices and also improve our win rates. And so, we saw a pickup in our win rates as the year progressed and we saw a significant increase in overall decisions in Q4. And so that's one thing that we see the benefits of in the later period. Now the second thing you're going to ask about is on personnel changes. We made some important changes. We have a new CEO who's leading the business and we also went through the next 2 levels of the organization and made a number of changes in leading functions and also sites. Where we thought change was needed and so we do actually have an injection of leadership in many of the places where we thought change was appropriate or necessary and with few of that are still pending. But they're in the works. And so overall that's been an important second component. The third one is we actually tried to explain how in the prior quarter when we did the call that we felt that the quarter-on-quarter OPEX may look disproportionately high versus reality and we gave certain explanations to try and guide that. It wasn't a recurring increase and actually there were one offs in that scenario and we think that that is showing up in this context. And that notwithstanding, we've also taken certain cost moves. We've been very careful about our headcount choices. We're only adding headcount where there is robust demand and necessary need of operator level positions and other places, we're actually seeing headcount reductions and decisions relating to that to align to the demand scenarios at sites that are not in that position.

I think the next thing is we've done, we've actually bolstered our OE team earlier in the year, which has been deployed to sites to derive productivity improvement. That would allow us to get better revenue to EBITDA conversion. And so, we're seeing some of the benefits and we expect to see more benefits from the OE project. In addition, we did a lot of work on productivity saw as well as procurement and we brought in additional capacity to be more aggressive in how we approach procurement. And we've seen from unfavorable to favorable. PPV variances because of those efforts by our team over the period. And then I would probably finally mention, we mentioned energy efficiency and obviously we all noticed the impacts of energy increases as we deputed a Company-wide task force at each of our sites to think about things that could reduce our energy spending either through rate or volume changes. And so, we've actually started to see the benefits of the actions that maybe not be CAPEX driven and could be lighter in terms of investment in time. And so, I think we're seeing some of the benefits of those efforts already in the quarter. But as Nandini mentioned, this is a fixed cost business and top line revenue has very beneficial impacts on bottom line, but we haven't been waiting for the top line. We've been taking a number of other methods and actions that I just described briefly here.

Prakash Agarwal: Fair enough. Thanks for the detailed explanation. Just a follow up here. So, you talked about strong order book which is visible now. So, has the business environment changed because last time you spoke about decision making. So, is the business environment improving and hence

you're seeing order book? Or it's a function of more capacity being added, more capabilities being added? Or it's the function of both?

Peter DeYoung: So, actually I'd say it's a third. The clients that we were in discussions with for a long period of time did have the money throughout the year, but they were not making decisions before they had to. They've now made decisions. The second thing I would say is that we actually have a certain number of clients that have had recent approvals commercially and now they are preparing and engaging in their launch or the early commercial activities. And so, then they need to have the supplies to support those activities. And then I would say. 3rd, we've seen some of the benefits of our efforts to try and I mentioned our strategy of more shots on goal, faster decision making and improved win rate. We actually have seen some of those efforts starting to bear some fruit, but I want to caution that we're not counting on or depending on a macro uptick in the environment for our plans. If that were to happen, we would view that as an upside. We're just counting on the clients that have good science, good data and clarity about their plans to continue to place their work with us and for us to get, we use the term more than our fair share through the three strategies I mentioned, but we're not counting on our banking, on our macro uptick.

Moderator: We take our next question from the line Yasser Lakdawala from M3 Investment. Please go ahead.

Yasser Lakdawala: Congrats on having a strong compliance track record as you've always had over the years. When you look at sort of long-term game plan, like how do we sort of improve our CRO, CDMO footprint in India in terms of number of scientists, more small-scale pilot labs? And how hard is it to sort of build and scale this part of the business? Because we've seen that, we've grown the discovery and development bit to about 30%, 35% of our CDMO sales. How hard is it to sort of grow this business to a much larger meaningful pace? If you could shed some light on?

Nandini Piramal: Do you mean the discovery business or do you mean the development and innovator side of the business.

Yasser Lakdawala: So, the innovator sort of the discovery and development business, right, because that would be sort of the top of the funnel piece which would allow maybe a lot of those projects to flow through eventually, hopefully into commercial.

