"Piramal Pharma Limited's Q1FY'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Piramal Pharma Limited's Q1 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 would now like to hand the conference over to Mr. Gagan Borana from Piramal Pharma Limited. Thank you and over to you, sir.

Gagan Borana: Good morning, everyone, I welcome you all to our Post Results Earnings Conference Call to discuss our Q1 FY'24 Results. Our Results Material has been uploaded on stock exchanges and you would like to download and refer to them during our discussion.

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

Before I proceed with the call, I would like to update everyone that currently we are in the middle of our rights issue for raising capital not exceeding Rs. 1,050 crore. 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. According, we would not be able to share any forward-looking statements nor disclose any further details on the proposed fundraise other than what is share in the LOF during the deal window period. Therefore, I would request everyone on this call to restrict today's discussion to Q1 FY'24 performance.

Since last evening post declaring our quarterly results, we have received several investor queries and in alignment with the restrictions we have drafted our response to these queries and will share these responses first and later open up the floor for any other questions that you may have.

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 Q1 FY'24 Earnings Call. Starting with the update on the rights issue we have filed the Letter of Offer with SEBI and have also finalized the issue details. The rights issue price has been fixed at Rs. 81 with an entitlement ratio of five shares to every 46 held, the record date was 2nd August.

Quarter's Performance

During the quarter we have registered a year-on-year revenue growth of 18% delivering revenues of Rs. 1,749 crore. Our CDMO business was aided by continued order flow momentum and strong execution grew by 17% during the first quarter of the financial year. We are also seeing healthy demand for our recently expanded facilities offering differentiated capabilities. Further we witnessed YoY improvement in demand in our generic API business.

Our complex hospital generics grew by 22% YoY during the quarter primarily driven by robust demand in sevoflurane and contributions from new product launches in the injectible segments.

Our Indian consumer healthcare business has registered YoY growth of 13% driven by power brands and new product launches.

Our EBITDA during the first quarter stood at Rs. 171 crore with an EBITDA margin of 10% compared to 6% in the same quarter last year. The healthy improvement in our EBITDA margin was on account of strong revenue growth along with cost optimization matches. Also please note our first quarter FY'23 EBITDA had a one-time inventory margin impact of Rs. 68 crore.

Our net debt at the end of Quarter 1 FY'24 is about Rs. 4,700 crore compared to Rs. 4,800 in the last quarter. We repaid some debt in the last quarter.

Historically our H2 has been better than H1 both in terms of revenue and profitability. We are working to leverage a good start to the financial year in continuing this momentum to deliver a healthy performance for the rest of the year.

We continue to maintain our high-quality track record of zero OAIs as we successfully closed the USFDA inspection at the Pithampur facility with zero observations. During the quarter we also received an EIR for our Sellersville facility thereby successfully closing inspection.

In the last nine months, five of our facilities have undergone the USFDA inspection and we have successfully closed all of them. Apart from the USFDA inspection, our facilities also underwent regulatory inspections from other global agencies along with audits from our customers which we cleared successfully.

On the ESG front as well maintain progress with the development of our decarbonization plant in accordance with the 1.5-degree trajectory as suggested by SBTI (Science Based Targets). We are now committee to SBTI and the UN Global Compact. We also adopted a Global Human Development Policy Code of Conduct and Ethics to strengthen our governance.

During FY'23 we had zero fatalities and also improved the gender diversity. We will soon be releasing our sustainability report,in which we will be sharing further details of our ESG initiatives undertake in FY'23.

Business Specific Highlights

Moving to business specific highlights, the CDMO. In our CDMO business we witnessed good momentum and order inflows in Quarter 1 FY'24. These incremental orders are a healthy mix of development work involving differentiated capabilities and commercial manufacturing of unpatented molecules. We are seeing encouraging demands for expanded capabilities that went live towards the end of FY'23. We are expanding our capacity expansion for antibody-drug conjugate at the Grangemouth facility which should open in the H2 of this year. And that will help strengthen our position in the ADC market.

Our generic API business which had soft demand in FY'23, is also seeing a pickup over year-on-year in-demand. We continue to work towards cost optimizations, strategizing procurement and implementing operational expense initiative to mitigate inflationary pressures and to improve our profitability.

Complex Hospital Business

Moving to the complex hospital business. Our inhaled anesthesia portfolio continue delivering a health performance, mainly led by strong demand for sevoflurane. Our capacity expansion for inhalation anesthesia is on track.

Our intrathecal portfolio in the U.S. continues to command a leading market share. Our brand Gablofen continues to be the #1 ranking: Baclofen prefilled syringe and vial brand in the U.S. with a market share of 77%.

