“Piramal Pharma Limited Q4 FY’24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Piramal Pharma Limited Q4 and FY'24 Earnings Conference call.

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

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

Gagan Borana: Thank you, Riya. Good morning everyone. I welcome you all to our Post-Results Earnings Conference Call to discuss our Q4 and full year FY'24 Results. Our Results materials have been uploaded on our website and you may like to download and refer them during our discussion.

The discussion today may include some forward-looking statements, and these must be viewed in conjunction with the risk our business faces.

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

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

Nandini Piramal: Good day everyone and thank you for joining us today for our Post-Results Earnings Call.

FY'24 has been a strong year for the company with an all-round improvement across multiple financial and operational parameters. What makes it even better is that this performance has come amidst a challenging macro environment marked by high interest rates, a biotech funding challenge, geopolitical tensions leading to supply chain disturbances and slower consumer demand in rural India.

Starting first with the performance for the quarter:

Quarter 4 has historically been the strongest quarter for the company with significantly higher revenues and a better margin compared to the first three quarters of the financial year. This year as well in Quarter 4 FY'24 we recorded a strong revenue growth of 18% with our CDMO business leading the way with a 29% growth and our India consumer healthcare business delivering a 14% growth.

We also showed a marked improvement in profitability with the EBITDA margin increasing to 22% compared to 17% in Quarter 4 last year. Our net profit after tax before exceptional items was 132 crores compared to 50 crores in Quarter 4 FY'23 implying a growth of over 160%.

During the quarter, we also had USFDA inspections at our Riverview and Lexington facilities in the U.S. of which we have already received an EIR for Riverview while the observations at Lexington have been classified as VAI. So, all in all, a strong quarter.

Moving to our full year performance:

We delivered a mid-teen growth in FY'24 with an EBITDA margin expansion of over 400 basis points. Our EBITDA grew by 61% over the last year and we delivered a net profit after tax before exceptional items of 81 crores versus a net loss of 180 crores in FY'23. Our initiatives in the areas of cost optimization and operational excellence are showing results and would continue in FY'25 as well.

During the year we incurred a CAPEX of 87 million including a maintenance CAPEX of about 25 million. The leverage on our balance sheet also improved from 5.6x net debt over EBITDA at the start of the financial year to below 3x at 2.9 times EBITDA at the end of FY'24.

We would keep up the momentum to further improve this going forward. Our focus on optimizing net working capital also delivered good results as our net working capital days improved by 14 days in FY'24.

On quality and compliance:

We successfully maintained our best-in-class track record of zero OAIs. This year as well we successfully cleared 36 regulatory inspections and over 170 customer audits ensuring compliance with the evolving GMP norm.

On the sustainability front:

We have taken targets to reduce our Scope-1, Scope-2 and Scope-3 greenhouse gas emissions in accordance with the 1.5-degree trajectory suggested by SBTI. Our targets are being verified by the SBTI as we clear the initial screening.

There are very few companies in India that have had their GHG emission targets verified by SBTI organization, and we are also working diligently to minimize our resource consumption, conserve biodiversity, provide a safe workplace for all employees, deliver quality products and services and promote diversity and inclusion in our workforce. We want to enhance the quality of life of the communities around us.

The percentage of women in our global workforce has increased over the last year from 15 to 17%.

Moving on to business specific highlights, starting with the CDMO business:

Our CDMO business posted a strong recovery in FY'24 with a full-year revenue growth of 19% and Quarter 4 revenue growth of 29%. Throughout the year, we saw good inflow of new orders, especially for commercial manufacturing of on-patent molecules. As a result, our CDMO revenue from the commercial manufacturing of on-patent molecules more than doubled to $116 million during the year compared to $52 million in FY'23.

We also witnessed an increase in innovation related work, which now contributes 50% of our CDMO revenue compared to 35% in FY'19 and 45% in FY'23. Over the past five years, our innovation related work has grown at about 20% CAGR, much higher than the growth in our overall CDMO business.

Demand for our differentiated offerings also remained healthy during the year with its share of CDMO revenues increasing from 37% in FY'23 to 44% in FY'24. Our recent capacity expansions in the area of ADCs, HPAPI and peptides are seeing good customer interest and put us in a good state of readiness to capture the future demand when the biotech funding cycle normalizes, and customers look to diversify their supply chain to mitigate risks emanating from geopolitical disturbances and regulatory uncertainties.

Our integrated service offerings through end-to-end services and geographically distributed manufacturing and development facilities are seeing good traction with over 40% of the orders received during the year being integrated projects.

During the year, we also received our first integrated Antibody Drug Conjugate, ADC order involving monoclonal antibodies. This order involves three sites, Yapan for Mab which was strategic investment, Grangemouth for conjugation and Lexington for Fill/Finish.

Given the strong growth in the CDMO business, we saw improvement in the profitability of this business driven mainly by operating leverage and cost optimization initiatives. In terms of regulatory compliance, over the last 18 months, five of our CDMO facilities in Digwal, India, Pithampur, India, Riverview, U.S., Sellersville, U.S., and Lexington, U.S., contributing over half our CDMO revenues in FY'24 successfully completed the US FDA inspections with zero observations and received an EIR / VAI status.