Nandini Piramal: So, the discovery business, I would say is actually quite early on in the kind of scientific process and it would take actually quite a long time for those projects to flow through, right? But it's a very profitable business and it's kind of based on the number of scientists in few modes and we've been expanding capacity over there in our PDS business in Ahmedabad. However, I think we don't necessarily want to make it the kind of driving force of the business is how I would put it. I think it's because we like the business; our scientists are actually very good and we're going

to continue to manage that well. In terms of discovery and development, I do think overall it is a question of having the right compliance and quality record, having the right scientist, but I will say some of our customers also want near shoring to happen. So, some of our customers are saying that they want business to be done for patented products, innovative products in the US or even in Scotland. So, that's why we've been seeing pretty good demand in our Riverview, Aurora and our Grangemouth sites because that's where the customers want to do it. The benefit for us is we've been seeing with our integrated projects is that we can talk to our customer and do something at Riverview and then then they'll give us something in India for example. And that's something you wouldn't have seen if you didn't have the US facility. And the way we're going to look at it is we're going to provide whatever the customer wants in whichever geography they need, whether its US, UK or India. And that helps us to meet the customer with that.

Yasser Lakdawala: Secondly, we've had like some sort of execution challenges at Morpeth, the hormonal OSP and contraceptive plant and the one in Lexington. I think there were two older facilities which we were trying to sort of modernize. And convert them to sort of commercial scale. So, how far are we in terms of them become say, profitable contributors to our CDMO business.

Nandini Piramal: I can't tell you forward-looking guidance at the moment, Yasser. I can talk about the past. I can't talk about the future, sorry.

Peter DeYoung: But I would give some operational indicators as an example of why we have confidence in these two sites and what they can bring to the network. If I were to look at, let's say, the Morpeth facility at this moment, we look at in stock ratio for some of our key customers and we're at or above the expected percentage and have been for some time. So, we're meeting our customer commitment to that site and we're actually seeing probably higher demand at that site than they have in the recent past such that we're actually having to add operators at the moment to meet that demand, which we think is a beneficial trend for profitability for all the obvious reasons. And so, we actually do think that a lot of our efforts to address the operational issues have borne fruit at that site, and it's now at the point where we can discuss revenue growth instead of operational issue containment. And that's a great transition we have made and now we need to continue that transition. The second one I'd say is that Lexington, we did obviously have challenges before, but if you look at our recent trends, or even our four-year trend in, let's say, Net Promoter scores of customer experience, which we find to be a lagging indicator of operational experience by our customers, it's been a sequential improvement each year over the last four years and now we actually are in a positive position for customer experience. The second indicator I could give you would be around regulator experience and so obviously, it's one of the sites Nandini mentioned or having a favorable USFDA outcome which we think is the regulator saying this is good. The customers are saying this is good and the third one, if I were to look at our set of open RFP's that are being discussed with customers, actually Lexington would have the highest percentage of open not yet decided RPs of either sites in our network demonstrating the overall market need for the offering and so while we have not yet addressed

it and I can't give forward-looking comments, what I'm trying to give you a backward looking information, aspects that could give you reason why we think we have confidence in those 2 sites.

Yasser Lakdawala: That's great to hear, Peter. My last question would be, I mean in terms, we still have about 650, say, more than half of our business. There's generics and some nutritional products. So, what are we doing at from a, say, a process efficiency or technical competency and to improve maybe our yields, maybe our manufacturing processes, maybe so that as you said like you want to improve margins, you can also maybe hopefully improve profitability, improve gross margin and do that and not worry about the macro growth. But from an existing business standpoint, what are we doing to sort of, enhance our technical prowess? Like if I may ask that.

Peter DeYoung: So, on the nutrition side, last year we went through a soup to nuts change effort involving changes at how we lead the business, how we organize the. We looked at go to market, we looked at offerings, we looked at cost to serve, way to serve and we we're now in the process of implementing some of those plans. It will never be the top performer, but we do believe that these plans as implemented should continue to show a positive trajectory and improvement and reduced the drag that it's had in the recent past and it's never going to be the hero, but it's going to be a meaningful contributor again. It's going to take some time; it’s going to take some. But we did go through the effort to figure out what we think the job needed to be done, and now we're doing it. In the case of the generics business, that process, we started more towards the end of last year and so it's lagging a bit. But once again a similar effort that's going on where we're doing once again a soup to nuts like activity. Some of the yield efforts actually progressing in parallel because it didn't require the overall holistic look, but we are looking at the overall generics business end to end. But I would mention that well, you could frame all of generics the way you just did. Generics also includes what we offer in Turbhe and I would say the addition of the peptide generic component to our business is a highly growth oriented, high margin, less competitive environment that has really been a great addition to our portfolio and it allows us to kind of include even in that business from a mix perspective, technologies and capabilities and offerings that not all of our competition can offer, that we actually think is going to change the overall mix in addition to the plan I described for our more legacy generic portfolio.