Also, in the injectable pain segment our brands Fentanyl is a #1 ranking brand in its representative markets of Japan, South Africa and Indonesia.

While we focus to further strengthen our positioning in our existing portfolio, we are also building a pipeline of over 27 injectable products in different stages of development. We launched one new product during the quarter.

We strengthened our CHG management team by appointing Jeffrey Hampton as President and Chief Operating Officer for the CHG business. Jeff has previously worked with Accord Healthcare Inc. and Apotex Inc.

Indian Consumer Healthcare Business:

Moving to our Indian Consumer Healthcare business. Our business delivered a YoY growth of 13% in Quarter 1 aided by growth in power brands and new product launches. Our power brands grew 15% during the quarter and contributed 43% to total healthcare sales.

We launched 11 new products and three new SKUs during the quarter. We continue to invest in marketing and promotional activities to build strong brands in the market. We have a good reach in general trade and are strengthening up our presence in alternate channels of distributions including e-commerce, modern trades and having our own D2C platform Wellify.in.

To summarize I would like to say we had a positive start in the new financial year with healthy revenue growth and improvement in our EBITDA margins. Our CDMO business is witnessing continued order inflows especially for differentiated offering and innovation related work. Our inhalation anesthesia portfolio is also seeing a healthy demand. Further our Indian Consumer Healthcare business is delivering good growth driven by the power brands.

We continued to maintain our best-in-class quality track record and are taking multiple initiatives in the area of ESG. We believe in the growth potential of all our businesses and are accordingly executing in our strategic priorities. Further we are raising capital through rights issues, for which the Letter of Offer has been filed. Our promoters have agreed to subscribe to the extent of 100% of the equity shares offered in the issue, reaffirming their confidence in the underlying strength of our business.

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

Vivek Valsaraj: Good day everyone and thank you to those who shared questions. We will take those first before opening up the floor for the other questions.

Few questions on the CDMO business, reasons for the growth in the CDMO business. The Company witnessed a significant pick up in order bookings in Q4 FY'23 which continued in Quarter 1 FY'24 as well. Healthy demand for innovation related work and differentiated offerings. And we have been seeing a year-on-year pickup in demand for the generic API business and an encouraging response for the expanded capacities that went live last fiscal.

A related question was, is the order book back to normalcy? We have seen a good pickup in the order book in the month of March which has continued in Quarter 1 as well. Our recently opened expansions have witnessed good customer demand.

How is the Phase-3 pipeline looking? We have about 35 plus product in our development pipeline which are in Phase-3. The commercialization by our customers would lead to some important commercial manufacturing contracts for us in the future. We continue to support our customers to advance their development work and are also looking to add more customers. Some of our recent commercial manufacturing opportunities for on-patent molecules is already in public domain.

Moving on to CHG, there was a question on what are the reasons, primary reasons for growth in this business? The growth was primarily driven by healthy demand for our inhalation anesthesia portfolio and improvement in supplies from our CMO for our injectable pain management products.

There was a question on the quantum of CAPEX spend in FY'24, Quarter 1? The CAPEX was Rs. 147 crore.

There were questions on why there is a lower other income in Quarter 1 FY24 versus Quarter 1 of FY'23? The previous year Quarter 1 has higher FX gains consequent to major currency movements, when U.S. dollar strengthened and that led to a significant FOREX gain. Compared to that in the current quarter we had relatively stable currencies leading to a lower FOREX gain. Excluding this, EBITDA on a comparable basis the June quarter has grown by 55%.

There was a question on reasons for increase in interest cost and what will be the scenario post the rights issue? The increase in interest cost versus the June quarter is due to a combination of both increase in average borrowings to support planned CAPEX and operations and general increase in interest rates, versus the March quarter it is primarily the effect of interest rates.

We will be using a large part of our proceeds for our Rs. 1,050 crore rights issue to reduce the existing levels of debt. This will reduce interest cost going forward. We also expect to complete our rights issue this month, which will help lower our interest cost thereafter.

There was also a question on, please explain the movement in debt levels. So, our net debt has actually reduced by about Rs. 100 crore versus the March quarter. And currently our net debt stands at about Rs. 4,700 crore. As mentioned earlier, a major portion of the rights issue will be utilized for reduction of debt and further we will continue to make judicious choice in our CAPEX spends to control debt, also aided by an improved financial performance.

Rationale for the rights pricing, it has been out endeavour to keep the pricing fair to enable participation by all shareholders. The pricing has also been decided keeping in mind, the regulatory requirements and the general precedence basis guidance by our lead managers to the issue. A detailed FAQ that clarifies several questions on the rights issue proceeds and the modalities will be uploaded on our website this weekend, please do refer to the same.