In terms of key challenges for CDMO business:

Biotech funding environment impacting early stage orders in discovery and development is yet to return to full normalcy. Also, the clinical and regulatory attrition of our customers pipeline is a material challenge in the CDMO business.

Complex hospital generics:

We are seeing good volume growth in our inhalation anesthesia portfolio in the U.S. market matched by our ability to service this demand. However, this is partly being offset by lower market prices due to increased competition. We continue to maintain our leading position in the U.S. Sevoflurane market with a significant market share gain in the last three years.

In the non-US markets such as UK, France, India, Vietnam, etc., we are seeing increased traction for our inhalation anesthesia products. Also, to further tap the growing demand for inhalation anesthesia products in the rest of the world market, we are setting up a new manufacturing line for Sevoflurane in our India facility at Digwal, which will supplement Sevoflurane manufacturing at our Bethlehem facility.

We are also looking to integrate vertical integration by expanding our KSM manufacturing facility at Dahej site. We expect these expansions to come online by the start of next fiscal year.

In the Intrathecal segment, we continue to command a leading market share in the U.S. Our brand Gablofen continues to be the number one ranking Baclofen prefilled syringe and vial brand in the U.S.

In the other injectable segment:

We launch four new products in the U.S. and European markets during the year. We are also building a pipeline of 24 injectable products, which are in different stages of development with an addressable market of about 2 billion.

During the year, the profitability in the CHG business also improved, mainly led by cost optimization initiatives, yield improvement and better product and market mix.

In terms of key challenges of the business, price erosion and lower realizations due to increased competition, third-party development and supply chain risk and adverse currency movements are the key risks.

Moving to our India Consumer Healthcare business:

During the quarter and the full year, our ICH business delivered a steady double-digit growth revenue, driven by new product launches and growth in our power brands. We also witnessed improvement in our profitability as planned in account of operational leverage and enhanced scale.

We continue to invest in media and trade spends to grow our power brands. Promotional spend during the year was at 13% of our ICH revenues compared to 15% in FY’23. Our power brands grew 13% year-on-year during the year and combined 42% to total consumer healthcare sales. Our key brands such as Little's, Lacto Calamine and Polycrol grew at a healthy double-digit

growth in FY'24. However, growth in Tetmosol was impacted due to unseasonal rains and erratic weather patterns last summer.

Over the last three years, we have launched 150 plus new products and SKUs in the market with a reasonable success rate. During FY'24, we also launched 24 new products and 27 new SKUs. New products launched in the last 24 months contribute to about 11% of our consumer product business sales.

Our sales and e-commerce are showing good growth, complementing our presence in the general trade. E-commerce sales account for about 20% of our consumer products revenue during the year and we have a presence in more than 20 e-commerce platforms.

Coming to the outlook for FY'25:

For FY'25, we expect a year-on-year growth in revenue and absolute EBITDA to be in the early teens with a meaningful improvement in PAT. We expect our growth momentum in our CDMO business to continue in FY'25 and in the consumer products to deliver a better EBITDA margin.

However, in the CHG business, we would be incurring some non-recurring spends in FY'25 on regulatory product transitions and business continuity to ensure its greater stability of supplies in the future. Also, as we prepare to commercialize additional inhalation anesthesia capabilities in FY'26 to tap opportunities in ROW markets, we will expect some costs in terms of additional manpower, regulatory filings and other expenses in FY'25 with commensurate revenue coming in FY'26. These expenses are necessary to secure the medium-term growth of the business.

Our CAPEX for FY'25 would be similar levels as FY'24, but we expect to further optimize our net debt-to-EBITDA ratio from the current levels.

With this, I would like to open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Just on the CDMO side, there has been a good scale-up this year and even for that matter in 4Q FY'24 with 18% growth, considering the order book, considering the biotech funding for example, like how do you see this growth momentum for '25-'26, 5-year given early teens growth, does it mean that you will have a much better growth in CDMO, but that would be partly offset by certain issues in CHG segment?

Nandini Piramal: I would say overall, we are committing to an early teens growth across the businesses. You could say yes, the CDMO growth will be better than the CHG growth.

Tushar Manudhane: And if you further elaborate in terms of whether you will have more number of molecules getting into the commercial side, the Phase-3 trials further getting into commercial side, is that is what is driving growth or it is more number of projects across clinical trials that would drive the growth?

Nandini Piramal: So, we have seen an increase in our on-patent commercial revenues over the last year. If you see we have innovation on-patent related work at about 50%, a little more than 50% of our overall CDMO revenues and that is something that we would expect to grow going forward. And once the biotech funding improves, I think we should see more growth coming back, but it is too early to say yet for that.

Tushar Manudhane: And just lastly, on the profitability front, while we entered almost 20% EBITDA margin if I exclude the other income, given that we have certain expenses coming up in FY'25, so would we be able to maintain this profitability or we will be able to do better than this?

Vivek Valsaraj: So, Tushar, as Nandini alluded to, the absolute EBITDA growth will be in the early teens as we maintained. The scale-based margin expansion for the CDMO and the consumer product business will also be on track. It is in a complex hospital generics where we are doing some investments at this point in time which are necessary for sustainable deliveries in the future. So, yes, absolute value of EBITDA would see growth.

