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AKUMS DRUGS & PHARMACEUTICALS LIMITED

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September 04, 2024

Ref: Akums/Exchange/2024-25/13

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

Symbol: AKUMS

To,
The Listing Department
BSE Limited
Rotunda Building, Phiroze
Jeejeebhoy Towers, Dalal
Street, Fort, Mumbai – 400 001

Scrip Code: 544222

Sub: **Transcript of Earnings/Analysts Conference Call held for limited reviewed un-audited financial results of Q1 FY25.**

Respected Sir/Madam,

Pursuant to the Regulation 30 read with Part A of Schedule III of the SEBI (Listing obligation and Disclosure Requirements) 2015, please find enclosed herewith the transcript of earnings/analysts conference call held on Friday, August 30, 2024 at 4:00 PM (IST) on limited reviewed un-audited financial results of Q1 FY25.

The said transcript be also available on the Company's website www.akums.in.

This is for your kind information and record.

Thanking You

For **Akums Drugs and Pharmaceuticals Limited**

DHARAM VIR MALIK Digitally signed by DHARAMVIR MALIK Date: 2024.09.04 10:26:07 +05'30'

Dharamvir Malik
Company Secretary & Compliance Officer

"Akums Drugs and Pharmaceuticals Limited 1QFY25 Earnings Conference Call"

August 30, 2024

MANAGEMENT: **MR. SANJEEV JAIN – MANAGING DIRECTOR, AKUMS DRUGS AND PHARMACEUTICALS LIMITED**
MR. SANDEEP JAIN – MANAGING DIRECTOR, AKUMS DRUGS AND PHARMACEUTICALS LIMITED
MR. SUMEET SOOD – CHIEF FINANCIAL OFFICER, AKUMS DRUGS AND PHARMACEUTICALS LIMITED
MR. SAHIL MAHESHWARI – GENERAL MANAGER, STRATEGY, AKUMS DRUGS AND PHARMACEUTICALS LIMITED

MODERATOR: **MR. PRASHANT NAIR – AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Akums Drugs and Pharmaceuticals Limited 1QFY25 Earnings Conference Call hosted by Ambit Capital.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Nair from Ambit Capital. Thank you and over to you sir.

Prashant Nair: Thank you. Hello! Everyone. On behalf of Ambit Capital, I welcome you to the 1Q FY25 Earnings Call of Akums Drugs and Pharmaceuticals Limited.

We have the Akums management team with us, represented by Mr. Sanjeev Jain, Managing Director, Mr. Sandeep Jain, Managing Director, Mr. Sumeet Sood, CFO and Mr. Sahil Maheshwari, General Manager, Strategy.

I now hand over the call to “Management for Opening Remarks,” following which we can get into a “Q&A Session.” Over to the management.

Sahil Maheshwari: Thank you, Prashant for the introduction. Good evening, everyone, and welcome to our Q1 earnings call. I'm Sahil, General Manager for Strategy.

Let me draw your attention to the fact that on this call, our discussion might include certain forward-looking statements which are predictions, projections or other estimates about future events. These estimates reflect management's current expectation of the future performance of the company. Please note that these estimates involve several risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. Akums does not undertake any obligation to publicly update any forward-looking statements, whether as a result of new confirmation, future events or otherwise.

I hope you have gone through the “Investor Presentation” and the “Results” that were posted.

I would like to request Sandeep Jain, Managing Director of the company to please take it forward.

Sandeep Jain: Thank you, Sahil Ji. Namaskar everyone and thanks for joining us on this call.

Since it's our First Conference Call post listing, I will take a few minutes to deep dive on how the business is structured and also articulate on growth levers of our business. Akums is the largest India-focused pharmaceutical CDMO with over 30% market share. This is the main business vertical of the group, contributing to over three-fourth of the total revenues. Our company caters to 1,500 plus clients annually with longstanding relationship with top pharmaceutical companies in India. We cater to both Indian and MNC pharma companies with 26 out of top 30 in India pharma market being our partners.

