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AKUMS DRUGS & PHARMACEUTICALS LIMITED

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Ref: Akums/Exchange/2024-25/39

November 15, 2024

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 Q2 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 Monday, November 11, 2024 at 12:00 PM (IST) on limited reviewed un-audited financial results of Q2 FY25.

The said transcript be also available on the Company's website https://www.akums.in/investors_new/announcement/

This is for your kind information and record.

Thanking You

For **Akums Drugs and Pharmaceuticals Limited**

Dharamvir Malik
Digitally signed by Dharamvir Malik
Date: 2024.11.15 17:15:31 +05'30'

Dharamvir Malik
Company Secretary & Compliance Officer

“Akums Drugs and Pharmaceuticals Limited 2QFY25 Earnings Conference Call”

November 11, 2024

MANAGEMENT: **MR. SANJEEV JAIN – MANAGING DIRECTOR**
MR. SANDEEP JAIN – MANAGING DIRECTOR
MR. AMRUT MEDHEKAR – CHIEF EXECUTIVE OFFICER; CDMO
MR. SUMEET SOOD – CHIEF FINANCIAL OFFICER
MR. SAHIL MAHESHWARI – GENERAL MANAGER; STRATEGY

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

Management: Ladies and gentlemen, good day and welcome to 2QFY25 Earnings Conference Call of Akums Drugs and Pharmaceuticals Limited 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: Good afternoon everyone. On behalf of Ambit Capital, I welcome you to the 2QFY25 Earnings Call of Akums Drugs and Pharmaceuticals Limited.

We have the following members of the Management Team on the conference with us today Mr. Sanjeev Jain – Managing Director, Mr. Sandeep Jain – Managing Director, Mr. Amrut Medhekar – Chief Executive Officer; CDMO, Mr. Sumeet Sood – Chief Financial Officer and Mr. Sahil Maheshwari – General Manager; Strategy.

I would now like to hand over the call to Management for "Opening Remarks" for which we can move to Q&A. Thank you and over to you, sir.

Sahil Maheshwari: Thanks a lot Prashant for the introduction. Hello everyone and welcome to our Q2 Earnings call, I am Sahil.

Let me draw your attention to the fact that on this call our discussion might include certain forward-looking statements which are predictions or projections of the future events. Our business faces several risks and uncertainties that could cause our actual results to defer materially from what is expressed or implied in such statements. 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 everyone has gone through the investor presentation and the results which we share on our websites. I would now like to hand it over to Sandeep sir to take over.

Sandeep Jain: Namaskar to everybody, thank you Sahil ji. Happy Diwali to everybody.

We take pleasure in declaring the Q2 Results of the company and thank all the stakeholders and shareholders for their continued support to the company.

We are the largest India-focused Pharmaceutical CDMO with over 30% market share. Our company caters to over 1,500 clients both Indian and MNC Pharma companies with whom we have long-standing relations. Today 26 out of top 30 Pharma companies in India are our partners.

Our total consolidated revenue in Q2 was Rs. 1,047 crore which is 2% higher on Q-on-Q basis however, 12% lower on Y-o-Y basis which is due to a combination of 3 factors.

- Muted demand resulting in lower volume growth.
- Prices of several key API's including Amoxicillin, Cephalosporins, Paracetamol, Telmisartan etc., continues to fall. As you are aware, our CDMO business is a cost-plus model, so when input costs fall, we experience revenue deflation as well.
- Falling API prices have another secondary impact. It affects order frequency because customer wait for API prices to bottom up before building up inventory.
- The continued fall in API prices of Cephalosporins has also impacted our revenues and profitability of API business.
- Thirdly, we had some significantly higher revenues from an outsourced product development engaged in Q2 of the prior year.

All these impacted our adjusted EBITDA margin which is down to 12.9% versus 15.8% in the prior year. Our adjusted PAT margin expanded to 6.4% versus 5.2% in the prior year.

Despite this ongoing volatility, we continue to see strong long-term demand for outsourced drug development and manufacturing. We will continue to invest in building world-class capabilities to help our clients launch new formulations and therapies and support them in their enhanced growth and transformation. We continue to make robust investment in R&D to drive new product development.

Our R&D spend was Rs. 64 crore for the half year reflecting a robust pipeline of new Pharmaceutical, Nutraceutical and Cosmeceutical formulations that will drive our growth in the future. We received 10 DCGI and 86 FSSAI approvals in H1 of the current fiscal.

We are happy to announce that during the quarter we received a patent for our formulation room-stable Hydroxyurea oral suspension. This is a break-through formulation aimed at managing Sickle Cell disease which has a high disease burden especially in geographies like India and Africa.