Moderator: Thank you. Next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.

Abdulkader Puranwala: Just first question on this CDMO business on the innovation side again. So, I understand about your early teen guidance, but if you could throw some highlight as to how the order book is looking for next year and you know, is that visibility improving as compared to where we are a year or two years ago? So, that would be helpful.

Peter DeYoung: So, I think that we would say that our visibility is higher this year than last year on a like-to-like basis for our CDMO business and in particular, as Nandini mentioned, we are quite pleased with the on-patent commercial revenue outlook, as well as some of our more later stage development areas. I think, the area of uncertainty that remains in our order book is going to be the degree to which the biotech funding picks up and its ability to support some of our discovery and early development projects for clients. But overall, our visibility is I would say modestly stronger than it was at the same point in time last year, driven by the factors just mentioned.

Abdulkader Puranwala: And just a couple of questions on the quarterly numbers. So, this quarter particularly, the gross margins were a little weaker as compared to where we are in the earlier quarters despite the CDMO business doing that well. So, can you throw some light to help us understand how the gross margins we should build up for the coming years?

Vivek Valsaraj: Abdul, a real representative of the gross margin is the annual number. Now, because we have a business that tends to get lumpy with slightly higher sales in H2 versus H1 and more specifically in quarter 4, what happens is we do tend to have inventories during the initial quarters which means you have a credit of overhead sitting in the P&L in the first three quarters and eventually when that gets sold off, you will see the unwinding of that happening. So, it's only a timing gap. The annual gross margin is a more representative of the gross margin for the business and the company.

Abdulkader Puranwala: And just last two questions from my end. So, the tax rate again for this quarter was higher. So, what should we build up for the coming two years? Would we be near the quarter tax rate or is it expected to stay a little higher?

Vivek Valsaraj: So, the tax rate is largely driven by the mix given the presence that we have presence in multiple jurisdictions and the tax will vary in each of those. I would say close to about 50% is what we would look at as a tax rate for the following year.

Abdulkader Puranwala: And in the opening remarks, ma'am also did mention about net-debt-to-EBITDA or net-debt-to-equity coming down in the next year. So, in terms of the debt repayment, what was the target net-debt-to-EBITDA or net-debt-to-equity we are targeting for the next year, that is FY'25?

Vivek Valsaraj: Abdul, like we said, we reached the first milestone of bringing it down to less than 3 and will continue to work to optimize this in the coming year. We are not giving out a specific number, but the work will be to optimize this further.

Moderator: Thank you. Next question is from the line of Yasser Lakdawala from M3. Please go ahead.

Yasser Lakdawala: We have launched about 150 new products, new SKUs in the consumer health business over the last three years. So, what is the mix of these new launches say under our power brands versus the rest of our portfolio?

Nandini Piramal: Most of them would be under the power brands.

Yasser Lakdawala: And just to sort of understand this better, how do we measure the success of these new launches in terms of like sales targets, field source, productivity, incremental promotional spends, margins, inventory? If you could give us some…

Nandini Piramal: So, the way we actually look at new products is we tend to launch them on the e-commerce because you get a faster response and you can understand consumer feedback much better. If they are in a x period of time, they would reach maybe one or two in the Amazon or other ranking. That's when we would consider it a success.

The other metrics that we would look at is how much promotion spend do they need and if you do taper it off, how much actually consumer demand do you get? So, we actually do kill products that don't meet the profitability target and those products that do succeed, we would then launch in GT (general trade) and expand them.

So, for example, Lacto Calamine Sunscreen did really well online and then we actually took it to general trade and launched it there. So, just an example.

Yasser Lakdawala: Peter, on the CDMO business, you know, we have done very well with the sort of innovative offering. So, what are the new sort of capabilities we need to add over the next three to five years to sort of grab a larger piece of the innovation landscape, especially in biopharma and how does our current set of capabilities fit into that discussion?

Peter DeYoung: We are actually well positioned, we think, with our current set of capabilities, we have acquired over time what we think are the minimum required pieces in this puzzle and also we have started to develop a track record of using them in this manner and we have also enhanced our scientific team.

And so, I think, actually at this point in time, it's about executing with the network we have and using that in a way to capture the innovative opportunity. And so, I think that we are going to continue to see the momentum that we have shown on the lagging indicator percent revenue as we look ahead and I think the additional capabilities would be more modest or incremental or brownfield in nature than as opposed to fully inorganic.

Yasser Lakdawala: And you know, just the fact that the entire innovation piece has done very well this year, just a quick question on the remaining half of our business, like how is the generic business sparing in terms of capacity utilization and gross margins and what are the steps we have taken to enhance our competitiveness here because it's still a substantial piece of business?

Peter DeYoung: So, I would say, first of all, the places where we have the generic business, the capacity and the capabilities are largely fungible with the on-patent business. And so, we ultimately will use those reactors or those capabilities in those places wherever we are going to get the highest return and we don't have a requirement to have any certain offering.

That being said, it is still a meaningful part of our business and we have made significant efforts in making sure that we align what we are doing in those to be growth-oriented on a profitable growth-oriented and so we have had made certain leadership changes over the last year in certain team members. We have also looked at our portfolio and made certain new efforts to add, let's say, DMF or and is in different places where we can support that.