As the CDMO, we produce an extensive range of dosage forms including tablets, capsules, liquid orals, vials, ampules, topical preparations, eye drops, dry powder injections, nasal sprays, amongst other. Since our inception in 2004, we have commercialized over 4,000 formulations across our 60-plus dosage forms.

We have 11 units operational for formulation CDMO business with capacity of over 49 billion units annually. Some of our manufacturing units have been accredited by various global regulatory agencies, including European GMP, WHO-GMP, USF, NSF, etc.,

We also operate four R&D centers with over 400 scientists working over there with around 2.6% of our revenues being invested in R&D. We are continuously building and R&D capabilities in pipeline. In Q1 itself, we spent over 30 crores of INR in R&D. We are leading players in India holding 940 plus DCGI, including 20 DCGI added in Q1 itself and 920 + FSSAI approvals showcasing our extensive strength in formulation development.

We are passionately working towards strengthening our leadership position in CDMO space in India by expanding capacities to cater to growing CDMO market, extending capabilities to newer dosage forms and developing robust portfolio of innovative formulations.

In India, with our strategy, we recently started our new injectable facility with an annual capacity of around 36 crores units. The unit is currently undergoing customer audits and is expected to ramp up in the next 24 months. Also, we plan to expand in Jammu to augment our capacities. Our plan is to set up two units over there; one is a multi-dosage facility and the another is a nutraceutical facility.

We have recently ventured into new process forms, including nasal sprays, gummies, and soon we will start commercialization of lyophilized injections as well.

In addition to our core CDMO business, we actively engage in marketing our own branded formulations in India and across global markets.

Through Akumentis, we focus on therapy areas such as gynecology, cardiology, orthopedics and pediatrics in India with around 70% sales in chronic and subspace.

Sahil Maheshwari: So, as Sandeep sir was mentioning, we have almost 70%-plus sales in chronic and sub-chronic therapies, leveraging our strong field force of over 1,500 employees, we market over 140 brands. Further, through Unosource, we focus on global markets and present in 65 countries across multiple therapies including CNS, anti-infectives, analgesics, gynecology, etc. We currently hold 700-plus dossiers globally and in Q1 itself, I'm happy to share that we received 75 additional approvals for the dossiers, and we are actively expanding our team in various markets to capture global demand for quality generic products. We also engage in the marketing of trade generic products through distributors across India.

Apart from these two business verticals, we are also present in API business which contributes to over 5% of our revenues. We have an installed API manufacturing capacity of 737 MT and currently almost 85% of the sale comes from Cephalosporin API. We also manufacture APIs in respiratory gas source, CNS and anti-diabetic therapies. The business was recently started and is currently under rampup phase. We are strengthening our capabilities in R&D, manufacturing and customer reach to scale up this business.

Finally, at Akums, we are glad to introduce Mr. Amruth Medhekar, who has recently joined as CEO for CDMO operations. Mr. Medhekar brings with him almost 25-years of experience in pharma space. Now, let me hand it over to Mr. Sumeet Sood, who is the Chief Financial Officer for the group.

Sumeet Sood: Thank you, Sahil. I will take you through the Group and the Segment Financials.

If you see our results, the consolidated revenue for the group had increased from Rs.970 crores to Rs.1,019 crores during this quarter, the growth of almost 5.1%. Consolidated adjusted EBITDA grew from Rs.108 crores to Rs.131 crores, a movement from 11% to 12.7%. Consolidated adjusted PAT margins improved from Rs.38 crores to Rs.57 crores; there was a movement of 3.9% to 5.6% in the PAT. Consolidated gross margins also saw an improvement from Rs.376 crores to Rs.423 crores; it moved from 38.8% to 41.5%.

If we now look at the segment, so if I take the CDMO first, the CDMO grew from Rs.740 crores to Rs.782 crores, a growth of 5.6% largely driven by volume growth of 14% compared to Q1 '24.