Akums has been granted an exclusive right for further development manufacture and market the products innovated by Triple Hair Inc. Canada for the India market. Akums will undertake development, obtain regulatory approvals and commercialize this product in India. The product is a topical solution targeting alopecia and hair loss.

We are also actively investing in API R&D to develop robust global pipeline of API with cost-efficient processes. We have over 80 scientists in API R&D and have invested Rs. 7 crore in H1 25. In API R&D, Rs. 30 crore has been invested till date. Similarly, we continue to invest in building production capability to support our future growth. In H1 we spent around Rs. 150 crore in CAPEX.

In Q2 we started commercial production at our new injectable facility in Haridwar. The facility has operational ampoule and SVP FFS line and we plan to start and vial and lyophilized vials in Q3. Further in Q4, LVP FFS will also be operational. Akums was one of the early entrants in CDMO injectable markets in India and the new facility will further boost our ability to tap growth in the injectable market in India.

We have completed the land acquisition for our Jammu plants and civil works is expected to begin shortly. Commercial production from these facilities will begin in '26-27.

Our focus on export markets continues. Let me share some of the development on that front as well:

- Till date we have filed 2 dossiers in Europe to leverage our European GMP plants. We are building a pipeline with products which have high unmet needs and with limited competition targeting European markets.
- Akums has entered into MoU with Ministry of Heath, Government of Zambia to setup a joint venture to manufacture pharmaceuticals in Zambia. The pharma market in Zambia is worth over Rs. 2,500 crore, with more than half being managed through Government purchase only. Akums and Zambian Government will jointly invest in setting up manufacturing facility in Zambia to cater to local Zambian pharmaceutical needs.
- We are also focusing actively on formulation exports as one of our key growth driver in the future. We have fairly diverse formulations across multiple regions and therapeutic categories. We today export to over 60 countries including South East Asia, South Asia, Eastern and Western Africa, CIS and have recently started in Middle Eastern market as well. Our export portfolio ranges from Oral Solid to style formulation across acute and chronic therapies with total dossiers files at 367.
- In our API business also, we are taking progressive steps in increasing export to drive better product realization. In H1 25, around 9% of our API sale was from exports, primarily to Asian countries. We also plan to file CEPs in European market soon. We expect to file at least 2 CEPs in H2 and also undergo European EDQM order this fiscal.

Looking ahead we expect demand trends in the second half to be largely similar to the first half. There could be some upside potential if we see some improvement in API prices and uptake in industry volumes, but that remains to be seen.

With that let me hand over to Mr. Sumeet Sood, our CFO, for the Financials.

Sumeet Sood: Sandeepji thank you very much. I come to the financials. As Sandeep ji mentioned, the performance for the second half and first half looks similar. I think the quarterly result also if you look at the quarterly result, they also look similar.

If you look at the total consolidated income, we were at a Rs. 1,047 crore. This was 2% higher than the last quarter, but it was 12% lower than year-on-year basis.

Our consolidated EBITDA was Rs. 135 crore this is 3% higher than Q1, but 28% lower year-on-year basis. Sandeepji did mention one large product development income which came in which was for the last year and not this period, so that is one reason and if we exclude that income, we would have seen a 15% EBITDA growth on a year-on-year basis.

Consolidated EBITDA margin was at 12.9% in Q2, similar to Q1 which was 12.7%. However, the Q2 last year saw almost 15.8% EBITDA margins.

Gross margins on consolidated basis in Q2 were at 42.3% similar to Q1, but higher than Q2 last year which was 40.6%. The consolidated PAT saw an improvement to Rs. 67 crore from Rs. 57 crore in Q1.

If we were to break the segment-wise revenue, CDMO remains our driving force with almost 79% of the revenue share in Q2, followed by branded and generic with a 16% and API business adding to 5% of the revenue.

Our CDMO business margins are at 15.4%. The branded and the generic EBITDA margins are similar at 10.3% in both the quarters Q1 and Q2, which is higher from the Q2 last year which was around 4.5%. The continued profitability is due to our efforts to reshape our formulation portfolio in favor of branded products which are driving high profitability.

The API revenue showed a marginal improvement of Rs. 4 crore and for 6 months increased by Rs. 36 crore. The continued softening of API prices had an impact on the margins of API business wherein the margins for the quarter were Rs. (-) 14 crore and Rs. (-) 26 crore for 6 months.

The cash flows for the company, the net cash flow if we look at there is a cash surplus of Rs. 341 crore the IPO proceeds have also come in. Large part of the IPO proceeds till November has been drawn on. Cash flow from operations for H1 September 24 was Rs. 71 crore positive and the free cash flow post investment activities was Rs. (-) 65 crore. The company's long-term rating sort of improved, we got AA Stable from ICRA on long-term basis and the short-term rating continues to be A1+ as in that is from our side.