So, I would say overall it is continuing to get our focus. Obviously, cost optimization efforts play a greater role in that area and that has been an important part of it and people play a role

and also portfolio choices. So, we are continuing to focus on it. Our only point is that if we have a choice and we can get the higher margin innovative work, we are going to make those choices where they present themselves.

Yasser Lakdawala: Absolutely makes complete sense. Just the last question on the complex hospital generics. You know, more than two thirds of our business is the anesthetic products and I mean, almost 90% is including pain management. So, you know, we have identified these new complex injectables, and what is our right to win and in terms of timeframe, in terms of management bandwidth and effort that will be required to sort of scale this up to a meaningful piece of a business? If you could highlight some of the efforts we have put in there and how do you see this piece sort of scaling up?

Peter DeYoung: So, this is an area where we have historically not performed up to all of our expectations in an area where we think that there is significant opportunity when we can demonstrate on a lagging basis success in that area. So, we have made meaningful people changes at the organization level with people that we think have the capability and the track record in driving what we would call the other pharmaceutical segment which is what you are describing.

And our right to win is largely based on our command over the channel and that many of the conversations you need to have with the buyers or the influencers in the buying decision are common across what we currently have as a strength and the areas where we would like to succeed with the other pharmaceuticals.

So, overall we think that not many people would have an anchor product in the inhalation area which is substantial product in terms of revenue and an excuse to be in the buyer in a way that many of the others would not get you in the same place because obviously as I am sure you know the inhalation products are in the operating theaters and they do require a more in-depth interaction with the buyer segment.

So, overall this is a big strength and that's our right to win. And we think that with some of our people changes and some of our strategy changes that we are going to have a better performance in the coming years.

Now as I am sure you know in the CHG segment in this category, this is not a three-month turnaround in terms of actions to reactions. This may take a bit on the longer side, but we think we put in a lot of the right pieces.

Moderator: Thank you. Next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: So, on CDMO business, we have a large part which is a discovery and development sometime, many a time, and that can give a kind of a means because of external environment, I mean, kind

of a rough take on annualized basis I am talking. So, how our strategy is over the next three to five years to make all these things in a certain way that we don't get such kind of, I mean, because of external jerk in our business?

Nandini Piramal: I think we have to be mindful of the external market because discovery and development is where the on-patent business comes in. So, if you get the discovery and development especially at Phase-2, Phase-3, then you have the chance to get better margin and better revenues at commercial. So, I think that is, you know, if you want to switch to the higher on-patent commercial margin business, that's where we want to start and that's why customers come in. The key will be for us is we look forward in how do you balance between discovery and development and commercial business and so continue to grow all of those.

Bharat Sheth: And now coming to one specific on the you stated about the ADC. So, in ADC piece, which are, I mean, do we have end-to-end capability or are we missing? I understand three part of the whole process. So, where do we are currently and how do we want to if at all have some white space to cover up that and bring the full ADC business?

Nandini Piramal: Our strength in the ADC was usually in the conjugation in our Grangemouth facility and that we have been, one of the strengths of our ADCs was a conjugation, and we have had a lot of work in that for the last 15 years. And we have just actually put in the money to expand that facility to take it to even bigger commercial volumes.

About three years ago, we invested a 33% stake in Yapan Biopharmaceuticals, which gives us the ability to make MABs, so the monoclonal antibodies, and eventually we can also do the fill/finish in our Lexington facility. So, this is a newer offering of ours. Probably in the last year, we have got our first project, and that's, in a way, the strategy going forward that we would look for and sell more integrated projects.

Bharat Sheth: And last, one more question on this peptide. We have acquired a Hemmo. So, can you give some color where we are at this stage, and how much success are we seeing going ahead in the Hemmo business?

Peter DeYoung: So, I think we mentioned in earlier calls, the historical strength of this business was in its generic offering. And this is an area within generics you would want to be in, because it's more forward-looking and has better margins and growth profiles. So, that portion of the business has continued to remain strong for us, and the area that we are expecting to grow, and we have had some success, but we expect future success to be greater would be in the services area, where we can do on-patent work for clients. And so, I would say, at the stage, the generic portion has done well, and it's growing, and it's profitable, and achieving good financial results, and the services one is still in the earlier stages, and we anticipate that that should be, in the future year, as a more meaningful growth contributor.

Moderator: Thank you. Next question is from the line of Harsh Bhatia from Bandhan AMC. Please go ahead.

Harsh Bhatia: Just two quick questions. One is in terms of the, so this time around the presentation, we have given the Big Pharma proportion for the CDMO sales. I think if I am not wrong, this is the first time, maybe, that we have given out segmental data. Could you help us understand what was the share in FY'23, roughly?

Nandini Piramal: It is in last year's presentation, but it was about a third, a third, and a third last year. What has happened is, for the emerging biopharma, is some of them have become Big Pharma, because they were bought over the last year, and others, I mean, as we said, the biotech funding drought can be seen. So, we actually made a conscious pivot, probably 18 months ago, to focus a lot more on Big Pharma, and we can see some of the results now.