It's pertinent to mention that the pharma industry had a flattish volume growth during this period. The moderation of the revenue growth compared to the volumes was due to softening of the API prices. Our business is based on cost plus margin. API prices impact our realization from our clients.

If we look at the CDMO EBITDA it improved from Rs.107 crores to Rs.121 crores, there's a movement of 14.4% to 15.5%. The branded generic revenue reduced from Rs.191 crores to Rs.167

crores; this is a 12.5% reduction. Efforts to consolidate the trade generic business and continued performance of the branded and generic formulation business has led to the improvement of EBITDA from Rs.7 crores to Rs.17 crores. So, the EBITDA moved from 3.9% to 10.2%.

API revenue improved from Rs.38 crores to Rs.70 crores, a growth of almost 82%. Exports in the API division have increased from Rs.3 crores to Rs.9 crores in Q1'25. The API prices though had an impact on the margin of API business wherein percentage increased due to fall in revenue realization. The EBITDA moved from Rs.(-9) crores to Rs.(-)12 crores; the EBITDA margin sort of improved from (-)23 to (-)17.4%. The company was able to reduce the debt by Rs.205 crores from Rs.418 crores to Rs.213 crores for Q1'25.

Cash flows from operations, we were at Rs.52 crores positive and the free cash flows were Rs.31 crores positive. The working capital improved from Rs.1,084 crores to Rs.881 crores in the first quarter for the group. We sort of released a total of 203 crores in the working capital. So, these are the financial results from our side. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Ashish Thakkar from JM Mutual Fund. Please go ahead.

Ashish Thakkar: Sir, on the branded and generic formulation business, you did mention that you're trying to cut the losses and therefore revenues are slower. How should we look at this business going forward -- is the loss cutting activity over or is there still some time to go?

Sahil Maheshwari: So, let me address, Ashish. So, essentially the branded and generic formulations are segmented further into three categories; one is the domestic branded segment, the second is the exports, and the third is the trade generic. As you said, we are curtailing losses, it is only through the trade generic segment, while both the prescription branded domestic as well as the exports, both are positive. So, in a way the movement was earlier also positive. So, overall, in Q1, as Sumeet ji earlier mentioned was from 3.9%, we moved to 10.2%, right. And to your point, yes, we are in a process to further curtail down these losses into the trade generic segment.

Ashish Thakkar: But then how should we look at this business growth, is there a trade-off between improving margins and the revenues, how should we look at it?

Sahil Maheshwari: So, as I said, both the branded businesses which are of key businesses and they both have EBITDA margins above the corporate margins, right, so both of them are growing at a healthy pace and we continue to stay active on these two fronts. Regarding trade generics, we had the opportunity to consolidate this business. So, that is where we are consolidating the revenue, and the trade-off is largely over. From now on what we feel is the worst is in a way behind us and we should see some further improvements in the overall margins for the branded and generic formulation.

Ashish Thakkar: My second question is on this Parabolic Drugs that the losses were there last year. So, how should we look at the losses coming down? Whatever restructuring that we were trying to do at their facilities, are all those activities over and when can we see some contribution coming from Parabolic?

Sahil Maheshwari: So, the Parabolic which today sits in our subsidiary, Pure and Cure which we acquired. Rightly so, so, if you really look at the trajectory of Parabolic in FY'23, we had almost a 50% EBITDA loss, then last year, we almost had 40 crores plus EBITDA loss over a sale of roughly 10-odd crores. So, largely the EBITDA is improving. Now, if we really look at Q1-to-Q1 last year we had almost (-)23% of EBITDA loss which now has improved to (-)17%. Like while the progress in improvement is a bit slow in this quarter, essentially which is driven by the prices soften for the Cephalosporin. So, as I mentioned earlier as well, Cephalosporin was almost 85% of the business. So, while the realizations fall, the COGS percent moved up, but in a way the other aspects of the business stay intact, the growth is positive. I'm happy to share even in the first quarter, we also exported to Spain from our Dera Bassi facility, right. So, we continue to add more countries, more accounts, more customer base and see how can we expand this business going forward. So, those levers are intact, while if you really look at it, the percent profitability also improved Q1-to-Q1.