We are happy to take questions on the company and the performance.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Sir could you please quantify on the one-off income what you had in the last year same quarter? And what is the part of the CDMO revenue?

Sumeet Sood: Last half yearly we had a significantly higher income of Rs. 82 crore in the CDMO business, from a product we had to develop for a particular customer, which we did. Now if you look at the 6 months numbers, Abdul, so you will see our EBITDA is Rs 265 crore while it was Rs 295 crore for 6 months last year. While that was a huge income which came in which was not here in this particular period, but we have still maintained the company's EBITDA pretty well.

Abdulkader Puranwala: Sir could you share some highlights about the export orders both for formulations and API, how do we see the traction getting built in that particular space?

Sahil Maheshwari: On the export side, as we said we continue to gain traction. We are expanding our portfolio from OSD to injectable. We have also filed couple of dossiers in Europe. We have multiple others in pipeline. We have few of our plants as well which will soon taking the European approvals, so the idea is to go stronger and deeper in markets that we currently are in, which is South-East Asia, Africa and South Asia and build a robust pipeline and presence in Middle East markets as well as the European markets, so that is there. As we said we are expanding not just to distributors we are also recruiting people so that we build a brand recall in these markets of prominence, so that is there.

Abdulkader Puranwala: Sir, for the European formulation business would that be a backward-integrated project that is your current API sites would utilized for the API for this formulation product**?**

Sahil Maheshwari: No, Abdul. API as we said largely we have Cephlosporin**.** Lalru has limited general API as of now. So this is forward integrated in a way you can say that the European operations is largely we supply formulation from our CDMO business, so that is forward integrated. I would not really call it as a backward with an API.

Abdulkader Puranwala: Next on the new injectable site at Haridwar, so I understand you would be commissioning that in phases till the end of this fiscal, but any color you would like to provide us to what are the products you are getting in manufacturing here? And in terms of your existing site what is the overlap with your previous manufacturing units as on?

Sandeep Jain: Under this we have 4 dossiers forms, 2 out of which we have already started one is ampoule and one is FFS ampoule, and we are going to start Lyophilization and Vial and later on we will start

LVP. Apart from Lyophilization, we already have rest of the other facilities in our other plants, as it was running around its capacity, so from expansions point of view we have announced the glass ampoules capacity, announced the FFS ampoules capacity, Lyophilization is a new addition which is going to happen soon and we already have 2 LVP lines and we are installing one more line whose capacity is fully occupied.

Abdulkader Puranwala: Final question, the Sickle Cell product, so congratulations on this patent. When do we see the commercial revenue building up from this product? And will this be your own product or this is a contract manufacturing opportunity?

Sahil Maheshwari: We have both of the opportunities. First this is a business for government because there are many patients within India and worldwide and the present therapy for the same item, which is not room-temperature stable, its cost is too high. Our cost is around 1% to 2% of the total cost. Under Indian government approval system, we have already gotten approvals as per regulatory system, but because it is a new item category, the government has not included in its main program, so that is moving on that process. As soon as it is included in the government's program, then from that we will get governments business.

In domestic business, domestic players will take some quantity from us which is under process which I think will also start coming soon as soon as our governments price is approved.

Export business also has a future and there is more scope in African countries and in most of the Asian countries. There, the process of product registration of any item is very long, but the government has started some processes to shorten it and a few of them have already started buying some minimal quantity for testing purpose from us, so we hope in future that business will be created for us.

Moderator: Thank you. The next question is from the lines of Ashish Shreeram Thavkar from JM Financials. Please go ahead.

Ashish Shreeram Thavkar: Sir I had this question on our export business like you spoke about Zambia, the Europe and dossiers that you guys have filed in. When do you see the real commercial benefits flowing in from whatever investments we are making into export markets?

Sahil Maheshwari: European business, we likely see within couple of fiscals. We have already filed and these take approximately 2 years to finally get the approval. These are prescription-oriented products, so these will slowly and steadily build volumes as well. In Zambia, we have recently entered into the MoU. Once finalized we will start setting up the facility which will take anywhere between 18 months to 24 months. This will have a quick ramp up compared to the European because it is essentially a government procurement which will enable us to supply the essential medicines in Zambia, so that is there.

Apart from this, we continue to file dossiers in the South-East Asia and the African markets, the Middle East markets as well. Our current business is largely propelled by these geographies. We still have almost 350 dossiers in the pipeline. We gained significant approvals in the first half as well, 80 plus approvals. So that is, Ashish, the focus area.