Moderator: We take a next question from the line of Ishita Jain from Ashika Group. Please go ahead.

Ishita Jain: Congrats on a stronger Quarter 4. In the hospital generic segment, could you comment on the pricing pressure in Q4? And we were also expanding Digwal and Dahej facilities. Are these expansions live now? I'm not sure if I missed it. Perhaps you could also talk about capacity utilizations of these facilities please.

Peter DeYoung: So, the expansions for our lead product are not yet live in India and they will take some time to complete. They are underway. We do have some expansions for reliability that allow higher

capacity out of our Bethlehem, US facility that are going to go on in a series of actions that will be more near-term realizable over the period. And so, we expect those to be more short term visible. I can't make forward-looking comments per se, but from a general strategy you should view the Bethlehem capacity enhancements or reliability enhancements to be more proximate, and you should view the Dahej and Digwal to be a bit more medium to longer term. And so our utilization at the moment is that demand is greater than supply. So, everything we make we're selling at the moment.

And so the next question around pricing pressures. So, as you would know, we are in the generics market. And that's the market where prices typically go down, not up. And so, we are in that scenario and that we expect that to continue, but we do expect with our overall approach to vertical integration and also the limited number of competition that can compete against us given the model we've picked and what we're actually selling that we should be able to maintain what we would call healthy gross margins and overall profitability as we have over the last 10 plus years with this offering.

Ishita Jain: And you mentioned that demand is stronger than the supply in the market. It's the same comment you had given last time. So, just wanted to ask that that a, that remains same and b, that remains same in our existing geography is correct?

Peter DeYoung: It does, and so you may wonder, well, why is this the case? I would give just 2 elements. The 1st is that we've been succeeding with our commercial execution and presenting ourselves as compelling option against the alternatives in the marketplace. And that has allowed us to gain our percentage market share and improve our position. That is the first point. The second point is that there has been a general increase in sevoflurane utilization versus some alternatives due to some changes in preferences that we think that trend is going to continue. Notably, there's been a decline in the use of desflurane, and a conversion of that prior usage to sevoflurane. And so, we are well positioned to capture that overall macro change.

Ishita Jain: And just as a second question on the CDMO front, you mentioned 25% of CDMO revenue is from the innovator. What percentage was commercial manufacturing versus development and discovery services and how has that changed year-on-year?

Nandini Piramal: I think it's 45% Ishita, but maybe we can get back to you with the exact. If you e-mail Gagan please and we'll get back to you with the exact, how has it changed year-on-year.

Peter DeYoung: But for the general audience, without giving the specifics, we would say that the percentage change in innovator business is going up. As in its growing faster than the overall and we would also say that the percentage differentiated offerings is going up and growing faster than overall. So, we think those are nice leading indicators of the efforts we've been doing for the last several years.

Moderator: We take a next question from the line of Vinod Jain from WF Advisors. Please go ahead.

Vinod Jain: My question is to Nandini madam. The financials reflect a sustained lowering of profitability. Net profit we covered for Quarter 4 but is near 2.5% of revenue. Priority wise, what are the steps taken to counter this situation? Do you see the situation reversing in the near future?

Nandini Piramal: I think we've talked a little bit about how we are looking at cost, whether it's procurement, whether it's operational efficiency and as well as energy efficiency. We've also been, as we said, looking at headcount in terms of where only if we are adding people, we're adding people that are directly revenue generating and reducing headcount sort of to be in line with where the revenue is, right? As we think about next year, we've got a good order book, so that should translate into higher revenues in the second half of the year. And we should see profitability improved from there.

Moderator: We take a next question from the line up Tushar Manudhane from Motilal Oswal. Please go ahead.

Tushar Manudhane: Sir. Just on your explanation of preference towards sevoflurane, so if you could elaborate on this. So, is this a regulatory factor which is driving this change in preference? Or is there a doctor factor?

Peter DeYoung: So, I'd say there's generally the cost of desflurane is a bit higher for a patient than the cost of sevoflurane and that's been present for some time. So, generally, as budgets are economized, people have been switching and reducing from one gas to the other because that's the cost to the ultimate buyer. The second one is that in some of our geographies, we have noticed that there is an argument for greenhouse gas optimization and the contribution of desflurane to those gases is several fold higher than sevoflurane, and so if a hospital wants to make a move towards net zero, they say, I'm going to reduce desflurane, increase sevoflurane and then they can check the box and address their sustainability objectives for the period.