Ashish Thakkar: As far as the potential in the Parabolic Drugs is concerned, can we go to 1,000 crores revenue mark so which it used to do in earlier days, is that kind of a potential still there in the Parabolic asset?

Sahil Maheshwari: So, I think you have read the financials of Parabolic which was also a listed entity. So, assets are largely the same, right? So, it is Dera Bassi, Lalru, Asil. These assets are fine. It used to do approximately a decade back that kind of revenues. But a pertinent point I wish to make over there is also it was approved by global authorities, right. So, that endeavor is there that in coming years export to more countries, but as far as your question is concerned, obviously, that facility is currently having significant space for revenue expansion.

Ashish Thakkar: When do you see this facility becoming EBITDA-neutral, are there any timelines?

Sahil Maheshwari: So, as in this point I cannot put down a quarter wherein we would, but the results are encouraging. As I was mentioning earlier if you look even quarter-on-quarter, the percent decline is coming down, the revenues are increasing, the customer base is increasing, we have an active product pipeline commercial which is there. So, the efforts are into the right direction, and I feel that we should be able to do a good business.

Moderator: Next question is from the line of Rahul Salvi from Franklin Templeton. Please go ahead.

Rahul Salvi: So, I had a question on the CDMO business. So, the thesis here was basically that this business can grow faster than the Indian pharmaceutical market basically by volume share gains as well as gains in private labels or trade generic, etc., so that will also drive volume, but this quarter I think the volume growth was just 5.6%. So, if you could speak how we should expect this growth over the full year period? And whether that trajectory of a low double digit to mid teen kind of a growth in this business is intact?

Sahil Maheshwari: So, just a correction on to your question first. So, as I mentioned, almost 14% we grew into volume terms, the revenue growth was 5.6%. So, volume, yes, we grew faster. If you really look at the market, the volume and the new introductions, these were largely flattish in low single digits if you really look at the MAT, but we grew double digits, which was almost at 14%. So, the underlying thesis is correct that we are growing much faster than the market. As was mentioned earlier as well by Sumeet that essentially the business model is a cost-plus model, right? So, the API prices have an impact on the transfer prices or the revenues we realize from our clients. But as I mentioned, the volume is intact, and as you said across the therapies, the zones, the clientele we serve, we continue to see a good traction to our business.

Rahul Salvi: So, if the volume growth was 13%, 14% and the revenue is 6%, so that means the product mix was inferior towards low price product, is that how we should read it?

Sahil Maheshwari: The product mix remains the same. As I mentioned, the API prices this quarter fell almost by 7% to 12% depending on the API therapy, right. So, once your API prices fall down, the revenue realizations fall down since it's a cost-plus model. Every purchase order, it's a complete pass through to the customers whether it's a inflated price or a subdued price of the API.

Rahul Salvi: And what has led to the improvement in gross margins of around 430 basis points in this quarter YoY?

Sahil Maheshwari: So, as we were mentioning earlier, so we received multiple new innovative approvals… the new DCGI approvals, right? So, we also had good operationalization of our facilities, right, if you really observe, the utilization levels also improved, right? So, it helps us improve the overall gross margins.

Rahul Salvi: And on the full year basis, how should we expect the revenue growth trajectory? Since the API prices are stable and say at those lower level, so will the full year growth will also be slower on the CDMO side in terms of reported growth even though the volume growth might be higher?