There was a question, is the Company looking to do any acquisitions after the rights issue? Currently our focus would be more to execute planned CAPEX and ongoing capacities and capabilities at various sites which are witnessing high demand. Our focus will be to execute and commercialize these investments. So, those were some of the questions that we received up front and we can now open the floor for any other questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Pramod Dangi from Unifi Investment. Please go ahead.

Pramod Dangi: So, like two questions, one is, while your margins have expanded and especially if I remove the other income from last year's first quarter, the EBITDA margin have expanded very good. But the other expenditure also went up by 15%, so any particular reason about the other expenditure?

Vivek Valsaraj: So, Pramod if you look at the total increase in other expenses versus the June quarter, the increase is 15% which includes impact of FOREX movement as well that's about 4%, so excluding that the increase is 11% which is commensurate with an 18% increase in the total top-line between the two periods.

Pramod Dangi: So, last year we had the FOREX gain, this time we had a FOREX loss?]

Vivek Valsaraj: We don't have a loss; we just have a small FOREX gain compared to last year.

Pramod Dangi: And if you can here guide on the profitability, as we are highlighting that we are on the path of profitability, with a 10% EBITDA margin our depreciation is equivalent to that amount. And then we have the finance cost. So, where we are looking to gain that profitability, is it from the revenue side or is it some cost control, if you can give some highlight on that?

Vivek Valsaraj: Pramod if you have historically tracked our financials our H2 tends to be higher than H1. And therefore, you will see a significant jump in H2 versus H1 both in terms of revenue and profitability. And the primary driver for improvement in margins is the scale at which the business operates, thereafter in H2. So, you will see higher revenues and therefore the benefit of better fixed cost leverage leading to an improvement in margins.

Pramod Dangi: And what will be our capacity utilization as of today if I look at the CDMO and anesthesia business?

Vivek Valsaraj: Pramod, giving one capacity utilization figure across 17 different sites is complex and probably not practical. But what we have done is we have invested in capacities where we have very high demand. So, our API facilities overseas whether it's a high potent API or whether it's the antibody drug conjugates where we are currently investing are the ones where we were short on capacity. Formulations in general, we tend to have reasonably good capacity.

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

Tushar Manudhane: within CDMO segment just would like to understand how much is the API sales or API contribution?

Vivek Valsaraj: Typically, in our CDMO business and I am referring to a full year sale, our formulations in API is like 55%, 45%; 55% being API and 45% being formulations.

Tushar Manudhane: And does that change meaningfully on a quarterly basis?

Vivek Valsaraj: Quarterly it would vary depending upon the lumpiness in SKUs but not vary materially.

Tushar Manudhane: And on the CAPEX side largely more or less capacity expansion is done, and we need like as you highlighted in the opening remarks that the commercial benefit is to accrue so the overall CAPEX, how much it would be for FY'24?

Vivek Valsaraj: So, are you referring to an annual CAPEX, see currently we can't make a forward-looking statement on the total CAPEX, Tushar, please bear with us because we are in the deal window period. But as we have said that we are making a judicious CAPEX spent investing on those which we have kind of planned in those areas where demand is high.

Tushar Manudhane: But generally speaking, depreciation, at least maintenance CAPEX, which is equivalent to depreciation, can that be taken as a broad indication?

Vivek Valsaraj: No maintenance CAPEX is normally lower than depreciation.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Nuvama. Please go ahead.

Ranvir Singh: Two, three things, we have been saying that first half is normally lower so that I wanted to understand the cycle, why first half is normally lower than the second half especially in CDMO?

And secondly, not forward-looking but earlier announced CAPEX of that $157 million, so that the CAPEX has already been spent or part of it remains?

Vivek Valsaraj: So, firstly if you look at, and your question is on why the skew is more towards H2, there are actually a variety of factors for that which includes the overall cycle time from the receipt of the order till the time it is delivered. It also depends upon the customer's own preference of starting the year and for them the year typically starts in January where they have more orders placed out in January on new budget versus reducing the inventories that they carry when they are in the December quarter.

So, this is a mix of various things, but typically what happens it's the longer cycle time that kind of, by the time you get orders and by the time you execute and by the time you invoice, it gets pushed over towards the second quarter, the second half of the year.

Second question was on the 157 million of CAPEX that we announced. So, while a part of that has already been done and some of them have gone live, some part of that is still under execution right now.

Ranvir Singh: That part would be spent in '24 or that will stretched further?

