q3 results

Management Commentary

SUCHETH DAVULURI

"We are pleased to report another quarter of strong YoY topline growth of 46% to Rs 395 crores. The EBITDA margin of 31.1% is a factor of the business mix as well as improved operational leverage. Even as we see this as a validation of Neuland's business model, we are focussed on continuously improving operations across the company. We are investing both on infrastructure and our people so that we can deliver on our long-term plans."

SAHARSH DAVULURI

"Our CMS business saw healthy growth led by commercial as well as projects close to commercialization. The increasing interest from customers with exciting pipelines establishes Neuland's reputation as a well-regarded CDMO. As the quality and size of our business grows, we are gaining a better visibility of our future and planning accordingly"

S&P ESG rating of 64

Free Cash Flow (FCF) generation and utilisation

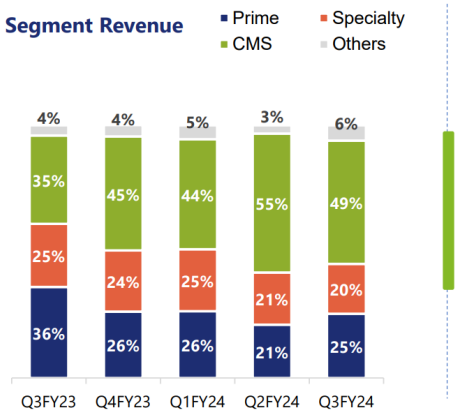
Generated Free Cash Flow of Rs. 129.0 crores during 9MFY24, partly utilised to reduce debt by Rs 38.8 crores

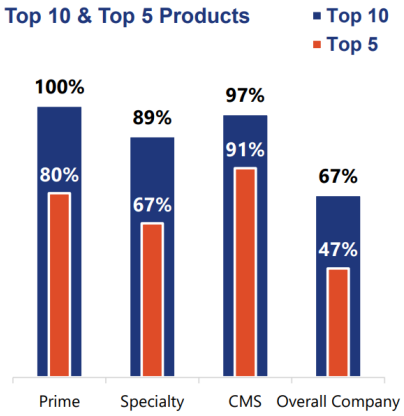
Capex Investment of Rs 68.2 crores for enhancement of capabilities

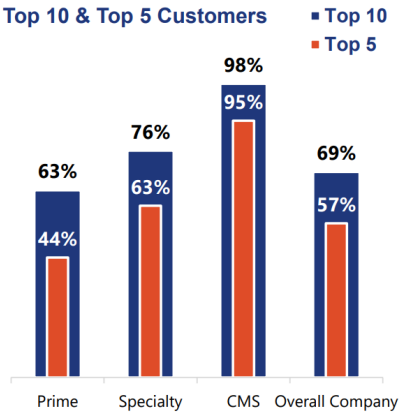
Working Capital

Reduction in working capital cycle to 118 days in 9MFY24 as compared to 137 days in 9MFY23

Key Operating Metrics Q3FY24

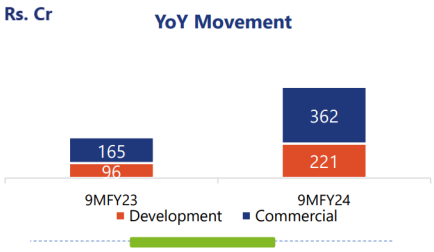


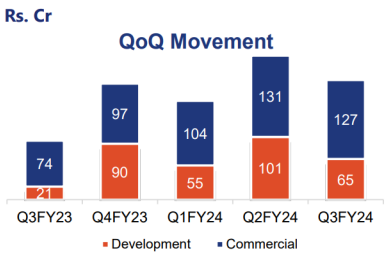




- Steady shift from low margin Prime to high margin Specialty and CMS segments
- CMS business caters to Innovator customers on an exclusive basis, developing and manufacturing APIs/Intermediates in line with rigorous customer expectations hence is highly concentrated in terms of customers
- Specialty segment works on complex products and technologies, hence has a focused approach towards select customers

CMS – Revenue Split & Number of Active Projects





No. of active CMS projects

Q3FY24	Pre-Clinical	P-1	P-2	P-3	Pre-Reg/Reg*	Commercial	Total
API	12	6	12	3	8	8	49
Intermediate	7	4	8	4	6	10	39
Grand Total	19	10	20	7	14	18	88

Q3FY23	Pre-Clinical	P-1	P-2	P-3	Pre-Reg/Reg	Commercial	Total
API	17	4	7	5	8	9	50
Intermediate	10	4	4	2	7	12	39
Grand Total	26	8	11	7	15	21	89

Q3FY22	Pre-Clinical	P-1	P-2	P-3	Pre-Reg/Reg	Commercial	Total
API	15	3	8	5	10	7	48
Intermediate	7	5	2	0	8	11	33
Grand Total	22	8	10	5	18	18	81

Q3FY21	Pre-Clinical	P-1	P-2	P-3	Pre-Reg/Reg	Commercial	Total
API	14	4	6	3	10	6	43
Intermediate	7	4	2	3	8	9	33
Grand Total	21	8	8	6	18	15	76