Harsh Bhatia: So, there is some level of reclassification as well.

Gagan Borana: Yes. So, Harsh, generally, we give the segmentation on an annual basis. So, if you check Q4 of FY'23 presentation, you will see the number for FY'23. So, that's one part. The reason for increase in Big Pharma is two. One is, we have kind of put more efforts on Big Pharma, and some of that has got converted. And secondly, some of the emerging pharma, last year, have been bought by Big Pharma. So, they have been reclassified as Big Pharma now. So, it's a mix of both.

Harsh Bhatia: And just to get a little bit more color on the CDMO growth in the last 12 months, so 4,000 crores of business going to almost 47-4800 crores. I think, a large part of that has to do with the incremental business from on-patent commercial manufacturing. Now that has to do bit of both, right? New molecules as well as more revenue per molecule in the business. How would you classify that to be the case for FY'25? Would we expect a similar profile in terms of growth, where a large part of the growth will continue to come from the on-patent business? And so I am just trying to understand the FY'25 growth profile for the CDMO business that we are taking in.

Peter DeYoung: So, if you look at the drivers of the growth, we think that the trends that we have described in our strategy over the last few years, these are not usually quarterly trends. These are usually more longer-term secular trends driven by our strategy. And so, we would anticipate the growth to be higher in the on-patent. We would anticipate the growth to be higher in the differentiated, and we would anticipate the growth to be higher in the integrated, which are three pillars of our overall strategy.

And within the on-patent, we would continue to expect the on-patent commercial, new commercial to be a strong contributor because it is based on the best forecast to get from our customers the molecules that saw the growth in the year that just finished, they still see good forecast for the year that is coming forward. And so, we would anticipate that to be a meaningful

driver of our growth as we look ahead. It's the three components again, the integrated, the differentiated, the on-patent, and within the on-patent the new commercial.

I just give a point that Nandini mentioned in her earlier comments at the start which is we are not really counting on a massive turnaround in the funding environment for emerging biotech. If and when that materializes, that would be we think an upside to our guidance.

Harsh Bhatia: And last question, if I may. The opening comments you mentioned some incremental pricing impact in the U.S. inhalation portfolio. So, I am just trying to understand this has more to do with the market getting more aggressive for new tenders, which may come up or this has to do with the renewal of the existing business on a broader basis, just for our understanding.

Peter DeYoung: So, we have certain events, we have multi-year contracts in many of the locations where we operate and instead of being lots of different things, we would just say that there was one particular contract that came up for bidding and we had to take a price reduction for that and that factored into the full-year results and that was the single event that occurred within the year.

Harsh Bhatia: So, we do expect this sort of events to sort of happen in FY'25 as well to a certain extent for whatever the rules that come up?

Peter DeYoung: I think given we are in 100 countries, there will be different tenders at different points in time and we factored in whatever we think is likely to occur in the period in next year in our aggregate guidance. But by definition, in any one year, there will be some tender somewhere that is going to come up for renewal that will require us to look at the market scenario at that time.

Moderator: Thank you. Next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: I think the company has ended up full year on a great note. While I think my first question is around the return on capital profile of the company, while I think this year, especially second half has turned out really well, but I think there is still a bit of desire that is there in terms of return on equity, the return on capital metrics for the company. So, can you share some thoughts on three to four years' view? How are you seeing your return on equity or return on capital employed shaping up in the coming years? Are there some hard targets that the board has set and then the management has to kind of deliver on those metrics?

Vivek Valsaraj: Nikhil, firstly, obviously, this is just the beginning, and we have a path to go in terms of enhancing the overall ROCs in the business. As you are aware, the last couple of years we have made investments which have added to the denominator. Now it's a question of how do you get more of top line, improve the overall operating margins which will also result in an enhanced ROC. And at this point, we are not giving a very specific guidance as to what that ROC number

would look like. But obviously, the attempt is to move this northwards and improve this across all the three businesses.

Nikhil Mathur: If I am not wrong, sorry, I joined a bit late, your guidance on top line for a three to five-year period is low teens, right, if I get that right?

Nandini Piramal: It's just for FY'25, we are saying early teens.

Nikhil Mathur: And with an early teens kind of a growth rate, but you have alluded to some investments and the same level of CAPEX as well, but would you be able to achieve year-on-year improvement in return on equity going forward?

Vivek Valsaraj: With an improvement in the overall absolute value of EBITDA, we will see some improvement in the overall ROC as well.

Nikhil Mathur: And in terms of investments that you talked about, I think there is a need to do a bit more OpEx in FY'25. Does that imply that for the time being, the margin progression will be a bit, let's say, steady and the big jump in margin progression here on will happen in FY'26-'27 only?

Vivek Valsaraj: At the PPL level, you are right. Within the businesses, as we said, the CDMO and the ICH businesses will continue to show margin expansion scale based.

Nikhil Mathur: And can you also just give some highlights on what the capital work in progress and intangibles under development is, I think there are somewhere around 1,100 crores of value of both. What is this into? And how will this get expensed out going forward?