Vivek Valsaraj: Independent.

Ranvir Singh: So, can you give me any number there?

Vivek Valsaraj: So, in FY'23 we had a CAPEX of about 118 million versus the total 157.

Ranvir Singh: That Hemmo Pharmaceuticals which we acquired last year, so whether that our revenue is currently that portion of revenue coming from Hemmo Pharmaceuticals?

Vivek Valsaraj: So, Hemmo Pharmaceuticals is a smaller part of the total business. And the integration has been done and yes, the current revenues do include a part of Hemmo Pharmaceutical, but remember it was also there part of the previous year as well, so the numbers are comparable to the extent of this acquisition, and it is contributing. In fact, you may have also heard in the prior call that we did complete a major expansion, to expand the capacities by about 40% to 50% and that has also gone live currently.

Ranvir Singh: So, currently at what capacity utilization it would be, just I wanted to understand that what max potential we can expect from this entity?

Vivek Valsaraj: As we said we had just expanded the capacity by about 40% to 50% so that's the capacity available currently.

Ranvir Singh: And in CDMO, the order book last quarter itself you said that we see uptick in order book. But can you give some indication of what size of order book, what kind of order book we have in hand to be executable this year or next year?

Vivek Valsaraj: Ranvir, currently we are in the deal window period, and we can't make specific disclosures on numbers which are not part of the Letter of Offer so please bear with us.

Moderator: Thank you. The next question is from the line of Vinod Jain from WF Advisors. Please go ahead.

Vinod Jain: My question relates to interest cost. While there is sales growth and even some margin expansions this has been almost entirely negated by an increase in interest cost. There is no slide to explain this phenomena, but apparently this must be resultant of high inventory and debtors --. Please convey what is being done to erase this phenomena and reverse it?

Vivek Valsaraj: First Vinod, I think your question was on the increase in interest cost, am I correct?

Vinod Jain: Right.

Vivek Valsaraj: So, as we explained earlier the primary reason for increase in interest cost was an increase in our average borrowings and if you are comparing versus the June quarter, the average borrowings did increase, and this was primarily to fund some of our CAPEX requirements and some of the working capital requirements during the last fiscal year.

There was also an increase in the average rate of interest as you have been seeing the Fed, the RBI did increase rates over a period of time and the effect of that also came into the P&L leading to an overall increase in interest cost. Having said that, as you aware the primary purpose of our rights issue is to pare down that debt and once the rights issue process is completed at the end of this month these proceeds will be utilized towards reducing the debt. So, that will be one of the factors which will help reduce the overall interest cost. And we also clarified that our overall investments in CAPEX and OPEX is being aligned with the overall fiscal performance thereby helping to maintain a certain level of debt which will help reduce the overall cost of interest.

Vinod Jain: The only thing is the interest costs have almost doubled, I mean the explanation given would it justify the increase by almost double digit or is there also an element of increase in debtors and inventory?

Vivek Valsaraj: So, while there is some increase in working capital and that is primarily because of an increased inventory which we are carrying for strategic reasons. The explanation given with respect to the overall movement in debt and interest rates does explain it. And post rights issue you will start seeing from Quarter 3 onwards reduction, a meaningful reduction in the overall interest cost. And overall debtors have not increased, they are actually reduced or in terms of days are in line with what it has historically been.

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

Shubham Shukla: I had two questions, one around the inventory provision we had created in Quarter 3, so any update on those $4 million inventory from the Biotech Company which we had created?

Vivek Valsaraj: So, Shubham the provision was not with respect to inventory, but it was with respect to a receivable from a Biotech Company and the process is ongoing to try and recover the money as of date.

Shubham Shukla: And do we still hold those inventories with us?

Vivek Valsaraj: Yes.

Shubham Shukla: And second question, mostly on the debt side which is currently Rs. 4,700 like you said. And I can recall from our previous con-calls we wanted to bring it down to the level of 2x to our debt to EBITDA and I understand as we are under the process of Rs. 1,050 crore rights issue. So, any guidance or anything around this when can we expect this 2x debt to EBITDA level?

Vivek Valsaraj: Shubham, I don't recall us making a specific guidance of our debt levels being at two times the EBITDA, but having said that once the rights issue proceeds is done you will see that the overall debt to EBITDA ratio will meaningfully improve. And as our overall fiscal performance improves, over a period of the next couple of quarters and thereafter this ratio will also start showing an improvement. But I can't make a specific guidance, please bear with us as I said we are in a deal window period right now.

Shubham Shukla: Just on the percentage increase in additional average borrowing this quarter you have done, compared to previous quarter and year-on-year?