Sahil Maheshwari: So, honestly sitting today, we cannot predict the API prices, right, while still some of the API prices have bottomed out, there is still a good chunk of API prices, which still continue to see a downward trajectory. Having said that, the key business growth driver for us is profitability and the volumes, right, those two remain strong. If you really look at it, the EBITDA margins also improved and the percent margins also improved as well as the volume growth was strong, right. So, as and when the API prices correct, it's right, we will see an uptick in revenue, but sitting today it's difficult to comment what would be the revenue growth.

Rahul Salvi: On the branded and generic formulations business, so, if you could split out between the three segments, Akumentis, trade generics and the third segment as to what is the revenue split as well as margin split for us to get a better clarity in terms of trajectory? So, if you could put that in the presentation itself, is that a possibility in the near future?

Sumeet Sood: The issue we have is that we don't give that split in the financials, right. While we have grossly told you that there is an overall very healthy growth in the EBITDA margins from 7 crores to 17 crores, we would be under compulsion not to probably disclose something which is not in the public domain. We apologize for not giving an answer to your question.

Rahul Salvi: Because the challenge we face is that these three are completely different businesses, having different business models and drivers, so it becomes easier for us to track the performance over a long period of time. That was my submission.

Moderator: Next question is from the line of Christy Or from HSBC Asset Management. Please go ahead.

Christy Or: So, I just have one question on the cost of model on the CDMO side, because you're also aware that the API pricing downward trend has been happening since the end of 2022 and despite that throughout 2023, I think our performance in CDMO actually did quite well, close to 20% growth if I remember correctly. So, has anything changed ever since because if the API pricing trend hasn't really changed and it's actually been improving yet our performance is actually probably up slightly lower compared to last year, is that due to potential outsourcing rates going down or is there something else that might be driving that pricing gap?

Sahil Maheshwari: As I said, I'll bring all the points together. First is the volume growth was intact, almost over 14%, right? The margins improved, right? So, what fell down to realization is the factor that the API prices went down. So, there was a consistent supply from both the Indian as well as the global player. Then there was stabilization in the prices of the solvents, in the KSM prices, right. Due to weakened demand in the overall pharma industry, while degrew in the volume terms, the overall pharma industry was largely flattish. So, all of these factors led to release of inventory from the API players, right, and hence the API prices fell down. While '22 as you were mentioning was a period of high, but since then several API cycles of plus and minus were there. So, that's there, right?

Christy Or: I understand the inventory release part, but would you mind clarifying again what might be the difference compared to last year?

Sahil Maheshwari: Sorry, what might be -?

Christy Or: Normally, the difference in terms of the price acceleration compared to last year, because I suppose the destocking that happened last year when China was dumping a lot of API excess capacity to us in India, that has led to a very steep API downward pricing trend. And as we stabilize right now, if anything, it should not be worth the last year. But despite the downward pricing from last year, we delivered 20% growth. So, I'm just wondering what else might be causing the price discrepancy between this year and last year?

Sahil Maheshwari: As I mentioned, so the calming down of the solvent, the KSM prices as I mentioned earlier there was almost a reduction from 7% to 12% in the API prices. A few of the APIs for example cephalosporins, paracetamol, they continue to see a downward trajectory. So, there is still softening of a few of the APIs.

Moderator: Next follow up question is from the line of Ashish Thakkar from JM Mutual Fund. Please go ahead.

Ashish Thakkar: This is the first call after your listing, on an overall basis, would you like to guide the investors for FY'25, how should we look at the next three quarters panning out because the first quarter was of just a 5% revenue growth while there was margin improvement, would you like to give some color or some assistance from your side?

Sahil Maheshwari: So, Ashish, essentially so as I'm mentioning there have been a good traction to the business, the volume is growing, the margins remain strong, we have been performing well. So, the endeavor is how can we perform well. As of today, we cannot give any guidance for the year, but all the levers for example, the loss in the trade generic, they continue to curtail the API, there's a good amount of effort which is done to minimize the losses and as and when the Cephalosporin prices, they average out from the current bottom, we might see an uptick in the revenues, right, the export business is going strong, we have good product mix today which has led to improvement of our gross margins, right. So, all of these factors, we believe the business should grow and do well. But as of today, we do not wish to give out any specific guidance.