Vivek Valsaraj: So, As Nandini alluded to in her opening speech, we are in the process of doing some investments in our critical care business. This is towards expanding capacity for key starting materials in India. This also includes the manufacturing capability for Sevoflurane which we are creating in India and likewise, this also includes certain debottlenecking CAPEXes which are happening across the sites. That's primarily as far as the CAPEX is concerned.

With respect to intangible assets under development, besides the software, this also includes certain DMF which we are developing for our generics portfolio and which are in various stages of development at this point in time. It also includes any development in our critical care product space.

Nikhil Mathur: So, when does this get expensed out in a meaningful way?

Vivek Valsaraj: So, as and when the DMF actually get commercialized is when it gets amortized over the estimated useful life of the particular asset.

Nikhil Mathur: But we would expect the two Sevoflurane investments to be made live by the end of the fiscal year.

Vivek Valsaraj: Correct. The CWIP will go live earlier. Intangible assets depending upon whenever the commercialization happens.

Moderator: Thank you. Next question is from the line of Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen: Sir, this is just a clarification. You said that our EBITDA growth will be in early teens in the coming year. So, this is on the base of Q4's EBITDA number or full year FY'24's EBITDA number?

Nandini Piramal: Full year.

Aditya Sen: Full year. All right.

Moderator: Thank you. Next question is from the line of Girish Bakhru from OrbiMed. Please go ahead.

Girish Bakhru: Just elaborating on the ADC bit, can you give more color on the conjugation? You said that is the key area where you have the expertise. What sort of work we are doing? Just bit more color on the technology, because this site is getting very crowded. Of course, so many companies are offering conjugation services. So, just wanted to know, are you offering linker technology, doing enzymatic work or modifying the antibody? What kind of work are you doing there?

Peter DeYoung: So, just to give some further background, we think we have one of the broadest set of experiences across different conjugation technologies of anyone out there because we have been doing it since nearly the beginning of the category. And so at least whenever we go to market and describe the wide range of conjugations we can do, we rarely see a situation where someone comes and says, "Oh, I don't think you can do that, or you haven't done that before." So, I think that's an area we think is one of our strengths and will continue to be one of our strengths as we go ahead. And so I would say that that is not a reason why we would typically not win a project if we were to not win one.

And then Nandini did describe two other planks, which is the MAB, which is the most recently added to our set of offerings. And also, the fill/finish, which we have had for some time. But we actually didn't mention another area that we have a strength, which is we actually have our Riverview facility in Michigan is fully capable of and has done some amount of work in the linker payload area. And I think the change in the market has been up until maybe the last year or year-and-a-half, our customers would come in with buying best of breed and looking at individual offerings.

And so, then we would typically get the conjugation and or the fill/finish, but I would say with the hotting up of the sector, we have had a much greater number of, and also the potential geopolitical risks from the BIOSECURE Act. We have had a hotting up of interest for fully integrated programs where now we are bidding on programs that would include MAB, conjugation, linker payload, fill/finish. And so, we expect, as the year goes ahead, to have more examples in that category.

Girish Bakhru: And just related, you expanded Grangemouth by 70%, 80% capacity expanded. So, that is probably manufacturing. Is that because of payload or linker manufacturing? Exactly what's the…

Peter DeYoung: No, just conjugation. The payload linker would be done at our Michigan facility and it actually doesn't require a very large area. But the particular area that we expanded the most was in Grangemouth and that's for the conjugation which is where you are combining the pieces. And that's the area where we added the two larger, more commercially oriented suites along with the customer experience center and some of the quality areas.

Girish Bakhru: And lastly, if you can give, I mean, what's the Big Pharma percentage range here in the ADC conjugation?

Peter DeYoung: I don't think we give that number specifically, but I would say that we have been quite pleased with the number of large pharma that have visited our facility in the last six months and we anticipate this to be an area of strength.

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

Alok Dalal: Vivek, can you quantify the one time spent that you are going to incur in FY'25 on complex hospitals?

Vivek Valsaraj: So, it will be close to about 8 to 9 million Alok.

Alok Dalal: 8% to 9, this includes everything, right?

Gagan Borana: Yes, $8 million to $9 million.

Vivek Valsaraj: On the OpEx.

Alok Dalal: And on the competition, I thought it was a very steady market. Has this come as a surprise, this price reduction?

Peter DeYoung: It's more that when you have a five-year contract that comes up for renewal, if one market participant decides to take a particular line of attack on the renewal, we kind of have to compensate. And so that occurred in a particular renewal with one US GPO.

Alok Dalal: And last one, on CDMO capacity, are you well placed next 18-24 months with the capacity on hand?

Nandini Piramal: I think we have done a bunch of investments in capacities across the board and whether it's in Riverview or in Grangemouth. So, I think we are more or less well placed. We may on a side-by-side do some certain de-bottlenecking if necessary.

Alok Dalal: But CAPEX intensity should be in the 85 million or lower than that kind of range, FY'25 or beyond?

Nandini Piramal: It will be similar to last year.

Moderator: Thank you. Next question is from the line of Punit Pujara from Helios Capital. Please go ahead.

Punit Pujara: So, you quantified this $8 million to $9 million to be invested for complex hospital generics in FY'25. Does it cover all the geographies, clinical requirements, incubating new distribution channels, regulatory front? It covers everything or is it just the developmental investments that you are making?