Vivek Valsaraj: No so our gross debt has actually reduced, it has actually reduced by about Rs. 195 crore during the quarter.

Shubham Shukla: No like you said the interest cost has gone up year-on-year basis like its doubled and the reason is, additional borrowings on your average reborrowing needed for like working capital and other stuffs?

Vivek Valsaraj: So, Shubham are you comparing versus the June quarter.

Shubham Shukla: Yes, on quarter-on-quarter and like year-on-year basically.

Vivek Valsaraj: So, it's gone up about 200 basis points versus the June quarter and about 90 basis points versus the March quarter. This is at the time when the interest rates had started picking but as you are aware in many of the geographies there has been some stability, but of course you will have to wait and see how this pans out.

Shubham Shukla: No, my question is what's the average, like you said that we have taken newly average borrowing like this quarter, the reason for interest cost up is you have taken more additional average borrowings and there is an increase in interest cost, right interest rate. So, like I am trying to understand the percentage increase in the average borrowing this quarter?

Vivek Valsaraj: So, the average increase in our borrowings versus the June quarter is about Rs. 1,300 crore higher versus March quarter there is no increase in borrowing.

Moderator: Thank you. The next question is from the line of Kunal Khundania from DSP Asset Managers. Please go ahead.

Vivek Ramakrishnan: Just one clarification on the interest cost, is there a component of foreign currency debt which is, where the rates have gone up even more steep that is hurting you? And if you could give us a breakup of foreign currency versus the INR debts that will be useful?

Vivek Valsaraj: About 60% of our debt actually resides outside of India and that's foreign currency, but managed locally, paid locally. And yes, we have seen an increase, so the increase that I referred to also pertains to increase in the overall rates in the foreign currency debt as well.

Moderator: Thank you. The next question is from the line of Harsha from Dimensional Securities. Please go ahead.

Harsha: My question pertains to our gross block, in FY'23 we have gross block of nearly Rs. 9,500 crore against which we did revenue of around Rs. 7,000 crore odd. So, just want to understand excluding the additional capacity the expansion in which we are taking, which we are going to do going forward excluding that what is the revenue, what is potential from the existing gross block, because at 0.8, I believe our asset turnover are extremely low, so just wanted to understand from existing capacity what is the kind of revenue which we can do.

Vivek Valsaraj: So, just to clarify firstly Shubham I think the overall gross block as you are aware comprises of both the tangible assets as well as intangible assets. The intangible assets include two components, one is the component of the total brands that we acquired and of course these gets on amortized over a predefined life and it also includes the component of goodwill. If you had to break up our total gross block, half of it comes from tangible and half of it comes from intangible assets. So, that's the total breakup so you need to kind of look at this total fixed assets when you actually look at the intangible assets primarily are brands pertaining to the complex hospital generic and the consumer products business.

Overall, in terms of what the future revenue from these assets will be again would become a forward-looking statement so I would avoid going in that direction. But I think this should help, probably respond to your question.

Harsha: What is the policy regarding amortization of the intangible assets currently?

Vivek Valsaraj: So, it depends on the brand, each of the brands is assessed for its useful life and it could vary from maybe 10 years, 20 years, 5 years depending upon what's the total estimated useful life of that particular brand.

Harsha: And one thing I am worried about is, as you mentioned that half of the assets in our book are intangible assets, but at the end of the day it is the money which we have paid out of our bank, whether we have acquired a business or a brand. So, with all these assets sitting in our balance sheet and given that we are operating at 0.7 or 0.8 turnover, what will be the journey towards higher ROE because these numbers at the end of the day will continue to pull your ROE downwards. So, just wanted to get an idea on that.

Vivek Valsaraj: So, let me just first explain this principally to you and then thereafter of course clarify the question. So, essentially if you look at it and look at what we have done in the last couple of years, 1) We acquired a lot of brands and 2) We did a lot of CAPEX. Brands primarily in the products business and CAPEX in the CDMO space; post which there was this impact of COVID because of which our overall business did take an impact and we were not able to realize revenues to the full potential.

As we move ahead, we will be sweating these assets and brands more, which will help improve the overall ratios. So, the denominator as it stands today is on a higher side which is not necessarily seen in the full potential of revenues that comes from these assets which is why you will have to kind of look at this over a period of time to see the overall improvements in the asset turnover ratio.

Harsha: Alright so without delving into numbers I would believe that on the existing basis of revenue we can still do higher revenues compared to what we have done --?

Vivek Valsaraj: Correct.

Moderator: Thank you. The next question is from the line of Aditya Grover, an individual investor. Please go ahead.