Ashish Thakkar: Is there a seasonality in your business in terms of the quarters?

Sahil Maheshwari: Limited seasonality, but you might win some good orders at times. So, some quarters you might win, and then there are opportunities which lie with for example, if I get a regulatory approval in Q3, Q4 that might pan out well if it's a good product in demand, and then there might be some new customers which we add which bring in revenues which get shifted from other CDMOs, new companies launching new divisions that might give us a boost. So, while the pharma, if you really observe Q2, Q3 are strong quarters, then driven by monsoon season and then the winter season, but for us largely it is good, but we have in the past really seen that some of the quarters might perform well driven by what our business wins are.

Ashish Thakkar: Anything on the recent Injectable facility which you commercialized, would that contribution start from Q2 onwards or Q3 onwards?

Sahil Maheshwari: So, the new injectable facility which we commercialized starting 22nd this month, so how this happens is you need some time to get the required client audits, the WHO-GMP and so on. So, it takes almost 6-8 months before we can onboard good clients with good capacities of the business to start with. So, how do we currently see this business is from FY'25-26 onwards, we should be able to ramp this up. We have ampoules and vials; we are also introducing new dosage form which is lyophilized vial in that facility and we are hopeful that this facility will make a meaningful contribution to our business.

Ashish Thakkar: Lastly, this quarter the taxes were a bit higher than what we might have anticipated. How should we look at the full year number?

Sumeet Sood: You look at the taxes in two ways, right? One would be that if you look at the March '24 number, there was a deferred tax asset which was created, right, this was due to a merger that happened, right. What is happening is that in the period that asset is being utilized, so that is showing in the financials. While the cash payout will be much lower, when you look at the financials, you'll see a higher deferred tax charge that is the reference, otherwise we should be on a payment basis 19% to 20% tax for the company.

Moderator: Next question is from the line of Rohan Vora from Envision Capital. Please go ahead.

Rohan Vora: Sir, recently there were some news articles referring to extension in timeline for Schedule M. So, I just wanted your view on the same.

Sanjeev Jain: The Government has not confirmed anything. The government is thinking about this. SMEs have represented this, but I don’t think this is going to happen. If it happens there will be a very minor impact because we don’t have that business. But whatever we have planned for our future growth there could be minor impact not more than that. So, the people would not be able to sustain the prices then their business will be shifted to us then we would have more growth which we projected.

Rohan Vora: Nothing is firmed on this this. It is still just a representation?

Sanjeev Jain: Yes.

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

Chintan Shah: So, my first question is on business revenue potential. So, if I remember correctly, our capacity utilization was at 40% per se FY'24 and when we add this new injectable facility plus there were certain facilities which were also underutilized and now we announced another two facilities. So, my question is, what should be the revenue potential when you put all this together and how much the capacity utilization can increase to, and also if you can help us understand how should we see the ramp up to reach the revenue potential?

Sahil Maheshwari: Sure. So, as you rightly said, the capacity utilization was roughly 40%-odd, which was approximately 2% more than 38%, which we did in the last. So, having said that, injectable, we operate at a good capacity. So, let's also further understand when we say 40%-odd max we can achieve given we have multiple SKUs we do almost 18,000 SKUs annually over 4,000 formulations, which involves a significant changeover as well. The max capacity utilization ranges from 50% to 60%-odd depending on the line of the product, right? So, what we have essentially done is injectable facility we kick started, we had significantly good visibility and we're also operating at good utilizations for our injectable facility and hence this project got initiated a few years back which this month got commercialized, right? So, that is there. As you rightly said, in Baddi also, we have oral solids and liquids which again operates at good capacity. Liquids in a way can be seasonal when you have cough and cold and oral liquids can be seasonal and hence to cater to the spike in demand which can happen that is also there. Then at times what we have also seen in the past is brands get transferred to us from other CDMOs or from in-house manufacturing to us and hence we keep a buffer of spare capacity to excel into the service to our customers. As far as Jammu is concerned, what we are essentially doing is as we recently expanded into newer dosage form, some will be newer dosage forms and some would be addition of capacities which we feel. So, if we today have thought-through it you would appreciate that it would take a few years from when we can commercialize the facility. So, for dosage forms which we today operate at decent capacities wherein in the next two to three years we might face capacity crunches and hence we thought of putting down the facility into Jammu.