Peter DeYoung: So, Punit, this is largely towards certain regulatory expenses that we need to do, certain product transitions that we need to do, and it's more to ensure greater stability of supplies for the future.

Punit Pujara: And would you be able to quantify how many those years you are targeting across the market?

Peter DeYoung: This is not product development.

Nandini Piramal: It's existing products, tech transfers. As we said, it's expanding capacity in both Dahej and the Digwal, and we expect those to come online at the beginning of the financial year next year, so FY'26. So, in order to get the plants up and running, you will need to hire people, do qualification validation, regulatory submissions to get those up and running, but you won't see the commensurate revenue until FY'26.

Punit Pujara: In Sevoflurane, you mentioned on the price erosion, and I think there are only four players in the market. So, is this, the other three competitors, one of them have cut prices or there is a new entrant here?

Peter DeYoung: So, there are some changes in the Chinese distributor choice in the U.S. market, but the actor that I described that led to the price was an existing legacy competitor.

Punit Pujara: And your guidance of overall revenue growing in early teens, but CDMO growing faster, so this CDMO business guidance, it does not include any potential upsides from biotech funding you have, is that correct?

Nandini Piramal: No, it doesn't.

Punit Pujara: And last question is, so early teens EBITDA, Y-o-Y growth should imply a higher ticker at EBIT and PBT level. Is that correct way to understand, or the investments will offset that also?

Vivek Valsaraj: So, there will be meaningful increase in PAT as we alluded to in our guidance.

Moderator: Thank you. Next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: Most of my questions have been answered, but just on the EBITDA side, I think in one of your interviews, you talked about 24-25% kind of margins on a long-term basis. So, if you can give some timeline around that, whether that's something to expect in fiscal '26 or will it be further out?

Nandini Piramal: I think it's still three to five years.

Moderator: Thank you. Next question is from the line of Chintan Chheda from Quest Investment Advisors Private Limited. Please go ahead.

Chintan Chheda: Sir, just a clarification. So, the early teen kind of EBITDA growth we are talking about in FY'25, is it after considering the non-recurring expenses in complex hospital generic?

Peter DeYoung: Correct.

Chintan Chheda: And secondly, on a quarter-on-quarter basis our interest cost has gone up, despite we have repaid a 1,000-odd crore kind of debt. So, just, is there some one-off to that? And secondly, how should we look the interest cost for FY'25?

Vivek Valsaraj: You are right, Chintan. If you are comparing the sequential quarter, the interest looks high. So, one, of course, as you are aware, the overall rate hasn't come down. And second, this fourth quarter also includes an element of interest that we had to pay on tax since we outperformed performance in India.

As far as FY'25 is concerned, our target is to ensure that our overall debt gets further optimized versus where we stand. Now everything depends upon how the interest rates pan out. While there are talks about interest rates softening, only once that starts, you will start seeing a reduction. From debt standpoint, we will ensure that we will control it within the limits that we have set out.

Moderator: Thank you. Next question is from the line of Ranodeep S from MAS Capital. Please go ahead.

Ranodeep S: I wanted to understand your school of thought behind going for the men's grooming market. How big is the market and what kind of projections are we planning in the years to come?

Nandini Piramal: I think it's a new market for us. I think we saw an opportunity there for us to grow. I actually don't think we have individual projections that we can release, but I think it is an opportunity for us.

Ranodeep S: My next question was with respect to the export consumer care market projections are it's already a $10 billion market with 10% CAGR growth. Are we having any thoughts around going about this market?

Nandini Piramal: I think our focus is actually on India consumer. I am not sure we would want to export as much, export or set up a consumer business elsewhere.

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

Vinod Jain: This is gratifying to know that the company is turning around in terms of profitability. The issue I want to address is the Q1, Q2, Q3, Q4 phenomena of the company wherein the Q1 is having the lowest performance and Q4 has the best performance. Now this, I believe the skewed performance affects the overall profitability of the company. I have a point that there is no slide to explain this phenomena and what is the view to be taken on this going forward?

Vivek Valsaraj: So, firstly this Q that you see and you will see that this has been an historical trend as well as largely in our CDMO space, and it's driven by the demands of when the customers would like to have their product at their disposal, and typically we have seen that the Jan to March quarter which begins the financial year for them is when they pick up the highest quantum of stock at the beginning of the financial year. And this trend will continue. We will see, so while our endeavor would be to kind of ensure that we have a more even skew, to a great extent, this depends upon how the customers pick up the products. So, even for FY'25, I think, we will see a similar skew with a low Q1 and a larger HQ. I think that trend will continue. In terms of giving this information in the slides, we will see how we can cover this in the slides as well.

Vinod Jain: So, can we expect that Q1, Q2 may be negative in terms of profitability and then Q3, Q4 would be positive?

Vivek Valsaraj: See, at this point I will just say that H2 will be bigger and Q1 will be the smallest.

Moderator: Thank you. Our next question is from the line of Miloni Mehta from Asit C Mehta Investment Interrmediates. Please go ahead.