Tushar Manudhane: Interestingly, before sort of particularly in Q4, as I see the previous quarters, we didn't see this stable under complex hospital generic thing.

Peter DeYoung: You're right. The overall trend is a multiyear secular trend that I described. The quarterly performance is the combination of demand and supply and the overall contracts we've won, that would be more commercial execution.

Tushar Manudhane: And sir, in complex hospital generic segment, how much of the overall requirement would we be taking from CMOs?

Nandini Piramal: So, we only make sevoflurane. We make inhalation anesthetic; the rest of our business is taken from CMO.

Vivek Valsaraj: Over 56% is in house and the balance is from CMOs.

Tushar Manudhane: And just lastly on this, since we acquired Hemmo almost in November 2021, so if you could just help understand how much of the capacity expansion we have done in peptides and now that capacity expansion is done, so in terms of what could be the future course of work or when could we see the commercialization benefit coming through?

Peter DeYoung: So, were supply constrained up until when that capacity went online late last fall, the capacity increase was 50% approximately plus or minus, and it took a little bit of time to stabilize and now we think we're benefiting from that capacity expansion and it's now allowing us to execute on the orders that we have and the demand that we have. And now we're going to have to tilt back towards demand generation. But for the period, we've now achieved what we needed with the expansion and now we have to execute on the pipeline and the commercial execution.

Tushar Manudhane: So, would the incremental capacity require this exhibit batches, validation and then subsequently the business? Or is it the same product, so the commercialization can start from day one?

Peter DeYoung: Those were some of the issues I mentioned in terms of the teething issues with the expansion. We've done a lot of the validations needed to utilize the greater column and we're now utilizing it and that's why we now are no longer supply constrained at that site which we were up until probably even March of this year.

Tushar Manudhane: And just lastly on this aspect, so how much you would have spent on expanding the capacity and what kind of asset turn can be expected?

Peter DeYoung: I don't know if we disclose this, but this would be one of our higher ROI expansion, look, the investment was very modest, the incremental head count was very modest and the incremental revenue was significant. So, this is kind of from a financial perspective the dream CAPEX.

Moderator: Ladies and gentlemen, due to time constraint, we take the last question from the line of Aditya Jhaver, an investor. Please go ahead.

Aditya Jhaver: I wanted to understand on the innovative business growth. From last year to the current year, there is a slight degrowth. So, could you talk about that?

Peter DeYoung: So, I think we would say that there was an increase in what we call innovative business which covers discovery, development and patent commercial.

Aditya Jhaver: From on patent commercial, there is a decrease.

Peter DeYoung: You're describing specifically the commercial and there were some customer specific issues that resulted in them not placing follow on orders last period. That resulted in what we think is a. A1 off situation and we have other new customers that are expecting to place and have placed POs for the upcoming period, which gives us confidence that that was simply a one-off of 1 large customer that didn't place over a period because of a corporate action happened on their end.

Aditya Jhaver: Can you explain on the integrated order book that you're talking about? So, it is a generic kind of business in that it is for the customer we do. What kind of nature is integrated order when we speak of $62 million?

Peter DeYoung: So, what we mean by an integrated project is that typically a customer would historically have a team that would go off and procure individual services from different providers on a one-by-one basis and then they would have an internal team that would project manage and move the product from the different providers along the chain into what eventually ends up in their warehouse for them to use. With an integrated offering, we combine multiple steps into a single quarter or a single relationship so that we handle the handoffs for them for that portion that we do for them instead of they do and it provides speed and simplicity. So, an example would be where we could. We recently signed an order for a large pharmaceutical customer where they would start the early chemistry in Digwal in Telangana and then, we would do the final chemistry in Riverview, Michigan and then we would do the drug product finish in Lexington. In a traditional model, those 3 steps would be done with 3 separate contracts and 3 separate CMOs or CDMOs. In our model, we tell them we will do as one relationship and leave it to us. That's one example. Another example would be which we gave a press release on and you can look at in our website, but it's where we did the drug substance in Digwal and the drug product in Morpeth, UK, and that these are both innovator examples. This is typically a more value-oriented partnership, as opposed to a cost-oriented vendor relationship.

Aditya Jhaver: That helps. So, when do you talk about the integrated this one, it is totally innovative business or it can be of generic business but a little high margin business?

Peter DeYoung: It's more likely to be innovator. I'd say the 80/20 rule or the 90/10 rule.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back over to Mr. Gagan Borana for closing comments. Over to you, sir.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Piramal Pharma Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.