Aditya Grover: My question is regarding the CHG business. In from the sevoflurane last year, we did around Rs. 1,000 crore that means basically we are doing 50% of CHG business from this one particular product. So, I want to understand what is the market price here and can we grow rapidly here?

Vivek Valsaraj: Sevoflurane so if you look at the overall market size of inhalation anesthesia as per IQVIA data, the global size is about $1 billion of which sevoflurane is about 80% so if we you ask us, $800 million is a global market size for sevoflurane. And in terms of trend, sevoflurane is growing faster than the other inhalation anesthesia product, so this is all what we can say on the market size of sevoflurane. Currently in terms of demand which you are seeing for sevoflurane, I can say at least we are seeing demand much higher than what we can supply. So, as we said in our call and our presentation as well our focus is to expand our capacity so that we can meet the growing demand.

Aditya Grover: And coming to our CDMO innovative business, when we say we have the order book of $62 million so that is executable for one year or for two years how is this order book structured?

Vivek Valsaraj: So, order book typically can be some of it is executable within the year, some of them could also spill over to the years ahead Aditya.

Nandini Piramal: But the $62 million is our integrated order so these are orders that will cover more than one site. Our total order book is much larger but given we are in the deal window; we can't actually disclose the size.

Aditya Grover: And our CHG consumer products business is EBITDA positive or still we are running net-to-net there?

Nandini Piramal: No, it's EBITDA positive.

Aditya Grover: And the last question on the scientist part I have, when we are running a discovery or development business what is the number of scientists we have there?

Nandini Piramal: I think we have about 650 scientists across.

Aditya Grover: So, my question is, if we want to scale this business, so if we see the large players right in the CRO or discovery business, they have large like 1000s or 3000 plus scientists, so when we want to scale this business employees is a strength here. So, how are we planning to build here? Because if we want to enter the value chain like go more share of innovative business then how are we looking this, because with 600 scientist I think it is a quite less number when you compare with bigger peers here.

Peter DeYoung: So, I would answer this question and the largest part of our growth in the innovator business would be in the clinical development and on patent commercial segment which will be slightly later than you would say in the CRO FTE model which is in the discovery segment. And in that model, it's much more about being able to help our clients with the tech transfer, scale up and eventual registration validation and commercial registration of their molecules. So, on that business it's a little bit of a different business model than the CRO business model that you described which we also participate in, but from a materiality standpoint most of our revenue profitability in growth is coming from the on-patent development and commercial support and less from the CRO discovery which is FTE based as you described. We see more barriers to entry and more dependable elements in this business because switching cost we think are higher.

Aditya Grover: And coming to the generic pharma we do a CDMO generic pharma what are things, because generally there is always a pricing pressure here, right and you said in the commentary that you are seeing good traction and good pickup in the CDMO space, and you have larger chunk in the generic side. So, can you give some light what is happening here like in the demand side, how it is picking up? And how do you see that this year gone by?

Peter DeYoung: So, first as an overall trend I think we have shared in our Investor materials that we have been doing a long-term pivot and increased mixed innovator business which I just described in the answer to your earlier question. So, we do see and that's becoming a increasing share of our business going forward. That being said we do still see meaningful potential out of our API generic business. And over the last year, we did a lot of work to build additional customers into our portfolio and knowing how that works if you want to hunt for a new customer with an existing API, they you have to take validation batches, they have to update their filing. And so, the uptick we are seeing this year is largely due to the work done in the prior year in terms of onboarding new customers its now materializing into some amount of incremental volumes. And we think that is the primary driver behind the increases the efforts of done new customized position from the existing portfolio in the past let's say 12 to 18 months.

Moderator: Thank you. The next question is from the line of Nirali Shah from Ashika Group. Please go ahead.

Nirali Shah: My one question is that in terms of CDMO business, can you please throw some light on the late phase molecules in the clinic and the potential timeline on commercialization. If I can recall you had 34 molecules in Phase-III earlier, so can you give some update on that?

Nandini Piramal: I think we have 35 plus molecules now in Phase-III, I think those will commercialize over the next two to three years.

Nirali Shah: So, is there any commercialization that we see this year?

Peter DeYoung: It's hard to make forward-looking comments. I think to whatever extent our clients has put information into the public domain you can locate that to what they have communicated, it's difficult in the deal period and also with our confidentiality agreements to disclose it ourselves. So, you can find a couple in the net, but we are not really in the position to share.

Moderator: Thank you. The next question is from the line of Bharat Gupta from Fair Value Capital. Please go ahead.