Miloni Mehta: Actually I wanted to understand, like it is mentioned that the CAPEX would be same as it was being the previous year. But any specific update on like how it would be on all the three businesses like would it be again similar to how it was been last year in the CDMO expansion of capabilities and also actually it is mentioned that you are looking forward to enter new markets on the inhalation and anesthesia side, right? So, how would be the, I mean, any guidance on that business side specifically?

Vivek Valsaraj: So, on the CAPEX front, historically our highest CAPEX expense has been in the CDMO space. For FY'25 we are incurring some CAPEX in our critical care space as well and this is particularly to what we discussed earlier in terms of expanding capacities for our key starting material as well as being able to manufacture the inhalation and anesthesia product Sevoflurane in India. So, that is where primarily it is happening and certain product development expenses in our critical care space that will help expand the overall product portfolio. In our CDMO space, it is going to be a large part of a spill over CAPEX of what we have been doing in the past along with some other investments for de-bottlenecking across multiple sites and maintenance CAPEX, of course.

Miloni Mehta: And so, in last few con calls actually looking at the consumer businesses, we were continuing to reduce our promotional spends and we were looking forward to increase our margins in the same. So, what is the guidance on that particular business? Is it still the same or any changes that we can expect?

Vivek Valsaraj: It is moving in the right direction in terms of improvement in margins. As we said that once we cross 1,000 crores we will again keep on looking at optimizing margins in this space. So, it is moving in the right direction.

Miloni Mehta: And any changes that we see in our power brands, or it would still be the same intact power brand contribution that we have from 5?

Nandini Piramal: I think it is still the same.

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

Chintan Shah: So, one question is slightly long term in nature. So, we alluded that EBITDA margins of mid-20s while they are 3-5 years down the line, I just wanted to understand what would be the path from say 15% to 25%? What will drive this? Is it going to be CDMO or because I believe CHG there is not much scope for expansion. So, if you could highlight broadly what will drive this?

Vivek Valsaraj: So, Chintan, if you have looked at a quarter 4 margins, they are at 22%, right? And one of the primary drivers of a 22% margin in quarter 4 is the fact that we have had a higher quantum of revenue, which only denotes the nature of the business that it tends to be a high fixed cost business. So, as we enhance scale and capacity utilization, margins typically enhance.

In our CDMO space, which is where about 60% of our business is scale-based, and therefore, the largest driver of margin for the future will be the CDMO space. So, as we increase revenues over here, you will see exponential increase in margins.

Our complex hospital generics is relatively already in a better position in terms of the overall EBITDA margins and the third of course will be our consumer products business where also as the scale enhances, we will look at further optimizing the margins in that business. So, basically CDMO and ICS will be the drivers for margin in the future.

Chintan Shah: But just to, one follow-up on that, so the seasonality will continue to maintain, right? So, on a full year may be by Q4 would deliver 22%-23%. Obviously, Quarter 1, Quarter 2, etc., would be much lower. So, what you are trying to say is that there is so much of utilization levels to improve that once that runs up, we will be able to deliver on that margin and that Q4 margins we are talking about say 22% could actually be much higher, say around 20s or early 30s?

Vivek Valsaraj: So, every site is at a varying level in terms of scale and utilization. One thing you have also seen is that the overall mix of the business is improving more towards on-patent products, which is another factor which is going to drive overall margin enhancement in the future. So, it will be a combination of higher revenues on a full-year basis in CDMO across our sites as well as the further enhancement in the mix.

Chintan Shah: And just one last question. Anything in terms of inorganic that we will be looking at in say FY'25 or '26?

Vivek Valsaraj: See, at this point in time, we have done a lot of organic CAPEX, which we would look to utilize and improve the overall returns margins. If there are some small tuck-in acquisitions which complement, which don't have a significant stress on the balance sheet, we won't shy away from looking at it, but right now the focus will be largely to deliver on what we have done on our organic CAPEX.

Moderator: Thank you. Next question is from the line of Afzal Mohommad, an individual investor. Please go ahead.

Afzal Mohommad: So, in CDMO across Phase-2 and Phase-3, how many mileage molecules have breakthrough therapy designation or a fast-track designation from the FDA?

Peter DeYoung: I don't think we published that at this point in time. Perhaps you can connect with our IR later offline.

Afzal Mohommad: So, on-patent commercialized products, what percentage are biologics and what percentage are small molecules?

Nandini Piramal: The majority of our work is small molecules.

Afzal Mohommad: And going forward, do you expect the majority of the revenues coming from biologics in the next one to two years?

Nandini Piramal: Actually, biologics is very, very small. I think I would say predominantly in the near to mid-term, we would be much more small molecule.

Afzal Mohommad: And do you have the capability to manufacture by specific antibodies or gene and cell therapies, which is the future?

Peter DeYoung: So, the investment, the strategic investment that we mentioned earlier in Yapan is our primary vehicle to explore that area of opportunity.

Afzal Mohommad: Sounds good. So, in the next one to two year, the primary driver of revenue in the CDMO space would still be the small molecules. Is that correct?

Nandini Piramal: Yes.

Peter DeYoung: The only corollary of ADCs which is a carve-out niche that we described earlier in the call also.

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

Gagan Borana: Thank you very much. I hope we have answered most of your question. In case you have any follow-up questions or any clarification, please feel free to reach out to me. Thank you, and have a nice day.

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