Chintan Shah: So, question basically was if we put this altogether, say 3-4 years now, how should we see the revenue potential?

Sahil Maheshwari: If we see the historic numbers, we usually do 2.5 to 3 times of our gross block. So, that is how we see it. While the margin profile from one dosage form might vary to another, but if we really stick to what has happened historically over the last two decades of the operations of the company, this is usually what we do when the capacity fully gets ramped up over the next 3-4 years and operates at a decent utilization. On the utilization, as I was mentioning, so this is a continual cycle and that's a sign of a positive business growth. So, for example, if we today stand at 40% for any of our lines, right, and it's moves up to 50%-odd, then we start to think of adding an additional capacity till the time it reaches 55%, 60%-odd which I mentioned earlier is peaking out of our capacity. We add another capacity, it falls back to let's say 20%, 30%, then it starts moving up, right. So, it's a cycle of growth of the company and that's how we plan our capacities.

Chintan Shah: So, injectables, how much CAPEX have we put in here?

Sumeet Sood: We have put in 152 crores in the injectable plant.

Chintan Shah: And this Jammu plant we're putting in approx. 265 crores?

Sumeet Sood: Yes, you're right.

Chintan Shah: And when is that expected to be commissioned?

Sahil Maheshwari: So, over the next 24 to 36 months.

Chintan Shah: The second question was on the balance sheet side. So, right now, if I see the cash flow that we are generating and we have a few balance sheet and apart from this CAPEX, I believe there is no other capacity addition on the card. So, how do we intend to utilize the cash that we have now?

Sumeet Sood: While we are generating free cash flow and we have proceeds from our IPO, there are specific purposes for which these funds are to be used, right. So, of the total proceeds, 387 crores goes around repaying our debts, right, the working capital and the long-term. Some of it will be for additional working capital, some of the funds that we will have, we have set aside for inorganic opportunities where we see some synergies for our business, largely keeping them as a corporate war chest for the need that arises. So, I think that's largely how we are going to use our cash, which will be on our books.

Chintan Shah: And one question was on the CDMO margin. So, we are somewhere around 15%-odd and considering the capacity utilization that we have, I mean just wanted to understand is this the optimum margins that we should expect we can do or is there a scope for improvement?

Sahil Maheshwari: So, largely that's it. This is the stable business vertical. I think these are stable margins for us.

Chintan Shah: The margin improvement basically that we should expect is from the other two segments?

Sahil Maheshwari: Absolutely.

Chintan Shah: Just continuation to what earlier participant asked, if we need to understand the FY24 revenue especially on the CDMO part, so is it fair to say that there was no elemental of decline in API prices that was involved or was it a case that the volume growth again in that particular year was much higher, so if you can just spread it up, I think that would be helpful?

Sahil Maheshwari: In FY'24 as well, there were some decline in API prices, right? So, we will also see that. So, we deal with the multiple APIs, right? So, as I said over 4,000 formulations, multiple APIs, right? Some goes up, some go down. As a business, what we mentioned in Q1, most of the APIs had a fall in the prices and hence we specifically call out that the volume was higher than the revenue, while the margins are intact, which gives us confidence that the product mix was good, right. In previous year as well, the volume growth was still intact, but this is what is a specific nature for this quarter.