Ashish Shreeram Thavkar: Since you said the second half would be largely similar to first half, not expecting any positive surprises. But then, with whatever initiatives you have and your current engagements with your clients, how do you see FY26 panning out? Obviously, investors are looking at this business as a proxy to the IPM, so if you could make any comments on how do you see FY26 spanning out and can we return to mid double digit or mid teen kind of EBITDA margins in next fiscal?

Sahil Maheshwari: So, Ashish, couple of points. Sandeep sir also mentioned which looks a drag on the financials currently one is as it is a cost-plus model, the API prices have an impact. An update on to it is while we saw the API prices softening in Q3, most of the intermediates of the KSM have started showing some solidification. So, either in Q3 or Q4, I expect the API prices will at least average or normalize. So, this will have a positive impact on our revenue cycle.

And as for industry volumes, while the Q1 was strong on volumes, as I said, the continued fall in the API prices and the stocking which happened in the Q1 resulted in H1 volumes being largely flattish, which is similar to the industry. So, if the industry volumes and the new launches pick up, I feel that FY26 should be moving on those lines essentially.

Ashish Shreeram Thavkar: So, by any chance, are you guys losing market share on the volume side?

Sahil Maheshwari: Ashish, we have not done an updated calculation on that front, but that is not the case, I think. If you really compare to the industry, we are performing just like the industry, so that should not be a case of loss in the market share. Additionally, as I said we have couple of plants which recently got commissioned, the injectable facility as well as the Baddi facility and happy to announce also the Penem facility has successful client audit as well, so with these utilizations in the capacity we should have an increase in volume going forward in FY26.

Ashish Shreeram Thavkar: Sir lastly on this API **EBITDA** loss, internally are we still on track of making this business EBITDA breakeven by quarter 4 of FY25 or you feel those timelines could get shifted ahead?

Sumeet Sood: Ashish this is Sumeet. I think the API prices softening has not helped the cost, so to answer you very directly I don't think that in the Q4 this will turn around, or it would not be EBITDA positive. I think we will have to give it 6 months from here and we will revisit our business plans starting April. In the short term, over the next 3 months to 6 months, honestly speaking we don't see that this is going to turn EBITDA positive.

Ashish Shreeram Thavkar: Sir at least on whatever corrective or because you were trying to setup your own SOP at Parabolic drugs, so all those activities are over or they are still going on?

Sandeep Jain: Those activities are complete now. There is nothing from Parabolic, now it is an entity of Akums Pure and Cure and we have complete control over it.

Moderator: Thank you. The next question is from the line of Prashant Nair from Ambit Capital. Please go ahead.

Prashant Nair: First question is on the CDMO business. If I remember, in the first quarter you had good volume growth I think double digit growth. Your prices dropped but volumes were growing. Can you share what was the volume growth in Q2 and would you have had volume growth in the second quarter if you adjust for the one-time contract you had in the previous year, or have volumes dropped even after adjusting for that?

Sahil Maheshwari: Yes, we did not experience the volume growth. We had a volume decline of roughly 11% this quarter.

Prashant Nair: This is on the full base or is after adjusting for the one-time contract we just called out last year?

Sahil Maheshwari: This is volume. That was R&D, so that had no commercial supplies.

Prashant Nair: Sir what is driving this drop in your view? While IPM growth has been sluggish, there should be some growth in volume. So, is this timing or is there any other factors which you can call out led to lower volume?

Sahil Maheshwari: So, Prashant if you really observe Q1 saw limited volume growth, but we had it, so CDMOs are 1 months or 2 months advance of the industry. While Q2 saw a positive volume growth we had that in Q1. While we are still better of limited to the industry, so that is the cycle it is there, so I don't see it is a challenge of us not be able to grab volumes, it is an industry cycle. Based on what we see as we said H1 was positive on the volume front, so when we say H2 will be similar to H1 we still see that the overall volume will be up compared to H1 just compared to the previous Q2 we had dip in volumes.

Prashant Nair: Secondly on API pricing issue which impacts your value sales in CDMO when did it start? Sometime towards the end of last financial year, or is it a kind of a first quarter onwards issue? I am just trying to figure out when the base will normalize?

Sanjeev Jain: If you see the API prices are falling continuously, but because of the global scenario in that the main cases like we talked regarding Amoxicillin under which Pen G API or Cephalosporin and China has the fear that in India Pen-G is going to be made, first thing and besides this number

of chemical based API besides formulation Indian manufacturers have improved their efficiency like prices of Telmisartan was less than half percent than of the last years prices, so due to the number of API prices falling our sale volume will be the same, but its sales appears to be less than its value and I think that some numbers are already in the bottom line that it is difficult to go under this, so gradually it will become little stable or become little high. Regarding our volume growth point I don't think that in any circumstances we are going to lose our market share. We are built for and ready to grab as much volume as possible and we are working in that direction and we are very much confident that our volume share will increase and will increase as we want.