Bharat Gupta: I have just one question with respect to the CDMO business. So, in the last previous calls we have seen that there has been some sort of a delay with respect to the funding which was there from the institutions out there. So, has there been any structural change because frankly speaking the interest rates are on higher side and there are liquidity issues out there. Despite it we are seeing a good amount of order inflows which are coming in place. So, has there been any kind of a turnaround which we have observed out there in the developed markets which are leading out to good amount of order inflows.

Peter DeYoung: I would say that the order inflow increase that we saw from our clients in the fourth quarter that ended last year and the first quarter that just ended now a large amount of that has been with customers that had already committed to work with us at our sites. And while they had delayed certain instances of ordering due to financial limitations ultimately their products were in proceeding, and they did have the money and they did then place the orders. And so that lag affect affected us unfortunately through much of last year, but at some point, when these products are succeeding in the clinic and in the marketplace, they do have to make the reorders and they reached those points, and a lot of that growth was in that area.

I would say that the second point is we are seeing a continuation of new customer additions but at a modest pace, not at a dramatic pace. And that is continuing to happen, and we are seeing that, but I think all customers are being careful on prioritization of what they spend and where. And so, I think we are seeing the benefits of a lot of our work to stay close to our key customers and make sure we are focusing on key customers that have good data and good financing and that started to play out in Q4 and Q1.

Bharat Gupta: Just a question further on the Indian Consumer Business, so previously we have been able to maintain like advertisement and promotion spending and ratio of near about 18% to 20% of sales. So, are we keeping on track like we are maintaining it, or we are focusing more on the profitability side?

Nandini Piramal: I think we are doing both, we are trying to and as the scale grows the percentage of advertising in a way almost follows right. And that kind of goes into EBITDA, that's how we are managing to do, to have EBITDA positive and I think that's what we want to continue doing.

Moderator: Thank you. The next question is from the line of Dhara Patwa from SMIFS Limited. Please go ahead.

Dhara Patwa: I just had one question, Pfizer's plant in U.S. is hit by tornado and there was lot of restocking for the hospitals injectables. So, are we gaining anything on that front since we also have a lot of hospital injectable basket in our portfolio?

Peter DeYoung: So, we have been obviously, its tragedy that affected that plant in that location and we are very heartened to hear that no one was hurt. And we have actually been in touch with the different market participants, and this is our understanding that while the warehouse was hit, there is not viewed to be a major shortage in the market in general. And the number of products that would be solely sourced there was considered a few. We have a limited portfolio that would overlap with that and to the extent that were to materialize we are poised to take advantage, but based on whatever we can tell from the FDA shortage interactions for the marketplace we are not seeing for the products that we can provide a dramatic change there.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Bandhan Mutual Fund. Please go ahead.

Harsh Bhatia: Just two or three quick clarifications in terms of the foreign debt aspect, you are saying 60% to 70% of that is outside of India, but gets serviced within India that's what I got in the earlier comments. Is that the case that you are servicing the debt in INR so basically the INR depreciation -- rates hike is sort of a double-edged sword for the Company as a whole. I am just trying to have clear thoughts over here.

Vivek Valsaraj: So, Harsh, the debt is based outside India, and it's serviced from outside India it is not serviced from India it is serviced locally from the geographies where the debt was taken.

Harsh Bhatia: As a broader thought process if we were to think about the antibody drug conjugate market as a whole. So, whatever our internal thinking is thought process is, and whatever we are getting a feedback is that the number of players or the supply capacities are very limited in the western markets as of now, I think so Piramal, Wuxi, Lonza these are the very handful of players in the ADC market as of today. But the demand sort of continues to outgrow the supply. So, what is the thought process in that market, how are we seeing the overall environment for the ADC market?

Nandini Piramal: I think our understanding also reflects this as you said that's why we are actually putting in the big expansion into our Grangemouth facility which will open in the second half.

Harsh Bhatia: And can you throw some light on this new CHG product that we have launched during the quarter, I mean I am not asking on the pipeline per say but the new product we had just launched in the first quarter, in the CHG business?

Peter DeYoung: It's modest contribution to revenue, we mentioned it because we want to indicate when our pipelines moves and it is the modest contributor to revenue in the region and it's progressing, but I would say the majority of the revenue growth is coming from the innovation in the period that we just reported. We continue to have other elements in our pipeline which we are progressing, and we are expecting to contribute in future quarters. We can't give forward-looking comments for all of the reasons we mentioned earlier, but it's on the period that just ended while the launch was nice, it was near the end of the quarter, and it was market size is smaller compared to inhalation.