Chintan Shah: So, we have done a 20% revenue growth in the CDMO segment last year. So, now assuming there is some price decline, the volume growth will be much higher. And if I remember correctly for the industry, the volume outperformance was pretty high. So, if you can explain what happened here and in context to that, then this quarter is to be a very sharp declinable if we consider from a volume perspective, so is that on a high base or what's the reason for that?

Sahil Maheshwari: So, can you paraphrase this again? Sorry. There were multiple points. I could not catch it.

Chintan Shah: So, last year basically the volume growth was somewhere if we assume 5%, 7% decline in API prices, volume growth was in high 20s and now this quarter if you see somewhere in the range of 13%, 14%-odd. So, I mean that is what I'm trying to get why is there such a sharp strengthening in one quarter in terms of volume?

Sahil Maheshwari: So, 20%-odd as a volume growth, I don't think we did it last year. This is a good quarter where we did volume growth and similar growth we do over the business cycle. So, that is it. So, volume, as you're mentioning, it's not really declined, but the volume growth has been positive for this quarter.

Moderator: Next question is from the line of Ashish Thakkar from JM Mutual Fund. Please go ahead.

Ashish Thakkar: What is the kind of API inventory that we maintain in our CDMO business?

Sumeet Sood: So, we sort of have two months inventory in our CDMO business.

Ashish Thakkar: And since we are in the midst of a Q2, you still feel that the price pressure from the API is still there, that's still relevant, right?

Sahil Maheshwari: Yes. So, it would have an impact in Q2 as well.

Moderator: Next question is from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: So, I have two questions. The first one is on the API business. Can you elaborate on your plans for this business? It's a new one for you. So, are you trying to build something similar to what you have on the formulation side, CDMO kind of business, domestic focus or international, how do you see this business evolving over time?

Sahil Maheshwari: There's one major difference. So, in CDMO, we work across multiple formulations, right, and hence it gets a domestic focus. APIs are different. You have a selective basket of APIs, right? And while the endeavor is to go global, the first step is how can we do ride for Indian markets, move slowly, move from the semi-regulated and finally to more regulated markets. So, that is there. The idea as you initially mentioned, the idea is clear that we have to turn this into a profitable venture soon. The key costs, obviously, since the business is small, there is high costs currently. Then as we gain scale, this business will have improved efficiencies as well as margins, which over the last three years you could read the numbers is consistent, This is nothing but this quarter over the last multiple quarters and years, we have been continuously improving our margins. This is a new business which has extensive R&D orientation, extensive orientation towards seeding the APIs to the formulation player so that they continuously use in their formulation. So, it has some gestation period, but we are hopeful this will be a good vertical and obviously that's the reason why we separated out from the CDMO business because we feel it's a meaningful business to be reported independently.

Prashant Nair: So, on your international formulations business, again, similarly, can you elaborate on which are the key market that you're focused on, what would your front-end strategy be in these markets?

Sahil Maheshwari: So, Prashant, we today export to almost 65-odd countries, right? It has a good fair mix of both chronic as well as acute segments. So, the idea is to build out brands which have a prescription and a brand recall. So, we have country managers in a few of the countries which are of priority countries. As of today, we are there in Southeast Asia, South Asia, Africa, covering both East and West, right. We are slowly penetrating into other markets, for example, the Middle East, LATAM, then CIS as well. So, all of these markets are interesting markets for us. A couple of years back, we also received European approval for two of the most important dosage forms; one is the injectable and the oral solids which is tablet and capsules, right. So, we also plan to move to the European markets gradually. We are in a process of filing dossiers. We have already filed two dossiers which are there in the public domain. Some are there in the pipeline as well. So, the idea is selective markets across continents wherein we can build brand recall and generate good business for the group.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for the closing comments.

Sahil Maheshwari: So, thanks a lot everyone who has joined in. We really appreciate your time. Looking forward to our next interaction soon. Thank you.

Moderator: On behalf of Ambit Capital, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.