Prashant Nair: One last question from my side. On the market sale side in your formulation business trade generic how much more adjustment is needed or how much more time would it take to normalize that business get it to a stage where you want to predict?

Sahil Maheshwari: So, Prashant, as we have also discussed last time we significantly scaled down this business because it was operating at a very low margins and hence to better utilize that cash we invested into exports for example in filing of dossiers. So, it is on track for now. I think H2 we should be able to bring it at a monthly positive level that H1 had limited loss I think the bleed is largely because as we are scaling that down we have to get rid of some of the prior inventory, so largely this is the story for this fiscal only.

Moderator: Thank you. The next question is from the line of Gautam Gosar from Monarch AIF. Please go ahead.

Gautam Gosar: Sir my first question is on the trade-generic business as the last participant mentioned, sir if you could quantify how much was the trade generic volume during the quarter? And how much was the loss on that?

Sumeet Sood: The way we have presented our financial this is based on the segment reporting, but the segments are put together, so we don't disclose that separately. But as Sahil mentioned, there is a very nominal impact. It would be on a monthly basis less than Rs. 1 crore on an EBITDA basis which these businesses would be doing.

So, while we are constrained to give you numbers only based on the segments that we have, we can assure you, as Sahil said, that the numbers for the trade-generic businesses are looking good now.

Gautam Gosar: Secondly on the CDMO business since you have seen a volume decline was 11% and if we see the industry the players were showing a positive volume growth on their side as well as in the CDMO business, so sir if you could quantify like what is the reason for the decline versus other players and are we losing market share in this?

Amrut Medhekar: This is Amrut Medhekar. As Sahil said earlier, we CDMOs operate at least 2 months to 3 months ahead of the market, so typically the difference between the 2 quarters behavior comparing directly with IPM may not be prudent. It will be easier for us to look at what is happening now will possibly be seen or recorded in the IPM history in the coming times. Number 2, there is also mix of products which we sell vis-à-vis the other CDMOs, so to say that what is the product mix impact, we will have to analyze in terms of how other CDMO are placed in terms of their basket vis-à-vis us.

Moderator: Thank you. The next question is from the lines of Ashish Shreeram Thavkar from JM Financial Mutual Fund. Please go ahead.

Ashish Shreeram Thavkar: Sir just had one question on this government's notification on MSMEs although wherein they have to up their compliance levels, up their quality standards. Is there an opportunity there? And by what timeline do you see some discussions can get into commercial discussions there?

Sandeep Jain: See in the Indian scenario although the date is till 8th January, but the government has not confirmed yet how it will behave, so our wish is each and every company of our country should follow the system which is under Indian law and grow. Right now, there is no view from government side that it will take any action on governments date or not. In India there are approximately 10,000 MSME companies which are suffering if government sticks to their stance. On commercial impact, we don't want any company in the country to be closed for violating the law. Whichever company is compliant, then their business will increase.

Ashish Thavkar: There was an article in media that government has given time till December, that is why I asked this question?

Sandeep Jain: Absolutely correct. I think government has given time till 8th January because they have given a time of 12 months from 8th January and there is not a big difference from December, but they have not yet followed this system with the expectation that the government may extend the time.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management.

Sahil Maheshwari: As a company we are the largest contract manufacturing company of the country and as said earlier we are continuously trying to go globally in dossier and we are upgrading our plants, more plants in Europe and we have collaboration with different type of government also and partners also.

We are very much sure that our volume growth and pipeline of our products that we have that will not only maintain our level but is also helping to take us to the next level and we are working on it.

Just as we are at the number one position in India, globally also in many countries we will be in number one position also. Apart from that, the work which we are doing in new therapies will also help us.

Our next generation is also fully aligned on how to improve our processes and system to take the business to the next level, so it can contribute towards the future. We have over 16,000 employees and 400 scientists who are deployed in R&D. We are making full efforts to add new products to our pipeline and to grow our business.

Setting aside quarter-on-quarter numbers, if we look at the growth of the organization then we can see that the company is moving towards a better future, and all our stakeholders including investors will benefit from this. Thank you.

Moderator: Thank you on behalf of Ambit Capital. That concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note: This does not purport to be a verbatim account of the earnings call. It has been edited for readability and statements made in Hindi have been translated to English.