- Pre-clinical to P-3: Neuland generates revenue by process research & development as well manufacturing quantities for clinical trials
- *Pre-Reg/Reg: Phase-3 complete; Molecules filed but not yet commercial (Earlier labelled as 'Development')
- Commercial: Neuland generates revenues by manufacturing APIs for commercial novel molecules for innovators
- Steady trend in molecules transitioning from development stage to commercialisation resulting in increase in revenue from commercial products

- Total Income for 9MFY24 at Rs. 1,180.8 crore (+50.3% YoY)
- EBITDA for 9MFY24 at Rs. 362.3 crore (+136.4% YoY)
- EBITDA Margin for 9MFY24 at 30.7% (increased by 1120 bps YoY)
- PAT for 9MFY24 at Rs. 232.0 crore (+195.1% YoY)
- Net Debt stood at Rs. (44.6) crore as at Q3FY24 end compared to Rs. 72.0 crore as at 9MFY23 end

- Total Income for Q3FY24 at Rs. 394.9 crore (+46.2% YoY)
- EBITDA for Q3FY24 at Rs. 122.7 crore (+123.5% YoY)
- EBITDA Margin for Q3FY24 at 31.1% (increased by 1080 bps YoY)
- PAT for Q3FY24 at Rs. 80.7 crore (+165.1% YoY)
- Net Debt stood at Rs. (44.6) crore as at Q3FY24 end compared to Rs. 72.0 crore as at Q3FY23 end and Rs (39.4) crore as at Q2FY24 end

CONCALL HIGHLIGHTS

- The total income for the quarter was INR394.9 crores as against INR271.2 crores in Q3FY23, an increase of 46%. This was largely driven by growth from existing molecules, newly commercialized molecules, molecules close to commercialization and a healthy base of business mix.
- MARGINS OF 30% PLUS MAINTAINED due to operating leverage kicking in from unit 3 utilisation increase
- revenues QOQ may be lumpy
- FCF of 129 crs and debt reduced by 39crs
- WCC days 118 from 137 CPLY
- capex of 68 crs done during this year
- past 9 months incresing proportion of CMS and spec products
- **mgt -** we look to grow the business at 20% annually
    - **FY25 looks like it will be a year of modest growth with some normalization of margins and operating expenses rise due to inflation and ongoing investments.**
- **fy 26 and 27 will see faster growth as capacities created in fy25 will come online in 26**
- now as the company have scaled up they are getting better margin visibility
- biotech funding crunch is still there but most of the molecules in cms space they have are from giants that are cash rich but drugs in early stage pipeline are facing some challenge
- **UNIT 3** - current utilization of Unit 3 is in the range of 57-odd percent as we speak today
- **CAPEX -** have purchased land near unit 1
- how sticky is the CMS business

Sucheth Davuluri: So, you're saying if you're a pharma company who wants to change your supplier for a drug which is under patent?

Atirek Roy: Commercialized drug API under patent.

Sucheth Davuluri: Yes. API, which is under patent. Typically, if you want to do that, I think it's possible, the key is, the complexity of the process, not just for the API, but for the finished dosage. And also the regulatory strategy, depending on how many countries that drug has been filed in. And depending on the situation, it could probably take a minimum maybe 2 years and maybe it can take even 5 years. So it really depends.

Sucheth Davuluri: Usually, if it's in clinical trials or the application has been made, companies prefer not to add any source of change in resource until the commercial approval comes. However, if they have not filed for approval yet. It could add significant amount of time for the filing because then from the new source, they have to take it. That will show that the finished dosage made from the new source is equivalent to the finished dosage that is already part of the clinical trial.

If it is a molecule which is already generic, right, if it is not in the patent. Then you could actually file an alternate source and get an approval within 1 to 2 years. However, if it is a molecule which is still in the clinic being tested on humans, then companies can easily add an additional source at that point, provided that it doesn't delay their filing timeline.

But once they file, until they get the commercial approval, companies will not add an additional source unless there is a significant problem. Once it gets approved, then companies will add an additional source. But like I was saying earlier, that to take easily between 1 to 2 years based on the complexity of that molecule and in some cases, even go up to 5 years.

- on **peptides**

Saharsh Davuluri: Yes. Thanks for the question. I think for the peptides business, we have 2 molecules in CMS, which are perhaps one step away from commercialization. But in both these cases, we are a second supplier. So we really don't have a handle on the time lines. It could take maybe 2 years or maybe even longer, depending on how the client decides to move forward because they already have a primary source.

On the GDS side, we have about 3 molecules that we are working on right now, for which the milestone would be for us to file a DMF. We expect to file one this calendar year and maybe 2 in FY26.

In terms of potential, the GDS molecules also have very high potential. In fact, they have higher potential than the CMS molecules. But in our forecast or in our plans, we have not really quantified any of these into our projections because until we see some short-term commercial visibility, we don't feel comfortable.

So I think short answer is that, yes, we do have several projects in peptides division, ones which are maybe closer to commercialization, but we don't still have a handy on time lines or quantity of commercializing.

- real estate piece they expect 100crs inflow in this CY or next
- capex to be 100-120 crs per year