Harsh Bhatia: But it tends to be under the inhalation portfolio as a whole?

Nandini Piramal: This was the injectable.

Vivek Valsaraj: Injectable pharmaceutical, so in the U.S.

Moderator: Thank you. The next question is from the line of Vivek Gupta, an individual investor. Please go ahead.

Vivek Gupta: There are a couple of questions from my side. So, I have seen that management is bit aggressive to grow the top-line. But there is no focus on growing the bottom-line. That is the first question.

And I also see that management is saying that will pay the debt post this rights issue subscribed, but this is just mere 25%, less than 25% of the outstanding debt. So, what are the plans to be debt free and what are the plans to pay down debt for the remaining amount? Just seeing the bottom-line I think being an investor I am not at all happy with the kind of performance the Company has been posting. So, that is another question I want an answer to.

Vivek Valsaraj: So, Vivek, firstly your points with respect to focus on top-line versus bottom-line, I think our intent is very clear that we want to grow top-line as well as grow bottom-line as we have always maintained. If you look at the performance of this quarter and if you look at the real intrinsic performance on a comparable basis our bottom-line has improved and our operating margins have also improved.

The overall debt position as we have stated will reduce in the first instance by rights issued, but thereafter our focus will be to kind of reduce the debt as we keep improving our overall financial performance. It's also important to acknowledge that the overall debt did go up during the period when we were doing certain investments for meeting our objectives of expanding capacities and capabilities in those areas where there was demand. Unfortunately, at that point in time the business did also see an operating performance impact due to the pandemic and the overall geopolitical conflict that arouse thereafter. But having said that we continued our investments, because we believed that there was an opportunity, and we did not want to miss the bus when the opportunity came in. And that's the reason the overall debt was at a higher level. Now we are paring down the debt in the first instance and as performance improves, you will see that our overall debt to EBITDA ratio will be within permissible or acceptable limits.

Vivek Gupta: So, what is the target management has set for themselves to be debt free, there should be some target, right?

Vivek Valsaraj: As we said please bear with us, currently we can't make that disclosure which is forward-looking and not part of the Letter of Offer.

Vivek Gupta: The next question is, I see that it's just less than one year with the demerger from Piramal Enterprises, I see management has come up with the rights issue in the first year of the listing itself. So, why didn't the management opt the route of preferential issue and we just keep on bloating the equity?

Vivek Valsaraj: So, the overall decision with respect to the entire method or the tool to be adopted for raising was discussed and deliberated at the board. And we felt that the most judicious way to do this considering the overall time the turnaround and the fact that we could a allow a fair participation to all shareholders, we thought rights issue was the best way to go forward.

Vivek Gupta: So, why not the preferential routes, sorry I didn't get that part?

Vivek Valsaraj: So, from an overall timeline standpoint it wouldn't have matched with what our overall requirements were. So, this was the best suited in terms of timelines.

Vivek Gupta: The next question is, I see that there are lot of other expenses which have been rising on quarter-to-quarter basis. So, I see there are marketing costs which have been mentioned and there is a big umbrella which you have quoted down in the balance sheet and the results stating that these are other expenses. So, why can't and being investor when I read the results, why can't I get a segregation of the extra expenses which you are saying. And why we have been so frugal in the marketing as we are not growing the bottom-line at all. Why can't we reduce our expenses there?

Vivek Valsaraj: So, if you are referring to the overall promotion and marketing expenses then as we have stated that we have been doing a significant spent in the media for our consumer product business. We have in fact been doing aggressive spend there so that we could boost top line, the results of which has been seen over the last couple of years. With respect to your request for breakup of information, if you are referring to the March '23 Annual Report then all the details with respect to other expenses and breakup is available in the schedules there. But if you have any specific question, please feel free to reach out to Gagan and we will be happy to respond to that.

Vivek Gupta: Actually, I have tried reaching out to Piramal a lot of times, but eventually there is no communication which has been done, so let me try it again. But being an investor, I think there is nothing which the management is doing as of now for the investors. The rights issue ratio as well as the pricing is something which is not in favor.

And I would request management to seriously think about growing the bottom-line instead of top line. And this is such a pain rather than -- planning to be debt free, because I think for quarter-to-quarter basis we will be getting on to con-calls and we will be stating that H1 is bad and H2 is good, but eventually the same story will unfold for coming quarters as well. So, that's it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Vivek Valsaraj: Thank you everyone. We hope that we were able to answer most of your questions. In case if you have any follow-up questions or any clarifications that you would need, please feel free to reach out to me and I would be happy to respond. Thank you once again and have a good day and the weekend ahead.

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